

Corporate Services Committee

Report

8th Special Meeting of the Corporate Services Committee
March 25, 2019

PRESENT: Councillors J. Morgan (Chair), J. Helmer , P. Van Meerbergen,
A. Kayabaga, S. Hillier
ABSENT: Mayor E. Holder
ALSO PRESENT: A.L. Barbon, B. Card, I. Collins, M. Galczynski, K. Murray, M.
Ribera, M. Schulthess, S. Spring, and B. Westlake-Power

The meeting is called to order at 3:00 PM.

1. Disclosures of Pecuniary Interest

That it BE NOTED that no pecuniary interests were disclosed.

2. Consent

2.1 2019 Debenture Issuance Update

Moved by: S. Hillier
Seconded by: J. Helmer

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following actions be taken:

a) the issuance of serial debentures for a total of \$49,380,000 BE APPROVED; it being noted the average all-in rate is 2.655% over a 10-year term; and

b) the proposed by-law appended to the staff report dated March 25, 2019 BE INTRODUCED at the Municipal Council meeting on March 26, 2019, to authorize the borrowing upon serial debentures in the aggregate principal amount of \$49,380,000 towards the cost of certain capital works of The Corporation of the City of London;

it being noted that the Corporate Services Committee received the attached presentation from M. Khan and K. Martin (RBC), with respect to this matter.

Yeas: (5): J. Morgan, J. Helmer, P. Van Meerbergen, A. Kayabaga, and S. Hillier

Absent: (1): E. Holder

Motion Passed (5 to 0)

2.2 Court Security and Prisoner Transportation Program Transfer Payment Agreement

Moved by: J. Helmer
Seconded by: A. Kayabaga

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the proposed by-law appended to the staff report dated March 25, 2019 as Appendix "A" BE INTRODUCED at the Municipal Council meeting on March 26, 2019 to approve the Ontario Transfer Payment Agreement for the Court Security and Prisoner Transportation Program with Her Majesty the Queen in right of Ontario as represented by the Minister of Community Safety and

Correctional Services and The Corporation of the City of London;
and to authorize the Mayor and the City Clerk to execute the Agreement.

Yeas: (5): J. Morgan, J. Helmer, P. Van Meerbergen, A. Kayabaga, and S. Hillier

Absent: (1): E. Holder

Motion Passed (5 to 0)

3. Scheduled Items

None.

4. Items for Direction

None.

5. Deferred Matters/Additional Business

None.

6. Adjournment

The meeting adjourned at 3:18 PM.

RBC Capital Markets

CS\$49.38 million 1-10 year Serial Debenture Transaction Review

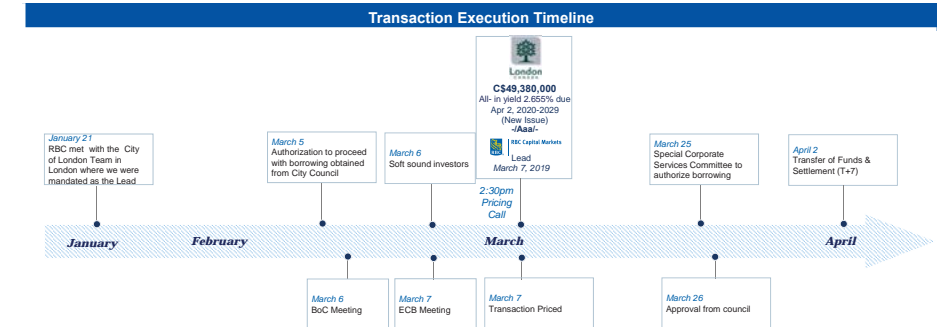
March 25th, 2019



City of London Transaction Review

Brief Time Line & Transaction Details

- City of London conducted an extensive syndicate review after 7 years in September 2018 following which RBC was reappointed as 1 of the 3 Lead managers
- RBC is extremely pleased and thankful for being given the opportunity to Lead the first debt issue for the City since the syndicate review
- They City was able to price well in advance of its March 25 debenture meeting, with a desired settlement of April 2 while navigating several macro economic events and achieving an all-in cost of funds of 2.655%



City of London Transaction Review

Macro Overview

- Financial markets in 2018 and 2019 have been dominated by concerns surrounding trade and global economic growth
- In Canada, NAFTA Negotiations, US Tariffs on China, Brexit, and slowing economic growth domestically and in Europe has created uncertainty for both the Bank of Canada ("BoC") and Investors
- The week of London's transaction the BoC and ECB highlighted economic risks and future uncertainty, dampening the economic outlook for their respective economies and sending yields lower
 - Specifically, the BoC held the overnight rate at 1.75%, suggesting the need for further stimulus, and announced it anticipates lower growth in 2019 while also highlighting uncertainty in the path of future rate hikes
 - Following the BoC, the ECB announced it was shifting out the projection of its first hike by at least 6 months and announced TLTRO-III, essentially extending cheap financing to banks to stimulate economic growth
- The combination of these announcements resulted in Canadian yields declining 10-13bps to levels not seen since June 2017 during the week of London's deal, resulting in the lowest all-in cost of funds available to the City in over a year and a half
- RBC currently projects a 25bps hike in each of Q3 and Q4 2019 by the BoC
- The FOMC has also acknowledged an increasingly uncertain global backdrop, and has stated that it is content to be patient and assess the impact of global risks before resuming a tightening path
- RBC currently projects a rate hike in each of Q2 and Q4 of 2019 in the US

