TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: July 12, 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 20-year sinking fund debenture in the amount of $200 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 July 9, 2021 and will be delivered to investors on July 26, 2021.

The transaction is a reopening of a debenture originally issued in August 2020. This additional issue now brings the total outstanding to $500 million with a coupon interest rate of 2.15% and a maturity date of August 25, 2040.

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 $200 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 July 9, 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 $3.3 million and is included in the City's 2021 Operating Budget in the Non-Program Corporate and Capital Financing account.

The average annual debt charge, which includes sinking fund deposit, interest payments and amortization of bond discount, is $13.0 million from 2021 to 2039, and $11.6M 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 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, CIBC World Markets Inc. and the co-lead managers National Bank Financial 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 $200 million sinking fund debenture on July 9, 2021. The transaction is a reopening of a debenture originally issued in August 2020. This additional issue now brings the total outstanding to $500 million. The debenture has a coupon interest rate of 2.15% and a maturity date of August 25, 2040. The debenture was priced to yield 2.617% to investors with an effective cost to the City of 2.666% (when dealer commissions are included). Delivery of the debenture and receipt of the proceeds will occur on July 26, 2021.

Through the investor relations efforts by staff, many investors have expressed a concern over the ability to trade municipal bonds in the secondary market when the amount outstanding is below $500 million (known as "benchmark status"). This lack of liquidity also limits the number of buyers that will participate and can sometimes lead to higher costs in order to attract investors. By re-opening this debenture and increasing the amount of the total outstanding to $500 million it will increase both the number of participants and the liquidity of these bonds which is ultimately beneficial for the City.

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 global economic recovery continues to be on a positive trajectory as the COVID vaccination rollout continues to improve and becomes more widespread. Canada's first-dose vaccination rate has become one of the best in the world and the economy is finding support from further fiscal stimulus along with a strengthening U.S. economy and robust commodity markets. Interest rates have declined in recent months as a result of receding inflation fears and investor's concerns over how the Delta variant will impact the global recovery.

Investor demand for municipal bonds with a long maturity has remained strong as there has been a lack of long municipal bond supply recently. Also, market tone is positive with the release of better than expected Canadian employment numbers and strong equity markets. The timing for issuance is also good with a lack of competing supply and a relatively light economic calendar ahead of the Bank of Canada rate announcement on July 14.

The underlying 20-year Government of Canada interest rate is at the lowest level since February while municipal spreads are at historical low levels. 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 and Bank of Canada is concluding its government bond purchase program. According to a Bloomberg's survey, the 10- to 30-year Government of Canada interest rates are forecasted to increase by about 40bps in the remainder of 2021.

The City's transaction received strong indications of interest on the day after the mandate was announced. To take advantage of the positive market tone, the recent rate decline, and expectations of rising interest rates later in the year, the City made use of the momentum and officially launched the transaction and priced the debenture on July 9th.

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 Toronto Transit Commission, Transportation Services, Waterfront Revitalization Initiative, 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 2.666%. This interest rate level is similar to what was experienced pre-COVID. The Toronto spread over Province of Ontario benchmark bond was 20 basis points (103.5 basis points over the Government of Canada benchmark). The Toronto spread is at all-time low for the City's conventional 20-year bond and 14 basis points lower than when it was originally issued in August 2020. 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 $3.3 million. The average annual debt charge, which includes sinking fund deposit, interest payments and amortization of bond discount, is $13.0 million from 2021 to 2039, and $11.6M in 2040. 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 recent investor's concerns over how the Delta variant will impact the global recovery 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 31 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 and $200 million in July, leaving $450 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
July 9, 2021

Division	Amount Funded ($ millions)	Percentage of Total
Facilities Management, Real Estate & Environment	$ 53.5	26.8%
Toronto Transit Commission	$ 93.4	46.7%
Transportation Services	$ 50.8	25.4%
Waterfront Revitalization Initiative	$ 2.3	1.1%
Total to Date	**$ 200.0**	**100%**

Facilities Management, Real Estate, & Environment - $53.5 million

- 3 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Phase 2 - Construction	45.7	2011	2021	In Progress (expected 2021)
Redevelopment - St. Lawrence Market North	5.9	2010	2021	In Progress
Union Station East Wing	1.9	2019	2021	In Progress (expected 2021)

Toronto Transit Commission - $93.4 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
TTC - Equipment (Subway Escalator, Subway Pump Replacement, and Bus Hoist Replacement programs)	53.4	1999	2021	Ongoing
TTC - Finishes (Roofing and Station Modernization Program)	40.0	1999	2021	Ongoing

Transportation Services - $50.8 million

- 6 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Accessible Pedestrian Signal (Audible Signals)	1.5	2013	2017	2017
F.G. Gardiner Rehabilitation Program	37.3	2016	2021	In Progress
Guide Rail Replacement	1.6	2016	2021	Ongoing
Local Road Rehabilitation	6.9	2015	2021	Ongoing
New Traffic Control Signals/Devices	1.6	2015	2017	2017
Traffic Control - Rescue	1.9	2009	2017	2017

Waterfront Revitalization Initiative - $2.3 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Harbourfront Water's Edge	2.3	2005	2007	2007