

<b>TO:</b>	<b>CHAIR AND MEMBERS FINANCE AND ADMINISTRATIVE SERVICES COMMITTEE MEETING ON MAY 28, 2012</b>
<b>FROM:</b>	<b>MARTIN HAYWARD CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2012 DEBENTURE ISSUANCE</b>

<b>RECOMMENDATION</b>
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1. That the 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 \$70,000,000 (**Appendix A**) through public debentures in the capital markets.
2. That the City Treasurer, Chief Financial Officer, **BE GIVEN THE AUTHORITY** to issue a fraction of the total noted above, or postpone the issue, until such time as market conditions are favourable, and that the City Treasurer, Chief Financial Officer report back to Council on the market for the issue from time to time.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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2011 Capital Budget Status – Fourth Quarter Report (March 26, 2012 meeting of the Finance & Administrative Services Committee, Agenda Item 7)

<b>BACKGROUND</b>
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The City manages debt by employing principals included in the Strategic Financial Plan approved by Municipal Council. These strategies include maintaining a debt cap on capital budgets, applying year end debt servicing savings to cancel authorized but unissued debt, and increasing pay-as-you go financing to appropriately fund life cycle renewal projects in lieu of debenture financing. Because of the Strategic Financial Planning Process, the City has been able to limit the amount of debt authorized on an annual basis. The City issued a significant amount of debt in 2011, and is now anticipating issuing debt in 2012, because of cash flow requirements, status of capital projects and favourable economic conditions.

In 2011, the City took advantage of favourable interest rates and issued a total of \$132,077,496 of long-term debt (10 year terms) as follows:

- \$15,867,582 through Canada Mortgage and Housing Corporation (CMHC) provided by Canada's Economic Action Plan at a rate of 3.23%,
- \$52,809,914 through Ontario Infrastructure and Lands Corporation (OILC) at 2.86% and;
- \$63,400,000 through the capital markets at 2.887%.

As shown in Table 1 below, municipal debt per household has decreased from 2007 – 2010 and increased in 2011, due to a substantial debt issuance, as noted above.

Table 1: Total Municipal Debt per Household

2007	2008	2009	2010	2011
\$2,220	\$1,949	\$1,660	\$1,692	\$2,122 <sup>(A)</sup>

<sup>(A)</sup> Subject to change pending completion of 2011 Audited Financial Statements

In May 2012, the City issued a \$2 million debenture through the Federation of Canadian Municipalities (FCM), as trustee for the Green Municipal Fund, at a rate of 2.0% over a 20-year term.

The most common practice for issuing debt is through the capital markets using a fiscal agent. The City is currently under agreement with RBC, CIBC and TD Securities to act as the City's fiscal agent in public debenture issuances. The main advantage of issuing debt through the capital markets is the eligibility of capital projects and traditionally (pre 2008) lower interest (borrowing) rates than government programs. Unlike government programs, capital markets generally have less restrictive program requirements allowing more projects to be eligible for debt issuance. On May 7, 2012, rates provided by TD Securities to the City of London on a 10-year term debenture, was 3.33% excluding fees. (Note: the projected all in rate including fees would be approximately 3.42% and rates change on a daily basis depending on market conditions).

### Where is the City Headed?

Based on completion of approved capital projects (Infrastructure Stimulus projects) modest annual increases in debt issuances are anticipated over the next few years. As part of the 2012 Budget, Civic Administration anticipated issuing debt in 2012, with a 10-year term and an all in borrowing rate (all in rate includes fees) of 3.65%. As of February 21, 2012, debt authorized and unissued totalled \$311.3 million for all rate sources. Of this total, the anticipated issuance for 2012 is approximately \$70 million.

A review of the approved Capital Plan indicates that projects available for long-term financing total \$70 million. The details of these projects are found in Appendix A.

Also incorporated into the 2012 budget is \$8.7 million (details provided in Appendix A) for the final refinancing of a balloon payment, which comes due on September 23, 2012 for the John Labatt Centre (\$5.6 million) and the Western Fair Arena (\$3.1). The original issuance of debt for these projects was in 2002 at an all in rate (all in rate includes fees) of 5.06% for a 10-year term. The decision to debenture with a balloon payment was premised on obtaining a lower interest rate for a ten-year term and hedging against future lower rates. Because of this decision in 2002, the City will avoid approximately \$900,000 in interest costs.

