TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: September 15, 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 10-year sinking fund social debenture in the amount of $100 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 September 13, 2021 and will be delivered to investors on September 28, 2021.

The transaction is a reopening of a social debenture originally issued in June 2021. This additional issue now brings the total outstanding to $200 million with a coupon interest rate of 1.60% and a maturity date of December 2, 2030.

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 10-year sinking fund social debenture in the amount of $100 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager, BMO Capital Markets, and entered into by the Mayor and the Chief Financial Officer and Treasurer dated September 13, 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 $1.1 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 $12.2 million from 2022 to 2029, and $11.8 million in 2030.

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

The Chief Financial officer and Treasurer reported to the Debenture Committee about the City's new social debenture program at its meeting on May 13, 2020. The report indicated that the program responds to changes in global investor demand and aligns with the City's Corporate Strategic Plan Priorities, and may result in slightly lower borrowing costs.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.DB5.1

COMMENTS

Syndicate:

Acting in accordance with the aforementioned authorities and the unanimous advice of the City’s debt syndicate's lead manager, BMO Capital Markets, and the joint-lead managers CIBC World Markets Inc., National Bank Financial Inc., and RBC Dominion Securities, the syndicate's offer to purchase the City's second social 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 $100 million sinking fund social debenture on September 13, 2021. The transaction is a reopening of a debenture originally issued in June 2020. This additional issue now brings the total outstanding to $200 million. The debenture has a coupon interest rate of 1.60% and a maturity date of December 2, 2030. The debenture was priced to yield 1.864% to investors with an effective cost to the City of 1.937%

(when dealer commissions are included). Delivery of the debenture and receipt of the proceeds will occur on September 28, 2021. This debenture has been sold and classified as a “social debenture” and remained as the only Canadian public sector social debenture issued in accordance with the ICMA Social Bond Principles. The Social Debenture Program is established to align with the City's vision and strategic priorities to promote positive social outcomes.

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 too small. 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. When the inaugural social debenture was issued in 2020, the City had held an investors call and expressed its intention to reopen the issue in the future. With the reopening of this debenture to increase the total outstanding amount from $100 million to $200 million, international investor participation has increased and the City has also fulfilled its commitment and strengthened the trust between the investors and the City of Toronto as an issuer. In addition, a larger total outstanding size will increase both the number of participants and the liquidity of these bonds in the secondary market which is ultimately beneficial for the City.

Term:

This debenture has a 10-year term to maturity to align with the useful asset life of the underlying capital projects.

Use of Proceeds:

The City of Toronto's social debentures share the same financial and legal characteristics as other City's general obligation debentures issued in the past. They are backed by the credit and taxing power of the City. The main difference is a limitation on the use of proceeds. Under the Social Debenture Program, net proceeds from debentures are used to fund Council approved capital projects that align with the City of Toronto Social Debenture framework.

This debenture is within approved authority for borrowing in 2021. The proceeds will finance previously approved capital expenditures for the TTC Easier Access Program from the Toronto Transit Commission, as well as George Street Revitalization project and New Emergency Shelters (1000 Shelter Beds) project from the Shelter, Support and Housing Administration, as detailed in Attachment 1 to this report.

Timing:

Market tone has been stable since City's last issuance on July 9, 2021. The global economic recovery continues although the Delta variant continues to create uncertainty in equity and bond markets across the globe. On a historical basis, the City's cost of borrowing is still at very low levels. The bond market continues to be favorable for the City to issue debentures.

The underlying 10-year Government of Canada interest rates are still at very low levels. However, interest rates for bonds with longer maturities (e.g. 10-, 20-, 30-years) are expected to move slightly higher. According to a Bloomberg's survey, the 10-year Government of Canada interest rate is forecasted to increase about 63 basis points by the second quarter of 2022.

Even though municipal credit spreads are at historical low levels, the investor demand for municipal bonds remains strong because investors continue to have cash to invest and there has been a lack of government and corporate bond supply during August. In addition, investor demand for Environmental, Social and Governance ("ESG") bonds (e.g. green bonds, social bonds) is exceptionally strong due to insufficient supply for the rapidly increasing demand.

In addition to taking advantage of favourable capital market conditions, the City also timed this issue ahead of the U.S. Federal Reserve rate announcement, the Canadian Federal election, and other competing municipal supply.

The transaction received very strong indications of interest and became over-subscribed the day after the City has distributed the Social Bond Investor Relations information package. To make use of this momentum, the City officially launched the transaction and priced the debenture on the afternoon of September 13, 2021.

Cost:

The City's all-in borrowing cost was at an interest rate of 1.937%. Relative to the inaugural social bond issued in June 2020, the Toronto spread over Province of Ontario is about 10 basis points tighter. It is historically the lowest spread over Ontario that Toronto has achieved. The Toronto spread over Government of Canada benchmark was 64.5 basis points which was about 2.5 basis points less than the City's typical conventional issue. The savings to the City of 1 basis point on $100 million debentures issued, in present value terms, are approximately $83K. This favourable financing is attributable to positive market conditions, investor confidence in Toronto, and investor relations work in recent years, as well as the growing demand for social debentures.

The 2021 debt charge associated with this debenture issue is $1.1 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 $12.2 million from 2022 to 2029, and $11.8 million in 2030.

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 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 excellent reception (close to 2.5 times oversubscribed), with a wide placement distribution of debentures to 29 institutional accounts located across Canada, the United States, and Europe.

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 2021 borrowing program is $1 billion. The debt issuances of $350 million in April, $200 million in July, and $100 million in September, leave up to $350 million of debt issuance authority for the balance of this year.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENT

Attachment 1 – Debenture Issue Summary - Project List

ATTACHMENT 1

Debenture Issue Summary - Project List
September 28, 2021

Division	Amount Funded ($ millions)	Percentage of Total
Toronto Transit Commission	$ 75.3	37.7%
Shelter, Support & Housing Administration	$ 24.7	62.3%
Total to Date	**$ 100.0**	**100%**

Shelter, Support & Housing Administration - $24.7 million

- George Street Revitalization ($13.3 million) - 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
George Street Revitalization Phase II - Transition - Seaton House	11.1	2017	2021	In Progress
George Street Revitalization Phase III - Construction	2.2	2019	2021	In Progress

- New Emergency Shelters ($11.4 million) - 5 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
New Emergency Shelter Beds (Site 1)	3.0	2018	2021	In Progress
New Emergency Shelter Beds (Site 2)	2.4	2018	2021	In Progress
New Emergency Shelter Beds (Site 6)	1.7	2019	2021	2021
New Emergency Shelter Beds (Site 7)	2.6	2019	2021	In Progress
New Emergency Shelter Beds (Site 8)	1.7	2020	2021	In Progress

Toronto Transit Commission - $75.3 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
TTC - Easier Access Phase II & III	75.3	2018	2021	In Progress