

# MOODY'S

## INVESTORS SERVICE

### CREDIT ANALYSIS

## London, City of

Ontario, Canada

#### Table of Contents:

RATINGS	1
SUMMARY RATING RATIONALE	1
NATIONAL PEER COMPARISONS	1
RATING OUTLOOK	1
WHAT COULD CHANGE THE RATING - DOWN	1
BASELINE CREDIT ASSESSMENT	2
Financial Performance and Debt Profile	2
Governance and Management	3
Economic Fundamentals	3
Institutional Framework	4
Application of Joint-Default Analysis	4
RATING HISTORY	4
ANNUAL STATISTICS	5
MOODY'S RELATED RESEARCH	9

#### Analyst Contacts:

TORONTO	+1.416.214.1635
Michael Yake	+1.416.214.3865
Assistant Vice President - Analyst	michael.yake@moodys.com
Jennifer A. Wong	+1.416.214.3854
Assistant Vice President - Analyst	jennifera.wong@moodys.com
Aaron Wong	+1.416.214.3633
Associate Analyst	aaron.wong@moodys.com
LONDON	+44.20.7772.5454
David Rubinoff	+44.20.7772.1398
Managing Director - Sub Sovereigns	david.rubinoff@moodys.com

This Credit Analysis provides an in-depth discussion of credit rating(s) for London, City of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](http://www.moodys.com).

### Ratings

#### London, City of

Category	Moody's Rating
Outlook	Stable
Bonds	Aaa

### Summary Rating Rationale

The City of London's Aaa debt rating is supported by a prudent, conservative approach to fiscal planning as well as sizeable levels of reserves. The rating also reflects the city's strong track record of achieving positive operating results and the generation of internal financing for capital expenditures which mitigates the need for debt issuance. London's cash and investments, which represented 133.2% of net direct and indirect debt at December 31, 2012, provide considerable liquidity and a measure of safety for debenture holders and further supports the Aaa rating.

### National Peer Comparisons

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. The institutional framework governing municipalities in Ontario is mature and well developed, similar to that of other Canadian provinces where Moody's rates municipalities.

### Rating Outlook

The outlook is stable.

### What Could Change the Rating - Down

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.

## Baseline Credit Assessment

The City of London's Baseline Credit Assessment (BCA), which is a measure of the city's standalone credit strength and excludes extraordinary support considerations, is **aaa**. The BCA reflects the following factors:

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### Financial Performance and Debt Profile

#### Forward-looking, conservative approach leads to positive results

The City of London posted a consolidated surplus of C\$113.2 million, equal to 10.9% of total revenues, in 2012, in line with the trend of recent years. This positive result was obtained within an environment of a 0% increase in property taxes rates.

London's ability to frequently post positive financial results is also due to the use of five-year operating targets, which are updated annually and take into account forecasts of future revenue flows as well as anticipated expense pressures. The city's targets are conservative by nature, often helping to identify and address future challenges before they arise.

This forward looking ability is made possible through the presence of a revenue profile that is stable and predictable, providing dependable cash flows to meet operating requirements. In 2012, own-source property tax revenue accounted for approximately 52.3% of operating revenues, while user charges accounted for a further 24%. Trends for property tax receipts and utility charges are relatively stable. From 2009 to 2012 London's revenues expanded at a compound average growth rate (CAGR) of 1.6%.

Expenditures fell by 1.1% from 2011 to 2012, aided by a decline in spending for social housing, recreation services, and planning and development. Pressures in social services were also mitigated as the province continues to upload costs associated with Ontario Works social programs. Certain budgetary pressures in 2012 were addressed through increases in utility rates and efficiency measures resulting from position management and service levels changes. However, these efficiencies are harder to achieve over time. Meanwhile, expenditure pressures continue to build, notably from compensation for protection services. In addition to seeking further efficiencies among service areas, Budget 2013 was balanced with the presence of a 1.2% tax increase, increases in utility rates as well as one-time use of reserves. The city's use of reserves to balance the 2013 budget, which in itself as a one-time occurrence is not a concern, provides an indication of the mounting pressures the city faces.

#### Tight controls on debt limits growth

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 an increased reliance on pay-as-you-go financing. Furthermore, debt remains affordable as interest expense consumed only 1.2% of operating revenues in 2012. The city's debt burden is low compared to other Canadian cities and, as such, constitutes a credit positive.

