

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee

From: Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

Subject: 2024 Debenture Issuance

Date: March 25, 2024

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports:

- a. Civic Administration **BE AUTHORIZED** to proceed with the issuance of debentures in the capital markets upon suitable market conditions to provide permanent financing for capital works in an amount not to exceed \$30,000,000;
- b. Civic Administration **BE INSTRUCTED** to schedule and convene an appropriately timed special Corporate Services Committee meeting upon successful placement of the City's debt in the capital markets to ensure adequate time for Council approval while adhering to the necessary financial settlement requirements.

Executive Summary

The City typically issues debentures, with the support of a fiscal agent, in the capital markets for complete projects, substantially complete projects or projects for which a significant milestone has been achieved and which have authorized debt as an element of their capital financing. Civic Administration is recommending a 10-year serial debenture issuance in the amount of \$30,000,000 representing the City's 2024 issuance. The purpose of this report is to obtain authorization to proceed with the issuance and a second report will follow to enact the issuance of the debenture and associated by-law upon successful placement in the capital markets.

Linkage to the Corporate Strategic Plan

Council's 2023-2027 Strategic Plan for the City of London identifies 'Londoners experience good stewardship, exceptional and valued service' as an outcome of the strategic area of focus "Well Run City". Adhering to the City of London's limit on authorized debt contributes to maintaining London's finances in a transparent, sustainable, and well-planned manner while incorporating intergenerational equity and affordability over the long term. The 2024 Debenture Issuance report ensures that the proper mechanisms are in place to fund major capital projects while supporting intergenerational equity.

Analysis

1.0 Background Information

As prescribed within the Municipal Act, a municipality may issue debt for long-term borrowing to provide financing for capital works. Municipalities may fund current operating expenses with temporary borrowing until taxes are collected and other revenues are received but may not fund operating expenditures through debt issuance in the same way that the federal and provincial governments do.

The Debt Management Policy (<https://london.ca/council-policies/debt-management-policy>) is the foundation of the City of London's borrowing program. The City typically

issues debentures on projects that are complete, substantially complete or projects for which a significant milestone has been achieved. All projects included in the debt issuance have debt previously authorized as a capital financing source, typically through the budget process. The City reviews capital project status reports regularly and this analysis along with cash flow requirements, budget considerations and market conditions determine the amount and timing of debentures issued each year. The City typically performs only one debt issuance per year. Debt issuances of the City of London are denominated in Canadian Dollars. As outlined in the City's Debt Management Policy, the 2024 proposed debt issuance is aligned with a term preference of 10 years to minimize the cost of borrowing while balancing intergenerational equity. The City's Aaa credit rating (maintained for 47 consecutive years) enables the City to issue debentures at the lowest rate possible based on the City's credit profile.

1.1 Previous Reports Related to this Matter

Corporate Services Committee, October 3, 2023, Agenda Item 2.1, City of London's Credit Rating

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=103304>

2.0 Discussion and Considerations

A review of approved capital projects indicates that projects meeting the required criteria for long-term debenture financing total \$30,000,000 in 2024. The details of these projects are listed in **Appendix A**.

Over the past five years, the City has issued a total of approximately \$150.9 million in long-term debt as follows:

Issuance Date	Amount of Issuance (\$)	Term (years)	All in Rate of Borrowing*
1-May-2023	21,500,000	10	3.88%
9-May-2022	21,000,000	10	3.56%
16-April-2021	23,000,000	10	1.82%
5-Jun-2020	36,000,000	10	1.67%
2-Apr-2019	49,380,000	10	2.66%
Total	150,880,000		

*All-in rate includes fees

As part of the debenture issuance process, the City's fiscal agents provide advice on the form and timing of the issuance. The three main types of debenture issuances are:

1. Serial debentures - debt instrument that matures in installments over a period of time. In effect, a \$30,000,000, 10-year serial debenture would mature in approximate equal amounts of \$3,000,000 annually with unique coupon (interest) rates for each year.
2. Amortizing debentures - debt instrument where the principal is paid down over the life of the debenture according to an amortization schedule, typically through equal payments and one coupon rate.
3. Bullet debentures - debt instruments whose entire principal value is paid all at once on the maturity date, as opposed to periodic principal payments over the life of the debenture. These types of debentures are best suited for municipalities issuing greater than \$75 million and are structured so that a sinking fund is established to cover the principal value upon maturity. Furthermore, these structures tend to be longer term, such as 20 years.

Toronto-Dominion Bank (TD) (as the lead on the City’s 2024 debenture issuance) will launch and price the City’s debenture issuance deal in the capital markets upon suitable market conditions. A report will be brought forward to a special Corporate Service Committee meeting to approve the debenture issuance and the associated by-law, with Council approval to follow. Timing of the City’s debenture pricing will be dependent on market conditions. It is anticipated that the City’s debenture issuance deal will be brought to Committee and Council in late April 2024.

3.0 Financial Impact/Considerations

The financial impact of this debenture issuance has been included in the 2024 to 2027 Multi-Year Budget and will also be incorporated in future Multi-Year Budget submissions. Furthermore, proceeds from our debt issuance will represent a cash injection to the City to aid in managing cash flows and maintaining a positive liquidity position.

