



REPORT FOR ACTION

Authority to Issue a Debenture

Date: May 4, 2019

To: Debenture Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

This report requests that the Debenture Committee approve the issuance of a 10-year sinking fund debenture in the amount of \$200 million and enact the necessary borrowing by-law to give effect to this debenture issuance. The debenture was syndicated and sold in the domestic and global capital markets on May 1, 2020 and will be delivered to investors on May 15, 2020.

The transaction is a reopening of a debenture originally issued in April 2019 and reopened once in December 2019 which brought the total outstanding to \$400 million. This additional issue now brings the total outstanding to \$600 million with a coupon interest rate of 2.65% and a maturity date of November 9, 2029.

Details of the projects that are financed from the proceeds of this debenture are contained in Attachment A of this report.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. The Debenture Committee approve the provision of long-term financing of the capital projects listed in Attachment A through the issuance of a 10-year sinking fund debenture in the amount of \$200 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager, National Bank Financial Inc, and entered into by the Mayor and the Chief Financial Officer and Treasurer dated May 1, 2020 (the "Purchase Letter"), and as further described in this report.
2. Authority be granted for the introduction of the necessary Bill to the Debenture Committee to authorize the issuance of debentures.
3. The Debenture Committee authorize the appropriate City of Toronto officials to take the necessary actions to give effect thereto.

FINANCIAL IMPACT

The 2020 debt charge associated with this debenture issue is \$4.5 million and is included in the City's 2020 Operating Budget in the Non-Program Corporate and Capital Financing account.

The annual debt charge, which includes sinking fund deposit and interest payments, is \$25.4 million from 2021 to 2028, and \$24.6M in 2029.

DECISION HISTORY

Chapter 30, Debentures and other Borrowing of the City of Toronto Municipal Code, authorizes the Mayor (or the Deputy Mayor or the Budget Chair) and the Chief Financial Officer and Treasurer ("CFO") to enter into agreements in 2020 for the issue and sale of debentures to an aggregate amount not exceeding \$1.0 billion to provide long-term financing for capital works. The terms of any such agreement to issue debentures must be reported by the CFO to the Debenture Committee for approval.

<https://www.toronto.ca/legdocs/mmis/2019/ex/bgrd/backgroundfile-123459.pdf>

COMMENTS

Syndicate:

Acting in accordance with the aforementioned authorities and the unanimous advice of the City's debt syndicate's lead manager National Bank Financial Inc., and the co-lead managers CIBC World Markets Inc., BMO Capital Markets, and RBC Dominion Securities, the syndicate's offer to purchase the City's debentures, as contained in the Purchase Letter, was accepted on behalf of the City by the Mayor and the Chief Financial Officer and Treasurer.

Transaction:

The City issued a \$200 million sinking fund debenture on May 1, 2020. The transaction is a reopening of a debenture originally issued in April 2019 and reopened once in December 2019 which brought the total outstanding to \$400 million. This additional issue now brings the total outstanding to \$600 million. The debenture has a coupon interest rate of 2.65% and a maturity date of November 9, 2029. The debenture was priced to yield 1.631% to investors with an effective cost to the City of 1.697% (when dealer commissions are included). Delivery of the debenture and receipt of the proceeds will occur on May 15, 2020.

Term:

This debenture has a 10-year term to maturity to align with the useful asset life of the underlying capital projects.

Timing:

Given the uncertainty surrounding the COVID-19 situation since March, the primary market conditions have been very difficult and volatile. Recently, investor sentiment has stabilized given unprecedented global fiscal and monetary actions by governments and central banks worldwide.

The underlying 10-year Government of Canada interest rate was extremely attractive at historical lows due to the "flight to quality" buying of safe assets. However, interest rates for bonds with longer maturities (e.g. 10-, 20-, 30-years) are expected to move slightly higher when the uncertainties surrounding COVID-19 impacts start to settle.

Also, the announcement on details of the provincial buyback program by the Bank of Canada on April 30th reduced provincial spreads by 7 bps, which in turn lowered the City's overall cost of borrowing. In addition, Investors have large cash holdings given the public debt capital market was frozen for almost two months.

The transaction took advantage of favourable capital market conditions. Also, the City of Toronto timed this issue ahead of other competing supply. Provincial issuance supply is expected to increase in the next few weeks. This transaction also came ahead of other anticipated municipal transactions that will compete for investor's funds.

