

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 14, 2020</b>
<b>FROM:</b>	<b>ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2020 DEBENTURE ISSUANCE</b>

<b>RECOMMENDATION</b>
-----------------------

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

- a) Civic Administration **BE AUTHORIZED** to proceed with the issuance of debentures in the capital markets upon favourable market conditions to provide permanent financing for capital works in an amount not to exceed \$36,000,000;
- b) Civic Administration **BE INSTRUCTED** to schedule and convene an appropriately timed special Corporate Services Committee meeting upon successful placement of the City's debt in the capital markets to ensure adequate time for Council approval while adhering to the necessary financial settlement requirements.

<b>LINK TO THE 2019-2023 STRATEGIC PLAN</b>
---

Council's 2019-2023 Strategic Plan for the City of London identifies "Leading in Public Service" as a strategic areas of focus. Continuing to ensure the strength and sustainability of London's finances and adhering to the City of London's limit on authorized debt are strategies to maintain London's finances in a well-planned manner to balance equity and affordability over the long term. The 2020 Debenture Issuance report ensures that the proper mechanisms are in place to fund major capital projects while supporting intergenerational equity.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
--

Corporate Services Committee, September 24, 2019, Agenda Item 2.2, 2019 Mid- Year Capital Monitoring Report.

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=67215>

Corporate Services Committee, October 8, 2019, Agenda Item 2.1, City of London's Credit Rating.

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=67685>

<b>BACKGROUND</b>
-------------------

A municipality may issue debt for long-term borrowing to provide financing for capital works. The City issues debentures on projects that are substantially complete. The City reviews project status reports to determine if projects are substantially complete and this analysis along with cash flow requirements, budget constraints and market conditions determine the amount and timing of debentures issued each year. Generally, the City issues debentures through the capital markets using a fiscal agent or through government programs.

A review of approved capital projects indicates that projects meeting the required criteria for long-term debenture financing total \$36,000,000. The details of these projects are listed in **Appendix A**.

Over the past five years, the City has issued a total of approximately \$215.9 million in long-term debt as follows:

Issuance Date	Amount of Issuance(\$)	Term (years)	All in Rate of Borrowing*	Type	Agency
2-Apr-2019	49,380,000	10	2.66%	Serial/Instalment	Capital Markets-CDS&CO
13-Mar-2018	55,000,000	10	2.98%	Serial/Instalment	Capital Markets-CDS&CO
7-Mar-2017	41,000,000	10	2.48%	Serial/Instalment	Capital Markets-CDS&CO
29-Apr-2016	27,000,000	10	2.25%	Amortizer	Government Agency-FCM-GMF
7-Mar-2016	3,048,000	10	2.30%	Serial/Instalment	Capital Markets-CDS&CO
	30,048,000				
16-Mar-2015	40,500,000	10	1.87%	Serial/Instalment	Capital Markets-CDS&CO
Total	215,928,000				

\*All-in rate includes fees  
CDS& CO- nominee of CDS Clearing and Depository Services Inc  
FCM-GMF- Federation of Canadian Municipalities-Green Municipal Fund

As part of the debenture issuance process, the City's fiscal agents provide recommendations on the form and timing of the issuance. The three main types of debenture issuances are:

1. Serial debentures - debt instrument that matures in installments over a period of time. In effect, a \$100,000, 5-year serial debenture would mature in approximate equal amounts of \$20,000 annually with unique coupon rates for each year.
2. Amortizing debentures - debt instrument where the principal is paid down over the life of the debenture according to an amortization schedule, typically through equal payments and one coupon rate.
3. Bullet debentures - debt instruments whose entire principal value is paid all at once on the maturity date, as opposed to periodic principal payments over the life of the debenture. These types of debentures are best suited for municipalities issuing greater than \$100 million and are structured so that a sinking fund is established to cover the principal value upon maturity.

### Next Steps

National Bank Financial Inc. will launch and price the City's debenture issuance deal in the capital markets upon favourable market conditions. A report will be brought forward to a special Corporate Service Committee meeting to approve the debenture issuance and the respective by-law, with Council approval to follow. Timing of the City's debenture pricing will be dependent on market conditions. As such, the timing of the upcoming report to approve the debenture issuance will be dependent on activity in the marketplace.

### Current Market Conditions

As the COVID-19 pandemic continues to impact multiple aspects of daily activity across the globe, financial/capital markets have reacted and continue to shift daily to new developments, announcements and outlooks. Civic administration is continually in touch with its fiscal agents to monitor the evolving markets and impacts to the City's upcoming debt issuance.

