

CREDIT ANALYSIS

London, City of

London, Ontario, Canada

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This Credit Analysis provides an in-depth discussion of credit rating(s) for London, City of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Ratings

London, City of

Category	Moody's Rating
Outlook	Stable
Bonds	Aaa

Summary Rating Rationale

The Aaa debt rating assigned to the City of London (Canada) reflects a low debt profile supported by high reserve levels and a continued management approach classified by prudent, conservative fiscal planning. The city has a strong track record of positive financial performance and in 2010, its consolidated surplus increased to over C\$220 million, equivalent to 19.9% of total revenues. London's net direct and indirect debt as a percentage of total revenues fell to 30.2% in 2010 from 32.7% in 2009. Cash and investments fell in 2010 as the city continued to invest in capital projects through pay-as-you-go financing as per its long-term operating plan, though remained at high levels, providing ample liquidity.

National Peer Comparisons

The City of London is rated at the high end of Canadian municipalities, whose ratings remain in a narrow range of Aaa-Aa2. When compared with other Canadian municipalities, London exhibits 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 rating peers, strengthening London's credit profile.

Rating Outlook

The rating outlook is stable.

What Could Change the Rating - Down

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. Nonetheless, a sustained loss of discipline, leading to a significant increase in debt, would apply downward pressure on the rating.

Key Rating Considerations

Financial Position and Performance

Consistent Financial Planning

As a large, relatively self-contained urban center surrounded by smaller rural communities, London is able to profit from a stable economic and demographic environment. City managers operate with five-year operating plans that take advantage of stable and predictable growth estimates, which aid in achieving consistent financial results. The city's targets are, by nature, conservative, helping to identify and address future challenges before they arise. We view the city's rigorous medium-term planning as a key determinant of the Aaa rating. As a result, the city generates healthy annual operating balance surpluses which are utilized to build reserves and fund capital expenditures on a pay-as-you-go basis, thereby reducing the city's reliance on borrowing.

London's total revenues increased 12% between 2009 and 2010, in large part due to substantial increases in provincial and federal capital grants as the city benefited from federal and provincial infrastructure stimulus projects designed to help the Canadian economy emerge from the 2009 recession. We anticipate that revenue growth will be mitigated in the future as these stimulus programs end in 2011 and the current city council maintains its pledge of 0% for property tax increases. Municipal taxes remained steady and accounted for 51% of operating revenue in 2010. Fees and services from water, sewer and transit charges were also stable at 23% of operating revenues in 2010.

Revenue growth has surpassed expense growth in recent years, helping to grow operating surpluses. As a result, its consolidated surplus increased to over C\$220 million in 2010, equivalent to 20% of total revenues. Furthermore, the city has been able to secure labour contracts with several of its unions valid until 2014, which will help allow the city to manage its expenses in a manner similar to expected revenue growth, which should aid the city in maintaining its surplus position. The staggered transfer of costs through to 2018 associated with the Ontario Works program to the provincial government is expected to ease some pressure from expense growth and further increase the financial flexibility of the city.

Debt Profile

Net debt increased slightly in 2010, but with the strong revenue growth, net debt as a percentage of total revenues eased to 30.2% at December 31, 2010, from 32.7% at December 31, 2009. Net debt as percentage of total revenues has continued to fall over recent years, from 49.9% in 2005. The progressive reduction in the city's debt burden reflects tighter controls on debt issuance through a self-imposed "debt cap" limiting the amount of debt issued for capital projects annually. As such, pay-as-you-go financing has increased in recent years. In addition, the city has repeatedly issued less debt than council has authorized. The careful management of debt levels in relation to revenues further supports the Aaa rating.

Furthermore, both debt service as a percentage of total revenues and interest payments as a percentage of operating revenue showed improvements compared to the results of the past 5 years. Interest payments as a percentage of operative revenues declined to just 1.4% in 2010, from 2.1% in 2006.

Excluding sinking funds, cash and investments held by the city were equal to 98% of net direct and indirect debt in 2010. While cash and investments in the form of reserves are usually earmarked for

specific purposes, London's significant holdings of cash and investments provide a measure of safety for bondholders, supporting the Aaa rating. The high level of liquidity allows the city to be selective and remain out of the market when conditions are considered to be unfavourable. Historically, the city has borrowed from its reserves to provide internal financing for capital projects. While this practice reduces the amount of available liquidity, London's liquidity is considered more than adequate.

