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| <b>TO:</b>      | <b>CHAIR AND MEMBERS<br/>FINANCE AND ADMINISTRATIVE SERVICES<br/>SPECIAL MEETING ON SEPTEMBER 17, 2012</b>      |
| <b>FROM:</b>    | <b>MARTIN HAYWARD<br/>MANAGING DIRECTOR, CORPORATE SERVICES AND CITY<br/>TREASURER, CHIEF FINANCIAL OFFICER</b> |
| <b>SUBJECT:</b> | <b>2012 DEBENTURE ISSUE UPDATE</b>  |

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

1. the issue of a ten year serial debenture for \$70,000,000 **BE APPROVED**, noting the average all in rate is 2.817%; and
2. the attached proposed By-Law D.-767-265 **BE INTRODUCED** at the Municipal Council meeting of September 18, 2012, for three readings to authorize the borrowing upon serial debentures for a ten-year term for \$70,000,000 towards the cost of certain capital works of the Corporation of the City of London.

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| <b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b> |
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2012 Debenture Issuance

(May 28, 2012 meeting of the Finance and Administrative Services Committee, Agenda Item #13)

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| <b>BACKGROUND</b> |
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Municipal Council at its session on June 12, 2012, authorized the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer to proceed with the issue of debentures to provide permanent financing for capital works in an amount not to exceed \$70,000,000.

On September 10, 2012, under the direction of the City's lead fiscal agent, CIBC World Markets Inc., launched a debenture issue for \$70 million that is set to close on September 24, 2012. A 10-year serial debenture is structured with coupon rates ranging from 1.50% to 3.20% with a net all in cost of 2.817% (includes fiscal agency fees). Rates on offer at the time of the May 28, 2012 report, as quoted by TD Securities on May 7, 2012, for a 10-year serial debenture ranged from 1.82% to 3.42%.

The accepted all in rate of 2.817% is favourable in comparison to the City's previous capital market rates on debentures. The table below summarizes the City of London's debenture rates in the capital markets from 2001 to 2011.

| Issuance Date | Amount of Issuance (\$) | Term (years) | All in rate (*) of borrowing |
|---------------|-------------------------|--------------|------------------------------|
| 18-Oct-01     | 87,000,000              | 10           | 5.69%                        |
| 23-Sep-02     | 75,000,000              | 10           | 5.06%                        |
| 19-Sep-03     | 46,205,000              | 10           | 4.81%                        |
| 30-Jun-04     | 21,000,000              | 10           | 5.11%                        |
| 26-Oct-07     | 38,000,000              | 10           | 4.99%                        |
| 15-Dec-11     | 63,400,000              | 10           | 2.89%                        |

\* All in rate includes fees

The \$70 million of debenture issuance includes \$8.7 million of refinancing for a balloon payment, which comes due on September 23, 2012. The refinancing is for the John Labatt Centre (\$5.6 million) and the Western Fair Arena (\$3.1 million). The original debt issued for these projects was in 2002 at an all in rate (all in rate includes fees) of 5.06% for the 10-year term. The interest cost avoided over the life of the debenture related to the refinancing portion will be approximately \$1.2 million.

Debentures of \$12.25 million issued on behalf of the Joint Water Boards (JWB) are also included in the \$70 million total. The City in its capacity as the Administering Municipality for both the Elgin Area and Huron Primary Water Supply Systems, in accordance with the Transfer Order issued by the Minister of the Environment (Elgin Area effective November 29, 2000 and Huron effective September 15, 2000), has authorization to issue debt on behalf of the JWB. The City's share of the Joint Water Board's debentures is approximately \$7.1 million.

#### **Strategy: 10-year term verses 20-year term**

Generally, the City's basis for determining the term (i.e. 10-year term verses 20-year term or longer) in which a debenture is issued is the estimated useful life of the capital project. In accordance with the Municipal Act, 2001, the City cannot issue debt that exceeds the useful life of a capital project. Section 408 (3) Term Restriction of the Municipal Act, 2001 states that *"the term of a debt of a municipality or any debenture or financial instrument for long-term borrowing issued for it shall not extend beyond the lifetime of the capital work for which the debt was incurred and shall not exceed 40 years"*.

The City issues debt in significantly large amounts and, for practical and efficiency reasons, there may be times when not all of the issued debt matches the useful life of the various projects. However, if there is a project of significant value that warrants a 20-year term, the City may issue a separate debenture for that project, for example in 2004 the City issued \$30 million over a 20-year term at a rate of 5.67% on the Dearness Home Redevelopment Project.

Generally, Civic Administration recommends issuing 10-year term debentures as opposed to 20-year term debentures because the interest savings to the taxpayer in the long-term is significant. Although the annual cash output is lower on a 20-year term debenture, the duration is longer and the interest rate is higher (approximately 60 basis points). These factors, when taken together, amount to over twice the interest paid over the term of the debenture. For example, on an amortizing debenture of \$100 million the total interest paid over the life of the debenture (at the current capital market rates) on a 10-year and 20-year term is approximately \$19 million and \$47 million, respectively, a difference of \$28 million.

#### **By-Law D.- 767-265**

By-law D.-767-265, which is being introduced on Tuesday, September 18, 2012, will allow the Corporation of the City of London to borrow upon serial debentures for the debenture term and amount identified above. It will also authorize the Mayor, City Treasurer, and City Clerk to execute all documents and other papers in the name of the Municipality in order to carry out the issue of the debentures and close the issuance on September 24, 2012.

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

- Schedule A – Listing of projects to be financed by debenture
- Schedule B – Debenture certificates and legal opinion provided by Borden Ladner Gervais
- Schedule C – Serial debenture schedule (repayment schedule)

#### **Financial Impact**

The financial impact of this debenture issuance is incorporated in the 2013 operating budgets, which will be submitted to Municipal Council.

**Summary of Long-term Financing for 2012**

For 2012 to date, the City has secured a total of \$72,000,000 of long term financing as follows:

- \$70,000,000, of which \$8,707,000 is for debentures issued to refinance a balloon payment for the John Labatt Centre and Western Fair Arena projects and \$12,250,000 is for debentures issued on behalf of the Joint Water Boards, through the capital markets at an all in rate of 2.817% closing on September 24, 2012
- \$2,000,000 through the Federation of Canadian Municipalities, Green Municipal Fund (FCM) at a rate of 2.0% over a 20-year term closed on May 15, 2012

**Acknowledgements**

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

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| PREPARED BY:  | REVIEWED BY:  |
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| CONCURRED BY:   | RECOMMENDED BY:   |
|   |   |
| <b>Larry Palarchio<br/>Director of Financial Planning &amp; Policy</b>                          | <b>Martin Hayward<br/>Managing Director, Corporate Services and<br/>City Treasurer, Chief Financial Officer</b> |

Attach.

Cc.: M. Turner, Deputy City Treasurer