REPORT FOR ACTION

Authority to Issue a Debenture

Date: July 11, 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 10-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 July 10, 2024, and will be delivered to investors on July 29, 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 10-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, National Bank Financial Inc., and entered into by the Mayor and the Chief Financial Officer and Treasurer dated July 10, 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 $7.2 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 $40.3 million from 2025 to 2033, and $34.9 million in 2034.

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 CIBC World Markets Inc, RBC Dominion Securities Inc. and BMO Nesbitt Burns Inc., the syndicate's offer to purchase the City's new conventional 10-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 July 10, 2024. This is the City's second debenture of the year. The debenture has a coupon interest rate of 4.25% and a maturity date of July 29, 2034. The debenture was priced to yield 4.294% to investors with an effective cost to the City of 4.369% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on July 29, 2024.

Use of Proceeds:

Proceeds will be used for Council approved capital projects already completed, in progress, and committed such as Corporate Initiatives, Corporate Real Estate Management, Economic Development and Culture, Exhibition Place, Financial Services, Solid Waste Management, Sony Centre (Hummingbird), Toronto Public Library, Toronto Transit Commission, Toronto Zoo, Transportation Services as detailed in Attachment 1 to this report.

Term:

This debenture has a 10-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 half of 2024 have been volatile due to a combination of stronger than expected economic data, geopolitical tensions and persistent higher than target inflation. Stronger economic data in the first half of the year has adjusted market expectations to fewer reductions to short-term interest rates than was previously expected at the beginning of the year, keeping borrowing costs roughly the same as this period last year. Markets continue to show concerns over central bank rate decisions, inflation, changes in the global political environment and its potential implications on economic growth. Although the overhang of concerns has resulted in elevated interest rates, an upcoming short period of anticipated market stability provides a good opportunity to enter the public debt market.

Interest rates, after trending upwards for through most of 2023, seemed to taper off toward the end of the year. However, since the start of 2024, the Government of Canada bond yield in the 10-year term is currently about 25 basis points higher than the end of the year, however, is still approximately 80 basis points below its peak in October 2023.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.369% with a credit spread of 81.5 basis points over the Canada benchmark bond (the Government of Canada bond maturing June 1, 2034). The all-in cost is only 4 basis points higher than a similar termed debenture issued approximately the same time last year. Government of Canada bond interest rates have been volatile, but have generally moved back to the same level as this period last year. The Toronto credit spread over the Canada benchmark bond is about 1.5 basis points tighter.

The 2024 debt charge associated with this debenture issue is $7.2 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 $40.3 million from 2025 to 2033, and $34.9 in 2034.

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 44 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 second issuance of the year and $300 million issued earlier this year, borrowing authority of $1.4 billion remains for the remainder 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
July 29, 2024

Division	**Amount Funded ($ millions)**	**Percentage of Total**
Corporate Initiatives	0.4	0.2%
Corporate Real Estate Management	31.0	10.3%
Economic Development and Culture	1.7	0.6%
Exhibition Place	3.1	1.0%
Financial Services	9.0	3.0%
Solid Waste Management	9.2	3.1%
Sony Centre (Hummingbird)	6.2	2.1%
Toronto Public Library	11.1	3.7%
Toronto Transit Commission	195.7	65.2%
Toronto Zoo	6.5	2.2%
Transportation Services	26.1	8.1%
TOTAL	**$ 300.0**	**100%**

Corporate Initiatives - $0.4 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Constructability Review	0.4	2022	2023	2024

Corporate Real Estates Management - $31 million

- 32 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Various Locations - SOGR Mechanical & Electrical Systems 2021	4.8	2021	2022	2026
ModernTO Workplace Modernization	2.1	2021	2022	2027
Various Locations- Client Projects 2023	1.8	2023	2023	2024
Various Locations- SOGR Mechanical & Electrical Systems 2022	1.6	2022	2022	2026
Life Cycle Asset Mgmt. Prevent MTC Program	1.5	2020	2022	2024
Fire and Life Safety Audits 2022	1.4	2022	2022	2024
Tech Audits & Capital Project Validations 2023	1.4	2023	2023	2023

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Various Locations - Bas & Component Renewals 2022	1.4	2022	2023	2026
Tech Audits & Capital Project Validations 2022	1.4	2022	2022	2023
Physical Security Capital Plans 2022	1.3	2022	2022	2024
Various Locations-SOGR Sitework 2021	1.0	2021	2022	2024
AODA Initiative - Phase 1 - 2016	1.0	2016	2022	2025
Physical Security Capital Plans 2023	1.0	2023	2023	2024
Various Locations - Global Corp Security Program	0.9	2020	2022	2024
Feasibility Study Special Project BCA 2022	0.8	2022	2022	2024
Strategic Projects - Feasibility 2021	0.8	2021	2022	2024
Various Locations-SOGR Building Envelope 2021	0.8	2021	2022	2025
Fire And Life Safety Audits 2023	0.8	2023	2023	2024
Strategic Projects - Feasibility 2022	0.7	2022	2022	2024
Capital Project Validation 2023	0.7	2023	2023	2024
Strategic Projects - Feasibility 2020	0.6	2020	2022	2024

