City of Toronto's Financing of Capital Works Policy and Goals (Current)[1]

1. Policy Statement

It is recognized that the City of Toronto has a reputation as a respected participant in global capital markets. Adherence to its financing of capital works policy and goals will enhance this reputation and ensure the City's continued access to these markets in order to raise funds through the issuance of debt securities in an efficient and cost-effective manner for the purpose of capital financing.

The City of Toronto is committed to achieving the lowest cost of funds when financing capital works, based upon current capital market conditions. When making decisions regarding the financing of a capital expenditure through the issuance of debt, Council must be satisfied that the lowest cost alternative is utilized from a total cost of funds perspective.

This policy ensures that Council complies with the debt issuance and management provisions contained in the *City of Toronto Act*, 2006 (COTA) and its regulations while providing Council with the flexibility to meet the City's annual capital needs during its term-of-office.

The City seeks to maintain the highest possible credit rating. While the City recognizes that external economic, natural or other events may affect its credit rating, it is committed to ensuring that actions within its control are prudent and necessary as they relate to the issuance and management of short and long term debt.

2. Authority and Accountability

Paragraph 8 of subsection 212 (1) of COTA requires Council to adopt and maintain a policy with respect to the financing of capital works, including the limits on the annual costs associated with the financing, before the City can enter into an agreement to issue debt.

For each term of Council, Council will enact a by-law delegating to the Mayor (or as an alternate to the Mayor, either the Deputy Mayor or the Chair of the Budget Committee)[2,5] and the Chief Financial Officer[4] and Treasurer[5] the authority to enter into agreements for the issuance of debentures and revenue bonds and entering into bank loan agreements in each year of the Council term up to an annual amount.[3,5]

For each term of Council, Council will enact a by-law delegating to the Mayor (or as an alternate to the Mayor, either the Deputy Mayor or the Chair of the Budget Committee)[2,5] and Chief Financial Officer[4] and Treasurer[5] the authority to temporarily borrow funds up to an annual

[1] Adopted and approved by the City of Toronto Council on February 23, 2011 (City Council decision number EX3.3, item VIII, 1), and confirmed by By-Law No. 336-2011 enacted and passed on February 24, 2011 to confirm the proceedings of the Council at its Special meeting held on February 23 and 24, 2011.

[2] Amended by the City of Toronto Council on June 6, 2012 (by By-law 766-2012 as per City of Toronto Council decision number EX20.5).

[3] Amended by the City of Toronto Council on December 11, 2014 (by By-law 104-2015 as per City of Toronto Council decision number EX1.3).

[4] Amended by the City of Toronto Council on October 2, 3 and 4, 2017 (by By-law 1115-2017 as per City of Toronto Council decision number CC32.3).

[5] Amended by the City of Toronto Council on January 30 and 31, 2019 (by By-law 237-2019 as per City of Toronto Council decision number EX1.8).

amount (a) to meet specific authorized expenses of the City, if required, pending the receipt of taxes and other revenues and (b) for capital works to be financed in whole or in part by the issue of debentures or revenue bonds, or entering into bank loans up to an annual amount.[3,5]

Financial markets require the City to have the ability to act on financing opportunities in a timely and efficient basis in order to secure the best pricing and terms.

3. Debenture Committee

Authority to adopt debenture by-laws has been delegated to the Debenture Committee under the City of Toronto Municipal Code Chapter 30, Debenture Committee.

The Debenture Committee has four[6] members:

- The Mayor;
- The Chair of the Budget Committee[5];
- The City Manager; and
- The Chief Financial Officer[4] and Treasurer[5]

The Mayor is the Chair of the Debenture Committee, and the Chair of the Budget Committee[5] is the Vice Chair of the Debenture Committee.

The majority of committee members constitute a quorum.

The committee members serve by virtue of their positions and until their successors are appointed.

The authority to make final decisions with respect to the following matters, to the extent that the authority has not already been delegated, is delegated to the Debenture Committee:

- The authority, for the purposes of the City, to borrow money or provide financing for any capital work by issuing debentures, and revenue bonds and entering into bank loan agreements in accordance with such terms and conditions as are set out in any agreement for the issue of debentures, revenue bonds or the entering into of such bank loan agreements entered into by the Mayor (or as an alternate to the Mayor, either the Deputy Mayor or the Chair of the Budget Committee)[2,5] and the Chief Financial Officer[4] and Treasurer[5] in accordance with Council's by-laws delegating the authority to enter into any such agreement up to an annual limit established by Council, all in accordance with this Policy and with all legislative requirements;[3,5] and

