

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON OCTOBER 29, 2013
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	CITY OF LONDON'S CREDIT RATING

RECOMMENDATION

It is recommended that this report **BE RECEIVED** for information.

BACKGROUND

Moody's Investors Service (Moody's) is a leading provider of credit ratings, research, and risk analysis. The firm's ratings and analysis track debt covering more than 115 countries, 10,000 corporate issuers, 22,000 public finance issuers, and 82,000 structured finance obligations. Each year Moody's Investors Service reviews the credit worthiness of the City of London and then assigns the City a credit rating for the year.

The rating process involves a review of the City's 2012 financial statements, 2013 approved budget and forecasts. Moody's also utilizes independent research from a variety of sources such as Statistics Canada, comparisons with other municipalities, and local media. Along with reviewing and analyzing documents, Moody's arranges a site visit to the city and interviews with City staff.

On October 4, 2013, Moody's Investors Service published their credit analysis of the City of London. Consistent with prior years, the City of London has maintained its Aaa credit rating. The City of London has held the Aaa rating since 1977, making 2013, the 37th consecutive year of the Aaa rating and reaffirming that the City of London's debt has the highest rating possible. The Aaa rating was integral in securing buyers of the City's bonds for an overall interest rate of 3.299% (ten-year term) during the City's most recent debt issuance of \$50 million on September 3, 2013.

Below are excerpts from Moody's Credit Analysis Report that highlight the City's strengths in debt management. These strengths contributed to the City receiving its Aaa credit rating.

"The City of London is rated at the high end of Canadian municipalities, whose rating remain in a narrow range of Aaa-Aa2. When compared with other Canadian municipalities, London exhibits a lower debt burden, while the city's liquidity, as measured by the level of net cash and investments relative to debt and revenue, is considered healthy and in line with national peers of a similar rating."

"As with budgeting, London's debt management is also best characterized as prudent and conservative. The city's debt burden, measured by the ratio of net debt as a percentage of total revenues, declined in recent years from 54.8% in 2004. Registering 38.3% of revenues in 2012, the progressive reduction in the city's debt burden reflects the tight controls placed on debt issuance, notably through a self-imposed "debt cap" limiting the amount of debt issued for capital projects, as well as increased reliance on pay-as-you-go financing."

A downgrade or negative outlook from Moody's would cause investors to lose confidence in the quality of the City's debt and financial management affecting the City's ability to raise future financing.

Moody’s indicates that the City’s Aaa is unlikely to deteriorate in the near term however; there are circumstances that could apply downward pressure on the City’s credit rating. The Moody’s report states the following;

“Given the history of prudent expenditure and debt management, relative stability of the local economy and high fund balances, it is unlikely that conditions could deteriorate by a large enough margin, in the near term, to cause a downgrade of London’s rating. Nonetheless, a sustained loss of discipline, leading to a significant increase in debt or a substantial reduction in the level of reserves, would apply downward pressure on the rating.”

The City of London’s Strategic Plan for 2011-2014 includes the principle of Fiscal Responsibility, which specifies to invest wisely to continue building our community ***while maintaining a solid financial position***. The City’s achievement of being Aaa rated for 37 consecutive years is a testament to the accomplishment of the City maintaining its solid financial position.

PREPARED BY:	REVIEWED BY:
Annette Ripepi Manager of Modelling, Forecasting & System Control	Jason Senese Manager of Financial Planning & Policy
CONCURRED BY:	RECOMMENDED BY:
Larry Palarchio Director of Financial Planning & Policy	Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

Attach. City of London’s Credit Analysis Report by Moody’s Investors Service

Cc: Mike Turner, Deputy City Treasurer
Sharon Swance, Manager Accounting