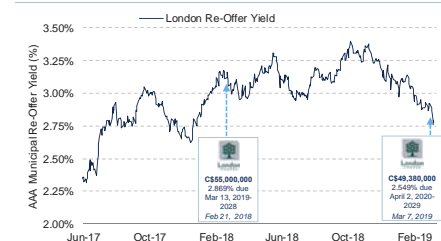
RBC Economics Interest Rate Forecasts⁽¹⁾

Government of Canada Rates Forecast						
Term	Current	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20
ON	1.75%	1.75%	1.75%	2.00%	2.25%	2.25%
5-Year GoC	1.82%	2.10%	2.30%	2.45%	2.50%	2.45%
10-Year GoC	1.74%	2.20%	2.40%	2.55%	2.60%	2.60%
30-Year GoC	2.04%	2.40%	2.55%	2.65%	2.70%	2.70%

US Treasury Rates Forecast						
Term	Current	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20
ON	2.50%	2.50%	2.75%	2.75%	3.00%	3.00%
10-Year UST	2.63%	2.95%	3.15%	3.25%	3.30%	3.25%
30-Year UST	3.02%	3.20%	3.30%	3.40%	3.45%	3.40%

Although the Bank came out with a dovish outlook in February, it did not dispense with the prospect that interest rates will rise in the future

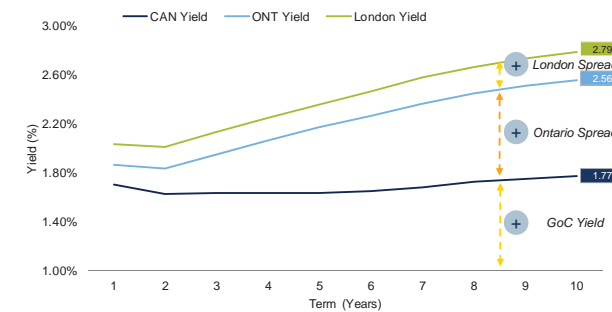
London 10-Year Re-Offer Yields



City of London Transaction Review

City of London 1-10yr Serial Debenture – Yield Curve

- The City of London yield curve consists of the underlying government of Canada yields plus a spread to reflect the Ontario credit and a spread to reflect the City of London's credit
 - City of London Yield (%) = Canada Yield (%) + Ontario Spread (%) + City of London Spread (%)
- City of London bonds, much like every other municipal bond trade in secondary markets at a spread versus Ontario
- The City's 'Aaa' rating from Moody's bond rating agency allows London to issue debentures at the lowest yields amongst municipal issuers of serial debentures



City of London Transaction Review

City of London Pricing

- London was able to achieve an attractive weighted average all-in cost of 2.655% for its 1-10yr structure
 - Marks an improvement of ~32bps relative to the cost of funds in 2018 due to lower underlying yields
- Final pricing was ONT +19 bps in 5s and ONT +23 bps in 10s
- Line sizes of C\$4.5-5.5 million allowed for significant interest from the investor base
- Weighted average life of ~5.7 years for the structure

London 1-10 Year Serial Pricing

TERM (YR)	PRINCIPAL AMOUNT	MATURITY APR 2	GoC BENCHMARK	BENCHMARK YIELD	SPREAD	OFFERING YIELD	COUPON	OFFERING PRICE (\$)	CC	DRAWDOWN	NET PRICE (\$)	NET YIELD
1	4,459,000	2020	TBILL	1.700%	0.330%	2.030%	2.000%	\$ 99,970	\$ 0.2500	\$ 0.1000	\$ 99,720	2.285%
2	4,550,000	2021	CAN 2.25% 1FEB21	1.626%	0.380%	2.006%	2.000%	\$ 99,988	\$ 0.2500	\$ 0.1000	\$ 99,738	2.135%
3	4,943,000	2022	CAN 0.5% 1MAR22	1.631%	0.500%	2.131%	2.100%	\$ 99,910	\$ 0.3500	\$ 0.2000	\$ 99,560	2.253%
4	4,742,000	2023	CAN 1.75% 1MAR23	1.633%	0.615%	2.248%	2.200%	\$ 99,817	\$ 0.4500	\$ 0.2500	\$ 99,367	2.367%
5	4,850,000	2024	CAN 2.25% 1MAR24	1.633%	0.725%	2.358%	2.350%	\$ 99,962	\$ 0.5000	\$ 0.2500	\$ 99,462	2.465%
TOTAL	23,244,000					2.216%		\$ 99,929			\$ 99,566	2.341%
6	4,964,000	2025	CAN 2.5% 1JUN24	1.651%	0.815%	2.466%	2.450%	\$ 99,911	\$ 0.6000	\$ 0.3000	\$ 99,311	2.575%
7	5,080,000	2026	CAN 2.25% 1JUN25	1.682%	0.895%	2.577%	2.550%	\$ 99,828	\$ 0.7000	\$ 0.3000	\$ 99,128	2.688%
8	5,220,000	2027	CAN 1.5% 1JUN26	1.723%	0.940%	2.663%	2.650%	\$ 99,907	\$ 0.7500	\$ 0.3500	\$ 99,157	2.768%
9	5,358,000	2028	CAN 1% 1JUN27	1.749%	0.985%	2.734%	2.700%	\$ 99,730	\$ 0.7500	\$ 0.3500	\$ 98,980	2.829%
10	5,506,000	2029	CAN 2% 1JUN28	1.769%	1.020%	2.789%	2.750%	\$ 99,862	\$ 0.7500	\$ 0.3500	\$ 98,920	2.876%
TOTAL	26,136,000					2.668%		\$ 99,804			\$ 99,000	2.767%
GRAND TOTAL	49,380,000	WATM = 5.694 YRS				2.549%		\$ 99,663	\$ 0.548		\$ 99,315	2.655%

