



REPORT FOR ACTION

Authority to Issue a Debenture

Date: August 12, 2020

To: Debenture Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

This report requests that the Debenture Committee approve the issuance of a 20-year sinking fund debenture in the amount of \$300 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 August 11, 2020 and will be delivered to investors on August 25, 2020.

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 20-year sinking fund debenture in the amount of \$300 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager, CIBC World Markets Inc, and entered into by the Mayor and the Chief Financial Officer and Treasurer dated August 11, 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 \$4.4 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 \$17.1 million from 2021 to 2039, and \$14.8 million in 2040.

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, CIBC World Markets Inc., and the joint-lead managers National Bank Financial 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 \$300 million conventional sinking fund debenture on August 11, 2020. The debenture has a coupon interest rate of 2.15% and a maturity date of August 25, 2040. The debenture was priced to yield 2.174% to investors with an effective cost to the City of 2.218% (when dealer commissions are included). This represents the lowest borrowing cost that the City of Toronto has been able to achieve for a 20-year term. Delivery of the debenture and receipt of the proceeds will occur on August 25, 2020.

Term:

This debenture has a 20-year term to maturity to align with the useful asset life of the underlying capital projects.

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: Shelter, Support & Housing Administration, Facilities Management, Toronto Police Service, Transportation Services, Toronto Public Library, Long Term Care Homes Service, Toronto Zoo, Fire Services, City Planning, and CTT-TOLive, as detailed in Attachment A to this report.

Timing:

Market tone has continued to improve since City's last issuance on June 17th. Although the market sentiment remains healthy and all provinces progress through various stages of re-opening, the dual challenge of reopening the economy and keeping a low viral transmission rate is anticipated to lead to a slower-than-expected economic recovery. The S&P/TSX equity index has recovered its COVID-related 2020 losses and now back to the level seen in late February. Meanwhile, the bond market continues to be favourable for the City to issue debentures.

The underlying 20-year Government of Canada interest rate continues to hover around all-time lows and are extremely attractive for debt issuers. However, Interest rates for bonds with longer maturities (e.g. 10-, 20-, 30-years) are expected to move higher as economies are re-opening at various stages globally. According to Bloomberg's survey, the 10- to 30-year Government of Canada interest rates are forecasted to increase about 15 basis points by the fourth quarter of 2020.

Provincial and municipal credit spreads have continued to improve from the wider levels seen in March and April of this year. The tighter spreads, in addition to the near record low underlying Government of Canada bond yields, are providing borrowers with very attractive funding costs. Investor demand also remains strong given their reported high cash holdings.

In addition to taking advantage of favourable capital market conditions, the City also timed this issue ahead of other competing municipal supply expected in September. Also, potential second wave of COVID and the US Election in November remain as the wildcards on market stability for future debt issuances in the last quarter of 2020.

The transaction received very strong indications of interest and became over-subscribed after the City's Investors Update Conference Call on August 10th. To make use of this momentum, the City officially launched the transaction and priced the debenture on August 11th.

Distribution:

This issue achieved excellent reception (close to 2 times oversubscribed), with a wide placement distribution of debentures to 41 institutional accounts located across Canada and the United States.

Cost:

The City's all-in borrowing cost was at an interest rate of 2.218%. This represents the lowest borrowing cost that the City of Toronto has been able to achieve for a 20-year term. The high level of investor demand enabled a tightening of one basis point in the spread. The savings to the City of one basis point on \$300 million debentures issued, in present value terms, is approximately \$483,000. The Toronto spread over Government of Canada benchmark was 132 basis points (the Toronto spread over Province of Ontario benchmark was 34 basis points). This favourable financing is attributable to positive market conditions, investor confidence in Toronto, and investor relation work in recent years.

The 2020 debt charge associated with this debenture issue is \$4.4 million. The annual debt charge, which includes sinking fund deposit and interest payments, is \$17.1 million from 2021 to 2029, and \$14.8M in 2040. 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.

