

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON DECEMBER 16, 2014
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 130 countries, 11,000 corporate issuers, 21,000 public finance issuers, and 76,000 structured finance obligations. Each year Moody's Investors Service reviews the credit worthiness of the City of London (the "City") and then assigns the City a credit rating for the year.

The rating process involves a review of the City's 2013 financial statements, 2014 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 staff.

On November 6, 2014, Moody's published their credit analysis of the City. Consistent with prior years, the City has maintained its Aaa credit rating. The City has held the Aaa rating since 1977, making 2014, the 38th consecutive year of the Aaa rating and reaffirming that the City's debt has the highest rating possible. The Aaa rating was integral in securing buyers for the City's debentures on May 9, 2014 at favourable interest rates (\$30 million issue at an all-in-rate of 2.957% for a ten-year term).

The Moody's Credit Analysis Report summarizes the City's credit strengths and challenges. The City's credit strengths include;

1. High levels of cash and investments providing liquidity;
2. Mature, supportive, institutional framework governing municipalities in Ontario;
3. Modest debt levels supported by conservative policies and strong capital planning; and
4. Prudent fiscal plan generating positive operating outcomes.

The main credit challenge facing the City is the build-up of pressures on expenditures. These pressures have been mitigated by service efficiencies however in the future, efficiencies will be more difficult to find and certain expenditure pressures, particularly police and fire will continue. Unless cost pressures are contained on a recurrent basis, pressures to increase property taxes and user fees beyond the acceptable rate of most taxpayers will persist. This will increase the risk that the City's planned approach of funding capital projects through pay-as-you-go financing will not continue as these funds may be directed to fund operations, resulting in the need to fund capital projects using debentures and ultimately greater debt burdens for the City.

Moody's indicates that the outlook for the City's Aaa debt rating is stable and unlikely to deteriorate in the near term:

"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."

However, there are circumstances that could apply downward pressure on the City's credit rating. 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. 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's achievement of being Aaa rated for 38 consecutive years is a testament to the success of the City's prudent, conservative approach to fiscal planning.

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

Cc: Sharon Swance, Manager Accounting