

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 8, 2014
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2014 DEBENTURE ISSUANCE

RECOMMENDATION

That the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, **BE AUTHORIZED** to proceed with the issue of debentures to provide permanent financing for capital works in an amount not to exceed \$30,000,000 (**Appendix A**) through debentures in the capital markets with the flexibility to postpone the issuance for unfavourable market conditions.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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2013 Capital Budget Status – Third Quarter Report (December 10, 2013 meeting of the Corporate Services Committee, Agenda Item 10)

City of London's Credit Rating (October 29, 2013 meeting of the Corporate Services Committee, Agenda Item 9)

BACKGROUND

A municipality may issue debt for long-term borrowing to provide financing for capital works. The City issues debt on projects that are substantially complete. The City reviews project status reports on an annual basis to determine which debt financed projects are substantially complete. This analysis along with cash flow requirements, budget constraints and market conditions determine the amount of debt issued in a given year.

A review of the approved Capital Plan indicates that projects meeting the required criteria for long-term debenture financing total \$30 million. The details of these projects are listed in Appendix A.

The City manages debt by employing strategies that include maintaining a debt cap on capital budgets, applying year-end debt servicing savings and/or assessment growth funding to cancel authorized but unissued debt, as well as utilizing more pay-as-you go financing, in lieu of debenture financing to fund Lifecycle Renewal projects. Because of the strategic financial planning process, the City has been able to limit the amount of debt authorized on an annual basis. The City's strategy for managing debt along with the Economic Stimulus Program reaching completion and permanent financing being secured at the end of 2011 has resulted in the reduced amount of debenture issuance over the last three years as noted in the following table.

Over the past three years, the City has issued approximately \$254 million in debentures as follows:

Issuance Date	Amount of Issuance (\$)	Term (years)	All-in-rate (*) of borrowing	Type	Agency
3-Sep-13	50,000,000	10	3.30%	Serial	Capital Markets - CDS
24-Sep-12	70,000,000	10	2.82%	Serial	Capital Markets - CDS
15-May-12	2,000,000	20	2.00%	Amortizer	FCM - GMF
	72,000,000				
15-Dec-11	63,400,000	10	2.89%	Serial	Capital Markets - CDS
15-Dec-11	52,809,914	10	2.86%	Serial	OILC
29-Mar-11	15,867,582	10	3.23%	Amortizer	CMHC
	132,077,496				
Total	254,077,496				

* All-in-rate includes fees

On March 10, 2014, the all-in borrowing rate provided by our lead fiscal agent, RBC Capital Markets, on a 10-year term debenture, was 2.941%. Please note that rates change on a daily basis depending on market conditions.

Where is the City Headed?

Moving forward into 2015 through to 2017, the City expects overall debt levels to decline slightly, while debt servicing costs will show a slight increase. These projections are based on the forecasted capital plan approved in principle by Council. The increase in costs reflect an increase in projected debt issued and the rising interest rate environment that is expected from 2015 – 2017, keeping in mind that the amount of debt issued is dependent on the completion of projects.

The Government of Canada Bond Rate is a benchmark for forecasting the City of London's future borrowing rates. With Government of Canada Bonds forecasted to increase steadily from 2015 through to 2017, as shown in the table below, it would be beneficial to secure financing as early as possible. Issuing debentures in 2014 will allow the City to take advantage of favourable economic conditions.

Table: 10-year Bank of Canada Bond Rates (%), Annual Average

2015	2016	2017
3.40	3.90	4.30

Forecast by TD Bank Group as at December 16, 2013, TD Economics
(Source: Statistics Canada, Bank of Canada, Bloomberg)

Financial Impact

The financial impact of this debenture issuance has been included in the operating budget forecast for 2015.

Acknowledgements

This report was prepared with support from Marta Semeniuk, Financial Planning & Policy.

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CONCURRED BY:	RECOMMENDED BY:
Larry Palarchio Director of Financial Planning & Policy	Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

APPENDIX A

Project Number	Project Title	Amount to be Financed
Property Tax Supported		
MU1044-13	2013 Bus Purchase Replacement	\$ 2,411,400
TS1356	Bradley-Jackson Old Victoria Arterial Road Rehabilitation	413,504
PD2077	Queens Park Redevelopment	439,687
TS1446-12	2012 Road Rehabilitation	1,000,000
TS3014-13	2013 Road Rehabilitation - Local and Rural	1,700,000
TS4067-11	2011 Traffic Signal System Update	730,000
ID1145	Industrial Land Acquisition	7,500,000
TS1650	Minor Road Works and Arterials	598,212
ID1160	London Enterprise Industrial Park	996,575
PD1122	Springbank Gardens Restoration	706,715
RC2201-12	2012 Recreation Facilities	805,900
ID1165	Skyway Industrial	485,517
ID1165	Skyway Industrial	439,046
ID1167	Forest City Industrial Park	1,993,441
ID2163	Forest City Industrial Park - Roads	447,838
Total Property Tax Supported		\$ 20,667,835
Wastewater and Treatment		
ES2095	Biosolids Disposal	\$ 3,500,000
Total Rate Supported		\$ 24,167,835
Non-rate Supported (City Services Reserve Funds)		
ES5236	Foxhollow Trunk Sanitary Sewer	\$ 1,440,530
ES3020-HD	Heard Drain Storm Water Management Pond	4,391,635
Total Non-rate Supported (City Services Reserve Funds)		\$ 5,832,165
Total Issuance		\$ 30,000,000