TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: November 18, 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 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 November 14, 2024, and will be delivered to investors on December 2, 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 $200 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager BMO Nesbitt Burns Inc., and entered into by the Mayor and the Chief Financial Officer and Treasurer dated November 14, 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 $1.84 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 $26.31 million from 2025 to 2033, and $25.69 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, BMO Nesbitt Burns Inc., and the joint-lead managers, CIBC World Markets Inc., National Bank Financial Inc. and RBC Dominion Securities Inc., the syndicate's offer to purchase the City's new green 10-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 green debenture on November 14, 2024. This is the City's fourth debenture of the year. The debenture has a coupon interest rate of 4.00% and a maturity date of December 2, 2034. The debenture was priced to yield 4.029% to investors with an effective cost to the City of 4.103% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on December 2, 2024.

Use of Proceeds:

Proceeds will be used for Council approved capital projects already completed, in progress, and committed such as Facilities Management, Real Estate and Environmental, Parks, Forestry and Recreation, Solid Waste Management Services, Toronto Transit Commission, Transportation Services, and Waterfront Revitalization Initiative 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:

Conditions in the public bond market continue to improve as interest rates are generally moving lower with a slowing economy and lower inflation. The Bank of Canada's restrictive 5% overnight interest rate, a 23-year high, has dampened consumer demand and economic activity, contributing to a steady decline in Canada's inflation from its 40-year peak. In response, the Bank has enacted multiple reductions totalling 125 basis points (1.25%), lowering the overnight rate from 5% to 3.75%. 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 10-year issuance is expected to be priced below both the prior 10-year issue from July 10, 2024, and the original budget forecast for the year.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.103% with a credit spread of 77.5 basis points over the Canada benchmark bond (the Government of Canada bond maturing June 1, 2034). The all-in cost is 26.6 basis points lower than a similarly termed debenture issued on July 10, 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 4 basis points tighter.

The 2024 debt charge associated with this debenture issue is $1.84 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 $26.31 million from 2025 to 2033, and $25.69 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 $200 million of debentures were widely distributed with Expression of Interest from 37 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 fourth issuance of the year and $800 million issued earlier this year, borrowing authority of $1 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
December 2, 2024

Division	Amount Funded ($ millions)	Percentage of Total
Facilities Management, Real Estate and Environmental	13.9	6.9%
Parks, Forestry and Recreation	3.2	1.6%
Solid Waste Management Services	1.4	0.7%
Toronto Transit Commission	124.5	62.3%
Transportation Services	25.3	12.6%
Waterfront Revitalization Initiative	31.6	15.8%
TOTAL	**$ 200.0**	**100%**

Facilities Management, Real Estate and Environment - $13.9 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Deep Energy Retrofits - Pilot	1	2022	2023	2028
TCHC Combined Heat and Power Generators	12.9	2019	2021	2024

Parks, Forestry and Recreation - $3.2 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
City Wide Environmental Initiatives	2.5	2021	2023	2024
Ferry Boat Replacement - #1	0.8	2015	2023	2025

Solid Waste Management Services - $1.4 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Biogas Utilization - Dufferin	1.4	2016	2023	2026

Toronto Transit Commission - $124.5 million

- 4 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Signal Systems - Various - 2000 and Prior	16.3	1999	2023	2026
Bridges and Tunnels - Various - Original I/O	5.3	1999	2023	2026
Replacement of 40's Diesel Busses or Equi - 2000	93.1	2000	2023	2033
Young-Bloor Capacity Improvements	9.7	2000	2023	2033

Transportation Services - $25.3 million

- 3 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
City Cycling Infrastructure	24.3	2017	2023	2033
Glen Road Pedestrian Bridge	0.8	2019	2023	2025
PTIF City - 7 WT Railpath Extension	0.2	2016	2023	2020

Waterfront Revitalization Initiative - $31.6 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Waterfront Revitalization Initiative	31.6	2017	2023	2024