

Authority to Issue a Debenture

Date: April 19, 2021

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 \$350 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 April 15, 2021 and will be delivered to investors on April 29, 2021.

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 \$350 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 April 15, 2021 (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 2021 debt charge associated with this debenture issue is \$9.3 million and is included in the City's 2021 Operating Budget in the Non-Program Corporate and Capital Financing account.

The annual debt charge, which includes sinking fund deposit and interest payments, is \$16.9 million from 2021 to 2050, and \$10.0M in 2051.

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, 2020, 2021 and 2022 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 Nesbitt Burns Inc, 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 \$350 million sinking fund debenture on April 15, 2021. The debenture has a coupon interest rate of 2.90% and a maturity date of April 29, 2051. The debenture was priced to yield 2.923% to investors with an effective cost to the City of 2.958% (when dealer commissions are included). Delivery of the debenture and receipt of the proceeds will occur on April 29, 2021.

Term:

This debenture has a 30-year term to maturity to align with the useful asset life of the underlying capital projects.

Timing:

While the market still remains somewhat volatile, the global economic recovery is on a positive trajectory. Market tone has been stable recently. Market sentiment has remained healthy and supported by strong core fundamental economic data.

The underlying 30-year Government of Canada interest rate and municipal spreads have continued to be attractive. However, interest rates for bonds with longer maturities (e.g. 10-, 20-, 30-years) are expected to move slightly higher as the COVID vaccination rollout continues to become more widespread and the global economic recovery continues. According to a Bloomberg's survey, the 10- to 30-year Government of Canada interest rates are forecasted to slightly increase by another 5bps in 2021.

Investors are concerned about the prospect of a rising interest rate environment and municipal spreads hovering around all time low levels. However, investor demand for municipal bonds with a long maturity has remained strong as investors continue to have cash to invest and there has been a lack of long municipal bond supply recently.

In addition to taking advantage of the recent stable capital market conditions and the light economic calendar ahead of the Federal Budget on April 19 and Bank of Canada rate announcement on April 21, the City also timed this issue ahead of other competing municipal and provincial supply expected in the next few weeks.

The transaction received strong indications of interest after the City's Investors Update Conference Call that was held on the afternoon of April 13th. The call focused on updating the investors on the City's 2021 Budget and COVID financial impacts. To make use of this momentum, the City officially launched the transaction and priced the debenture on the morning of April 15th.

Use of Proceeds:

This debenture is within approved authority for borrowing in 2021. 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 Exhibition Place, Toronto Transit Commission, Transportation Services, and Facilities Management, Real Estate and Environment, as detailed in Attachment 1 to this report.

Cost:

The City's all-in borrowing cost was at an interest rate of 2.958%. This interest rate level is similar to what was experienced pre-COVID. The Toronto spread over Province of Ontario benchmark bond was 24 basis points (103.5 basis points over the Government of Canada benchmark) which is an all-time low for the City's conventional 30-year bond. 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 2021 debt charge associated with this debenture issue is \$9.3 million. The annual debt charge, which includes sinking fund deposit, interest payments and amortization of bond discount, is \$16.9 million from 2021 to 2050, and \$10.0M in 2051. The annual debt charges are included in the approved 2021 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:

Amid investor's concern about the prospect of a rising interest rate environment and municipal spreads hovering around the historical low levels, the issue was still able to achieve good reception and slight oversubscription, with a wide placement distribution of debentures to 36 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. The City issued \$350 million in April, leaving \$650 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 April 15, 2021

Division	Amount Funded (\$ millions)	Percentage of Total
Exhibition Place	\$ 2.7	0.8%
Facilities Management, Real Estate, & Environment	\$ 4.3	1.2%
Toronto Transit Commission	\$ 15.4	4.4%
Transportation Services	\$ 327.6	93.6%
Total to Date	\$ 350.0	100%

Exhibition Place - \$2.7 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Hotel X Bridge - Phase 2	2.7	2020	2020	In Progress (Expected 2021)

Facilities Management, Real Estate, & Environment - \$4.3 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Union Station East Wing	4.3	2019	2021	In Progress (Expected 2021)

Toronto Transit Commission - \$15.4 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Replacement of Diesel Buses	15.4	2000	2021	Ongoing

Transportation Services - \$327.6 million

- 4 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
City Bridge Rehabilitation	24.4	2019	2021	Ongoing
F.G. Gardiner - Critical Repairs	128.6	2016	2021	In Progress
Local Road Rehabilitation	153.7	2015	2021	Ongoing
Sidewalks	20.9	2015	2021	Ongoing