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[6] Amended by the City of Toronto Council on December 4, 2018 (by By-law 4-2019 as per City of Toronto Council decision number CC1.1). (received from the City on May 10, 2019)

- The authority to pass the requisite borrowing by-laws to authorize the issue of any debentures, the issue of any revenue bonds and the entering into of any bank loan agreements approved in accordance with Subsection A(1) [7] and to authorize any one or more City officers to do all things and execute all other documents, instruments and agreements in order to give effect to the issue of any debentures, the issue of any revenue bonds and the entering into of any bank loan agreements; and

- The authority to pass the requisite by-law(s) to enter into new arrangements with CDS Clearing and Depository Services Inc. ("CDS") to ensure that CDS accepts new issues of debentures and revenue bonds and maintains existing debentures and revenue bonds as book entry only securities in the CDS system and to authorize any one or more City officers to do all things and execute all other documents, instruments and agreements in order to give effect to the arrangements with CDS; and

- The authority to pass a by-law to authorize the issue of replacement debenture certificates and revenue bonds on such terms and conditions as the Debenture Committee deems appropriate, including a bond of indemnity as a condition of the issue of replacement debenture certificates and revenue bonds, before the City passes the by-law(s) to authorize the new arrangements with CDS.

4. Debt to be used only for Capital Financing Purposes

The City is not authorized by legislation and will not issue debt obligations or use debt proceeds to finance current operations with the exception of temporary financing that is permitted under Subsection 5(1) of Ontario Regulation 610/06 under COTA.

The City is, however, permitted to issue debt for capital projects.

Under this same Regulation, the City is permitted to undertake temporary borrowing under individual project approvals for capital projects that will be financed in whole or in part by the issuance of debentures or by entering into a bank loan agreement and to be repaid when permanent financing sources become available.

The City will utilize debt for the acquisition, construction, renovating, repairing or remodelling of capital works where the project cannot be funded from current operating revenues or other sources and where the Chief Financial Officer[4] and Treasurer[5] considers it to be prudent to finance the project over the useful life of the asset.

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[7] Reverted to original wording. Consideration could be given to numbering the delegated authorities as (1) through (4) and substituting "Subsection 3(1)" for "Subsection A (1)".

5. Capital Financing provided from the Operating Budget "Capital From Current (CFC)"

As part of the City's capital financing policies, if economically feasible and determined to be affordable, Council will allocate funds from its operating budget to be contributed to funding capital expenditures on an annual basis which will have the effect of reducing the amount of required financing for capital expenditures.

This financing is suited for maintenance/upgrade projects and is first applied to finance capital projects with an economic life of five years or less, and any remaining amount would be used to reduce long-term borrowing which would otherwise be raised through the issuance of debentures.

6. Debt Service Limits

a. Capital Programs Supported by the Property Tax Levy

Provided that the annual costs associated with debt financing shall not exceed 15% of the tax levy, the City shall finance, from time to time, capital works that the City considers necessary or desirable for the public, as included in its Ten-Year Capital Plan, in accordance with applicable generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board. The budgeted debt charges that will be incurred due to debt issuance will be included in the annual Operating Budget.

The annual costs associated with tax-supported debt financing shall not exceed 15% of the property tax levy.

The carrying costs of tax supported debt as a percentage of the property tax levy is subject to various factors such as the debt requirements contained in the capital budget, new projects that may not be contained in the approved capital budget but arise through events that could not have been foreseen, spending rates that affect capital project completion, the amount of unfinanced capital and capital market conditions such as the level of interest rates.

b. Capital Programs Supported by User Fees

The debt service costs for debt issued to finance the capital requirements for Solid Waste Management are funded by the user rates and are not provided by the City's tax base.

Given that this departmental program is funded as self-supporting with their debt fully recoverable from the rate base, debt charges resulting from the financing of the capital required by these functions should not exceed the target of 20% of their own-source revenue. Own -source revenues are defined as any revenues generated by the program that are fully within the control of the program.

The rate structure is able to recover these debt charges while adhering to the principle that the users of the service pay for the capital required to provide these services and the financing is not subsidized by the City's property tax base.

As part of each year's approval of the operating and capital budgets for Solid Waste Management, Council will be provided with a forecast of the ratio of debt service costs (if any) to the total own source revenues.

7. Short-term Borrowing for Capital Purposes

Since it is the City's practice to temporarily finance its capital expenditures from working capital until it is permanently financed, there are occasions when the City must borrow funds to finance these obligations on a short-term basis.

As indicated in Section 2, Council will enact a multi-year temporary borrowing bylaw for the Council term that will authorize short-term borrowing for a capital project up to an annual amount approved by Council.