London Historical Transaction Yields (2014-2019)

Year	Re-Offer Yield	All-In Yield
2019	2.549%	2.655%
2018	2.869%	2.976%
2017	2.375%	2.480%
2016	2.196%	2.301%
2015	1.765%	1.869%
2014	2.850%	2.957%

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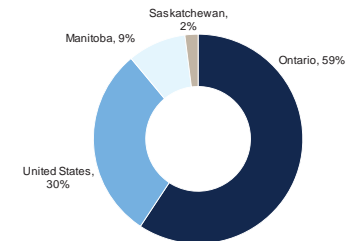
RBC Capital Markets

City of London Transaction Review

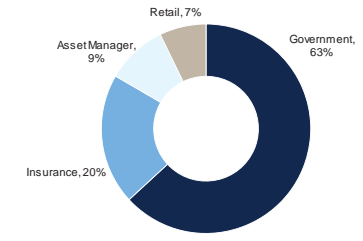
Distribution

- The City of London bonds were broadly distributed across 9 institutional investors
- The offering was primarily placed with domestic investors (70%) while 30% was placed into the US
 - Domestic breakdown includes Ontario (59%), Manitoba (9%), and Saskatchewan (2%)
- In terms of investor type, the transaction was purchased by Governments (63%), Insurance Companies (20%), Asset Managers (9%) and Retail Investors (7%)

Geographic Distribution



Distribution by Investor Type



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RBC Capital Markets

City of London Transaction Review

City of London C\$49.38 million 1-10 year Serial Debenture

C\$49,380,000
All-in yield 2.655% due April 2, 2020-2029
(1-10yr Serial New Issue)

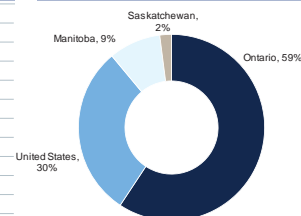
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Lead
March 7, 2019

- On Thursday March 7, 2019 the City of London ("London") priced a successful C\$49.38 million 1-10 year serial debenture transaction with RBC as Lead Manager
 - The offering marked the first municipal serial offering in the Canadian market in 2019
 - Represents London's return to the market following a successful C\$55 million 1-10 year serial in February 2018
- London is a regular issuer of serial debentures in the Canadian market, having completed an offering in each consecutive year since 2011 for a total of C\$426.3 million
- London was able to navigate a volatile rates backdrop driven by a number of economic events including the Bank of Canada ("BoC") and European Central Bank ("ECB") announcements
 - Underlying Government of Canada yields declined ~10-13bps during the week following a dovish BoC announcement which highlighted uncertainty and lower growth, while the ECB extended targeted refinancing programmes and shifted the schedule for a rate hike to later in the year
 - **The dovish tilt from the central banks and risk-off move from investors pushed underlying yields to their lowest levels since June 2017, resulting in a very attractive all-in rate of 2.655% for the City**
- The ability of London to navigate volatility and complete a successful offering in relatively volatile conditions speaks to the strength of the London credit
- The offering saw demand from 9 high-quality institutional investors and retail investors from Ontario (59%), United States (30%), Manitoba (9%), and Saskatchewan (2%)
- In terms of investor type, the transaction was purchased by Governments (63%), Insurance Companies (20%), Asset Managers (9%) and Retail Investors (7%)

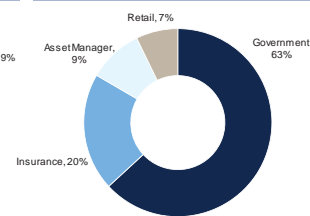
Summary Details

Issuer:	City of London
Ratings:	-/Aaa/-
Launch Date:	March 6, 2019
Price Date:	March 7, 2019
Settlement Date:	April 2, 2019 (T+18)
Structure:	1-10 Year Serial
Size:	C\$49.38 million
Wt. Avg. Life:	5.694 years
Wt. Avg. Re-Offer:	2.549%
All-In Yield:	2.655%
# Institutional Buyers:	9
Lead:	RBC

Overall Distribution by Geography



Overall Distribution by Type



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RBC Capital Markets

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