

<b>TO:</b>	<b>CHAIR AND MEMBERS FINANCE AND ADMINISTRATIVE SERVICES COMMITTEE MEETING ON APRIL 16, 2012</b>
<b>FROM:</b>	<b>MARTIN HAYWARD CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>GREEN MUNICIPAL FUND – COMBINED LOAN AND GRANT AGREEMENT UPDATE</b>

<b>RECOMMENDATION</b>
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It is recommended that;

1. the issue of a twenty (20) year amortizing debenture for \$2,000,000, reflecting an expected offering yield of 2.00% to the Federation of Canadian Municipalities (FCM), as Trustee of the Green Municipal Fund, to close on May 15, 2012, **BE CONFIRMED**; and
2. the attached proposed By-Law **BE INTRODUCED** at the Municipal Council meeting of May 1, 2012 for three readings to authorize the borrowing upon amortizing debentures for a 20-year term in the amount of \$2,000,000.00 towards the cost of the North London Community Facility Project of the Corporation of the City of London.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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Green Municipal Fund – Combined Loan and Grant Agreement (January 27, 2010 meeting of the Board of Control, Agenda Item 9)

Phase II – Award of Construction Contract for the New Community Recreation Centre & Library – Project No. RC2762 (April 29, 2009 meeting of the Board of Control, Agenda Item 37(b))

North London Community Recreation Centre (April 29, 2009 meeting of the Board of Control, Agenda Item 37(a))

<b>BACKGROUND</b>
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Municipal Council, at its session on February 1, 2010, approved the Loan Agreement between the Corporation of the City of London and the Federation of Canadian Municipalities (FCM), as Trustee of the Green Municipal Fund, for capital financing of \$2,000,000. At this time, Civic Administration is seeking permanent financing for \$2,000,000 through the issuance of a debenture to FCM. Per the agreement, the maximum amount of financing available through FCM for this project is \$2,000,000. The remaining authorized debt for this project is expected to be issued in the capital markets in late summer or early fall of 2012.

The annual interest rate, as determined by section 2.06 of the agreement, shall be the rate that is equal to the higher of:

- (i) the average of the Government of Canada (GoC) ten (10) year benchmark bond yield and the long term GoC benchmark bond yield both in effect five (5) Business Days immediately preceding the date on which the Borrowing By-law is passed (which yields will be shown on the website of the Bank of Canada at [www.bankofcanada.ca](http://www.bankofcanada.ca)) minus one point fifty percent (1.50%) per annum; and
- (ii) two percent (2.00%) per annum.

On March 7, 2012, the average of the GoC ten (10) year benchmark bond yield and long term GoC benchmark bond yield was 2.27% less 1.50% is 0.77%. The expected rate is the higher of 0.77%

and 2.00%, therefore the expected interest rate is 2.00% and as noted in above in (i), will be set five (5) business days preceding the date on which the borrowing by-law is passed. The borrowing by-law is expected to be passed on May 1, 2012; therefore, the interest rate is expected to be set on April 24, 2012.

Outlined in the table below is a comparison of the expected FCM rate to rates identified by Ontario Infrastructure and Lands Corporation (OILC) and the capital markets (TD Securities quote) as well as the interest cost avoided over the life of the debenture.

Term <i>(based on a amortizing issue)</i>	Capital Markets Rate (TD quote) at March 21, 2012	OILC Rate at March 20, 2012	FCM Rate
20 Year	4.17%	3.74%	2.00%
Interest Cost Avoided over life*	\$531,782	\$421,749	

\*Based on life of the debentures (\$2.0 million at 20 years)

### **Borrowing (Debenture) By-law**

The by-law to be introduced on May 1, 2012, will allow the Corporation of the City of London to borrow upon an amortizing debenture from the Federation of Canadian Municipalities (FCM), as Trustee of the Green Municipal Fund, for the debenture term and amount identified as well as authorize the Mayor, the City Treasurer/Chief Financial Officer, and the City Clerk to execute all documents and other papers in the name of the Municipality in order to carry out the issue of the debenture.

The schedules that accompany the by-law provide the following:

- Schedule A – Project to be financed by debenture
- Schedule B – Debenture certificate
- Schedule C – Amortizing debenture schedule (repayment schedule)

References to the interest rate in Schedule A and B and the entire Schedule C are intentionally blank since the interest rate will not be set until April 24, 2012. As previously noted, the interest rate is expected to be 2.00%. The amended Schedules will be included for the council meeting on May 1, 2012. The by-law to be introduced to Municipal Council on Tuesday, May 1, 2012, will allow the issuance to be closed on May 15, 2012.

### **Financial Impact**

The financial impact of this debt issuance is sufficiently covered in the 2012 Council approved operating budget for debt servicing costs.

### **Acknowledgements**

The attached proposed by-law was prepared with support from the law firm of Borden Ladner Gervais LLP (BLG) in Toronto, Ontario.

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