TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: December 3, 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 green debenture in the amount of $150 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 2, 2021 and will be delivered to investors on December 21, 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 10-year sinking fund green debenture in the amount of $150 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 2, 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 $1.0 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 $17.0 million from 2022 to 2030, and $16.9 million in 2031.

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, 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 10-year sinking fund green debenture in the amount of $150 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 $150 million sinking fund green debenture on December 2, 2021. This is the City's final debenture for the year. The debenture has a coupon interest rate of 2.20% and a maturity date of December 21, 2031. The debenture was priced to yield 2.238% to investors with an effective cost to the City of 2.306% (when dealer commissions are included). Delivery of the debenture and receipt of the proceeds will occur on December 21, 2021.

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:

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, Solid Waste Management, Waterfront Revitalization Initiative and Shelter, Support & Housing Administration, as detailed in Attachment 1 to this report.

Timing:

On a historical basis, the City's cost of borrowing is 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 10-year Government of Canada interest rate is forecasted to increase about 43 basis points by the fourth quarter of 2022.

The pandemic has caused unprecedented market volatility during 2020. Since the beginning of 2021, the global economic conditions started to recover and the market became more stable given the global rollout of the vaccines and reducing concerns over COVID. However, more recently the global emergence of Omicron variant, rising COVID cases, economic growth as well as rising inflation has triggered market volatility again.

Over the past few weeks the volatility has created a sense of caution on the part of investors. There are currently conventional provincial debt financings that are slow to gather enough investor demand to launch their transactions. Although there is cash in the system from the large coupon payments on federal and provincial bonds on December 1st and 2nd, investors have taken a step back due to this heightened market volatility and are waiting until the market settles down before deploying their cash.

The exception to this cautionary stance by investors is the demand for a Green Bond has continued to be very strong. The ESG nature of this debt issuance was the key differentiating reason why the City was able to complete a transaction in a challenging market where other issuers have been limited. In addition, the City strategically timed this issue by launching the deal ahead of announcements from four major central banks between December 8th to 16th, which is anticipated to cause even more market volatility. Following these announcements, the second half of December has traditionally not been suitable for a new debt issue given the lack of liquidity and investor participation during the holiday season.

The transaction received strong indications of interest and became 1.4 times oversubscribed 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 same morning, December 2, 2021.

Cost:

The City's all-in borrowing cost was at an interest rate of 2.306%. This interest rate level is similar to what was experienced pre-COVID. The Toronto spread over Province of Ontario benchmark bond was 6 basis points (74 basis points over the Government of Canada benchmark), which was less than the City's typical non-green issue. The savings to the City, in present value terms, is approximately $200,000. This is the second tightest spread achieved since 1999 for a City of Toronto 10-year bond issue following the 10-year social bond issued in September this year. This favourable financing is attributable to the growing demand in green bonds, investor confidence in Toronto, and investor relations work in recent years.

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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:

Given municipal spreads continue to hover around the lowest levels and the market is quite volatile, the issue was still able to achieve good reception given its ESG (green) nature. The transaction was more than 1.4 times oversubscribed, with a wide placement distribution of debentures to 29 institutional accounts located across Canada and internationally.

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, $200 million in November, and $150 million in December, which brings the total to $1 billion. There is no remaining debt issuance authority left for the rest 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
December 2, 2021

Division	Amount Funded ($ millions)	Percentage of Total
Toronto Transit Commission	$ 102.5	68.3%
Shelter, Support & Housing Administration	$ 9.2	6.1%
Solid Waste Management	$ 32.5	21.7%
Waterfront Revitalization Initiative	$ 5.8	3.9%
Total to Date	**$ 150.0**	**100%**

Toronto Transit Commission - $102.5 million

- 4 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Purchase of Buses*	50.8	2000	2021	Ongoing
Surface Track replacements	12.5	1999	2021	Ongoing
Traction Power upgrades	18.8	1999	2021	Ongoing
Transit Bridges and Tunnels maintenance	20.4	1999	2021	Ongoing

*the portion for electric buses

Shelter, Support & Housing Administration - $9.2 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	9.2	2020	2021	Ongoing

Solid Waste Management - $32.5 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Dufferin Source Separated Organics (SSO) Facility	32.5	2017	2021	Completed (November 2020)

Waterfront Revitalization Initiative - $5.8 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Port Lands Flood Protection	5.8	2017	2021	In Progress (expected 2024)