

Authority to Issue a Debenture

Date: July 14, 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 20-year sinking fund social debenture in the amount of \$235 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 July 11, 2022 and will be delivered to investors on July 27, 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 20-year sinking fund social debenture in the amount of \$235 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 July 11, 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 \$6.2 million and is included in the City's 2022 Tax-supported 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 \$19.9 million from 2023 to 2041, and \$15.3 million in 2042.

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, BMO Capital Markets, and the joint-lead managers National Bank Financial Inc., and CIBC World Markets Inc., RBC Dominion Securities, the syndicate's offer to purchase the City's new 20-year sinking fund social debenture in the amount of \$235 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 \$235 million sinking fund social debenture on July 11, 2022. This is the City's third debenture for the year. The debenture has a coupon interest rate of 4.55% and a maturity date of July 27, 2042. The debenture was priced to yield 4.565% to investors with an effective cost to the City of 4.619% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on July 27, 2022.

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:

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 2022. The proceeds will finance previously approved capital expenditures for selected eligible projects from the Toronto Transit Commission, Shelter, Support and Housing Administration, and the Housing Secretariat, as detailed in Attachment 1 to this report.

Timing:

The transaction was announced on July 5th and was met with market volatility that increased due to investor's continued concerns over the global central bank rate hikes, inflation, and potential global recession, as well as renewed worries over the resurgence of COVID cases. World stock markets have continued to decline and interest rates continued to move higher since our last debenture issue on May 17th.

Overall, the 20-year Government of Canada rate has increased by about 137 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 2011. However, on a historical basis, the underlying Government of Canada bond yield is still about 120 basis points below the 30-year average level. According to a Bloomberg survey, the general market consensus calls for interest rates to stay around the same level for the rest of the year.

Although the market tone reflected investors' continued cautious stance, the City strategically timed this issue by launching the deal ahead of several upcoming major economic indicator releases and the Bank of Canada rate announcement, which were expected to cause further market volatility. Pricing pressure due to scheduled additional supply of bonds from both the U.S. and Canada federal governments was also a concern. Given these pending items, the City officially launched the transaction and priced the debenture on July 11, 2022.

Cost:

The book building of our new issue was slower than anticipated based on our past experience as investors hesitancy intensified from the heightened market volatility and weakened market tone. As an example of the market tone, another prominent government issuer had taken the rare step to increase rates after launching their issue to attract more investor interest and finally issued bonds late last week. As the investor's

expectation of higher interest rates in comparison to the underlying Government of Canada bonds is now set by precedence, the City also slightly increased the interest rate to attract enough interest for the new debt issue.

The City's all-in cost (including transaction fees) was at an interest rate of 4.619%. This interest rate level is similar to what was experienced in 2011. The Toronto spread was 133 basis points over the Government of Canada benchmark.

The 2022 debt charge associated with this social debenture issue is \$6.2 million and is included in the City's 2022 Tax-supported Operating Budget in the Non-Program Corporate and Capital Financing account. The annual debt charge, which includes sinking fund deposit and interest payments, is \$19.9 million from 2023 to 2041, and \$15.3 million in 2042.

At the time of issuance, 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 long intervals of volatility. Although investors have continued concerns over the volatile market conditions, the slightly higher total interest rates helped to achieve good reception. Once the City increased the interest rate investor demand improved and positioned us to issue at the planned maximum size of \$235 million instead of the announced minimum size of \$200 million. The \$235 million of debentures are widely distributed to 29 institutional accounts located across Canada, the U.S., and Europe.

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. In the public debt market, we issued \$300 million on April 1, \$365 million on May 17, and \$235 million today, for a total of \$900 million. In addition, an interest-free loan with the Federation of Canadian Municipalities was finalized and secured in the amount of \$9.712 million which also counted against this borrowing authority. This leaves \$1.090 billion of remaining borrowing authority for the remainder of the year

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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 July 11, 2022

Division	Amount Funded (\$ millions)	Percentage of Total
Housing Secretariat	\$ 165.4	70.4%
Shelter, Support & Housing Administration	\$ 29.8	12.7%
Toronto Transit Commission	\$ 39.8	16.9%
TOTAL	\$ 235.0	100%

Housing Secretariat - \$165.4 million

- 3 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Supporting Housing Units	19.0	2021	2021	2022
TCHC Building Capital Repair	108.4	2020	2021	In Progress
TCHC Building Revitalization	38.0	2018	2020	2020

Shelter, Support & Housing Administration - \$29.8 million

- 9 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
George Street Revitalization - Transition	3.0	2017	2021	In Progress
George Street Revitalization - Construction	2.6	2019	2021	In Progress
New Emergency Shelter Beds (Site 1)	0.7	2018	2021	In Progress

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
New Emergency Shelter Beds (Site 2)	2.8	2018	2021	2021
New Emergency Shelter Beds (Site 6)	2.2	2018	2021	2021
New Emergency Shelter Beds (Site 7)	4.8	2018	2021	2021
New Emergency Shelter Beds (Site 8)	0.3	2018	2021	In Progress
Respite Structures	11.8	2018	2019	2019
City-Owned Supportive Housing Capital Replacement	1.6	2022	2022	Ongoing

Toronto Transit Commission - \$39.8 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	39.8	1999	2022	In Progress