TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: October 15, 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 social debenture in the amount of $200 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 October 9, 2024, and will be delivered to investors on October 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 30-year sinking fund debenture in the amount of $200 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager CIBC World Markets Inc., and entered into by the Mayor and the Chief Financial Officer and Treasurer dated October 9, 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 $2.97 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 $12.99 million from 2025 to 2053, and $11.43 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, CIBC World Markets Inc., and the joint-lead managers, National Bank Financial Inc., RBC Dominion Securities Inc., and BMO Nesbitt Burns Inc., the syndicate's offer to purchase the City's new social 30-year sinking fund debenture in the amount of $200 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 $200 million sinking fund social debenture on October 9, 2024. This is the City's third debenture of the year. The debenture has a coupon interest rate of 4.55% and a maturity date of October 29, 2054. The debenture was priced to yield 4.562% to investors with an effective cost to the City of 4.605% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on October 29, 2024.

Use of Proceeds:

Proceeds will be used for Council approved capital projects already completed, in progress, and committed such as Corporate Real Estate Management, Toronto Community Housing Corporation and Toronto Seniors Housing Corporation, Toronto Shelter and Support Services, 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:

Capital market conditions continue to improve in 2024 with supply chain disruptions from the global pandemic have eased, and the Bank of Canada's restrictive 5% interest rate (a 23-year high) has tempered consumer demand and economic activity. As a result, inflation in Canada has steadily declined from its 40-year peak. In response, the Bank has implemented three consecutive 25 basis point (0.25%) cuts this year, lowering the overnight rate from 5% to 4.25%. Optimism remains that the Bank may achieve a "soft landing," reducing inflation without triggering a recession. The City of Toronto is poised to benefit from these declining rates, as the current proposed 30-year issue is expected to be lower than the previous 30-year issue that was transacted in April and below the original budget forecast for the year.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.605% with a credit spread of 119.5 basis points over the Canada benchmark bond (the Government of Canada bond maturing December 1, 2055). The all-in cost is 37.7 basis points lower than a similarly termed debenture issued on April 26, 2024, as the Government of Canada bond interest rates have moved lower since then. The Toronto credit spread over the Canada benchmark bond is about 3 basis points tighter.

The 2024 debt charge associated with this debenture issue is $2.97 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 $13.0 million from 2025 to 2053, and $11.4 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 $200 million of debentures were widely distributed with Expression of Interest from 29 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 $200 million debenture being the third issuance of the year and $600 million issued earlier this year, borrowing authority of $1.2 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
October 29, 2024

Division	Amount Funded ($ millions)	Percentage of Total
Corporate Real Estate Management	18.2	9.1%
Toronto Community Housing Corporation and Toronto Seniors Housing Corporation	180.2	90.1%
Toronto Shelter and Supplies Services	1.1	0.5%
Transportation Services	0.5	0.3%
TOTAL	**$ 200.0**	**100%**

Corporate Real Estate Management - $18.2 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Various Locations - AODA-PHASE 2	18.2	2020	2023	2027

Toronto Community Housing Corporation and Toronto Seniors Housing Corporation - $180.2 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
TCH Building Repair Capital	166.6	2022	2024	2033
TCH Development In-Flight	13.6	2023	2023	2029

Toronto Shelter and Support Services - $1.1 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
GSR Phase III Construction	1.1	2019	2023	2028

Transportation Services - $0.5 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Accessible Pedestrian Signals (Audible Signals)	0.5	2016	2023	2028