TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture to the Canada Mortgage and Housing Corporation for the Modular Homes Project

Date: June 18, 2020
To: Debenture Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report requests authority to issue a sinking fund debenture for $6,250,000 to the Canadian Mortgage and Housing Corporation (CMHC) to finance capital expenditures in connection with the Modular Homes Project.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. The Debenture Committee approve the issuance of a 20 year sinking fund debenture in the principal amount of $6,250,000 to the Canadian Mortgage and Housing Corporation (the "Debenture") in accordance with the terms and conditions set out in the Loan Agreement entered into by the Mayor, Chief Financial Officer and Treasurer, and the Executive Director of the Housing Secretariat, dated June 12, 2020, for the purpose of financing of capital expenditures in connection with the Modular Homes Project.

2. Authority be granted for the introduction of the necessary Bills to the Debenture Committee to authorize the issuance of the Debenture.

3. The Debenture Committee authorize the appropriate City of Toronto officials to take the necessary actions to give effect thereto.

FINANCIAL IMPACT

The CMHC has provided an interest-free loan given conditions in the Loan Agreement are fully met during the term of the loan. However, upon the occurrence of a "Repayment Event" that CMHC has outlined in the Loan Agreement, CMHC may, at its option, by notice to the City declare that the loan bear interest at 5% per annum.

Given all conditions under the Loan Agreement are met throughout the term, the annual debt charge, which solely represents the sinking fund deposit, is $221,006.73 per year.

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

DECISION HISTORY

At its meeting held on April 30, 2020, Council adopted the report CC20.6 "Implementing the Toronto Modular Housing Initiative as an Urgent Response to the COVID-19 Pandemic". The above-noted report can be viewed through the following link:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC20.6

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.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX1.8

COMMENTS

Purpose of the Loan

At its meeting held on April 30, 2020, City Council adopted the report "Implementing the Toronto Modular Housing Initiative" which recommended the purchase and installation of 110 modular units to be used as supportive housing for homeless individuals within the City's shelter system by September 2020 (Phase One) and another 140 units in 2021 (Phase Two).

Modular housing, which is prefabricated housing built in a factory and then transported to the site where it is assembled, is considered a faster and a more cost-effective construction option than conventional construction methods. As showcased in many jurisdictions in North America, modular housing provides an opportunity to respond rapidly to the City's urgent homelessness situation.

This report seeks authority to issue a debenture, subject to the terms and conditions of the Loan Agreement, to secure a $6,250,000 repayable loan facility, made available by CMHC by way of the CMHC Innovation Fund, to finance a portion of the Modular Homes Project. CMHC will also provide an additional $12.5 million contribution to the project as part of the agreement with the City.

Loan Prerequisite Conditions, Repayment Events, and Covenants

The City must first satisfy several conditions prior to August 14, 2020 in order for the loan to be available and for the Loan Agreement to take effect.The debenture certificate will be delivered to CMHC once the conditions are met and the loan is advanced on or before August 14, 2020.

A Repayment Event is defined as a specific event or circumstance of default by the City that occurs during the term of the loan in which the loan will be repayable in full or in part, at the option of CMHC. If the loan is not repaid following the declaration of a Repayment Event, the loan will bear an interest rate of 5% per annum.

There are a number of covenants that the City must satisfy during the term of the loan, some of which restrict the use of proceeds and equity contribution for each unit constructed for the project.

Details of the Loan

The principal amount of the loan is $6,250,000 and is interest-free. The term of the loan is 20 years, maturing on July 10, 2040.

Delivery of the debenture will occur prior to August 14, 2020 subject to the debenture by-law being adopted by the Debenture Committee.

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SIGNATURE

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