8. Credit Ratings

The City seeks to maintain the highest possible credit rating that can be achieved without compromising the delivery of services and programs through prudent budgetary and debt management policies and procedures.

The City believes that it enhances its ability to issue debt in the global capital markets when the lowest cost of funds is achievable by being rated by the following rating agencies on a continuous basis:

- Moody's Investor Service
- Standard and Poor's
- Dominion Bond Rating Service

9. Long-term Financial Planning

To enhance the credit rating and prudent financial management, the City will conduct long-term financial planning through the adoption of a ten-year capital plan and a long-term fiscal plan that will disclose the amount of debt and its projected cost that will be required to finance capital expenditures over the term of Council.

10. Matching the Term of Debt to Capital Asset Life

Under COTA, the maximum term for debt issuance is 40 years or the useful economic life of the asset — whichever is less.

With experience, the City has found that the issuance of debentures to finance "state of good repair" projects generally have a useful life that conforms to a 10 year maturity and this term is usually very acceptable to the capital markets.

Debt with a term of 30 years is usually issued for infrastructure such as rapid transit, municipal buildings, Waterfront revitalization and certain transportation assets such as bridges that have a useful life of 30 years or greater.

A debenture term to 30 years increases the affordability of the debt and reduces the impact on the operating fund since the annual principal repayment is amortized over a longer term. This process also allows the cost of the asset to match the benefits for future taxpayers who will be using the assets and by not unduly burdening current taxpayers with paying for the entire asset during the early years of its operation.

11. Debt Structures

Debt should be structured to achieve the lowest net cost of funds, given the constraint of debt maturities and current capital market conditions. To the extent possible, the City will structure its debt obligations to require repayment as soon as feasible so as to recover its borrowing capacity for future use and minimize costs where possible.

Sinking Fund Debt

Under COTA, the City is authorized to issue debt that requires an annual payment to be made to a sinking fund controlled by the Sinking Fund Committee so that these contributions, when invested at an actuarial interest rate, will provide for the repayment of the debt at maturity. The Committee is comprised of four citizen members with specialized expertise and knowledge that supports and contributes to the quality of the investment management of these funds and the Chief Financial Officer[4] and Treasurer[5] as Chair of the Committee.

The citizen members are appointed by City Council and the Committee has the sole authority for managing the sinking funds' investments and administrative policies.

Instalment Debt

Under COTA, the City is authorized to issue debt that will mature in a given year on an instalment or serial basis whereby the principal portion of the debt becomes due and according to a repayment schedule that was established when the debt was issued.

Variable versus Fixed Debt Issuance

Under COTA, the City may issue up to 10% of its outstanding debt in the form of variable rate debt where the interest rate fluctuates according to a pre-determined formula or benchmark rate such as a Treasury bill or Government of Canada bond. This type of debt should only be issued if market conditions provide an opportunity for the City to lower its borrowing costs while maintaining the ability to convert the debt into a fixed interest rate if warranted by future capital market conditions.

Re-opening of a Debt Issue

The City may re-open an existing debenture issue if it is determined that the reopening will be advantageous to the City, depending upon capital market conditions. [3, 5]

Bank Loans

As a source for financing capital works, the Chief Financial Officer[4] and Treasurer[5] shall consider bank loans and recommend that the City enters into a bank loan agreement if it conforms to this policy and achieves the goals of providing a lower cost of funds and flexible terms than other available debt instruments.[3]

Construction Financing

In order to match projected debt charges with future revenues that will be generated after a facility is constructed and operating, the City may issue construction financing whereby the interest or principal payments-or both can be deferred up to five years before payment is required. The Chief Financial Officer[4] will recommend this financing if it is determined to be in the best interests of the City.

12. Revenue Bonds[8]

Revenue bonds are secured by a specific income stream that is generated from a City capital project that is being financed by the bonds and the bonds are non-recourse to the City if there is a default. As a comparison, the City generally issues debentures that are unsecured. Debentureholders rely on the City's credit rating and promise to repay the principal and to fund the interest payments from its general revenues. Debentures are often referred to as general obligation bonds.

Municipal revenue bonds are considered to be bonds that finance income-producing projects without recourse to other municipal assets. The income generated by these projects pays the bondholders their interest and principal.

Income being generated from the capital project is being placed into a reserve fund. From this fund, expenses for operations are paid first. Only after operational expenses are paid do revenue bondholders receive their payments.

Unlike unsecured general obligation bonds, revenue bonds are secured by specific collateral – the income produced by the projects that are being funded by the revenue bonds. The revenues (fees, tolls, concessions, rent, etc.) produced by the projects are used to pay the bondholders.

