

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON FEBRUARY 17, 2015
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2015 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 \$40,500,000 (**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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2014 Capital Budget Status – Third Quarter Report (December 18, 2014 meeting of the Corporate Services Committee, Agenda Item 4)

City of London's Credit Rating (December 18, 2014 meeting of the Corporate Services Committee, Agenda Item 5)

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 and timing 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 \$40,500,000. The details of these projects are listed in Appendix A.

The City, in its capacity as the Administering Municipality for Huron Primary Water Supply System, in accordance with the Transfer Order issued by the Minister of the Environment (effective September 15, 2000), has authorization to issue debt on behalf of the Board of the Huron Primary Water Supply System. On March 18, 2014, the Board of the Huron Primary Water Supply System authorized the City to issue up to \$4 million of debentures for capital project LH1305 Huron Transmission Main Twinning and up to \$16 million for capital project LH1902 Residue Management Facility.

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. The City has been able to limit the amount of debt authorized on an annual basis since the implementation of the strategic financial plan in 2005. 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 annual amount of debenture issuance over the last four years as noted in the following table.

Over the past four years, the City has issued a total of approximately \$284 million in debentures as follows:

Issuance Date	Amount of Issuance (\$)	Term (years)	All-in-rate (*) of borrowing	Type	Agency
9-May-2014	<u>30,000,000</u>	10	2.96%	Serial/Instalment	Capital Markets - CDS &CO
3-Sep-2013	<u>50,000,000</u>	10	3.30%	Serial/Instalment	Capital Markets - CDS & CO
24-Sep-2012	70,000,000	10	2.82%	Serial/Instalment	Capital Markets - CDS & CO
15-May-2012	<u>2,000,000</u>	20	2.00%	Amortizer	Government Agency - FCM - GMF
	<u>72,000,000</u>				
15-Dec-2011	63,400,000	10	2.89%	Serial/Instalment	Capital Markets - CDS & CO
15-Dec-2011	52,809,914	10	2.86%	Serial	Government Agency - OILC
29-Mar-2011	<u>15,867,582</u>	10	3.23%	Amortizer	Government Agency - CMHC
	<u>132,077,496</u>				
Total	<u>284,077,496</u>				

* All-in-rate includes fees

CDS & CO - nominee of CDS Clearing and Despository Services Inc.

FCM - GMF - Federation of Canadian Municipalities - Green Municipal Fund

OILC - Ontario Infrastructure and Lands Corporation

CMHC - Canada Mortgage and Housing Corporation

On February 2, 2015, the all-in-rate of borrowing provided by our lead fiscal agent, CIBC World Markets Inc., on a 10-year term debenture, was 1.769%. *Please note that rates change on a daily basis depending on market conditions and that a rate is not secured until the pricing date.* Issuing debentures early in 2015, will allow the City to take advantage of the favourable market conditions.

Next Steps

CIBC World Markets Inc., will launch and price the City's debenture issuance deal in the capital markets. A report is anticipated to be brought forward to Committee on March 3, 2015 to approve the debenture issue and the respective by-law, with Council approval on March 10, 2015. The settlement date for the issue is expected to be March 16, 2015.

Financial Impact

The financial impact of this debenture issuance has been included in the operating budget forecast for 2016.

Acknowledgements

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

PREPARED BY:	REVIEWED BY:
Annette Ripepi Manager, Accounting & Reporting	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

APPENDIX A

Project Number	Project Title	Amount to be Financed
	<u>Property Tax Supported</u>	
PP1089	Relocate Fire Station #7	\$ 2,368,000
MU1044-14	2014 Bus Purchases and Replacements	1,989,220
TS1212	Clare Bridge	613,187
MU1136-13	2013 Existing Facility Upgrades	300,000
TS1214	Gore Road Bridge	3,700,513
TS1486	Southdale Road Widening	1,525,000
TS1213	Meadowily Footbridge	1,341,195
TS1360	Wonderland Road North Improvements	269,472
TS1349	Sarnia Road Widening CPR Bridge	3,350,541
TS1475	Fanshawe Road East Widening Phase I	1,494,872
RC2755	Southwest Multi-Purpose Recreational Centre Land	2,623,000
		\$ 19,575,000
	<u>Wastewater and Treatment</u>	
ES1721	Economic Development - Southern Ontario Water Consortium (SOWC)	\$ 3,000,000
ES3020-HP4	SWM Facility - Hyde Park 4	1,000,000
		\$ 4,000,000
	Total Rate Supported (Property Tax and Wastewater and Treatment)	\$ 23,575,000
	<u>Non-rate Supported (City Services Reserve Funds (CSRF))</u>	
ES2095	Biosolids Disposal	\$ 1,707,100
ES3020-HP4	SWM Facility - Hyde Park 4	4,150,900
ES3020-FH1	SWM Facility - Fox Hollow 1	2,402,000
		\$ 8,260,000
	<u>On behalf of Huron Primary Water Supply System</u>	
LH1902	Residue Management	\$ 7,000,000
LH1305	Huron Transmission Main Twinning	1,665,000
		\$ 8,665,000
	Total Issuance	\$ 40,500,000