London's current five-year tax and rate-supported capital plan calls for expenditures of nearly C\$1 billion. Of this level, C\$223.5 million, 22.5%, will require debt financing. The city's capital plan has been reduced in recent years to keep increases on user rates low. Although total capital spending

remains fairly equal across the 2012 five year capital and the 2013 five year plan, planned debt issuance of the 2013 five year capital plan is nearly 10% smaller than the planned debt issuance of the 2012 five year capital plan. If the current capital plan comes to fruition, we anticipate that the city's debt burden should improve, remaining consistent with the Aaa rating. Accordingly, debt service costs as a percentage of revenue are expected to remain low, ensuring that fiscal flexibility remains high.

#### Liquidity levels are credit positive

London's credit rating is also supported by a strong liquidity position. At December 31, 2012, cash and investments represented 133.2% of the city's net direct and indirect debt, providing the city with ample liquidity, which in turn provides a measure of safety for bondholders.

High levels of liquidity also allows the city to be selective and issue debt at opportune times, and/or remain out of the capital markets when conditions are considered unfavourable. Historically, the city has borrowed from its reserves to provide internal financing for capital projects. While this practice reduces the amount of liquidity available, its level should remain more than adequate over the forecast horizon.

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### Governance and Management

Similar to other highly rated municipalities in Ontario, the City of London displays strong governance and management characteristics. The city utilizes multi-year planning for operating and capital budgeting, which has helped lead to a history of meeting fiscal targets. Management adheres to conservative debt and investment management policies through the application of strict controls on debt issuance. These policies also limit the city's exposure to market-related risks and help to ensure relatively smooth debt servicing costs. These financial management measures are also supported by comprehensive, transparent and timely financial reporting that is typical of governments in advanced industrial countries.

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### Economic Fundamentals

The City of London is located in Southwestern Ontario, mid-way between Toronto and Detroit. This allows the city to benefit from its proximity to, and good transportation connections with, large North American markets including the US Northeastern and Midwestern regions. Planned upgrades by the provincial government to the highway interchanges passing through London should increase interest in attracting and relocating businesses along this important corridor.

#### Skilled workforce but uneven recovery

While London and the surrounding area has lost manufacturing-based jobs and businesses, the regional economy has been supported by a growing emphasis on technological and skilled industries. Overall, the economy is diversified across a variety of industries including health care, educational services and financial services. London also benefits from a significant institutional base, including Western University, three teaching hospitals and two large medical research institutes. The city is very active in the pursuit of attracting companies with leading edge technology that can benefit from the well-educated labour force and research centers to continue to bolster the high-value added sectors of the economy.

Population trends in the city increase at a relatively slow, steady rate, increasing on average 0.8% annually from 2007 to 2012. Since the recession of 2009, unemployment has remained higher than

the historical average, falling to 8.6% in 2012 from 9.0% in 2011, but still higher than 6.1% recorded in 2007. The city remains active in attracting new businesses to the London area.

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### Institutional Framework

The institutional framework governing municipalities in Ontario is mature and highly developed. The division of roles and responsibilities between the province and municipalities is clearly articulated. Historically, changes to the institutional framework have occurred at a measured, evolutionary pace, following discussions between both parties. Nevertheless, in certain cases, changes have occurred more rapidly.

London's creditworthiness benefits from the stability inherent in the provincial institutional framework. Provincial legislation dictates a high degree of oversight, including limits on debt servicing costs, while policy flexibility, on both the revenue and expenditure sides of the ledger, also allows London to manage pressures as they arise.

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### Application of Joint-Default Analysis

Moody's assigns a high likelihood of extraordinary support from the Province of Ontario (Aa2, stable) reflecting Moody's assessment of the incentive provided to the provincial government to minimize the risk of potential disruptions to capital markets if London, or any Ontario municipality, were to default.

