TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: November 9, 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 conventional 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 November 8, 2021 and will be delivered to investors on November 23, 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 20-year sinking fund conventional 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, RBC Dominion Securities Inc., and entered into by the Mayor and the Chief Financial Officer and Treasurer dated November 8, 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 $2.0 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 $13.6 million from 2022 to 2040, and $13.0 million in 2041.

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, RBC Dominion Securities, and the joint-lead managers CIBC World Markets Inc., National Bank Financial Inc., and BMO Capital Markets, the syndicate's offer to purchase the City's new 20-year sinking fund conventional debenture in the amount of $200 million, 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 conventional debenture on November 8, 2021. This is the City's final conventional debenture for the year. The debenture has a coupon interest rate of 2.85% and a maturity date of November 23, 2041. The debenture was priced to yield 2.88% to investors with an effective cost to the City of 2.927% (when dealer commissions are included). Delivery of the debenture and receipt of the proceeds will occur on November 23, 2021.

Term:

This debenture has a 20-year term to maturity to align with the useful asset life of the underlying capital projects.

Use of Proceeds:

This debenture is within approved authority for borrowing in 2021. The proceeds will finance the proceeds from this issuance will be used to fund the completed portion of the previously approved capital expenditures from Toronto Transit Commission, Transportation Services, and Shelter, Support & Housing Administration, as detailed in Attachment 1 to this report.

Timing:

The global economic recovery continues as concerns over the pandemic have subsided. World stock markets are making new all-time highs. 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 20-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-year) are expected to move slightly higher. According to a Bloomberg's survey, the 20-year Government of Canada interest rate is forecasted to increase about 32 basis points by the fourth quarter of 2022.

Even though municipal credit spreads are at historical low levels, the investor demand for municipal bonds remains strong as investors continue to have cash to invest and other competitive municipal financings are not expected for the rest of 2021.

In addition to taking advantage of favourable capital market conditions, the City also strategically timed this issue. The City was in the market following the market volatility relating to the various central bank announcements last week and ahead of other provincial debt issuances expected for this week.

The transaction received strong indications of interest and became fully subscribed the day after the City has announced the transaction. To make use of this momentum, the City officially launched the transaction and priced the debenture on the next morning, November 8, 2021.

Cost:

The City's all-in borrowing cost was at an interest rate of 2.927%. This interest rate level is similar to what was experienced pre-COVID. The Toronto spread over Province of Ontario benchmark bond was 18.5 basis points (95.5 basis points over the Government of Canada benchmark). This is the tightest spread achieved since 1999 for a City of Toronto conventional 20-year bond issue. This favourable financing is attributable to positive market conditions, investor confidence in Toronto, and investor relations work in recent years.

The 2021 debt charge associated with this debenture issue is $2.0 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 $13.6 million from 2022 to 2040, and $13.0 million in 2041.

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 rising concerns over inflation and municipal spreads hovering around the lowest levels, the issue was still able to achieve very good reception (more than 1.5 times oversubscribed), with a wide placement distribution of debentures to 30 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, $100 million in September, and $200 million in November, which brings the total to $850 million, leave up to $150 million of debt issuance authority for the balance of this 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
November 8, 2021

Division	Amount Funded ($ millions)	Percentage of Total
Toronto Transit Commission	$ 21.4	10.7%
Transportation Services	$ 36.2	18.1%
Shelter, Support & Housing Administration	$ 142.4	71.2%
Total to Date	**$ 200.0**	**100%**

Toronto Transit Commission - $21.4 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Yong-Bloor Capacity Improvements	21.4	2019	2021	In Progress (expected 2029)

Transportation Services - $36.2 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Sidewalks	19.1	2015	2021	Ongoing
Local Geometric Traffic Safety Improvements	17.1	2017	2021	Ongoing

Shelter, Support & Housing Administration - $142.4 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Toronto Community Housing Corporation (TCHC) Building Repairs	142.4	2020	2021	Ongoing