



Social Debenture Framework



March 18, 2020

Background

The City of Toronto ("City") is the fastest growing city in North America. We work hard along with other governments and the private sector to embed sustainable practices and tackle social and environmental challenges within Toronto. The City has, but not limited to, the following:

- Housing and other supports for the City's most vulnerable residents to allow them to live with dignity
- Transit system and transportation services that are safe, fast, and efficient
- Public health programs that reduce health inequities, improve the health of the whole population and prepare for and respond to emergencies and outbreaks, and improving support for our most vulnerable residents
- TransformTO Climate Action Strategy to significantly reduce Greenhouse Gas Emissions in Toronto
- Other programs and services to support all Toronto residents including, but are not limited to, those that are in poverty, marginalised, vulnerable, disabled, migrants/displaced, undereducated, and unemployed.

In 2018, the City has developed a Green Debenture Framework and has issued Green Debentures to finance capital projects that align with the City's Climate Action Strategy.

SOCIAL DEBENTURE FRAMEWORK

In 2020, the City has developed a Social Debenture Framework ("Framework") under which it can issue Social Debentures. Proceeds of these Social Debentures will be allocated to eligible capital projects ("Social Projects") with positive social outcomes especially, but not exclusively, for a target population(s). Social Projects also include other related and supporting expenditures such as research and development and may relate to more than one eligible category.

The Framework was developed with the aim of providing transparency, disclosure and clarity to investors, and follows ICMA's Social Bond Principles 2018¹

¹ 1 International Capital Markets Association - Social Bond Principles 2018, available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/socially-bond-principles-sbp/>

Section 1. Use of Proceeds

The proceeds of each Social Debenture will be applied exclusively to finance or re-finance, in whole or in part, new and/or existing capital projects under the City of Toronto Social Debenture Framework.

"Eligible Projects" means identified capital projects that meet the City's social objectives. The selection of these projects is generally guided by the prevailing plans², policies and strategies as approved by Toronto City Council. The social objectives supported by these projects generally include, but are not limited to:

- A. Social and affordable housing new development and/or capital repair projects
- B. Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transit)
- C. Access to essential services (e.g. long term care, senior services, emergency shelters)
- D. Socioeconomic advancement and empowerment.

Eligibility Criteria

In accordance with the City of Toronto Act, the City can only issue long-term debentures for capital projects. Borrowing for operating expenses is prohibited. Without limitation, capital projects across the following categories will be considered as Social Projects and eligible for financing from Social Debenture proceeds:

A) Social and Affordable Housing

Proceeds of Social Debentures will be allocated to capital projects aligning with City's HousingTO Action Plan³ that are aimed at fighting against housing exclusion by providing social housing and/or affordable housing with and without supports (e.g. onsite health services and other drop-in services) as well as shelter to disadvantaged populations.

Related capital expenditures include, but are not limited to:

- (i) Development and provision of shelters, and social and affordable housing in Toronto;
- (ii) Renovation, maintenance and improvements of shelters, and social and affordable housing projects (i.e. capital projects to enhance accessibility⁴),

² Examples: 2019-2022 Poverty Reduction Strategy Term Action Plan

<https://www.toronto.ca/legdocs/mmis/2019/ex/bgrd/backgroundfile-139479.pdf>

Multi-Year Accessibility Plan 2020-2025: <https://www.toronto.ca/city-government/accessibility-human-rights/accessibility-at-the-city-of-toronto/multi-year-accessibility-plan/>

HousingTO 2020-2030 Action Plan: <https://www.toronto.ca/legdocs/mmis/2019/ph/bgrd/backgroundfile-140651.pdf>

³ <https://www.toronto.ca/legdocs/mmis/2019/ph/bgrd/backgroundfile-140651.pdf>

⁴ Ontario's Accessibility Action Plan for the Accessibility for Ontarians with Disabilities Act
<https://www.ontario.ca/page/path-2025-ontarios-accessibility-action-plan#section-0>

The City has socio-economic requirements to determine eligible beneficiaries. Selection criteria to determine eligible beneficiaries (i.e. marginalized populations) includes, for example: income level, size of household, current asset limit, victim of human trafficking or domestic violence, asylum claim status, etc.

