

Authority to Issue a Debenture

Date: May 20, 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 30-year sinking fund conventional debenture in the amount of \$365 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 May 17, 2022 and will be delivered to investors on June 1, 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 30-year sinking fund conventional debenture in the amount of \$365 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 May 17, 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 \$13.0 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, will be \$22.8 million from 2023 to 2051, and \$12.4 million in 2052.

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, CIBC World Markets Inc., and the joint-lead managers National Bank Financial Inc., and BMO Capital Markets, RBC Dominion Securities, the syndicate's offer to purchase the City's new 30-year sinking fund conventional debenture in the amount of \$365 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 \$365 million sinking fund conventional debenture on May 17, 2022. This is the City's second debenture for the year. The debenture has a coupon interest rate of 4.30% and a maturity date of June 1, 2052. The debenture was priced to yield 4.312% to investors with an effective cost to the City of 4.354% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on June 1, 2022.

Term:

This debenture has a 30-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, Pan Am Games, Toronto Employment and Social Services, Transportation Services, Toronto Public Library, and Solid Waste Management, as well as Facilities Management, Real Estate and Environment, as detailed in Attachment 1 to this report.

Timing:

Although the world is emerging from the latest wave of COVID-19, the global market conditions continue to be very volatile due to the uncertainty over the timing and size of central bank rate hikes globally in order to contain inflation. Other factors such as a potential global recession and the economic impact from the Ukraine situation are additional concerns for investors at this time. World stock markets have dropped significantly since mid-April 2022 and just started to slightly recover since our transaction was announced on May 12.

Also, interest rates have moved sharply higher since our last debenture issue on April 1st. Overall, the 30-year Government of Canada rate has increased by about 120 basis points since the beginning of the year. As a reference point, the current level of interest rates are back to where they were in 2014. However, on a historical basis, interest rate levels are still very low, about 150 basis points below the 30-year average level. Interest rates for bonds with longer maturities (e.g. 10-, 20-, 30-year) are expected to continue to move slightly higher. According to a Bloomberg survey, the 30-year Government of Canada interest rate is forecasted to increase about 6 basis points by the fourth quarter of 2022.

In addition, the City strategically timed this issue by launching the deal ahead of other municipal financings expected later in May and June. In between periodic intervals of market volatility, the transaction was also timed to take advantage of the positive market tone due to global growth optimism suggested by recent economic data releases.

Although investors have continued concerns over the volatile market conditions, the slightly wider spreads available with municipal issues, this issuance was able to achieve good reception. To make use of this momentum and the positive market tone, the City officially launched the transaction and priced the debenture on the following morning, May 17, 2022.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.354%. This interest rate level is similar to what was experienced in 2014, however this transaction is about 140 basis points higher than the last 30-year debenture issued in 2021. The Toronto spread over Province of Ontario benchmark bond was 33.5 basis points (130 basis points over the Government of Canada benchmark), which is near the 12-year average level.

The 2022 debt charge associated with this debenture issue is \$13.0 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 \$22.8 million from 2023 to 2051, and \$12.4 million in 2052.

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, with periodic intervals of volatility. Although investors have continued concerns over the volatile market conditions, the slightly wider spreads available with municipal issues and some positive global economic data releases in the overnight markets, this issue was able to achieve good reception. Robust investor's demand (oversubscription) allowed us to move up the timing of our planned issuance for 2022 and increase from the announced minimum size of \$250 million to the final size of \$365 million. The \$365 million of debentures are widely distributed to 33 institutional accounts located across Canada and the United States.

