

Authority to Issue a Debenture

Date: April 6, 2022

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 conventional debenture in the amount of \$300 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 1, 2022 and will be delivered to investors on April 20, 2022.

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 conventional debenture in the amount of \$300 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 1, 2022 (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 2022 debt charge associated with this debenture issue is \$8.7 million and is included in the City's 2022 Operating Budget in the Non-Program Corporate and Capital Financing account.

The annual debt charge, which includes sinking fund deposit and interest payments, is \$37.3 million from 2023 to 2031, and \$30.4 million in 2032.

DECISION HISTORY

On February 17, 2022, City Council authorized amendment to Chapter 30, Debentures and other Borrowing of the City of Toronto Municipal Code, which authorizes the Mayor (or the Deputy Mayor or the Budget Chair) and the Chief Financial Officer and Treasurer ("CFO") to enter into agreements in 2022 for the issue and sale of debentures to an aggregate amount not exceeding \$2.0 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.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX30.2>

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 joint-lead managers CIBC World Markets Inc., and BMO Capital Markets, RBC Dominion Securities, the syndicate's offer to purchase the City's new 10-year sinking fund conventional debenture in the amount of \$300 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 \$300 million sinking fund conventional debenture on April 1, 2022. This is the City's first debenture for the year. The debenture has a coupon interest rate of 3.25% and a maturity date of April 20, 2032. The debenture was priced to yield 3.299% to investors with an effective cost to the City of 3.370% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on April 20, 2022.

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 2022. 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, Toronto Public Health, and Solid Waste Management, as well as Facilities Management, Real Estate and Environment, as detailed in Attachment 1 to this report.

Timing:

As the world is entering the 6th wave of COVID-19, the global market conditions have continued to be volatile due to the uncertainty introduced by the Russian invasion of Ukraine in addition to the underlying concerns over inflation and tightening of monetary policies and fiscal spending. While the world stock markets have recovered from the initial shock of the Ukraine situation and have started to stabilize, interest rates have moved sharply higher, by approximately 90 basis points, since our last debenture issue in early December.

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 the average of the latest major Canadian banks' interest rate forecasts, the 10-year Government of Canada interest rate is forecasted to increase by approximately another 14 basis points over the remainder of 2022.

In addition, the City strategically timed this issue by launching the deal ahead of the next Bank of Canada rate announcement and various provincial borrowers coming out of their budget blackouts and fiscal year ends. It was also timed to avoid the risk from the unpredictability of the Russia-Ukraine situation over the weekend. All these factors were anticipated to either cause even higher market volatility or further increase new issue supply to an already cautious level of investor demand.

The transaction received good indications of interest and became close to fully subscribed on the day following the City's international investor's call, which mainly updated the potential investors with the 2022 Council-approved budget and the Council-approved increase in borrowing authority for 2022. To make use of this momentum, the City officially launched the transaction and priced the debenture on the following morning, April 1, 2022.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 3.37%. This interest rate level is similar to what was experienced during the period of 2012-2014. The Toronto spread over Province of Ontario benchmark bond was 16 basis points (83.5 basis points over the Government of Canada benchmark). This is the tightest spread (over Ontario) achieved in over a decade for a City of Toronto conventional 10-year bond issue.

The 2022 debt charge associated with this debenture issue is \$8.7 million and is included in the City's 2022 Operating Budget in the Non-Program Corporate and Capital Financing account. The annual debt charge, which includes sinking fund deposit and interest payments, is \$37.3 million from 2023 to 2031, and \$30.4 million in 2032.

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:

The transaction has experienced some of the most challenging market conditions over the past decade. Amid investor's continued concerns over the economy (inflation and a potential recession as implied by a rare inverted yield curve), geopolitical crisis in Ukraine, and municipal spreads hovering around the lowest levels, this issue was still able to achieve good reception and was slightly oversubscribed, with a wide placement distribution of debentures to 34 institutional investors located across Canada, the U.S., and the Middle East.

None of these institutional investor accounts are held in Russia. Also, all City of Toronto bonds are issued through the Canadian Depository for Securities which provides clearing, depository and settlement services and does not currently have direct link (flow of payments) with Russia.

Other:

Council authority has been delegated to the Mayor and the CFO and Treasurer to issue an annual amount not to exceed \$2.0 billion in new debt during 2022. The City issued \$300 million in April 2022, with \$1.7 billion remaining borrowing 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 Issued on April 1, 2021

Summary by Divisions/Programs:

| Division | Amount Funded (\$ millions) | Percentage of Total |
|--|--------------------------------|------------------------|
| Facilities Management, Real Estate & Environment | \$ 1.0 | 0.4% |
| Solid Waste Management | \$ 15.9 | 5.3% |
| Toronto Public Health | \$ 2.2 | 0.7% |
| Toronto Transit Commission | \$ 253.6 | 84.5% |
| Transportation Services | \$ 27.3 | 9.1% |
| TOTAL | \$ 300.0 | 100% |

Facilities Management, Real Estate & Environment - \$1.0 million

- 1 project funded

| Project | Amount (\$ millions) | Date of Budget (1st Approval) | Date of Budget (Last Approval) | Year Completed |
|------------------------------------|-------------------------|----------------------------------|-----------------------------------|----------------|
| Fire Services Security Upgrades | 1.0 | 2019 | 2019 | 2021 |

Solid Waste Management - \$15.9 million

- 1 project funded

| Project | Amount (\$ millions) | Date of Budget (1st Approval) | Date of Budget (Last Approval) | Year Completed |
|------------------------------------|-------------------------|----------------------------------|-----------------------------------|----------------|
| Green Lane Landfill Development | 15.9 | 2013 | 2022 | Ongoing |

Toronto Public Health - \$2.2 million

- 1 project funded

| Project | Amount (\$ millions) | Date of Budget (1st Approval) | Date of Budget (Last Approval) | Year Completed |
|---------------------------------------|----------------------|-------------------------------|--------------------------------|----------------|
| Healthy Environment Inspection System | 2.2 | 2014 | 2016 | 2017 |

Toronto Transit Commission - \$253.6 million

- 6 projects funded

| Project | Amount (\$ millions) | Date of Budget (1st Approval) | Date of Budget (Last Approval) | Year Completed |
|---|----------------------|-------------------------------|--------------------------------|----------------|
| Bus Heavy Rebuild Program | 102.6 | 2000 | 2021 | Ongoing |
| Environmental Programs | 58.3 | 1999 | 2021 | Ongoing |
| Improvements Finishes (Transit assets/ Buildings) | 3.5 | 1999 | 2021 | Ongoing |
| On-Grade Paving Rehabilitation | 19.7 | 1999 | 2021 | Ongoing |
| Subway Car Overhaul | 54.2 | 1999 | 2021 | Ongoing |
| Waterfront Transit Expansion | 15.3 | 2017 | 2022 | Ongoing |

Transportation Services - \$27.3 million

- 2 projects funded

| Project | Amount (\$ millions) | Date of Budget (1st Approval) | Date of Budget (Last Approval) | Year Completed |
|-----------------------------|----------------------|-------------------------------|--------------------------------|----------------|
| New Traffic Control Signals | 8.1 | 2016 | 2021 | Ongoing |
| Roads - East Don Trail | 19.2 | 2016 | 2021 | 2021 |