TO: CHAIR AND MEMBERS
CORPORATE SERVICES COMMITTEE
MEETING ON SEPTEMBER 22, 2015

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 120 sovereign nations, 11,000 corporate issuers, 21,000 public finance issuers, and 72,000 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 2014 financial statements, 2015 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 senior management and the Mayor.

On September 11, 2015, Moody’s published their credit analysis of the City. Consistent with prior years, the City has maintained its Aaa credit rating with a stable outlook. The City has held the Aaa rating since 1977, making 2015 the 39th 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 March 16, 2015 at favourable interest rates ($40.5 million issue at an all-in-rate of 1.869% 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 strong liquidity;
2. Low debt levels supported by conservative policies and strong capital planning;
3. Mature, supportive, institutional framework governing municipalities in Ontario; and
4. Prudent fiscal plan with track record of generating positive outcomes.

Along with the above noted strengths, the approval and implementation of the multi-year budget for the City is highlighted as a credit positive.

Despite the City’s strong fiscal performance again in 2014, expenditure pressures that have been present over the past several years continue to build. The willingness to raise property taxes and user fees in addition to finding long-term savings through efficiencies and structural changes will both be required for the City to deal with these expenditure pressures.
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. Compared with other Canadian municipalities, London maintains 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 39 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: Anna Lisa Barbon, Director Financial Services  
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