The city's current 5 year capital plan (2011-2015) calls for relatively stable levels of capital expenditures. The plan forecasts issuance of C\$190million in tax- and rate-supported debentures to finance capital outlays, representing about 21% of all financing sources. If the current capital plan comes to fruition, we expect the city's ratio of net direct and indirect debt to total revenues to remain roughly stable over the next five years. Accordingly, debt service costs as a percentage of revenues are expected to remain low, ensuring that fiscal flexibility remains high.

Governance and Management Factors

Similar to other highly rated municipalities in Ontario, the City of London displays strong governance and management characteristics. In addition to multi-year planning for operating and capital budgeting and a recent history of meeting fiscal targets and applying strict controls on debt issuance, management adheres to conservative debt and investment management policies, which limits the city's exposure to market-related risks and helps to ensure relatively smooth debt servicing costs. These fiscal management measures are also supported by comprehensive, transparent and timely financial reporting that is typical of governments in advanced industrial countries.

Economic Fundamentals

The City of London has a relatively diverse economic base and typically is able to provide sufficient employment for its population of 365,200. The unemployment rate for the larger census metropolitan area was 8.6% in 2010, just below the province's rate of 8.7%. Located mid-way between Toronto and Detroit, it is situated along the principal transportation connections through southern Ontario, giving it access to important North American markets, including the US Northeastern and Midwestern regions. Population trends in the city increase at relatively slow, steady rates - population has increased at just under 1% annually in the past 4 years - allowing the city to develop stable growth forecasts for service requirements.

The city and surrounding region have a significant manufacturing sector, which has been in decline in recent years, similar to recent trends seen across Ontario and Canada. Recognizing that the economic structure of southern Ontario is in transformation, with a decreased presence of automobile manufacturing and a Canadian dollar fluctuating near parity with the American dollar, the city is very active in the pursuit of attracting companies with leading edge technology that can benefit from the well-educated labour force and research centers to continue to bolster the high-value added sectors of the economy. Efforts to revitalize specific areas of the city, such as the city's involvement in the John Labatt Centre, have proven efficient.

The service sector remains strong, with important concentrations in finance, education and health care services, and the economy benefits from a well-educated labour force. Several large institutions are also located in the city, including the University of Western Ontario, three teaching hospitals and two large medical research institutes.

Operating Environment

The national operating environment in which London operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility and high ranking on the World Bank's Government Effectiveness Index, all of which suggest a low level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with widespread defaults of regional and local governments are not present in Canada.

Institutional Framework

The institutional framework governing municipalities in Ontario is mature and highly developed. The division of roles and responsibilities between the province and municipalities is clearly articulated. Historically, changes to the institutional framework have occurred at a measured, evolutionary pace, following discussions between both parties. Nevertheless, in certain cases, changes have occurred more rapidly.

London's creditworthiness benefits from the stability inherent in the provincial institutional framework. Provincial legislation dictates a high degree of oversight, including limits on debt servicing costs, while policy flexibility, on both the revenue and expenditure sides of the ledger, helps London to manage pressures as they arise.

Application of Joint-Default Analysis

The application of Moody's joint-default analysis methodology to regional and local governments (RLGs) requires two key inputs: a baseline credit assessment (BCA) on a scale of 1-21 (in which 1 represents the lowest level of credit risk), which is a measure of the RLG's standalone credit strength, and an assessment of the likelihood that the higher-tier government would act to prevent a default by the RLG. In the case of London, Moody's assigns a BCA of 1, which already places the city in the Aaa rating category before any consideration of the likelihood that the Province of Ontario (Aa1, stable outlook) would act to prevent a default by London. To complete the analysis, Moody's assigns a very high likelihood of extraordinary support from the provincial government, reflecting Moody's assessment of the risk to Ontario's reputation as a regulator of municipalities and the province's aversion to the potential impact on capital markets if London, or any municipal government, were to default.

