TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: November 17, 2023
To: Debenture Committee
From: Controller, in his capacity as Deputy 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 $215 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 16, 2023, and will be delivered to investors on December 4, 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 Controller in his capacity as Deputy 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 $215 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 Deputy Treasurer dated November 16, 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 $2.2 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 $19.0 million from 2024 to 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 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)

On January 30 and 31, 2019, City Council appointed Andrew J. Flynn to the position of Controller, and to the statutory office of Deputy Treasurer for the City of Toronto for the purposes of section 138 of the City of Toronto Act, with such appointment to be effective March 11, 2019
Agenda Item History - 2019.MM2.18 (toronto.ca)

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 CIBC World Markets Inc, National Bank Financial Inc., and RBC Dominion Securities, the syndicate's offer to purchase the City's reopening of 20-year sinking fund social debenture in the amount of $215 million, as contained in the Purchase Letter, was accepted on behalf of the City by the Mayor and the Controller acting in his capacity as Deputy Treasurer

Transaction:

The City issued a $215 million sinking fund social debenture on November 16, 2023. This is the City's fourth debenture for the year. The debenture has a coupon interest rate of 4.55% and a maturity date of July 27, 2042. The transaction is a reopening of a debenture originally issued in July 2022. This additional issuance now brings the total outstanding to $450 million. By re-opening this debenture and increasing the total outstanding amount, 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 4.933% to investors with an effective cost to the City of 4.993% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on December 4, 2023.

Use of Proceeds:

Proceeds will be used to finance Council approved capital projects already completed or committed that enhance social outcomes in accordance with Toronto's Social Debenture Framework, George Street Revitalization as well as capital repairs for community centres, social housing, and shelters, from the following programs: Housing Secretariat, Shelter, Support & Housing Administration (SSHA), and Parks, Forestry & Recreation (PFR), as detailed in Attachment 1 to this report.

Term:

This reopening of the debenture with a 20-year original term has remaining term to maturity of 18.7 years to align with the estimated remaining useful asset life of the underlying capital projects.

Timing:

Global capital market conditions during the fourth quarter of 2023 have been more volatile than the third quarter due to a combination of weaker economic data and geopolitical tensions. In particular, these markets continue to show concerns over central bank rate decisions, inflation, and the potential implications on economic growth.

The second half of November is the final favourable issuance window before the holiday season. In addition, bonds issued this week will settle in early December which is expected to have stronger investor demand because investors will look to reinvest the proceeds from bond coupons and principal payments from Government of Canada and provincial bonds paid at that time. The City also took advantage of the recent decline in interest rates in the bond market and announced the transaction on November 14.

On the announcement day, the release of weaker U.S. CPI (inflation) data resulted in another significant interest rate decline. The news also changed many bond market analysts forecasts and to not expect further interest rate hikes this year. Given this situation many investors backed away from the bond market to reassess their positions. In addition, investors were distracted by the largest ever Canada Mortgage Bond issue (record size $7-8 billion). However, once the market stabilized on the second day and given high investor demand for "social" labelled bonds, our bond transaction quickly experienced strong demand from investors. The orderbook for the bonds was eventually slightly oversubscribed. Furthermore, the City strategically timed this issue by launching and pricing the transaction ahead of other municipal financings expected in mid-November.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.993% with a credit spread of 123 basis points over the Canada benchmark bond (4% maturing June 2041). While the all-in cost is 37 basis points higher than when the social debentures were originally issued in July 2022 due to higher Government of Canada bond interest rates in 2023, the Toronto credit spread over the Canada benchmark bond is about 10 basis points tighter. When comparing to the debenture last issued in September 2023, the all-in cost is about the same.

Through the investor relations efforts by staff, many investors have expressed that 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. The book building of this social issue was strong resulting especially considering the market volatility experienced this week.

The 2023 debt charge associated with this debenture issue is $2.2 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 $19.0 million from 2024 to 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 the $215 million of debentures are widely distributed to 25 institutional accounts located across Canada and internationally.

The debt syndicate managers have ensured that none of these institutional investor accounts are held in Russia or other sanctioned nations. 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 or other sanctioned nations.

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 to fund the Council-approved capital plans. The City's Controller is also appointed the Deputy Treasurer, which office has all the powers and duties of the Treasurer (the Chief Financial Officer and Treasurer) pursuant to the City of Toronto Act, 2006.

In 2023, we have issued a total of $1.0 billion new debt which consists of: $350 million and $335 million of conventional sinking fund debentures, as well as $100 million of green sinking fund debentures and $215 million social sinking fund debentures in the public debt market during April, June, September, and today respectively. Currently, $1.0 billion of borrowing authority is remaining for the rest of the year.

CONTACT

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SIGNATURE

Andrew Flynn
Controller, in his capacity as Deputy Treasurer

ATTACHMENTS

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

ATTACHMENT 1

Debenture Issue Summary - Project List
November 16, 2023

Division	Amount Funded ($ millions)	Percentage of Total
Affordable Housing	$ 181.0	84.2%
Parks, Forestry & Recreation	$ 14.4	6.7%
Shelter Support & Housing Administration	$ 19.7	9.2%
TOTAL	**$ 215.0**	**100%**

Affordable Housing - $181.0 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)	Estimated Remaining Asset Useful Life
TCHC Building Repair	181.0	2020	2023	Ongoing	20

Parks, Forestry & Recreation - $14.4 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)	Estimated Remaining Asset Useful Life
Community Centres	14.4	2018	2023	2023	25

Shelter, Support & Housing Administration - $19.7 million

- 8 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)	Estimated Remaining Asset Useful Life
Capital Repairs	5.2	2020	2023	Ongoing	30
George Street Revitalization Phase II - Seaton House	6.0	2017	2023	Ongoing	30
George Street Revitalization Phase III - Construction	4.9	2020	2023	Ongoing	30
AODA	1.8	2019	2023	Ongoing	30
Addition of 1000 New Shelter Beds	0.8	2018	2023	2023	20
George Street Redevelopment Phase II	0.4	2016	2020	Ongoing	25
George Street Redevelopment Project Management	0.3	2017	2022	2023	30
Shelter Land Acquisition	0.2	2016	2018	2023	99