DB9.1

TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: December 4 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 Green debenture in the amount of $130 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 December 1, 2020 and will be delivered to investors on December 16, 2020.

The transaction is a reopening of a Green debenture originally issued in September 2019. This additional issue now brings the total outstanding to $330 million with a coupon interest rate of 2.60% and a maturity date of September 24, 2039. The transaction is the final issuance for 2020 and brings the total debt issuance to $986.25 million for the year.

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 20-year sinking fund debenture in the amount of $130 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 December 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 $1.0 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, interest payments and amortization of bond premium, is approximately $8.7 million from 2021 to 2039, and $7.9M in 2039.

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

Debt Issued in 2020

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, $250 million in October, and $130 million with this issue, as well as $6.25 million for the CMHC Modular Homes project, totaling $986.25 million for the year.

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 $130 million sinking fund Green debenture on December 1, 2020. The transaction is a reopening of a debenture originally issued in September 2019. This additional issue now brings the total outstanding to $330 million. The debenture has a coupon interest rate of 2.60% and a maturity date of September 24, 2039. The debenture was priced to yield 2.14% to investors with an effective cost to the City of 2.184% (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 December 16, 2020.

Term:

This reopening of the bond with a 20-year term has remaining maturity of 19 years to align with the useful asset life of the underlying capital projects.

Timing:

The underlying 20-year Government of Canada interest rate has continued to be very attractive and near historical lows due to the "flight to quality" buying of safe assets during the pandemic. However, interest rates for bonds with longer maturities (e.g. 10, 20, and 30 year) are expected to continue to move slightly higher when the uncertainties surrounding COVID-19 impacts and other geopolitical factors start to settle.

Market tone has continued to be very strong while market sentiment has remained healthy. The S&P/TSX equity index has recovered its COVID-related 2020 losses and exceeded the high level seen in Feb 2020.

Investor demand was robust for municipal bonds that are designated "green" for the following key reasons:

- Investors had a large cash inflow from coupon payments on federal and provincial bonds on December 1st and they were looking for suitable places to invest;
- Supply of municipal bonds has been limited recently;
- Green Bond supply in Canada is 24% lower than 2019 year to date while the demand is still increasingly strong; and
- City's transaction is likely the last Green Bond issuance in Canada for 2020.

In addition, this transaction was also timed to issue in advance of reduced investor demand during the holiday season. Moreover, this transaction was mindful of a number of risk factors that may cause market volatility in the near term. These factors include U.S. stimulus talks, EU/UK Brexit negotiations, as well as the rising COVID cases and setbacks in vaccine development.

Use of Proceeds:

This debenture is within approved authority for borrowing in 2020. The proceeds from this issuance will be used to finance the completed portion of eligible capital projects.

The eligibility of these capital projects was verified by City's Environment and Energy Division in accordance with the City's Green Debenture framework. These Council-approved capital projects that deliver environmental benefits are from several City divisions and agencies, including Facilities Management, Toronto Water, and Toronto Transit Commission, 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 a 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 2.184%. This represents the lowest borrowing cost that the City of Toronto has been able to achieve for a 20-year term. The Toronto spread over the Government of Canada benchmark was 118 basis points (the Toronto spread over Province of Ontario benchmark was 22.5 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 the growing demand in green bonds, investor confidence in Toronto and the focus of investor relations efforts in recent years.

The 2020 debt charge associated with this debenture issue is $1.0 million. The annual debt charge, which includes sinking fund deposit, interest payments and amortization of bond premium, is $8.7 million from 2021 to 2038, and $7.9M in 2039. The lower amount of debt charge in 2020 is due to lower interest expense because the debt was issued late in the year. 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 (4 times oversubscription) with a wide placement distribution of debentures to 36 institutional accounts located across Canada and internationally.

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

November 30, 2020

Divisions	Amount Funded (millions $)		Percentage of Total
Facilities Management, Real Estate, & Environment	$	9.2	7.1%
Toronto Water	$	112.0	86.2%
Toronto Transit Commission (TTC)	$	8.8	6.7%
Total to Date	**$**	**130.0**	**100.0%**

Facilities Management, Real Estate, & Environment - $9.2 million

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
TCHC Multi-Year Retrofit	9.2	2018	2019	In Progress (Expected 2020)

Toronto Water - $112.0 million

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Port Lands Flood Protection	112.0	2017	2020	In Progress (Expected 2024)

Toronto Transit Commission (TTC) - $8.8 million

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Subway	8.8	1999	2020	In Progress (Expected 2024)