With Government of Canada Bonds forecasted to increase steadily from 2012 through to 2015, as shown in Table 2, it would be beneficial to secure financing as early as possible.

Table 2: 10-year Bank of Canada Bond Rates (%)

2012 <sup>(A)</sup>			2013 <sup>(A)</sup>				2014 <sup>(B)</sup>	2015 <sup>(B)</sup>
Q2	Q3	Q4	Q1	Q2	Q3	Q4	End of Period	
2.10	2.20	2.40	2.45	2.60	2.80	2.95	4.23 4.70	

Source: <sup>(A)</sup> Bloomberg, Reuters, RBC Economics Research (April 9, 2012)

<sup>(B)</sup> 2012 Ontario Budget, Chapter II, Section C: Ontario's Economic Outlook (March 2012)

Future reports will be provided to the Finance and Administrative Services Committee reflecting the details of the debenture issue.

**Acknowledgements**

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

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CONCURRED BY:	RECOMMENDED BY:
<b>Larry Palarchio</b> <b>Director of Financial Planning &amp; Policy</b>	<b>Martin Hayward</b> <b>City Treasurer, Chief Financial Officer</b>

## APPENDIX A

Project Number	Project Title	Financing Amount
<b>Property Tax Supported</b>		
RC2762	Multipurpose Community Rec Center	8,300,000
RC3465	North East Branch Library	902,662
GG1554-639	City Hall Building Improvements (ISF)	1,550,204
RC2200	2009 Recreation Facilities	2,392,033
TS6183	Building Upgrades-Code Compliance	3,198,225
PP1070	New Fire Station-West London	2,250,947
TS1446	2010 Road Rehabilitation	2,873,905
TS3013	2009 Road Rehab	4,577,396
PD2180-RINC1	City Wide Sportsfield	676,650
MU1044-11	2011 Bus Purchases	3,568,407
MU1135-121	2009 Facility Upgrades	1,400,000
MU1135-121	Transit Building Lifecycle Replacement	2,309,571
<b>Total Property Tax Supported</b>		<b>\$ 34,000,000</b>
<b>Wastewater and Treatment</b>		
<b>Rate Supported</b>		
ES2413	2009-Sewer Replacement Program	\$ 1,271,195
ES2414	2010 Sewer Replacement Program	532,899
ES3062	Pottersburg Creek Remediation	875,571
ES5246	White Oaks Area Servicing	2,300,000
PP2172	Murray Marr Storm Water Retention	1,318,311
ES5243	SS4 Dingman Drive Trunk	2,441,000
ES2464	2010 Separation and CSO Program	261,024
<b>Total Wastewater and Treatment</b>		<b>\$ 9,000,000</b>
<b>Total Property Tax Supported and Wastewater and Treatment</b>		<b>\$ 43,000,000</b>
<b>Refinancing Projects</b>		
<b>Civic Investment Reserve Fund Supported</b>		
GG1694	Downtown Arena and Entertainment Center - JLC	\$ 5,597,357
GG1695	Western Fair Arena	3,109,643
<b>Total Refinancing Projects</b>		<b>\$ 8,707,000</b>
<b>Total Capital and Refinancing Projects</b>		<b>\$ 51,707,000</b>
<b>Joint Water Boards</b>		
EA4052	Backup Generator	\$ 3,500,000
EA4024	Treated Water Transmission	\$ 7,000,000
LH1330	PLC & SCADA Systems Upgrade	\$ 1,750,000
<b>Total Joint Water Boards</b>		<b>\$ 12,250,000</b>
<b>Non-rate Supported (City Services RF)</b>		
RC2762	Multipurpose Community Rec Center	\$ 3,400,000
ES5246	White Oaks Area Servicing	1,700,000
ES3020	SWM Ponds	943,000
<b>Total Non-rate Supported (City Services RF)</b>		<b>\$ 6,043,000</b>
<b>Total Issuance</b>		<b>\$ 70,000,000</b>
Note: City's Share of Joint Water Boards is approximately \$6,579,211.		