Rating History

London, City of

Date	Rating
December 1977	Aaa

Annual Statistics

London, City of

Debt Statement (C\$000, as at 12/31)	2005	2006	2007	2008	2009	2010
Debt Issued for:						
General Municipality	405,720	372,065	388,041	358,239	319,587	330,471
Other Municipalities	6,287	6,225	5,424	4,408	3,328	3,029
Net Direct and Indirect Debt	412,008	378,290	393,465	362,647	322,915	333,500
Debt Trends (as at 12/31)						
Net Direct and Indirect Debt (C\$000)	412,008	378,290	393,465	362,647	322,915	333,500
As % of Net Direct and Indirect Debt						
General Municipality Purposes	98.5	98.4	98.6	98.8	99.0	99.1
Other Municipalities	1.5	1.6	1.4	1.2	1.0	0.9
Net Direct and Indirect Debt/Total Revenues (%)	49.9	44.5	43.6	36.5	32.7	30.2
Debt Burden (%) [1]	1.9	1.5	1.5	1.4	1.1	1.1
Debt per Capita (C\$)	1,171	1,073	1,106	1,011	891	913
Net Debt Issuances (C\$000)	26,958	7,352	47,718	6,099	0	45,393

[1] Net direct and indirect debt as a percent of full market value of assessment.

Economic Trends (Year Ending 12/31)

Population	351,900	352,395	355,596	358,838	362,235	365,200
Taxable Assessment - Full Value (C\$ Millions) [1]	22,180	25,568	26,074	26,590	28,445	30,085
% Change	2.1	15.3	2.0	2.0	7.0	5.8
Current Tax Collection Rate (%)	96.8	95.4	94.2	94.8	93.4	--
Value Building Permits (C\$000)	621,801	772,697	722,296	799,084	553,029	711,931
Unemployment Rate (%)	6.6	6.2	6.1	7.0	9.9	8.6
Unemployment Rate, Province (%)	6.6	6.3	6.4	6.5	9.0	8.7

[1] Series impacted by periodic reassessments; not all data points are directly comparable.

Revenues and Expenses (C\$000, year ending 12/31)	2005	2006	2007	2008[1]	2009	2010
Revenues:						
Taxation	383,488	405,565	421,319	442,927	464,260	476,790
User fees and Services [2]	113,543	118,275	126,968	193,789	195,813	215,788
Provincial Grants	142,675	163,598	160,352	164,949	160,146	181,640
Federal Grants				1,690	4,253	11,428
Investment Income				15,021	6,566	6,790
Other Revenues	186,102	162,038	193,210	52,101	53,632	51,968
Provincial and Federal Capital Grants				53,287	28,332	100,368
Gain/loss on Sale of Land/Capital Assets				-4,709	-6,173	-3,311
Development Charges				26,659	19,877	29,111
Developer Contributions of Tangible Capital Assets				48,785	60,292	35,435
Total Revenues	825,807	849,476	901,848	994,499	986,998	1,106,007
Expenses						
General Administration	35,421	31,780	34,609	72,245	74,720	80,791
Protection to Persons and Property	126,973	137,412	144,768	146,156	153,507	169,432
Transportation Services	82,613	85,512	92,313	134,418	129,905	147,473
Environmental Services	61,994	75,952	75,191	137,332	140,513	129,747
Social and Family Services	170,860	177,543	187,622	189,493	198,955	199,616
Social Housing	32,927	34,144	37,728	41,768	44,031	51,914
Interest Payments [3]	14,019	13,118	12,180			
Principal Payments	29,231	29,172	31,751			
Health Services	28,347	29,930	31,049	19,765	20,017	20,695
Recreation and Culture	50,586	54,600	55,425	68,174	68,176	69,501
Planning and Development	14,304	15,272	16,865	21,855	16,964	16,329
Other Expenses	146,057	77,359	127,367	0	8,638	0
Total Expenses	793,332	761,795	846,868	831,206	855,426	885,498
Surplus (deficit)	32,475	87,681	54,980	163,293	131,572	220,509
Cash Financing Surplus/(Requirement)	37,752	163,720	98,287	90,277	-7,482	-14,298
Cash Financing Surplus/(Requirement) net of CAPEX	223,359	286,149	274,291	270,208	214,132	291,592
Capital Expenditures	185,607	122,429	176,004	170,861	221,614	305,890
Debt Repayment	29,231	29,172	31,751	40,660	47,222	39,323
Amortization [3]				108,475	112,721	119,154
Interest [3]				15,581	14,179	13,356

[1] Accounting changes were introduced in 2009; 2009 and restated 2008 figures are not directly comparable to prior years. Accounting changes in 2009 include the adoption of PSAB section 3150 Tangible Capital Assets and changes in the presentation of financial statements, including the elimination of fund accounting.

[2] Prior to 2008, includes only water, sewer and transit charges.

[3] Subsumed in other expense categories beginning in 2008.

