TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: February 24, 2025
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 $450 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 February 20, 2025, and will be delivered to investors on March 11, 2025.

All costs related to this debenture issue are budgeted for in the 2025 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 $450 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 February 20, 2025 (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 2025 debt charge associated with this debenture issue is $19.5 million is included in the City's 2025 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 $29.1 million from 2026 to 2054, and $12.8 million in 2055.

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 30-year sinking fund debenture in the amount of $450 million, as contained in the Purchase Letter, was accepted on behalf of the City by the Mayor and Chief Financial Officer and Treasurer.

Transaction:

On Thursday, February 20, 2025, the City of Toronto successfully priced a $450 million 30-year benchmark debenture maturing on March 11, 2055, making it the largest single bond issuance for the City and the largest 30-year municipal bond issuance on record in Canada. This was the City's first transaction of the year and its first since the 10-year Green Bond offering in November 2024.

The debenture has a coupon interest rate of 4.50% and a maturity date of March 11, 2055. The debenture was priced to yield 4.545% to investors with an effective cost to the City of 4.588% (when transaction fees are included). Delivery of the debenture and receipt of the proceeds will occur on March 11, 2025.

Use of Proceeds:

Proceeds will be used for Council approved capital projects already completed, in progress, and committed such as Exhibition Place, Facilities Management, Real Estate and Environmental, Toronto and Regional Conservation Authority, Toronto Police Services, Toronto Public Library, Toronto Transit Commission, Transportation Services, and Waterfront Revitalization Initiative 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:

Conditions in the public bond markets have been volatile in the first two months of 2025, influenced by stronger-than-expected economic data, geopolitical tensions, and the threat of tariffs. Progress on reducing inflation has stalled, prompting markets to scale back expectations for short-term interest rate cuts, leaving borrowing costs largely unchanged from late 2024. While interest rates trended lower for most of last year, they rose toward year-end due to tariff concerns. However, since the start of 2025, the Government of Canada 30-year bond yield has remained stable, aligning with levels seen during the City’s previous 30-year issuance on October 9, 2024, and still sitting approximately 40 basis points below its peak in April 2024.

Cost:

The City's all-in cost (including transaction fees) was at an interest rate of 4.588% with a credit spread of 116.5 basis points over the Canada benchmark bond (the Government of Canada bond maturing December 1, 2055). The all-in cost is 1.7 basis points lower than a similarly termed social debenture issued on October 9, 2024, as the Government of Canada bond interest rates were relatively unchanged from the prior 30 year issue. The Toronto credit spread over the Canada benchmark bond is about 3 basis points tighter.

The 2025 debt charge associated with this debenture issue is $19.5 million and is included in the City’s 2025 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 $29.1 million from 2026 to 2054, and $12.8 in 2055.

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:

Officially launched on the afternoon of February 20, the transaction saw an oversubscribed order book exceeding $780 million from 42 investors, allowing the City to achieve an optimal pricing balance for a large municipal sector financing. Demand was strong and well-diversified, led by pension funds (38%), insurers (31%), and asset managers (25%), with 14% of the issuance placed internationally across the U.S., Europe, and Asia, highlighting the global appeal of the City's credit.

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 2025. With this $450 million debenture being the first issuance of the year, a borrowing authority of $1.55 billion remains for the remainder of 2025.

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
March 11, 2025

Division	**Amount Funded ($ millions)**	**Percentage of Total**
Exhibition Place	2.0	0.4%
Facilities Management, Real Estate & Environment	31.6	7.0%
Toronto & Regional Conservation Authority	1.5	0.3%
Toronto Police Services	23.3	5.2%
Toronto Public Library	24.7	5.5%
Toronto Transit Commission	98.9	22.0%
Transportation Services	206.0	45.8%
Waterfront Revitalization Initiative	62.0	13.8%
TOTAL	**$ 450.0**	**100%**

Exhibition Place - $2.0 million

- 1 project funded

Project	**Amount ($ millions)**	**Date of Budget (1st Approval)**	**Date of Budget (Last Approval)**	**Year Completed (or expected)**
17668 Replace & Retrofit Chillers P	2.0	2021	2021	2021

Facilities Management, Real Estate & Environmental - $31.6 million

- 5 projects funded

Project	**Amount ($ millions)**	**Date of Budget (1st Approval)**	**Date of Budget (Last Approval)**	**Year Completed (or expected)**
Rehab of Western Channel Dockwall	1.3	2015	2015	2021

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Existing Building Retrofits 2022	1.5	2022	2022	2024
Redevelopment St.Lawrence Market North	25.7	2010	2010	2025
Various SOGR Work on BLDG Envelope 2019	1.6	2019	2019	2025
703 Don Mills-RPL C/WCHILLER, CT & PUMPSPH2	1.5	2016	2016	2025

Toronto & Regional Conservation Authority - $1.5 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Retrofit Activities for 2009+	1.5	2012	2012	2024

Toronto Police Services - $23.3 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
41 Division	23.3	2015	2015	2025

Toronto Public Library - $24.7 million

- 5 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Multi-Branch SOGR	9.1	2018	2018	2026
York Woods Renovation	8.4	2018	2018	2023
Ethennonnhawahstihnen' Library - Bayview	3.6	2014	2014	2025
Wychwood Renovation	2.4	2014	2014	2023
Albert Campbell Renovation-Construction	1.2	2018	2018	2023

Toronto Transit Commission - $98.9 million

- 7 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Subway Track-Original I/O 32000001	13.6	1999	1999	2026
Scarborough Subway Extension (*cost are Line 3 bus replacement infrastructure out to 2027)	6.9	2014	2014	2027
Young-Bloor Capacity Improvement	25.1	2019	2019	2033

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Spadina Subway Extension (*opened in 2017 however these funds are used for residual project close out costs)	35.6	2007	2007	2025
Subway Asbestos Removal	9.9	1999	1999	2033
Other Buildings & Structures Projects S-2000	7.2	2000	2000	2033
TR Yard & Rail Track Accommodation	0.6	2010	2010	2028

Transportation Services - $202.0 million

- 7 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Major Road Rehabilitation	20.1	2015	2015	2028
Local Road Rehabilitation	104.11	2015	2015	2030
Critical Interim Road Rehabilitation	5.6	2017	2017	2027
Sidewalks	13.8	2015	2015	2027
City Bridge Rehabilitation	35.6	2015	2015	2030
City Bridge Rehabilitation Critical	25.1	2019	2019	2029
EX35.37 York Street Tunnel	1.7	2018	2018	2021

Waterfront Revitalization Initiative - $62.0 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed (or expected)
Port Lands Flood Protection	60.0	2017	2017	2024
Mimico	2.0	2005	2005	2007