

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON FEBRUARY 2, 2016
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2016 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 \$27,000,000 (**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
--

2015 Capital Budget Status – Third Quarter Report (December 1, 2015 meeting of the Corporate Services Committee, Agenda Item 7)

<http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=38022>

City of London's Credit Rating (September 22, 2015 meeting of the Corporate Services Committee, Agenda Item 5)

<http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=36540>

BACKGROUND

A municipality may issue debt for long-term borrowing to provide financing for capital works. The City issues debentures on projects that are substantially complete. The City reviews project status reports on a quarterly basis to determine projects that are substantially complete and this analysis along with cash flow requirements, budget constraints and market conditions determine the amount and timing of debentures issued each year. Generally, the City issues debentures through the capital markets using a fiscal agent or through government programs.

A review of the approved Capital Plan indicates that projects meeting the required criteria for long-term debenture financing total \$27,000,000. The details of these projects are listed in Appendix A.

The City, in its capacity as the Administering Municipality for the Elgin Area 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 Elgin Area Primary Water Supply System. On December 3, 2015, the Board of the Elgin Area Primary Water Supply System authorized the City to issue up to \$16,177,470 of debentures for capital project EA4023 Residue Management Plant. A portion of the authorized amount, \$7,000,000, is to be issued in 2016 with the remaining balance expected to be issued in 2017.

The City strives to ensure that finances are well planned to keep costs as low as possible and looks to limit the burden on current and future rate payers. The key components of the City's debt management strategy are:

- Maintaining a debt cap on capital budgets;
- Utilizing more pay-as-you go financing, in lieu of debenture financing to fund Lifecycle Renewal projects;
- Allocating 50% of year-end surplus (after amounts allocated to operating budget contingency reserve and unfunded liability reserve, if required) to reduce authorized debt;
- Allocating 50% of unallocated assessment growth funding to reduce authorized debt; and
- Reducing authorized debt through debt substitution.

Over the past five years, the City has issued a total of approximately \$325 million in debentures as follows:

Issuance Date	Amount of Issuance (\$)	Term (years)	All-in-rate (*) of borrowing	Type	Agency
16-Mar-2015	<u>40,500,000</u>	10	1.87%	Serial/Instalment	Capital Markets - CDS &CO
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>324,577,496</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 January 15, 2016, the all-in-rate of borrowing provided by our lead fiscal agent, TD Securities, on a 10-year term debenture, was 2.157%. *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 2016 will allow the City to take advantage of market conditions.

Next Steps

TD Securities, will launch and price the City's debenture issuance deal in the capital markets. A report will be brought forward to Committee to approve the debenture issue and the respective by-law, with Council approval to follow. Timing of the City's debenture pricing will be dependent on market conditions, but it is anticipated the City's debenture issuance deal will be brought to Committee before the end of April 2016.

Financial Impact

The financial impact of this debenture issuance has been included in the 2016 – 2019 multi-year operating budget.

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>	
MU1044-15	2015 Bus Purchases & Replacements	\$ 2,700,000
TS1446-15	2015 Road Rehabilitation	1,926,568
TS1477-1	Hyde Park Widening - Phase 1	3,310,075
TS1477-2	Hyde Park Widening - Phase 2	1,517,205
TS1493	Oxford Street Widening	2,474,652
TS1496-2	Sunningdale Road Widening - Phase 2	740,000
		\$ 12,668,500
	<u>Non-rate Supported (City Services Reserve Funds)</u>	
TS1308	Highway 401 Interchange Project	\$ 5,000,000
ES2477	Stoney Creek Remediation	2,331,500
		\$ 7,331,500
	<u>On behalf of Elgin Area Primary Water Supply System</u>	
EA4023	Residue Management Plant	\$ 7,000,000
		\$ 27,000,000
	Total Issuance	\$ 27,000,000