Cost:

The City's all-in borrowing cost was at an interest rate of 1.697%. This represents the lowest borrowing cost that the City of Toronto has been able to achieve for a 10-year term. The Toronto spread over Government of Canada benchmark was 116 basis points (the Toronto spread over Province of Ontario benchmark was 33 basis points). In addition to the favourable market conditions and the timely access to the capital markets, attractive financing terms of this debenture can be attributed to investor confidence in Toronto and the focus of investor relations efforts in recent years.

The 2020 debt charge associated with this debenture issue is \$4.5 million. The annual debt charge, which includes sinking fund deposit and interest payments, is \$25.4 million from 2021 to 2028, and \$24.6M in 2029. The annual debt charges are included in the approved 2020 budget and future forecasts.

The total annual debt charges of all outstanding debentures that are supported by the City's property tax levy are within 15% of such tax levy as required by the City's policy. Also, the structure and pricing of this transaction achieved the lowest cost of funds available relative to other potential structures, markets, and currencies as permitted by the City of Toronto Act, 2006.

Distribution:

This issue achieved good reception with a wide placement distribution of debentures to 28 institutional accounts located across Canada and the United States.

Use of Proceeds:

This debenture is within approved authority for borrowing in 2020. The proceeds will finance previously approved capital expenditures from the following programs: Civic Theatres, Economic Development and Culture, Exhibition Place, Facilities

Management, Fire Services, Information & Technology, Long Term Care Homes Service, Parks, Forestry, and Recreation, Solid Waste Management, Sustainable Energy Plan, Toronto Public Health, Toronto Public Library, Toronto Region and Conservation Authority, and Toronto Transit Commission, as detailed in Attachment A to this report.

Other:

Council authority has been delegated to the Mayor and the CFO and Treasurer to issue an annual amount not to exceed \$1.0 billion in new debt during each of the years 2019, 2020, 2021, and 2022. The planned 2020 borrowing program is \$1 billion. This \$200 million debenture issuance leaves up to \$800 million of debt issuance room remaining for the balance of this year.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment A: City of Toronto 2020 Debenture Issue Summary – Project List

ATTACHMENT A
City of Toronto 2020 Debenture Issue Summary – Project List

10-year Debenture Issue
May 1, 2020

Divisions	Amount Funded (millions \$)	Percentage of Total
Civic Theatres	\$ 2.6	1.3%
Economic Development and Culture	\$ 1.7	0.9%
Exhibition Place	\$ 6.3	3.1%
Facilities Management	\$ 76.4	38.2%
Fire Services	\$ 2.4	1.2%
Information & Technology	\$ 14.5	7.2%
Long-term Care Homes & Services	\$ 3.6	1.8%
Parks, Forestry, and Recreation	\$ 29.7	14.9%
Solid Waste Management	\$ 32.4	16.2%
Sustainable Energy Plan	\$ 3.0	1.5%
Toronto Public Health	\$ 3.6	1.8%
Toronto Public Library	\$ 7.2	3.6%
Toronto Region and Conservation Authority	\$ 5.6	2.8%
Toronto Transit Commission	\$ 11.0	5.5%
Total to Date	\$ 200.0	100.0%

Civic Theatres - \$2.6 million

- 2 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Stage Rigging System Replacement	1.2	2016	2016	2017
Theatrical Performance -- Power Infrastructure	1.4	2017	2018	2019

Economic Development & Culture - \$1.7 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
The Guild Revitalization Project	1.7	2018	2020	In Progress

Exhibition Place - \$6.3 million

- 4 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Automotive Building Restoration	1.4	2009	2011	2011
Replacement Chillers	1.4	2015	2019	2019
Exhibit Hall – Roof	2.4	2017	2018	2018
Phase 1 – Replace Priority Feeders 2019	1.1	2019	2020	In Progress

Facilities Management - \$76.4 million

- 21 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
150 Borough - Replace Generator & Structure Upgrade	3.5	2017	2020	2020
399 The West Mall – ECC Critical State of Good Repair	1.3	2018	2019	In Progress
703 Don Mills-Relocate Com Services Room	6.0	2013	2019	2020
71 Front W. – Union Station – State of Good Repair	2.9	2018	2020	In Progress
Administrative Penalty System - Facilities (4 Offices)	1.8	2017	2020	2020
Combined Heat Power Resiliency – (4 Locations)	1.9	2015	2017	2020
Corporate Facilities - Install New Backflow Preventors	2.3	2013	2018	2019
Courts Services Relocation & Fit-Out Costs	1.1	2019	2020	2020
Energy Conservation Demand Management Plan - 2017	4.0	2017	2019	2020
Designated Substance & Environmental Work - 2015	1.1	2015	2017	2017
Facilities Preventive Maintenance System	1.1	2010	2014	2017
Fire Hall Emergency Generators- Various – Phase 1	3.5	2015	2018	In Progress
Office Modernization Project - 2017	8.8	2017	2018	2020
Office Modernization Project - 2018	7.3	2018	2020	2020
State of Good Repair On Building Envelope	3.6	2018	2020	In Progress

