REPORT FOR ACTION

Authority to Issue a Debenture

Date: April 19, 2023
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 $350 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 18, 2023 and will be delivered to investors on May 3, 2023.

All costs related to this debenture issue are budgeted for in the 2023 Tax-Supported Operating Budget.

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 debenture in the amount of $350 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 Deputy Mayor and the Chief Financial Officer and Treasurer dated April 18, 2023 (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 2023 debt charge associated with this debenture issue is $12.5 million and is included in the City's 2023 Tax-Supported Operating Budget in the Non-Program Corporate and Capital Financing account.

The annual debt charge, which includes sinking fund deposit, interest payments and amortization of price discount, will be approximately $22.5 million from 2024 to 2051, and $13.8 million in 2052.

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 as alternates) and the Chief Financial Officer and Treasurer ("CFO"), during each of the years of the 2022 to 2026 Council term 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, National Bank Financial Inc., and the joint-lead managers RBC Dominion Securities Inc., CIBC World Markets Inc., and BMO Nesbitt Burns Inc., the syndicate's offer to purchase the City's reopening of 30-year sinking fund conventional debenture in the amount of $350 million, as contained in the Purchase Letter, was accepted on behalf of the City by the Deputy Mayor (acting as the Mayor's alternate due to the current Mayoral vacancy) and the Chief Financial Officer and Treasurer.

Transaction:

The City issued a $350 million sinking fund conventional debenture on April 18, 2022. This is the City's first debenture for the year. The debenture has a coupon interest rate of 4.30% and a maturity date of June 1, 2052. The transaction is a reopening of a debenture originally issued in May 2022. This additional issuance now brings the total outstanding to $715 million. By re-opening this debenture and increasing the total outstanding amount to above the $500 million benchmark status, it helped to enhance the bond liquidity in the secondary market and increase investor demand, which is ultimately beneficial for the City. The debenture was priced to yield 4.460% to investors with an effective cost to the City of 4.504% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on May 3, 2023.

Term:

This reopening of the debenture with a 30 years original term has remaining term to maturity of 29.1 years to align with the useful asset life of the underlying capital projects.

Use of Proceeds:

Proceeds will be used for Council approved capital projects that are already completed, in process and committed, such as bridge and road rehabilitation, building SOGR, Workplace modernization etc., from the following programs: Corporate Real Estate Management, Toronto Transit Commission, Transportation Services, Toronto Public Library, Long Term Care Home Services, as well as Solid Waste Management and Toronto & Region Conservation Authority, as detailed in Attachment 1 to this report.

Timing:

Although the world has emerged from the pandemic, global markets have continued to experience periodic long intervals of volatility. The market volatility is mainly attributed to the recent global banking turmoil while investor's concerns over central banks rate decisions, inflation, and the potential implications on economic growth continue. The bond market has started to find a period of stability since early April 2023. To benefit from this calm period in the bond market, the transaction was announced on April 14th, and an investor call was held on the following business day April 17th to update investors on the 2023 approved budget as well as to answer any questions regarding the City's finances and plans. The City also positioned this issue ahead of the other municipal new issue supply expected to come to market later in the spring.

On the morning of launching the transaction, market tone remained positive after the release of the Canadian CPI (inflation data) that came in line with market consensus indicating cooling inflation. Also, this bond transaction quickly experienced strong investor demand with a book close to two times oversubscribed of the minimum $300 million initially announced. The robust demand and positive market tone allowed the City to issue bonds on April 18th at its planned maximum size of $350 million.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.504% with a credit spread of 127 basis points over the Canada benchmark bond. This spread level is 3 basis points lower than when the 30-year conventional debentures were originally issued in May 2022.

The book building of our reopening conventional issue was more robust than anticipated. The order book was close to two times oversubscribed at the $300 million initially announced.   This oversubscription allowed the City to move the spread tighter by 0.5 basis points lowering the City's borrowing cost by approximately $0.3 million.

The 2023 debt charge associated with this debenture issue is $12.5 million and is included in the City’s 2023 Tax-supported Operating Budget in the Non-Program Corporate and Capital Financing account. The annual debt charge (includes sinking fund deposit, interest payments, and amortization of price discount) is approximately $22.5 million from 2024 to 2051, and $13.8 million in 2052.

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 $350 million instead of the initially announced minimum size of $300 million. The $350 million of debentures are widely distributed to 42 institutional accounts located across Canada and internationally.

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 a direct link (flow of payments) with Russia.