B) Affordable basic infrastructure

Proceeds of Social Debentures will be allocated to programs and/or projects aimed at improving community infrastructure (e.g. clean drinking water, sewers, sanitation, transit). These projects contribute to providing access to safe, affordable, accessible and sustainable basic community infrastructure, improving quality of life in the City as well as promoting social inclusion.

Related capital expenditures include, but are not limited to, new development, expansion, maintenance, improvement, repair, and provision of infrastructure, supporting infrastructure, public transit/transportation (e.g. subway trains, buses, streetcars), and equipment for:

- (i) collecting, transporting, and disposing of solid waste for disadvantaged targeted populations (e.g. low-income, seniors, disabled) at adapted rate⁵;
- (ii) collecting, transporting, and processing of recyclables, composting, and household hazardous waste for the public and at adapted rate;
- (iii) providing safe, affordable⁶ and accessible transportation⁷ and sidewalks to the public; and
- (iv) providing sustainable water and wastewater management such as clean and sustainable drinking water to the public and at adapted rate to disadvantaged targeted population (e.g. low-income senior or low-income disabled)⁸, as well as storm water management, sustainable urban drainage systems and flood mitigation measures to the public.

The City has socio-economic requirements to determine eligible beneficiaries for programs that offer relief or rebate that are only available to target marginalized populations. Selection criteria to determine eligible beneficiaries (i.e. marginalized populations) generally include: income level, age, disability status, etc.

⁵ Solid Waste Rebate Program: <https://www.toronto.ca/services-payments/property-taxes-utilities/property-tax/property-tax-rebates-and-relief-programs/property-tax-and-utility-relief-program/>

⁶ Capital expenditure is fully subsidized (over 35% of operating expenditure is subsidized) in order to keep the fare affordable to the public <https://www.toronto.ca/legdocs/mmis/2020/bu/bgrd/backgroundfile-141667.pdf>

⁷ Example - accessible transit by subway

https://www.ttc.ca/TTC_Accessibility/Easier_access_on_the_TTC/Riding_the_subway.jsp

⁸ Water Rebate Program: <https://www.toronto.ca/services-payments/property-taxes-utilities/property-tax/property-tax-rebates-and-relief-programs/property-tax-and-utility-relief-program/>

C) Access to Essential Services

Proceeds of Social Debentures will be allocated to capital projects that enhance access to public, not-for-profit, free or subsidized essential services. Related capital expenditures include, but are not limited to, new development, expansion, maintenance, renovation, and provision of infrastructure, supporting infrastructure and other capital expenditures for:

- (i) clinics and health counselling⁹, long term care centers and senior services¹⁰;
- (ii) provision of child, youth or adult education and vocational training services to vulnerable groups¹¹; and
- (iii) mental health and addiction programming and supportive services.

D) Socioeconomic advancement and empowerment

Proceeds of the Social Debentures will be allocated to capital projects aimed at integrating and providing basic services along with social advancing and empowering programmes (e.g. education, adapted programs and inclusive services) to several vulnerable population groups (e.g. older adults, new immigrants, youth, low income families, people with disabilities, individuals experiencing homelessness, etc.). Related capital expenditures include, but are not limited to, new development, expansion, maintenance, renovation, and provision of infrastructure, supporting infrastructure, and equipment for:

- (i) providing employment and social supports¹² to youth, new immigrants, social assistance recipients and adult dependants, low-income Toronto residents, (e.g. employment centers¹³);
- (ii) ensuring safe, affordable and universal accessibility to the public transportation for disadvantaged targeted populations (e.g. children, disabled, low-income, seniors)¹⁴;
- (iii) supporting older adults and/or people with disabilities such as care homes, day centres, rehabilitation and specialized assistance that allow maximizing the development of their capacities and possibilities of social integration, etc; and
- (iv) providing free and equitable access to public library services which preserves, promotes and supports universal access to a broad range of human knowledge,