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 in an annual amount not to exceed \$2.0 billion in new debt for 2022. We issued \$300 million on April 1, and \$365 million on May 17, with \$1.335 billion remaining borrowing authority 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 May 17, 2022

Division	Amount Funded (\$ millions)	Percentage of Total
Facilities Management, Real Estate & Environment	\$ 104.1	28.5%
Pan Am Games	\$ 12.4	3.4%
Solid Waste Management	\$ 8.6	2.4%
Toronto Employment & Social Services	\$ 1.3	0.4%
Toronto Public Library	\$ 13.2	3.6%
Toronto Transit Commission	\$ 18.7	5.1%
Transportation Services	\$ 206.7	56.6%
TOTAL	\$ 365.0	100%

Facilities Management, Real Estate & Environment - \$104.1 million

- 23 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
150 Borough - Asbestos Remediation	0.8	2015	2017	2017
259 Queens Quay - Pumps & Deck Coating	0.6	2014	2015	2016
5100 Yonge - Building Drainage Piping	0.9	2015	2017	2017
60 Queen St. W - Repair & Restore Plaster Ceiling	0.9	2009	2012	2012
91 Front St. - Replace A/C Side Perimeter	0.6	2011	2012	2012

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Association of Community Centres (AOCCS) - Security Improvement & Maintenance	0.7	2016	2018	2019
Community Green Energy Projects - 2015	5.6	2015	2016	2019
Demand Response - 2013 Locations	0.6	2013	2018	2018*
ERP - Water Retrofits In Civic Centres	0.6	2014	2014	2017*
Fire Hall Emergency Generators - Phase 1	12.0	2015	2021	2021
Nathan Philips Square	3.3	2010	2011	2018
Office Portfolio Optimization Plan 2020	2.8	2020	2020	Estimated 2022
Other Construction	8.9	2011	2019	2021
Phase 1 - Professional Services (2011 & Future)	5.6	2011	2015	2015
Phase 3 - Construction	7.0	2011	2019	2021
Re-development - St. Lawrence Market North	27.3	2010	2021	Estimated 2023
Relocation Of Fire Station 332 To 55 John	1.4	2021	2022	Estimated 2024
Site work - Various - 2016	1.4	2016	2017	2017
St. Lawrence Market-South Renovations	0.2	2014	2018	Estimated 2026
Subs & Environ Survey, Sample & ABAT-2017	1.1	2017	2018	2020
Union Station East Wing	0.6	2019	2019	Estimated 2023
Union Station South Access Tunnel	1.5	2003	2009	2009
AODA - Phase 2	19.7	2020	2022	Estimated 2025

*Project was discontinued.

Pan Am Games - \$12.4 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Aquatic Centre	12.4	2011	2016	2016

Solid Waste Management - \$8.6 million

- 2 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Transfer Station Asset Management - 2008	1.9	2008	2009	2009
Transfer Station Asset Management - 2009	6.7	2009	2010	2010

Toronto Employment & Social Services - \$1.3 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Metro Hall ESS Renovations	1.3	2012	2012	2012

Toronto Public Library - \$13.2 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Albert Campbell Renovation	13.2	2016	2022	Estimated 2023

Toronto Transit Commission - \$18.7 million

- 5 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Other Buildings & Structures Projects	4.5	2000	2022	Ongoing
Rail Non-Revenue Vehicle Purchase	4.9	1999	2022	Ongoing
Warehouse Consolidation	2.2	2019	2022	Ongoing
Wilson & Davisville Subway Storage	2.5	1999	2009	2009
Yonge-Bloor Capacity Improvement	4.6	2020	2022	Ongoing

Transportation Services - \$206.7 million

- 8 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Disaster Mitigation & Adaptation Fund	10.8	2019	2022	Ongoing
F.G. Gardiner (AFP)	70.3	2016	2022	Ongoing
Local Road Rehabilitation	58.7	2015	2022	Ongoing
Major Road Rehabilitation	48.8	2015	2022	Ongoing
Sidewalks	6.2	2015	2022	Ongoing
Signs and Markings Asset Management	1.4	2010	2012	2012
Six Points Interchange Redevelopment	9.4	2011	2022	Ongoing
Transportation Safety & Local Improvement	1.1	2015	2016	2016