### Rating History

London, City of	
Date	Rating
December 1977	Aaa

## Annual Statistics

### London, City of

Debt Statement (C\$000, as at 12/31)	2008	2009	2010	2011	2012
<b>Debt Issued for:</b>					
General Municipality	358,239	319,587	330,471	397,851	389,031
Other Municipalities	4,408	3,328	3,029	2,716	7,451
<b>Net Direct and Indirect Debt</b>	<b>362,647</b>	<b>322,915</b>	<b>333,500</b>	<b>400,567</b>	<b>396,482</b>
<b>Debt Trends (as at 12/31)</b>					
Net Direct and Indirect Debt (C\$000)	362,647	322,915	333,500	400,567	396,482
As % Total Revenues	36.5	32.7	30.2	38.2	38.3
As % Operating Revenues	41.7	36.5	35.3	43.0	42.4
As % of Taxable Assessments	1.4	1.1	1.1	1.3	1.2
As % of Net Direct and Indirect Debt					
General Municipality Purposes	98.8	99.0	99.1	99.3	98.1
Other Municipalities	1.2	1.0	0.9	0.7	1.9
Debt per Capita (C\$)	1,011	891	913	1,094	1,072
Net Debt Issuances (C\$000)	6,099	0	45,393	132,077	67,172

[1] Net direct and indirect debt as a percent of full market value of assessment.

Economic Trends (Year Ending 12/31)	2008	2009	2010	2011	2012
Population	358,838	362,235	365,200	366,150	369,940
Taxable Assessment - Full Value (C\$ Millions) [1]	26,590	28,445	30,085	31,969	33,695
% Change	2.0	7.0	5.8	6.3	5.4
Current Tax Collection Rate (%)	94.8	93.4	94.0	94.5	94.8
Value Building Permits (C\$ Millions)	799.0	553.0	711.9	1,008.7	778.7
Unemployment Rate (%)	7.1	9.9	8.6	9.0	8.6
Unemployment Rate, Province (%)	6.5	9.0	8.7	7.8	7.8

[1] Series impacted by periodic reassessments; not all data points are directly comparable.

Revenues and Expenses (C\$000, year ending 12/31)	2008	2009	2010	2011	2012
<b>Revenues:</b>					
Taxation	442,927	464,260	476,790	482,669	489,217
User fees and Services	193,789	195,813	215,788	216,216	225,265
Provincial Grants	164,949	160,146	181,640	173,468	166,929
Federal Grants	1,690	4,253	11,428	1,418	2,404
Investment Income	15,021	6,566	6,790	6,572	8,172
Other Revenues [1]	47,392	47,459	48,657	50,843	43,423
Provincial and Federal Capital Grants	53,287	28,332	100,368	47,438	23,621
Development Charges	26,659	19,877	29,111	32,823	28,296
Developer Contributions of Tangible Capital Assets	48,785	60,292	35,435	37,558	46,918
<b>Total Revenues</b>	<b>994,499</b>	<b>986,998</b>	<b>1,106,007</b>	<b>1,049,005</b>	<b>1,034,245</b>
<b>Expenses</b>					
General Administration	72,245	74,720	80,791	81,181	82,140
Protection to Persons and Property	146,156	153,507	169,432	171,998	177,589
Transportation Services	134,418	129,905	147,473	149,560	149,182
Environmental Services	137,332	140,513	129,747	142,725	156,210
Social and Family Services	189,493	198,955	199,616	189,782	194,800
Social Housing	41,768	44,031	51,914	45,584	40,112
Health Services	19,765	20,017	20,695	21,141	21,898
Recreation and Culture	68,174	68,176	69,501	80,512	74,166
Planning and Development	21,855	16,964	16,329	48,908	24,985
Other Expenses	0	8,638	0	0	0
<b>Total Expenses</b>	<b>831,206</b>	<b>855,426</b>	<b>885,498</b>	<b>931,391</b>	<b>921,082</b>
<b>Surplus (deficit)</b>	<b>163,293</b>	<b>131,572</b>	<b>220,509</b>	<b>117,614</b>	<b>113,163</b>
<b>Cash Financing Surplus/(Requirement)</b>	<b>90,277</b>	<b>-7,482</b>	<b>-14,298</b>	<b>37,659</b>	<b>85,319</b>
Cash Financing Surplus/(Requirement) net of CAPEX	270,208	214,132	291,592	228,939	243,431
Capital Expenditures	170,861	221,614	305,890	191,280	158,112
Debt Repayment	40,660	47,222	39,323	87,053	66,295
Amortization [2]	108,475	112,721	119,154	127,239	134,904
Interest [2]	15,581	14,179	13,356	11,637	11,298
Gain/loss on Sale of Land/Capital Assets [2]	-4,709	-6,173	-3,311	-6,082	-1,927

[1] Prior to 2011, includes gain/loss on sale of land/capital assets.