⁹ Clinics & Health Counselling: <https://www.toronto.ca/community-people/health-wellness-care/health-clinics/>

¹⁰ Long-Term Care Homes: <https://www.toronto.ca/community-people/housing-shelter/long-term-care-homes/>

¹¹ Examples of training courses <https://www.toronto.ca/community-people/employment-social-support/employment-support/training-courses/>
<https://www.torontopubliclibrary.ca/programs-and-classes/categories/newcomer-esl-programs.jsp>

¹² Example <https://www.toronto.ca/community-people/employment-social-support/>
<https://www.torontopubliclibrary.ca/job-help/>

¹³ Employment and Social Services centers <https://www.toronto.ca/community-people/employment-social-support/employment-support/toronto-employment-and-social-services-locations/>

¹⁴ Transit discount program <https://www.toronto.ca/community-people/employment-social-support/support-for-people-in-financial-need/assistance-through-ontario-works/transit-discount/>

Multi-year Accessibility Plan <https://www.toronto.ca/city-government/accessibility-human-rights/accessibility-at-the-city-of-toronto/multi-year-accessibility-plan/>

WheelTrans Strategy <https://www.ttc.ca/WheelTrans/Strategy/index.jsp>

experience, information and ideas, as well as support programs for targeted populations such as youth and new immigrants (e.g. youth hubs¹⁵, English as Second Language & Newcomer programs ¹⁶).

Section 2. Process for Project Evaluation and Selection

The selection of eligible Social Projects is the responsibility of the Capital Markets Division (CMD) in consultation with internal and external expert stakeholders, which may include the combined effort of Division Heads (or designates) in Community and Social Services as well as Infrastructure and Development Services that are accountable for the Social Projects, and Legal Services Divisions and other City Divisions, Agencies and Corporations, as required.

CMD will select the eligible capital project(s) that meet the guidelines for use of proceeds as described above in the Social Debenture Framework. Projects must also comply with all applicable laws and regulations, and policies of the City of Toronto including assessments of the social¹⁷ and environmental¹⁸ risks of a given project when deemed relevant. CMD will verify the suitability and eligibility in collaboration with the Division Heads (or designates) of the preliminary selected projects. The list of selected eligible social projects will be dynamic, and change over time. The lookback period to allocate debenture proceeds to eligible projects is 3 years from the time of project completion. In accordance with the City of Toronto Act, debenture proceeds must be fully allocated to specific capital projects at the time of issuance and included in the certified debenture by-law.

The City will follow its current debt issuance procedure in accordance with the City of Toronto's Financing of Capital Works Policy and Goals. The Mayor or the Mayor's Alternate and the CFO are authorized to issue debt within the annual limit approved by Council. The internal or external legal representative(s) will draft a debenture by-law outlining the use of proceeds, amongst other items, that includes a schedule to the by-law listing the capital projects to be financed by the debenture, and the list of capital projects will also be shared on the City's website. The debenture by-law shall be passed by the City's Debenture Committee.

¹⁵ Youth hubs: <https://www.torontopubliclibrary.ca/services/youth-hubs.jsp>

¹⁶ Example <https://www.torontopubliclibrary.ca/programs-and-classes/categories/newcomer-esl-programs.jsp>

¹⁷ Example: Equity impact assessment for the Parkdale Hub project (transforming City-building to maximize social benefit and affordable housing <https://www.toronto.ca/legdocs/mmis/2019/ex/bgrd/backgroundfile-140937.pdf>

¹⁸ Environmental Assessment Act <https://www.ontario.ca/page/preparing-environmental-assessments>, sets out a planning and decision-making process so that potential environmental effects are considered before a project begins. The act applies to municipalities for projects such as transit projects, waste management projects etc. City can use Municipal Class Environmental Assessment process (risk-based approach to comply with the Environmental Assessment Act for both capital projects and infrastructure maintenance activities) <https://municipalclass.ca/>

Section 3. Management of Proceeds

The funding sources (including debt financing) of capital projects are approved by Council. For each debenture issue, a debenture by-law is enacted at the time of debenture issuance which lists the dollar allocation of debenture proceeds to specific projects.