Through the investor relations efforts by staff, many investors have expressed that a total outstanding debenture size of $500 million could be the catalyst for them to participate in a transaction or increase their order size.   A larger debenture size helps to enhance liquidity in the secondary market.   It has been the City's strategy to reopen existing debentures, whenever feasible, to increase the total outstanding balance to enhance investor demand and in turn lead to lower borrowing costs.   By re-opening this debenture and increasing the amount of the total outstanding to $715 million (above the $500 million benchmark status), it helped to increase both the number of investors and the liquidity of these bonds which is ultimately beneficial for the City. Comparing to the debenture that was originally issued during 2022, the re-opening of this debenture has attracted 27% more investors and resulted in a higher international participation level as well.

Other:

Council authority has been delegated to the Mayor (or the Deputy Mayor or the Budget Chair as alternates) and the CFO and Treasurer to issue in an annual amount not to exceed $2.0 billion in new debt for 2023. For the year of 2023 to date, in the public debt market, we have now issued $350 million on April 18, leaving an additional $1.65 billion of remaining borrowing authority for 2023.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment 1: Debenture Issue - Use of Proceeds Summary – Project List

ATTACHMENT 1

Debenture Issue - Use of Proceeds Summary - Project List
April 18, 2023

Division (32 Projects - Allocation at par value)	**Amount Funded ($ millions)**	**Percentage of Total**
Corporate Real Estate Management	$ 73.0	20.9%
Long Term Care Homes Services	$ 2.7	0.8%
Solid Waste Management	$ 14.0	4.0%
Toronto & Region Conservation Authority	$ 2.6	0.7%
Toronto Public Library	$ 13.0	3.7%
Toronto Transit Commission	$ 73.3	20.9%
Transportation Services	$ 171.4	49.0%
TOTAL	**$ 350.0**	**100%**

Corporate Real Estate Management - $73.0 million

- 11 projects funded

Project	**Amount ($ millions)**	**Date of Budget (1st Approval)**	**Date of Budget (Last Approval)**	**Year Completed (or expected)**
1050 Ellesmere Building Enhancements	7.7	2017	2022	2024
71 Front W- Union Station - State of Good Repair	2.0	2018	2023	Ongoing
Union Station Redevelopment and Revitalization	7.2	2010	2018	2022
ModernTO Workplace Modernization	10.4	2021	2023	2027
New ECC Detailed Design & Contract Docs	14.2	2019	2022	2027

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Re-Development - St. Lawrence Market North	17.1	2010	2021	2023
Substance & Environmental Survey, Sample and Abatement	1.3	2019	2020	2022
State of Good Repair Building Envelope (2021)	5.2	2021	2023	Ongoing
State of Good Repair Sitework (Group I)	5.3	2018	2023	Ongoing
State of Good Repair Sitework (2022)	1.9	2022	2023	Ongoing
Various Locations - Structural Program	0.7	2016	2021	2021

Long Term Care Homes Services - $2.7 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
SSLTC Building State of Good Repair (2020)	2.7	2020	2023	2023

Solid Waste Management - $14.0 million

- 3 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Dufferin TS	5.8	2019	2022	Ongoing
Green Lane Landfill Development	2.2	2013	2013	Ongoing (Life of Landfill to 2034)
Scarborough TS	5.9	2019	2023	Ongoing

Toronto & Region Conservation Authority - $2.6 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Waterfront Development (Long Term Accommodation) - 5 Shoreham	2.6	2017	2023	2049

Toronto Public Library - $13.0 million

- 3 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Dawes Rd. Neighbourhood Library	2.4	2015	2023	In Progress
Multi-Branch State of Good Repair	4.3	2018	2023	Ongoing
North York Central Library Renovation	6.3	2018	2022	In Progress

Toronto Transit Commission - $73.3 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Other Buildings & Structures Projects	73.3	2000	2023	Ongoing

Transportation Services - $171.4 million

- 12 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
City Bridge Rehabilitation	6.2	2015	2023	Ongoing
City Bridge Rehabilitation - Critical	51.7	2019	2023	Ongoing

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
City Bridge Rehabilitation (Disaster Mitigation & Adaptation Fund)	2.4	2019	2022	2022
Ditch Rehabilitation & Culvert Reconstruction	3.0	2017	2023	Ongoing
F.G. Gardiner - Elevated Portion	13.0	2013	2023	Ongoing
F.G. Gardiner Rehabilitation Program	24.7	2016	2023	2030
Glen Road Pedestrian Bridge	3.5	2018	2023	2025
Guide Rail Replacement	2.8	2016	2023	Ongoing
Local Road Rehabilitation	47.6	2015	2023	Ongoing
Major Road Rehabilitation	7.0	2015	2023	Ongoing
RSP Missing Link Sidewalk	1.5	2019	2023	Ongoing
Sidewalks	8.0	2015	2023	Ongoing