REPORT FOR ACTION

Authority to Issue a Debenture

Date: April 29, 2024
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 $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 April 26, 2024, and will be delivered to investors on May 15, 2024.

All costs related to this debenture issue are budgeted for in the 2024 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 $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 April 26, 2024 (the "Purchase Letter"), and as further described in this report.

2. The Debenture Committee authorize the introduction of the necessary Bill 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 2024 debt charge associated with this debenture issue is $11.3 million is included in the City’s 2024 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 $20.6 million from 2025 to 2053, and $13.2 million in 2054.

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, RBC Dominion Securities Inc,, and the joint-lead managers CIBC World Markets Inc, National Bank Financial Inc. and BMO Nesbitt Burns Inc., the syndicate's offer to purchase the City's new conventional 30-year sinking fund debenture in the amount of $300 million, as contained in the Purchase Letter, was accepted on behalf of the City by the Mayor and Chief Financial Officer and Treasurer.

Transaction:

The City issued a $300 million sinking fund conventional debenture on April 26, 2024. This is the City's first debenture of the year. The debenture has a coupon interest rate of 4.90% and a maturity date of May 15, 2054. The debenture was priced to yield 4.937% to investors with an effective cost to the City of 4.982% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on May 15, 2024.

Use of Proceeds:

Proceeds will be used for Council approved capital projects already completed, in progress, and committed such as AODA initiatives, SOGR on several buildings, arenas, Green Lane Landfill and other Waste Transfer Stations, subway track, sidewalks, and several others from the following programs: Exhibition Place, Facilities Management, Real Estate, Fire Services, Parks, Forestry, & Recreation, Solid Waste Management, Toronto & Region Conservation Authority, Toronto Public Library, Toronto Transit Commission and Transportation Services as detailed in Attachment 1 to this report.

Term:

This debenture has a 30-year term to maturity to align with the estimated remaining useful asset life of the underlying capital projects.

Timing:

Global capital market conditions during the first quarter of 2024 have been more volatile than the fourth quarter of 2023 due to a combination of stronger than expected economic data and geopolitical tensions. The stronger economic data raised concerns that the lower interest rate environment widely expected for 2024, by way of reductions to the key interest rate, may not happen as quickly as anticipated. Markets continue to show concerns over central bank rate decisions, inflation and its potential implications on economic growth. Although these concerns have created elevated interest rate levels, current market stability provided an opportunity to enter the public debt market.

Interest rates, having trended upwards for most of 2023, tapered off toward the end of the year. However, since the start of 2024, the Government of Canada bond yield in the 30-year term has reverted upward and is currently about 68 basis points higher than the end of 2023, though, is still approximately 30 basis points below the peak experienced in October 2023.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.982% with a credit spread of 122.5 basis points over the Canada benchmark bond (the Government of Canada bond maturing December 2053). While the all-in cost is 48 basis points higher than a similar termed debenture issued roughly the same time last year due to higher Government of Canada bond interest rates in the first quarter of 2024, the Toronto credit spread over the Canada benchmark bond is about 4.5 basis points tighter.

The 2024 debt charge associated with this debenture issue is $11.3 million and is included in the City’s 2024 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 $20.6 million from 2025 to 2053, and $13.2 in 2054.

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 $300 million of debentures were widely distributed with Expression of Interest from 43 institutional accounts located across Canada and internationally.

The debt syndicate managers ensured that none of these institutional investor accounts are held in Russia or with 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 Chief Financial Officer and Treasurer to issue new debt in an annual amount not to exceed $2 billion in 2024. With this $300 million debenture being the first issuance of the year, borrowing authority of $1.7 billion remains for the rest of 2024.

CONTACT

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

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

ATTACHMENT 1

Debenture Issue Summary - Project List
April 26, 2024

Division	Amount Funded ($ millions)	Percentage of Total
Exhibition Place	$ 4.2	1.4%
Facilities Management, Real Estate & Environment	$ 75.2	25.1%
Fire Services	$ 1.7	0.6%
Parks, Forestry & Recreation	$ 23.7	7.9%
Solid Waste Management	$ 21.0	7.0%
Toronto & Region Conservation Authority	$ 2.7	0.9%
Toronto Public Library	$ 13.6	4.5%
Toronto Transit Commission	$ 144.2	48.0%
Transportation Services	$ 13.7	4.6%
TOTAL	**$ 300.0**	**100%**

Exhibition Place - $4.2 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Consolidate Substations	1.6	2022	2024	2025
Duct Bank Relocation	2.6	2022	2023	2023

Facilities Management, Real Estate & Environment - $75.2 million

- 12 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
St. Lawrence Market North	1.7	2010	2024	2024
AODA Initiatives - Phase 1	7.6	2016	2024	2024
AODA Initiatives - Phase 2	21.4	2020	2024	Ongoing
State of Good Repair Interior Systems	1.3	2018	2024	2024
State of Good Repair Interior Systems 2022	1.6	2022	2024	2026
1050 Ellesmere Building Enhancements	19.0	2017	2024	2024
State of Good Repair Building Envelope	1.9	2018	2024	2024
State of Good Repair Building Envelope 2021	5.3	2021	2024	2025
State of Good Repair Building Envelope 2022	1.3	2022	2024	Ongoing
71 Front West Union Station State of Good Repair	2.0	2018	2024	Ongoing
IRSS State of Good Repair	8.1	2019	2024	2025
ECC Detailed Design & Contract Docs	4.0	2019	2024	Ongoing

Fire Services - $1.7 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Heavy Urban Search and Rescue (HUSAR) Building Expansion	1.7	2019	2024	2024

Parks, Forestry & Recreation - $23.7 million

- 5 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Facility Components	1.9	2020	2024	2026
Outdoor Recreation Centres	2.0	2019	2024	2025
Arenas FY 2018	10.1	2018	2024	2024
Arenas FY 2019	3.0	2019	2024	2025
Special Facilities	6.7	2019	2024	2026

Solid Waste Management - $21.0 million

- 6 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Green Lane Landfill Development - 2011	3.5	2011	2024	Ongoing
Green Lane Landfill Development - 2012	8.8	2012	2024	Ongoing

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Bermondsey Transfer Station	3.0	2019	2024	Ongoing
Disco Road Transfer Station	1.6	2019	2024	Ongoing
Scarborough Transfer Station	2.6	2019	2024	Ongoing
Disco Road Organics Processing Facility	1.5	2019	2024	Ongoing

Toronto & Region Conservation Authority - $2.7 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Scarborough Waterfront Project	2.7	2020	2024	2024

Toronto Public Library - $13.6 million

- 5 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Ethennonnhawahsti-hnen’ Library	1.2	2014	2024	2024
Multi-Branch Library State of Good Repair	4.4	2018	2024	2026
Multi-Branch Library Accessibility	2.8	2018	2024	2026
York Woods Library Renovation	1.4	2018	2022	2023
Bridlewood Library Relocation and Expansion	3.8	2020	2024	2024

Toronto Transit Commission - $144.2 million

- 6 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Subway Track	18.9	1999	2024	Ongoing
Transit Bridges and Tunnels	7.0	1999	2024	Ongoing
Easier Access Project Phase II	56.6	1999	2024	Ongoing
Transfer Yard and Tail Track accommodation	29.9	2010	2024	Ongoing
Line 1 Capacity Enhancement	21.6	2021	2024	Ongoing
Line 2 Capacity Enhancement	10.2	2021	2024	Ongoing

Transportation Services - $13.7 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Sidewalks	5.8	2015	2024	Ongoing
City Bridge Rehabilitation	7.9	2019	2024	Ongoing