Proceeds of a debenture are usually used to provide permanent financing to capital projects, as per funding source allocation approved by Council, that have been paid by City's working capital temporarily. In these common instances, the proceeds from the debenture will be applied directly to the project to repay the City's temporary funding for the project. Where substantial completion has not been met on an Eligible Project, the funds will be invested and held in an account of the City.

In the rare case where substantial completion has been achieved and excess funds exist, the funds will be applied to other projects classified as Eligible Projects under this Social Debenture Framework and amendment to the debenture by-law is required to be passed by the Debenture Committee.

Accounting Services Division keeps track of funding status and funding sources of each capital project.

Section 4. Reporting

CMD will coordinate with relevant City Divisions to collect reporting metrics and provide an annual newsletter on its website addressing both funding allocation and social impact reporting that will cover:

- debenture by-laws outlining the specific projects and amounts financed by social debentures, it should be noted that the allocation of debenture proceeds is pre-determined at the time of debenture issuance and included in the Schedule A of the by-law and cannot be altered during the term of the debenture¹⁹;
- updates with respect to distribution of unspent debenture proceeds;
- project updates and status reports for Eligible Projects, when possible; and
- key impact indicators (KII), such as:

Eligible Project Category and SDGs ²⁰ and targets - Social impact indicators could include:	Sample of potential impact indicators
<i>Social & Affordable housing</i>  (1.4, 1.B, 11.1)	• Number of vulnerable individuals or families benefiting from social & affordable housing • Participate (rate) of tenants • Rental costs compared to the national/regional rent index • Number of vulnerable individuals benefiting from the shelter beds
<i>Affordable Basic Infrastructure</i>  (3.6, 6.1, 6.2, 6.3, 9.1, 9.4, 11.2)	• Number of new household water connections • Usage of accessible transit (e.g. WheelTrans) • Share of barrier-free access • Recycling rate • Treatment of hazardous waste (%)
<i>Access to Essential Services</i>	• Number of students vaccinated • Number of care-dependents benefiting from long term care centers and/or services

¹⁹ Example Schedule A of a debenture by-law (pg 8) <https://www.toronto.ca/legdocs/bylaws/2019/law1297.pdf>

²⁰ SDG: UNPRI's Sustainable Development Goals

1 NO POVERTY  11 SUSTAINABLE CITIES AND COMMUNITIES  3 GOOD HEALTH AND WELL-BEING  4 QUALITY EDUCATION  (1.4, 3.8, 4.3, 4.4, 4.5, 4.A, 11.5,11.7)	• Number of seniors benefiting from senior services • Number of vulnerable individuals benefiting from the training/education programs
<i>Socioeconomic advancement and empowerment</i> 1 NO POVERTY  11 SUSTAINABLE CITIES AND COMMUNITIES  4 QUALITY EDUCATION  8 DECENT WORK AND ECONOMIC GROWTH  (1.4, 1.B, 8.5, 8.6, 11.7)	• Average household Income • GDP per capita • Youth unemployment rate • Unemployment rate • Number of vulnerable individuals benefiting from the training/education programs

Section 5. Compliance Review

Prior to the first anniversary of a social debenture issuance, CMD will review the capital projects financed by the City's social debenture in order to assess the compliance of the capital projects with the Social Debenture Framework. This review will be conducted annually until full allocation of the net proceeds from the City's social debenture is completed. The CFO will provide a report of the review, which the City will publish on its website.

It should be noted that the allocation of debenture proceeds is pre-determined at the time of debt issuance and included in the Schedule A of the by-law and cannot be altered during the term of the debenture²¹.

In an unlikely event that the annual review identifies allocations made to activities that do not comply with the Social Debenture Framework, the City will allocate the corresponding amounts to different lending activities that are compliant with the Social Debenture Framework.

The issuance of debentures pursuant to this Framework will be implemented in accordance with the City of Toronto Act and directives issued by City Council as applicable.

²¹ Example Schedule A of a debenture by-law (pg 8) <https://www.toronto.ca/legdocs/bylaws/2019/law1297.pdf>