[8] Amended by the City of Toronto Council on January 17, 2012 (by By-law 104-2012 as per City of Toronto Council decision number EX14.1).

Credit rating firms can provide a credit rating for revenue bond issuers, based upon their ability to generate sufficient revenue to pay bond interest and principal. The success of the bonds ultimately depends on the projects' ability to produce revenue.

A City of Toronto revenue bond must be issued with a fixed rate of interest.

A revenue bond may be issued in United States dollars and will be governed by the conditions for issuing a foreign currency debenture as contained in Ontario Regulation 610/06 (Financial Activities) under the COTA.

The City cannot secure a revenue bond with debentures or other securities issued by the City or by an assignment of an interest in real property of the City including a mortgage, charge or lease on the property. [8]

13. Derivatives and Hedging

The use of derivatives and hedging as related to the issuance of debt will be addressed by a statement that will amend this policy before the City contemplates issuing debt denominated in a foreign currency as allowed under Ontario Regulation 610/06 Financial Activities.

14. Accessing Capital Financing Programs Offered by Other Orders of Government

When evaluating whether to participate in a loan or debt program being offered by the federal or provincial orders of government, the interest rate and terms will be compared to the City's all-in cost of borrowing and the program must provide a lower cost of funds and competitive terms in order to be considered.

15. Issuing Debt on Behalf of Another Jurisdiction

If the City is requested by the Toronto District School Board or the Toronto Catholic School Board to issue debt on their behalf, the City will consider the request as it affects the City's overall borrowing program and deal with the report on a timely basis. Council approval is required before the City will agree to issue debt on behalf of the school boards.

The authority to consider a request and the City's authority to issue the debt is contained in the following section 246 of COTA:

"The City may borrow money for the purposes of a school board if the school board exercises jurisdiction in all or part of the City and requires permanent improvements as defined in subsection 1(1) of the Education Act."

16. Legal Support

A specific borrowing bylaw must be adopted to authorize the issuance of debentures or the entering into a bank loan for the purpose of capital financing that is covered by this policy.

The City Solicitor provides legal advice with regard to the City debt financing transactions and, in the opinion of the City Solicitor, should the scope of the proposed transaction require, recommend that legal advice be obtained from an independent source. This advice would cover the initial proposal and extend to the various contracts and agreements that would have to be executed in conjunction with the transaction.

The debt issuance syndicate is responsible for retaining external counsel who provides the legal opinion for the investors.

17. Reporting and Disclosure Requirements — Construction Financing Debt

The Chief Financial Officer[4] and Treasurer[5] shall prepare and present to the Council a detailed report per the requirements of section 16 of Ontario Regulation 610/06 "Financial Activities". This applies to outstanding debt issued under clause 7(1)(d) of 2(d) of the same Regulation which relate to construction financing debt where the payment of interest, principal or both are deferred during the period of construction.

"(1) If the City has any outstanding debt under clause 7(1)(d) or (2)(d) in a fiscal year, the treasurer shall prepare and present to the council once in that fiscal year, or more frequently if the council so provides, a detailed report on all of that debt.
(2) The report under subsection (1) shall contain,
(a) a description of the estimated proportion of the total debt of the City under clause 7(1)(d) or (2)(d) to the total long-term debt of the City and a description of the change, if any, in that estimated proportion since the previous year's report;
(b) a statement by the treasurer as to whether, in his or her opinion, all debt under clause 7(1)(d) or (2)(d) of the Act was issued in accordance with the statement of policies and goals relating to construction financing adopted by the City;
(c) an update of the detailed estimate made under clause 15(2)(c) with respect to the terms of the City's expectations of revenue generation from the undertaking;
(d) a record of the date of the repayment of each instalment of principal, interest or both principal and interest made during the period of construction of the undertaking for which the debt under clause 7(1)(d) or (2)(d) was issued;
(e) a statement of the outstanding instalments of principal, interest or both principal and interest repayable during the currency of the debt issued under clause 7(1)(d) or (2)(d) that will be due and payable in each year; and
(f) such other information as the council may require or that, in the opinion of the treasurer, should be included."

The report, if required, shall be presented to Council on an annual basis after the end of the City's fiscal year after the City's accounts are closed.

18. Annual Reporting of Sinking Fund Levies

Subsection 255(4) of COTA states:

255(4) If in any year an amount is or will be required by law to be raised for a sinking fund or retirement fund of the City, the city treasurer shall prepare for city council, before the budget for the year is adopted, a statement of the amount.

This statement requires mandatory reporting as part of each year's operating budget regarding the amount of funds that need to be levied during the year to retire the City's sinking fund debt.

February 3, 2011

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