

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON FEBRUARY 7, 2017
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2017 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 \$41,000,000 (**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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2016 Life-To-Date Capital Budget Mid-Year Monitoring Report (September 20, 2016 meeting of the Corporate Services Committee, Agenda Item 5).

City of London's Credit Rating (September 20, 2016 meeting of the Corporate Services Committee, Agenda Item 3).

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 to determine if projects 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 \$41,000,000. 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 and Lake 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 each Board. 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. In 2016 the City issued \$7,000,000 of the authorized amount; in 2017 an additional \$4,557,542 is to be issued. Similarly, on March 6, 2014, the Board of the Lake Huron Primary Water Supply System authorized the City to issue up to \$4,000,000 of debentures for capital project LH1305 Huron Transmission Main Twinning. In 2015 the City issued \$1,665,000 of the authorized amount; in 2017 an additional \$406,931 is to be issued.

Over the past five years, the City has issued a total of approximately \$222.5 million in debentures as follows:

Issuance Date	Amount of Issuance (\$)	Term (years)	All-in-rate (*) of borrowing	Type	Agency
29-Apr-2016	3,048,000	10	2.25%	Amortizer	Government Agency - FCM - GMF
7-Mar-2016	27,000,000	10	2.30%	Serial/Instalment	Capital Markets - CDS & Co
	<u>30,048,000</u>				
16-Mar-2015	40,500,000	10	1.87%	Serial/Instalment	Capital Markets - CDS & CO
9-May-2014	30,000,000	10	2.96%	Serial/Instalment	Capital Markets - CDS & CO
3-Sep-2013	50,000,000	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	2,000,000	20	2.00%	Amortizer	Government Agency - FCM - GMF
	<u>72,000,000</u>				
Total	<u>222,548,000</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

As part of the debenture issuance process, the City's fiscal agents provide recommendations on the form and timing of the issuance. The 3 main types of debenture issuances are:

1. Serial debentures are financial bonds that mature in installments over a period of time. In effect, a \$100,000, 5-year serial debenture would mature in approximate equal amounts of \$20,000 annually with unique coupon rates for each year.
2. Amortizing debentures are bonds where the principal is paid down over the life of the debenture according to some amortization schedule, typically through equal payments and one coupon rate.
3. Bullet debentures are debt instruments whose entire principal value is paid all at once on the maturity date, as opposed to periodic principal payments over the life of the debenture. These types of debentures are best suited for municipalities issuing greater than \$100 million and are structured so that a sinking fund is established to cover the principal value upon maturity.

Next Steps

RBC Capital Markets, 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 2017.

Financial Impact

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

PREPARED BY:	REVIEWED BY:
David Bordin Manager, Accounting & Reporting	Jason Senese Manager of Financial Planning & Policy
REVIEWED BY:	RECOMMENDED BY:
Larry Palarchio Director of Financial Planning & Policy	Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

Attachment: Appendix A

Cc: Annette Ripepi, Manager of Financial Planning & Policy

APPENDIX A

Project Number	Project Title	Amount to be Financed (\$)
	Property Tax Supported	
TS144616	Road Networks Improvements	7,523,527
MU104416	Bus Purchase Replacement	4,292,000
GG1558	Normal School Renovation	6,900,000
RC3536	Central Library Revitalization	2,020,000
TS1484	Samia Rd Widening - Wonderland Rd to Sleighholme Ave	800,000
TS1475-2	Fanshawe Rd East Widening - Adelaide St to McLean Dr	1,000,000
		22,535,527
	Wastewater & Treatment Rate Supported	
ES3054	Burbrook Trunk Storm Sewers Phase IV	2,200,000
	Non-Rate Supported (City Services Reserve Funds)	
TS1475-2	Fanshawe Rd East Widening - Adelaide St to McLean Dr	9,000,000
ES5247	Wonderland Road South Trunk Sanitary	2,300,000
		11,300,000
	On Behalf of Elgin and Huron Primary Water Supply Systems	
EA4023	Elgin Residue Management Plant	4,557,542
LH1305	Huron Transmission Main Twinning	406,931
		4,964,473
	Total 2017 Debenture Issuance	41,000,000