

Authority to Issue a Debenture

Date: November 30, 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 green 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 November 28, 2022 and will be delivered to investors on December 14, 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 green 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, RBC Dominion Securities Inc. and entered into by the Mayor and the Chief Financial Officer and Treasurer dated November 28, 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 \$2.7 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 \$25.0 million from 2023 to 2041, and \$24.4 million in 2042.

DECISION HISTORY

On November 23 and 24, 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"), during each of the years of the 2022 to 2026 Council term, including the remainder of 2022 in 2022, to enter into agreements for the issue and sale of debentures to an aggregate amount not exceeding \$2.0 billion to provide long-term financing for capital works.

[Agenda Item History - 2023.CC1.3 \(toronto.ca\)](#)

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 Inc., and the joint-lead managers National Bank Financial Inc., CIBC World Markets Inc., and BMO Nesbitt Burns Inc., the syndicate's offer to purchase the City's new 20-year sinking fund green 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 green debenture on November 28, 2022. This is the City's fourth and final debenture for the year. The debenture has a coupon interest rate of 4.40% and a maturity date of December 14, 2042. The debenture was priced to yield 4.419% to investors with an effective cost to the City of 4.472% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on December 14, 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 green 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 Green Debenture Program, net proceeds from debentures are used to fund Council approved capital projects that align with the City of Toronto Green Debenture framework.

This debenture is within approved authority for borrowing in 2022. The proceeds will finance previously approved green-related capital projects, such as supporting infrastructure for electric rails (subway, streetcars) and cycling as well as flood protection, from the following programs: Toronto Transit Commission, Transportation Services and Waterfront Revitalization Initiative, as detailed in Attachment 1 to this report.

Timing:

Investor demand and market liquidity is usually expected to be strong around December 1st and 2nd as investors receive coupon and principal payments on existing bond coupons from Government of Canada and provincial bonds. Also, competitive municipal new issue supply is not expected for the rest of year.

Market tone continued to be volatile through most of 2022, but started to stabilize approximately two weeks ago which resulted in lower interest rates in longer-term maturities. We strategically took advantage of this calm period in the bond market and announced the transaction on November 25th. The City also timed this issue by launching the deal ahead of the Bank of Canada rate announcement on December 7th, which may result in further market volatility.

Our green bond quickly experienced a significant demand from ESG investors. This robust demand built our new issue much faster than anticipated with investors placing orders more than two times the \$300 million available and the \$200 million we initially announced. Also, the general market consensus expects the current interest rate levels to continue to increase till mid-2023. Given the oversubscribed book and interest rates outlook, the City officially launched the transaction and priced the debenture on the next business day, November 28, 2022.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.472%. This interest rate level is about 15 basis points (0.15%) lower than the 20-year social debentures issued in July 2022. The Toronto spread was 134.5 basis points over the Government of Canada benchmark bond in the same term.

The book building of our new green issue was much faster than anticipated. The order book was more than two times oversubscribed at the \$300 million available. This oversubscription allowed the City to move the spread tighter lowering the City's borrowing cost by approximately \$0.6 million.

The 2022 debt charge associated with this green debenture issue is \$2.7 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 \$25.0 million from 2023 to 2041, and \$24.4 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 received excellent reception and positioned us to issue at the planned maximum size of \$300 million instead of the announced minimum size of \$200 million. The \$300 million of debentures are widely distributed to 32 institutional accounts located across Canada and the U.S.

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. For the year of 2022 to date, in the public debt market, we issued \$300 million on April 1, \$365 million on May 17, \$235 million on July 11, and \$300 million on November 28, for a total of \$1.2 billion. In addition, an interest-free loan with the Federation of Canadian Municipalities (FCM) was finalized and secured in the amount of \$9.712 million which also counted against this borrowing authority. The year of 2022 ends with \$790.288 million of remaining borrowing authority.

CONTACT

Randy LeClair, Director, Capital Markets

Phone: 416-397-4054; E-mail: Randy.LeClair@toronto.ca

Betsy Yeung, Manager, Capital Markets

Phone: 416-392-6302; E-mail: Betsy.Yeung@toronto.ca

SIGNATURE



Heather Taylor

Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment 1: Debenture Issue Summary – Project List

ATTACHMENT 1

Debenture Issue Summary - Project List November 28, 2022

Division	Amount Funded (\$ millions)	Percentage of Total
Toronto Transit Commission	\$ 210.8	70.3%
Transportation Services	\$ 17.6	5.8%
Waterfront Revitalization Initiative	\$ 71.6	23.9%
TOTAL	\$ 300.0	100%

Toronto Transit Commission - \$210.8 million

- 6 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Bridges and Tunnels	24.5	1999	2022	Ongoing
Power Distribution and Electrical Systems	16.6	1999	2022	Ongoing
Signal Systems	24.7	1999	2022	Ongoing
Subway Tracks	33.7	1999	2022	Ongoing
Surface Tracks	75.3	1999	2022	Ongoing
Traction Power	36.0	1999	2022	Ongoing

Transportation Services - \$17.6 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Cycling Infrastructure	17.6	2017	2022	Ongoing

Waterfront Revitalization Initiative - \$71.6 million

- 1 project funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Port Lands Flood Protection	71.6	2017	2022	In Progress