

TO:	CHAIR AND MEMBERS FINANCE AND ADMINISTRATION MEETING ON AUGUST 17, 2011
FROM:	MARTIN HAYWARD CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT	REQUEST FOR PROPOSAL 11-29 PROVIDE FISCAL AGENT SERVICES

RECOMMENDATION

That, on the recommendation of the City Treasurer, Chief Financial Officer the following actions be taken with respect to the Request for Proposal 11-29, Provide Fiscal Agent Services:

- a) the proposals submitted by the following Proponent's **BE ACCEPTED**;

RBC Dominion Securities Inc., operating as RBC Capital Markets

Royal Bank Plaza, 200 Bay Street, 2nd Floor, North Tower
Toronto, ON M5J 2W7

CIBC World Markets Inc.

Brookfield Place, 161 Bay Street, 5th Floor
Toronto, ON M5J 2S8

TD Securities Inc.

222 Bay Street, 7th Floor
Toronto, ON M5K 1A2

- b) Civic Administration **BE AUTHORIZED** to undertake all administrative acts that are necessary in connection with securing this service;
- c) the approval, hereby given, **BE CONDITIONAL** on the Corporation entering into a formal contract with the successful proponents.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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2011 Debenture Issuance Report
(June 15, 2011 meeting of the Finance and Administration Committee, Agenda Item #8)

BACKGROUND

In general, municipalities as well as other levels of government, issue debt to raise capital to fund projects, such as sewer replacement, road works and upgrades to recreation facilities. The most common practice for issuing debt is through the capital markets. In doing so, it is necessary to engage a fiscal agent to act on behalf of the municipality.

The primary responsibility of the City's fiscal agent is to procure subscriptions for debentures the City issues and sells. The City's fiscal agent is also responsible for the following:

- a) providing advice and assistance to the City with respect to the timing, structure, principal terms and conditions of debenture issuances, including the rates of interest and dates of maturity,
- b) developing a broad approach to borrowing strategies as well as provide the City with economic reports and financial market information relative to the issuance of the City's debentures,
- c) making available appropriate personnel to meet with representatives of the City Council to discuss general economic conditions and market opportunities,
- d) pre-marketing, marketing and advertising each debenture issuance including preparation of the offering circular prospectus,
- e) preparing and assisting in the issue process and
- f) providing other advice, assistance and services the City may require, such as expertise in the area of infrastructure financing (Public Private Partnerships, P3).

It is beneficial for the City to employ a “*team approach*” and engage more than one agent. The advantage to having more than one agent is setting a better price on bonds, a further reach in terms of marketing the issuance, a broader economic and financial knowledge base, and a decreased risk for the City in terms of selling bonds. This is the approach that was used in the City’s past fiscal agency agreement and is currently used by many other municipalities.

The City’s previous fiscal agency agreement was signed on July 17, 1996 with RBC Dominion Securities Inc., CIBC Wood Gundy Securities Inc. and Scotia McLeod Inc. and remained in effect until December 31, 2007. It is anticipated that the City will borrow capital funds through a debenture issue in the capital markets by the fall of 2011.

The Selection Process

A Request for Proposal (RFP) was issued on June 18, 2011 and closed on July 7, 2011 with four submissions being received. The RFP specified that the City intended to enter into an agreement with three investment firms for a period of up to four years with an option to extend for up to three years. The evaluation criteria used in the selection process included the following:

- Completeness of the proposal
- Experience of the Proponent
- Qualifications of the principal contact person
- Fee arrangement
- Financial stability of the firm
- References
- Innovated ideas, approaches, and flexibility
- Interview presentation

The evaluation process was completed by individuals from the Finance Department and based on the evaluation the following proponents are being recommended to enter into a fiscal agency agreement with the City of London:

Agent

RBC Dominion Securities operating as RBC Capital Markets

RBC Capital Markets is wholly owned by Royal Bank of Canada. RBC Capital markets has two branches with over 30 advisors in the City of London and Royal Bank of Canada has 14 bank branches and employs over 350 people in London. RBC Capital Markets led the \$72 million re-financing of the Ontario Clean Water Agency debt of Lake Huron Waterworks and Elgin/Middlesex Systems through a City of London debenture on behalf of participating municipalities and the City of London. RBC also has a long standing banking relationship with Thames Valley District School.

RBC Capital Markets was ranked first in leading deals for government debt in Canada for 2010, leading 52 deals and capturing 20% of the market share, as ranked by Thomson Reuters (see Appendix A). RBC’s team philosophy is “the customer comes first”.