At the time of writing this report (April 2nd, 2020), the capital markets for municipal debt issuances have not been favourable as the COVID-19 situation has evolved. No municipal deals have been successfully completed in a number of weeks due to the "risk-off" tone and lack of liquidity in markets. The federal government has recently announced numerous programs to ease the economic fallout of the ongoing pandemic. Furthermore, the Bank of Canada has announced a

number of various decisions, programs and measures to improve market liquidity and hence improve market conditions. An example of some key announcements:

- The Canadian overnight rate has been cut three times within the past month (50 basis points at each cut), resulting in a current overnight rate of 0.25%.
- The Bank of Canada is launching the Commercial Paper Purchase Program, in which the Bank will purchase debt (commercial paper) of Canadian firms, municipalities and provincial agencies with the aim of supporting the flow of credit to the economy.
- The Bank of Canada will begin to acquire Government of Canada securities in the secondary market.
- Expansion of Insured Mortgage Purchase Program through Canada Mortgage and Housing Corporation (CMHC), with the goal of freeing up lending capacity at financial institutions.

Collectively, these measures are aimed at providing further liquidity in the markets and in discussion with our fiscal agents, it is anticipated that these programs will indirectly improve liquidity and demand for municipal debentures. It has been recommended that the City of London be prepared to take advantage of any window of stability in the markets – as soon as it arises – in order to complete its debenture issuance in these very turbulent and ever-changing markets. The timing of actual issuance is uncertain and will be dependent on how the COVID-19 pandemic and associated economic impacts continues to develop.

**Financial Impact**

The financial impact of this debenture issuance has been included in the 2020–2023 Multi-Year Budget and will also be incorporated in future Multi-Year Budget submissions. Furthermore, proceeds from our debt issuance will represent a cash injection to the City to aid in managing cash flows and maintaining its positive liquidity position.

<b>CONCLUSION</b>
-------------------

The City’s 2020 planned debt issuance will provide the required long-term funding for the identified projects within Appendix A and aligns with the City’s Debt Management Policy. This approval will provide the authorization to act accordingly with minimal delay upon improvement in market conditions.

<b>PREPARED BY:</b>	<b>REVIEWED BY:</b>
<b>FOLAKEMI AJIBOLA, CTP MANAGER, FINANCIAL MODELLING, FORECASTING &amp; SYSTEMS CONTROL (TREASURY)</b>	<b>MARTIN GALCZYNSKI, CPA, CA MANAGER, FINANCIAL PLANNING &amp; POLICY</b>
<b>CONCURRED BY:</b>	<b>RECOMMENDED BY:</b>
<b>KYLE MURRAY, CPA, CA DIRECTOR, FINANCIAL PLANNING &amp; BUSINESS SUPPORT</b>	<b>ANNA LISA BARBON, CPA, CGA MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>

APPENDIX A

Capital Projects for Issuance

Project Number	Project Title	Amount to be Financed(\$)	By-Law#
<b>Property Tax Supported</b>			
ID1145	Industrial Land Acquisition for Future Development	2,200,000	W.-1716-76
RC2756	East Multi Purpose Recreation Centre	7,031,370	W.-5598-54
TS1489	Western Road Widening	600,000	W.-5550-67
RC2755	Southwest Multi Purpose Recreation Centre	800,000	W.-5578-93
RC2758	Southeast Multi Purpose Recreation Centre (Land)	1,368,630	W.-1974-654
TS1308	Highway 401 Interchange Projects	3,000,000	W.-5535-98
		<b>15,000,000</b>	
<b>Non-Rate Supported(City Services Reserve Funds)</b>			
RC2756	East Multi Purpose Recreation Centre	2,700,000	W.-5598-54
TS1489	Western Road Widening	2,000,000	W.-5550-67
ES5263	Southwest Capacity Improvement	2,300,000	W.-5642-466
ES2204	Colonel Talbot Pumping Station	6,500,000	W.-5593-37
ID1057	ILDS Sanitary Servicing Trunk	3,500,000	W.-5643-22
ES2685	Greenway PCP Treatment Capacity Upgrades	1,000,000	W.-5636-41
ESSWM-DCNLP9	SWM Facility - Dingman Creek North Lambeth	3,000,000	W.-5584-183
		<b>21,000,000</b>	
<b>Total 2020 Debenture Issuance</b>		<b>36,000,000</b>	