[2] Subsumed in other expense categories. Gain/loss on sale of land/capital assets subsumed in other expense categories beginning in 2011.

**London, City of**

<b>Financial Trends ( Year Ending 12/31)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Operating Revenues [1]	870,477	884,670	944,404	931,186	935,410
Operating Expenses [2]	722,731	734,067	766,344	798,070	784,251
<b>Gross Operating Balance [3]</b>	<b>147,746</b>	<b>150,603</b>	<b>178,060</b>	<b>133,116</b>	<b>151,159</b>
<b>% Change in Total Revenues</b>	<b>10.3</b>	<b>(0.8)</b>	<b>12.1</b>	<b>(5.2)</b>	<b>(1.4)</b>
<b>As % Operating Revenues</b>					
Taxation	50.9	52.5	50.5	51.8	52.3
Provincial Grants	18.9	18.1	19.2	18.6	17.8
User Fees and Services	22.3	22.1	22.8	23.2	24.1
Interest Expense	1.8	1.6	1.4	1.2	1.2
Reserves and Reserve Funds	49.3	51.8	49.1	52.8	56.6
Surplus/(Deficit)	18.8	14.9	23.3	12.6	12.1
Gross Operating Balance	17.0	17.0	18.9	14.3	16.2
<b>As % Total Revenues</b>					
Surplus/(Deficit)	16.4	13.3	19.9	11.2	10.9
Financing Surplus/(Requirement)	9.1	(0.8)	(1.3)	3.6	8.2
Financing Surplus/(Requirement) excl. CAPEX	27.2	21.7	26.4	21.8	23.5
Debt Service [4]	5.7	6.2	4.8	9.4	7.5
<b>% Change in Total Expenses</b>	<b>(1.8)</b>	<b>2.9</b>	<b>3.5</b>	<b>5.2</b>	<b>(1.1)</b>
<b>As % Operating Expenses</b>					
Protection to Persons and Property	20.2	20.9	22.1	21.6	22.6
Social and Family Services	26.2	27.1	26.0	23.8	24.8
Debt Services [4]	7.8	8.4	6.9	12.4	9.9

[1] Total revenues less development charges, government capital grants, gains/losses on sale of land/capital assets (from 2008 to 2010) and developer contributions of tangible capital assets is used as a proxy for operating revenues.

[2] Total expenses less amortization and gains/losses on sale of land/capital assets (since 2011) is used as a proxy for operating expenses.

[3] Revenues less expenses, excluding development charges, government capital grants, gains/losses on sale of land/capital assets, developer contributions of tangible capital assets and amortization.

[4] Principal and interest.

**London, City of**

<b>Consolidated Balance Sheet (C\$000, As At 12/31)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Cash and Investments [1]	407,243	353,196	326,718	440,564	528,201
As a % of Net Direct and Indirect Debt [2]	112.3	109.4	98.0	110.0	133.2
Receivables	59,571	93,123	110,081	85,813	71,267
Payables	99,959	107,294	127,495	118,912	120,228
Fund Balances					
Reserves	65,200	91,396	88,356	102,843	114,012
Reserve Funds	220,624	214,551	245,028	257,169	265,437
Obligatory Deferred Revenues (Including Development Charges)	142,938	152,331	130,073	131,587	149,527

[1] Includes long-term investments.

[2] Cash and investments less sinking funds as a % of net direct and indirect debt.



## Moody's Related Research

### Analysis:

- » [Ontario, Province of, June 2013 \(155283\)](#)

### Special Comment:

- » [Resource-Rich Canadian Provinces : Strong Balance Sheets and Management Practices Mitigate Volatile Resource Revenues, May 2013 \(152020\)](#)

### Credit Focus:

- » [Canadian Provinces of Ontario and Québec: High Debt Does Not Preclude High Ratings, June 2013 \(154994\)](#)

### Statistical Handbook:

- » [Non-U.S. Regional and Local Governments, June 2012](#)

### Rating Methodology:

- » [Regional and Local Governments, January 2013 \(147779\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Author  
Michael Yake

Production Associate  
Eri Watanabe

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