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
RE Property Management & Lease Admin	0.4	2019	2022	2024
Residential Energy Retrofit 2021	0.4	2021	2022	2025
Various Locations Emergency Capital Repairs 2019	0.4	2019	2023	2024
Various Locations - Global Corp Security Program	0.4	2018	2022	2024
Various Locations- SOGR On Sitework	0.3	2018	2022	2024
Small Capital Work 2023	0.3	2023	2023	2023
Mgmt. Reporting Initiative - Phase 3	0.3	2021	2022	2024
Customer Experience Operating Model	0.3	2020	2022	2024
Physical Security Capital Plans 2020	0.2	2020	2022	2024
Fire And Life Safety Audits 2020	0.1	2020	2022	2024
Various Locations - SOGR Mechanical & Electrical Systems	0.1	2018	2022	2024

Economic Development and Culture - $1.7 million

- 5 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Young People's Theatre -HVAC Replacement	0.6	2022	2022	2023
Market Gallery	0.4	2020	2022	2025
Fort York Restoration 2021/2022	0.3	2021	2022	2024
Theatre Passe Muraille – AODA	0.2	2022	2022	2024
Fort York Blockhouses Restoration	0.2	2023	2023	2024

Exhibition Place - $3.1 million

- 12 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Roof Replacement (Industry Bldg)	0.9	2023	2023	2024
Greek Gods Relocation	0.5	2022	2022	2023
Boiler/Lighting Retrofits	0.4	2008	2015	2009
Elevators Retrofit	0.3	2022	2022	2023
Replace Pump & Piping Loops for Boiler	0.2	2023	2023	2023
Lighting – Various	0.2	2021	2022	2022

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
VFD For Ahus at 3rd Floor	0.1	2023	2023	2023
Sidewalks, Parking Lots and Roads	0.1	2023	2023	2023
Grounds Security Surveillance System	0.1	2021	2022	2022
Replace Fibre Optic Cable Grounds Wide	0.1	2023	2023	2023
Fluorescent Light Fixtures - Various	0.1	2023	2023	2023
Fire Device Replacement	0.1	2022	2022	2022

Financial Services - $9.0 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Financial Systems Transformation Project	7.5	2021	2022	2025
Supply Chain Management Transformation	1.5	2015	2022	2026

Solid Waste Management - $9.2 million

- 13 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Dufferin Transfer Station	1.2	2019	2022	2033

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Commissioners Transfer Station	1.2	2019	2022	2033
Yonge Yard	1.0	2019	2022	2033
Green Lane Landfill - Development 2013	1.0	2013	2022	2028
SWMS Business Intelligence Implementation	0.9	2017	2022	2027
Ingram Yard	0.9	2019	2022	2033
Transfer Station Asset Management	0.7	2009	2013	2011
Victoria Park Transfer Station	0.6	2019	2022	2033
Bermondsey Yard	0.6	2019	2022	2033
Green Lane Landfill - Development 2008	0.5	2008	2022	2010
Transfer Station Asset Management 2017	0.3	2017	2022	2026
Ingram Transfer Station	0.2	2019	2022	2033
Transfer Station Efficiencies Project	0.1	2014	2022	2026

Sony Centre (Hummingbird) - $6.2 million

- 4 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
MAC - Chillers and Cooling Tower Replacement	2.4	2022	2022	2024
MAC - AODA Compliance Projects	2.3	2022	2022	2024
MH - AODA Compliance Projects	1.2	2022	2022	2024
MH - AODA Projects 2021 Work Package 3	0.3	2021	2022	2024

Toronto Public Library - $11.1 million

- 3 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Service Modernization and Transformation	6.5	2020	2022	2027
Technology Asset Management Program	3.9	2019	2022	2025
Digital Experiences	0.7	2019	2022	2026

Toronto Transit Commission - $195.7 million

- 11 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Computer Equipment and Software	46.7	1999	2022	2033

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Equipment-Various 2000 & Prior	41.6	1999	2022	2031
Scarborough Subway Extension	31.0	2014	2022	2028
Bus Heavy Rebuild Program 18yr-2000 & Prior	28.4	2000	2022	2028
Line 1 Capacity Enhancement	22.0	2022	2022	2033
Traction Power – State of Good Repairs	16.1	1999	2022	2028
Communications-Various 2000 & Prior	5.6	1999	2022	2032
Spadina Subway Extension	3.1	2007	2022	2025
Streetcar Overhaul	0.5	1999	2022	2029
Fare System	0.4	2010	2022	2026
Rail Non-Revenue Vehicle Overhaul	0.3	1999	2022	2033

Toronto Zoo - $6.5 million

- 4 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Building & Services Refurbishment	2.7	2021	2022	2025
Grounds And Visitor Improvement	2.6	2021	2022	2024

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Information Systems	1.1	2021	2022	2024
Orangutan II Outdoor Exhibit	0.1	2019	2022	2022

Transportation Services - $26.1 million

- 12 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Local Geometric Traffic Safety Improvements	9.9	2017	2022	2027
Facility Improvements	4.3	2017	2022	2026
Scarlett/St Clair/Dundas Improvements	3.7	2011	2022	2027
Glen Road Pedestrian Bridge	2.8	2019	2022	2025
Ditch Rehabilitation and Culvert Reconstruction	2.5	2017	2022	2027
Retaining Walls Rehabilitation	1.0	2016	2022	2025
Surface Network Transit Plan City	0.5	2021	2022	2029
Engineering Studies	0.4	2016	2022	2028
Traffic Calming	0.3	2017	2022	2027

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Eglinton Connects (Detailed Design)	0.3	2022	2023	2026
Dufferin Street Bridge Rehabilitation	0.2	2015	2022	2026
System Enhancements for Road Repair	0.2	2017	2022	2027