



REPORT FOR ACTION

Authority to Issue a Debenture

Date: October 29, 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 30-year sinking fund debenture in the amount of \$250 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 October 26, 2020 and will be delivered to investors on November 9, 2020.

The transaction is a reopening of a debenture originally issued in November 2019. This additional issue now brings the total outstanding to \$600 million with a coupon interest rate of 2.80% and a maturity date of November 22, 2049.

Details of the projects that are financed from the proceeds of this debenture are contained in Attachment 1 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 1 through the issuance of a 30-year sinking fund debenture in the amount of \$250 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager, RBC Dominion Securities Inc., and entered into by the Mayor and the Chief Financial Officer and Treasurer dated October 26, 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 \$2.8 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 \$12.4 million from 2021 to 2048, and \$11.7M in 2049.

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 2019 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 RBC Dominion Securities, and the co-lead managers CIBC World Markets Inc., BMO Nesbitt Burns Inc, and National Bank Financial Inc., 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 \$250 million sinking fund debenture on October 26, 2020. The transaction is a reopening of a debenture originally issued in November 2019. This additional issue now brings the total outstanding to \$600 million. The debenture has a coupon interest rate of 2.80% and a maturity date of November 22, 2049. The debenture was priced to yield 2.404% to investors with an effective cost to the City of 2.436% (when dealer commissions are included). This represents the lowest borrowing cost that the City of Toronto has been able to achieve for a 30-year term. Delivery of the debenture and receipt of the proceeds will occur on November 9, 2020.

Term:

This reopening of the bond with a 30-year term has remaining maturity of 29 years to align with the useful asset life of the underlying capital projects.

Timing:

Investor demand for municipal bonds has remained robust recently as supply has been limited. Competing provincial and municipal supply were not expected in the near term.

The underlying 30-year Government of Canada interest rate has continued to be 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 and other geopolitical factors start to settle.

Although market tone has been stable and market sentiment has remained healthy in October, risk sentiment has increased since the start of the book building process. The City's credit spread slightly widened but was offset by the strong investor demand. The City timed this issue to come ahead of the following risk factors that can cause further market volatility in the near future:

- Headlines from U.S. stimulus talks
- EU/UK Brexit negotiations.
- U.S. presidential election on November 3rd
- COVID-19 wave 2

Use of Proceeds:

This debenture is within approved authority for borrowing in 2020. The proceeds from this issuance will be used to fund the completed portion of the approved capital projects from several City divisions and agencies, including Economic Development and Culture, Exhibition Place, Facilities Management, Transportation Services, Toronto Paramedic Services, Toronto Zoo, and Union Station, as detailed in Attachment 1 to this report.

The interest rate of this reopened bond is lower than the bond's coupon rate resulting in bond premium. The excess proceeds from selling the bonds at a premium will be deposited into the sinking fund for the purpose of repaying the principal amount at maturity as authorized under the City of Toronto Act subsection 248(1). The proceeds from the bond premium will reduce the required amount of sinking fund deposits in future years.

Cost:

The City's all-in borrowing cost was at an interest rate of 2.436%. This represents the lowest borrowing cost that the City of Toronto has been able to achieve for a 30-year term. The Toronto spread over Government of Canada benchmark was 118.5 basis points (the Toronto spread over Province of Ontario benchmark was 29.5 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 \$2.8 million. The annual debt charge, which includes sinking fund deposit, interest payments and amortization of bond premium, is \$12.4 million from 2021 to 2048, and \$11.7M 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 (close to 2 times oversubscription) with a wide placement distribution of debentures to 32 institutional accounts located across Canada and internationally.

Other:

Council authority has been delegated to the Mayor and the CFO and Treasurer to issue in an annual amount not to exceed \$1.0 billion in new debt during each of the years 2019, 2020, 2021 and 2022. We issued \$200 million in May, \$100 million in June, \$300 million in August, \$6.25 million for CMHC Modular Homes projects, as well as \$250 million today, leaving \$143.75 million remaining for the balance of the year.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment 1: Debenture Issue Summary – Project List

ATTACHMENT 1

Debenture Issue Summary - Project List

October 26, 2020

Divisions	Amount Funded (millions \$)	Percentage of Total
Economic Development and Culture	\$ 1.1	0.4%
Exhibition Place	\$ 3.6	1.4%
Facilities Management, Real Estate, & Environment	\$ 113.0	45.2%
Toronto Paramedic Services	\$ 3.2	1.3%
Toronto Zoo	\$ 1.7	0.7%
Transportation Services	\$ 122.0	48.8%
Union Station/Facilities	\$ 5.4	2.2%
Total to Date	\$ 250.0	100.0%

Economic Development and Culture - \$1.1 million

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Guild Site Work	1.1	2018	2020	2020

Exhibition Place - \$3.6 million

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Hotel X Bridge – Phase 2	3.6	2020	2020	In Progress (Expected 2021)

Facilities Management, Real Estate, & Environment - \$113.0 million

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Strategic Property Acquisition	101.7	2019	2020	2020
Union Station East Wing	11.3	2019	2020	In Progress (Expected 2021)

Toronto Paramedic Services - \$3.2 million

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
North West Multi-Function Facility	3.2	2013	2018	In Progress (Expected 2024)

Toronto Zoo - \$1.7 million

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Animal Health Centre	1.7	2014	2020	In Progress (Expected 2021)

Transportation Services - \$122.0 million

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
City Bridge Rehabilitation	90.7	2015	2020	Ongoing
F.G. Gardiner - Critical Repairs	2.1	2013	2020	2020
Local Road Rehabilitation	27.9	2015	2020	Ongoing
Retaining Walls Rehabilitation	1.3	2013	2020	2020

Union Station/Facilities - \$5.4 million

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Union Station Revitalization	5.4	2011	2020	In Progress (Expected 2021)