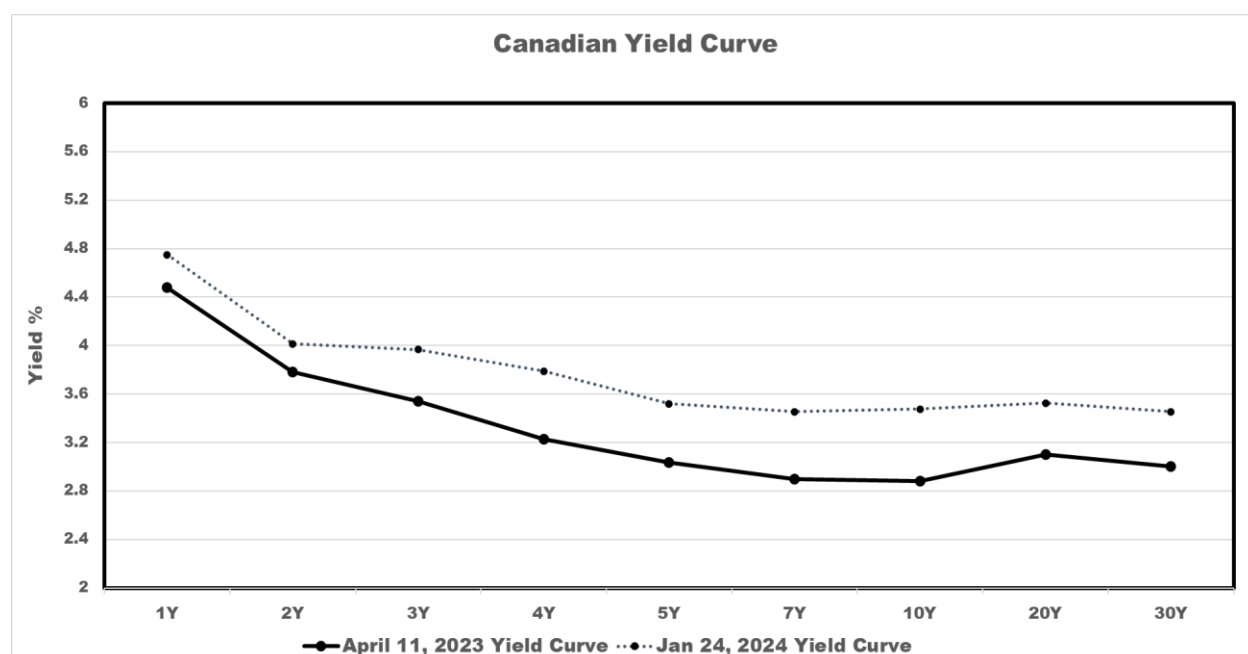
4.0 Key Issues and Considerations

4.1. Current Market Conditions

Investor demand for municipal debenture issuance remains strong. We have seen several issuances in the municipal space early in 2024, with issuances from City of Montreal and Municipal Finance Authority of British Columbia being completed in the capital markets. Civic administration is continually in touch with its fiscal agents to monitor the evolving markets and impacts to the City’s upcoming debt issuance.

The Bank of Canada (BOC) increased the overnight rate, which is currently at 5%, ten times from March 2, 2022 to July 13, 2023 and has maintained the current level since then. The overnight rate is the rate at which major financial institutions borrow and lend one-day (or "overnight") funds among themselves. Changes in this rate and associated expectations of short-term rates into the future influences the Canadian “yield curve” (which is a graphical representation of the varying interest rates across different terms). The City’s issuance is priced based on spreads added to the Government of Canada yield curve as a starting point. As bond yields rise with rising interest rates, the City’s anticipated issuance rate increases. Civic administration continues to monitor market expectations regarding the future path of the BOC overnight rate as this may impact the City’s borrowing rates in future years.

The following is a summary of the Canadian yield curve at the last rate announcement of the BOC compared to the timing of the City’s last issuance.



Source: Refintiv

Conclusion

The City's 2024 planned debt issuance will provide the required long-term funding for the identified projects within Appendix A and aligns with the City's Debt Management Policy. This approval will provide the authorization to issue debentures in the capital markets.

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Recommended by: Anna Lisa Barbon, CPA, CGA, Deputy City Manager,
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Appendix “A”

Capital Projects for Issuance

Project Number	Project Title	Amount to be Financed (\$)	By-Law #
Property Tax Supported			
FS1089	Capital costs in connection with the Quint - Station 15 Vehicle	512,204	W.-5691-79
TS1306	Capital costs in connection with the Adelaide Street Grade Separation Canadian Pacific Railway (CPR) tracks	14,470,964	W.-5600-57 W.-5600(a)-47 W.-5600(b)-167 W.-5600(c)-131
TS1308	Capital costs in connection with the Highway 401 Interchanges	933,440	W.-5535-98
TS1336	Capital costs in connection with the Intersection - Southdale - Colonel Talbot (Roundabout)	786,299	W.-5684-134 W.-5684(a)-96
TS1746	Capital costs in connection with the Dingman Dr - Highway 401 Bridge to Wellington Road	641,664	W.-5669-63 W.-5669(a)-143
	Property Tax Supported Subtotal	17,344,571	
Non-Rate Supported (City Services Reserve Funds)			
FS1089	Capital costs in connection with the Quint - Station 15 Vehicle	356,563	W.-5691-79
FS1043	Capital costs in connection with the Aerial Company - Central London	1,995,327	W.-5690-78
TS1336	Capital costs in connection with the Intersection - Southdale - Colonel Talbot (Roundabout)	4,004,099	W.-5684-134 W.-5684(a)-96
TS1746	Capital costs in connection with the Dingman Dr - Highway 401 Bridge to Wellington Road	4,304,112	W.-5669-63 W.-5669(a)-143
RT1430-1B	Capital costs in connection with the Wellington Gateway - Land Rapid Transit	1,995,328	W.-5689-65 W.-5689(a)-25
	Non-Rate Supported (City Services Reserve Funds) Subtotal	12,655,429	
	Total 2024 Debenture Issuance	30,000,000	

Amounts are subject to rounding.