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. The City has issued \$200 million debentures in May, \$100 million debentures in June, \$6.25 million debentures in July (for CMHC Modular Housing), and \$300 million debentures in August, leaving \$393.75 million remaining for the balance of the year.

CONTACT

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SIGNATURE

Heather Taylor

Chief Financial Officer and Treasurer

ATTACHMENT

Attachment A – Debenture Issue Summary - Project List

ATTACHMENT A

Debenture Issue Summary - Project List

August 25, 2020

Divisions	Amount Funded (millions \$)	Percentage of Total
City Planning	\$ 1.1	0.4%
CTT – TO Live	\$ 0.2	0.1%
Facilities Management, Real Estate, & Environment	\$ 15.3	5.1%
Fire Services	\$ 1.6	0.5%
Long-term Care Homes & Services	\$ 5.9	2.0%
Shelter, Support & Housing Administration	\$ 202.0	67.3%
Toronto Police Service	\$ 48.4	16.1%
Toronto Public Library	\$ 7.2	2.4%
Toronto Zoo	\$ 0.6	0.2%
Transportation Services	\$ 17.7	5.9%
Total to Date	\$ 300.0	100.0%

City Planning - \$1.1 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Places - Civic Improvements	1.1	2015	2020	Delayed (Expected 2020)

CTT – TO Live - \$0.2 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Replace Roofs: Mezzanine / Porte-Cochere / Stage Tower	0.2	2018	2019	2019

Facilities Management, Real Estate, & Environment - \$15.3 million

- 5 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Office Modernization Program – 2019	2.7	2019	2020	In Progress (Expected 2022)
Office Modernization Program - Pilot Projects	1.6	2016	2016	In Progress (Expected 2020)
AODA Initiative - Initial Phase	7.4	2016	2020	In Progress (Expected 2024)
SOGR Interior Systems 2019 Group I	3.0	2018	2020	In Progress (Expected 2022)
EMS SOGR Work at Facilities	0.6	2013	2015	2019

Fire Services - \$1.6 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Station A (Station 414) - Hwy 27 And Rexdale Blvd	1.6	2014	2015	Delayed (Expected 2021)

Long-term Care Homes & Services - \$5.9 million

- 2 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Kipling Acres Site 2 Land Acquisition (Phase 3)	3.5	2011	2014	2017
Long-Term Care Homes (LTCH) Act	2.4	2011	2012	2014

Shelter, Support & Housing Administration - \$202.0 million

- 2 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
TCHC Building Repair Capital	60.0	2020	2020	In Progress (Expected 2020)
TCHC Capital Projects - SOGR Backlog	142.0	2018	2019	In Progress (Expected 2021)

Toronto Police Service - \$48.4 million

- 6 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Analytics Centre Of Excellence (ANCOE) Business Intelligence	10.3	2015	2020	In Progress (Expected 2020)
Peer-To-Peer Site	2.8	2015	2019	2017
Radio Replacement (2016-2020)	27.5	2016	2020	In Progress (Expected 2022)
State of Good Repair Projects	2.1	2016	2020	Ongoing
Transforming Corporate Support	3.6	2014	2020	Delayed (Expected 2021)
Wireless Parking System	2.0	2017	2020	2017

Toronto Public Library - \$7.2 million

- 4 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Multi Branch Renovation Accessibility Retrofit	1.3	2017	2019	2019
Multi Branch Renovation Program Accessibility Retrofit (2016-2018)	2.2	2016	2018	2018
Tech Asset Management Program (2015-2017)	2.5	2015	2017	2017
Technology Asset Management Program	1.2	2011	2019	2014

Toronto Zoo - \$0.6 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Giraffe House Transition Of Old Elephant House	0.6	2012	2013	2014

Transportation Services - \$17.7 million

- 3 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Facility Improvements	2.2	2009	2010	2011
Salt Management Program	2.3	2009	2019	2019
Six Points Interchange Redevelopment	13.2	2011	2020	In Progress (Expected 2021)