London, City of

Financial Trends (Year Ending 12/31)	2005	2006	2007	2008 [1]	2009	2010
Operating Revenues [2]	735,627	785,391	810,689	870,477	884,670	944,404
Operating Expenses [3]	647,275	684,436	719,501	722,731	734,067	766,344
Gross Operating Balance [4]	117,583	130,127	122,939	147,746	150,603	178,060
As a % of operating revenues	16.0	16.6	15.2	17.0	17.0	18.9
% Change in Total Revenues	17.0	2.9	6.2	10.3	-0.8	12.1
As % Operating Revenues						
Taxation	52.1	51.6	52.0	50.9	52.5	50.5
Provincial Grants	19.4	20.8	19.8	18.9	18.1	19.2
User Fees and Services [5]	15.4	15.1	15.7	22.3	22.1	22.8
Interest Expense	2.4	2.1	1.9	1.8	1.6	1.4
Reserves and Reserve Funds	16.0	24.8	33.0	49.3	51.8	49.2
Surplus/(Deficit)	4.4	11.2	6.8	18.8	14.9	23.3
Gross Operating Balance	16.0	16.6	15.2	17.0	17.0	18.9
As % Total Revenues						
Surplus/(Deficit)	3.9	10.3	6.1	16.4	13.3	19.9
Financing Surplus/(Requirement)	4.6	19.3	10.9	9.1	(0.8)	(1.3)
Financing Surplus/(Requirement) excl. CAPEX	27.0	33.7	30.4	27.2	21.7	26.4
Debt Service [6]	5.7	5.4	5.3	5.7	6.2	4.8
% Change in Total Expenses	7.4	-4.0	11.2	-1.8	2.9	3.5
As % Operating Expenses						
Protection to Persons and Property	19.6	20.1	20.1	20.2	20.9	22.1
Social and Family Services	26.4	25.9	26.1	26.2	27.1	26.0
Debt Services [6]	7.3	6.7	6.6	7.8	8.4	6.9

[1] Accounting changes were introduced in 2009; 2009 and restated 2008 figures are not directly comparable to prior years. Accounting changes in 2009 include the adoption of PSAB section 3150 Tangible Capital Assets and changes in the presentation of financial statements, including the elimination of fund accounting.

[2] Starting in 2008, total revenues less development charges, government capital grants, gains/losses on sale of land/capital assets and developer contributions of tangible capital assets is used as a proxy for operating revenues.

[3] Starting in 2008, total expenses less amortization is used as a proxy for operating expenses. Prior to 2008, includes principal payments.

[4] Revenues less expenses, excluding development charges, government capital grants, gains/losses on sale of land/capital assets, developer contributions of tangible capital assets and amortization. Prior to 2008, gross operating balance is calculated as operating revenues less operating expenses excluding principal payments.

[5] Prior to 2008, includes only water, sewer and transit charges.

[6] Principal and interest.

London, City of

Consolidated Balance Sheet (C\$000, As At 12/31)	2005	2006	2007	2008 [1]	2009	2010
Cash and Investments [2]	193,490	299,318	349,447	407,243	353,196	326,717
As a % of Net Direct and Indirect Debt [3]	47.0	79.1	88.8	112.3	109.4	98.0
Receivables	80,836	58,345	72,277	59,571	93,123	110,081
Payables	76,396	85,187	102,220	99,959	107,294	127,495
Fund Balances						
Reserves	37,730	54,613	57,040	65,200	91,396	88,356
Reserve Funds	156,809	173,420	204,965	220,624	214,551	245,028
Deferred Revenues (Including Development Charges)	60,544	92,028	117,344	142,938	152,331	130,073

[1] Accounting changes were introduced in 2009; 2009 and restated 2008 figures are not directly comparable to prior years. Accounting changes in 2009 include the adoption of PSAB section 3150 Tangible Capital Assets and changes in the presentation of financial statements, including the elimination of fund accounting.

[2] Includes long-term investments.

[3] Cash and investments less sinking funds as a % of net direct and indirect debt.

Moody's Related Research

Credit Opinion:

- » [Ontario, Province of](#)

Special Comment:

- » [Outlook for Canadian Provinces 2011, March 2011 \(131625\)](#)

Statistical Handbook:

- » [Non-U.S. Regional and Local Governments, June 2011 \(133522\)](#)

Rating Methodologies:

- » [Regional and Local Governments Outside the US, May 2008 \(107844\)](#)
- » [The Application of Joint-Default Analysis to Regional and Local Governments, December 2008 \(99025\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not

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