Agent

CIBC World Markets, Inc.

CIBC’s investment advisory and retail banking network has 16 branches in London and employs 187 Londoner’s. London is also the regional hub for CIBC Wood Gundy’s South-western Ontario operations with 6 branches and 137 employees. CIBC acted as sole agent for the University of Western Ontario’s inaugural \$190 million bond offering as well as advised London Hydro on the rating agency process. CIBC has a long standing relationship with London Health Sciences Centre and St. Joseph’s Health Care in providing cash management services. CIBC is a supporter of the London Community through donations to University of Western Ontario, Richard Ivey School of Business, London Health Sciences Foundation, Fanshawe College, John P. Robarts Institute, Boys & Girls Club of London and Merrymount Children’s Centre.

CIBC World Markets Inc. was ranked fourth in leading deals for government debt in Canada for 2010, leading 76 deals and capturing 16.3% of the market share, as ranked by Thomson Reuters (see Appendix A). CIBC’s team approach is “to build a long standing partnership with its clients”.

Agent

TD Bank Group, TD Securities

TD Bank Group has 25 branches that operate in the City of London. TD Bank has banking relationships with London Hydro, Upper Thames River Conservation Authority, Orchestra London Canada Inc., London Regional Arts, Museum London and the London Public Library.

TD Debt Capital Markets Infrastructure has worked on Public Private Partnership (P3) funding deals for London Health Sciences Centre, St. Joseph's Healthcare London Project and Royal Victoria Hospital.

TD Securities, Inc. was ranked third in leading deals for government debt in Canada for 2010, leading 42 deals and capturing 19.1% of the market share, as ranked by Thomson Reuters (see Appendix A). TD Securities team approach is "to support the team and each other to get the job done".

The lead agent position will be rotated among the investment firms for each issue. The investment firm ranked first, based on the evaluation criteria, will be the lead agent on the first issuance.

Financial Impact

The remuneration for these services is commission earned on the execution of a debenture transaction and proportioned between the agents based on the role they played in the issuance (for example lead role). The commission varies depending on the type of debenture issued, the term of the debenture and the size of the debenture. For example, the City typically issues serial debentures over a 10 year term in an amount less than \$100 million. The commission for this issuance is \$0.75 per \$100, or \$375,000 on an issuance of \$50,000,000. This fee covers most costs in issuing debentures, including printing, communication and road show costs (i.e. marketing the City of London). The City will be responsible for its own legal counsel costs. This fee structure is consistent with current market practice.

Debenture issue commissions/fees have been included as part of the annual debt servicing operating budget(s).

Acknowledgements

This report was prepared with the assistance of Alan Dunbar, Annette Ripepi, Mat Daley and Terri-Sue Wyatt.

SUBMITTED BY:	REVIEWED AND RECOMMENDED BY:
IAN COLLINS MANAGER OF FINANCIAL PLANNING & POLICY	LARRY PALARCHIO DIRECTOR OF FINANCIAL PLANNING & POLICY
REVIEWED AND CONCURRED BY:	RECOMMENDED BY:
MIKE TURNER DEPUTY CITY TREASURER	MARTIN HAYWARD CITY TREASURER, CHIEF FINANCIAL OFFICER

cc: Alan Dunbar
Annette Ripepi
Mat Daley
Terri-Sue Wyatt

APPENDIX A

Domestic government debt in 2010 (full credit to lead)

Bank	Proceeds (C\$ Mil)	Mkt. Share	Number of Issues
RBC Dominion Securities	19,628.10	20.00	52
National Bank Financial Inc	19,053.80	19.40	47
TD Securities Inc	18,819.30	19.10	42
CIBC World Markets Inc	16,024.40	16.30	76
BMO Nesbitt Burns	9,424.70	9.60	16
Bank of America Merrill Lynch	6,038.50	6.10	5
Scotia Capital	5,932.70	6.00	21
Bank of Canada	3,000.00	3.10	1
Desjardins Securities Inc.	126.30	0.10	5
Casgrain & Companie Ltee	107.70	0.10	3
Laurentian Bank of Canada	76.30	0.10	2
HSBC Holdings PLC	50.00	0.10	1
Canaccord Genuity	31.50	-	1
Industry Total	98,313.20	100.00	198

**Source: The Globe and Mail, Thomson Reuters
Published March 2, 2011**