TCHC Combined Heat & Power Generators	10.0	2019	2019	2020
Global Corporate Security Program - City -Wide Physical Security Enhancements	2.3	2018	2020	In Progress
Various State of Good Repair Work On Building Envelope 2019	2.0	2019	2020	In Progress
Various State of Good Repair Work On Mechanical & Electric 2019	4.4	2019	2020	In Progress
State of Good Repair Mechanical & Electric Systems	5.1	2018	2020	In Progress
State of Good Repair Building Envelope	2.4	2018	2020	In Progress

Fire Services - \$2.4 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Replacement of Portable Radios	2.4	2017	2018	2018

Information Technology - \$14.5 million

- 7 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Domino Decommissioning Strategy & Implementation	1.0	2015	2020	2020
E-City Enterprise Architecture	2.4	2014	2017	In Progress
Enterprise Information Security Program	1.0	2014	2020	In Progress
IT Foundational Components -- Portal Foundation Components - Scope Change	3.1	2013	2016	2019
MLS Licensing System Modernization Phase 2	4.6	2016	2020	In Progress
Data Centre Zones Implementation (32); Wan High Speed Fibre Data Services (80) - 2018 Consolidated Data Centre (89) - 2020	1.1	2006	2020	2020
Web Business Content Refresh & Redesign	1.3	2013	2016	2018

Long-term Care Homes & Services - \$3.6 million

- 3 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
2014 State of Good Repair Building Upgrades	1.0	2014	2015	2016
2018 H&S HVAC	1.4	2018	2020	In Progress
2018 H&S Life Safety Systems	1.2	2018	2019	In Progress

Parks, Forestry & Recreation - \$29.7 million

- 10 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
FY2017 Queensway Ring Skating Pad - SOGR	1.6	2017	2018	2018
Arena FY2018 to 2020 – SOGR	5.8	2018	2020	2020
Arena FY2012 – SOGR	2.1	2012	2013	2015
Community Centre 2010 – SOGR	8.0	2010	2012	In Progress
Community Centres FY2018 to FY2020 – SOGR	5.0	2018	2020	2020
2008 Community Centres – Lighting	0.9	2008	2011	2011
Outdoor Recreation Centres FY2009 – SOGR	1.1	2009	2011	2011
Special Facilities FY2019	1.6	2019	2020	In Progress
Special Facilities FY2015	1.6	2015	2020	In Progress
Trails, Pathways, and Bridges FY2020 to FY2021 – SOGR	2.0	2019	2020	In Progress

Solid Waste Management - \$32.4 million

- 4 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Green Lane Landfill	3.0	2009	2009	2011
Dufferin Single Stream Recycling Facility	1.8	2010	2011	2016
Green Lane Landfill - Development 2012	26.0	2013	2020	In Progress
Green Lane Landfill - Development 2007	1.6	2007	2007	2012

Sustainable Energy Plan - \$3.0 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
District Energy System	3.0	2013	2015	2015

Toronto Public Health - \$3.6 million

- 2 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
CDC Wireless Rollout	2.0	2014	2016	2017
TPH Datamart Data Warehouse Phase 2	1.6	2015	2018	2018

Toronto Public Library - \$7.2 million

- 5 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Albert Campbell Renovation-Construction	0.5	2018	2020	In Progress
Equipment For Operational Efficiencies	1.4	2017	2018	In Progress
Multi-Branch SOGR 2017-2019	1.2	2017	2019	2019
Multi-Branch SOGR 2018-2020	2.2	2018	2020	In Progress
St. Clair/Silverthorn Renovation	1.9	2015	2019	2019

Toronto Region & Conservation Authority - \$5.6 million

- 4 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Black Creek Pioneer Village - Hydro And HVAC Repair	2.0	2018	2019	2019
Info Technology Replacement Items 2008+	1.0	2012	2020	In Progress
TRCA Admin Infrastructure - Major Facilities	1.1	2014	2020	In Progress
Waterfront Dev Tommy Thompson Park Interim	1.5	2012	2020	In Progress

Toronto Transit Commission - \$11.0 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Other Service Planning	11.0	1999	2020	In Progress