

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee

From: Anna Lisa Barbon, CPA, CGA, Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

Subject: 2021 Debenture Issuance

Date: March 1, 2021

Recommendation

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 \$23,000,000;
- 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.

Executive Summary

The City typically issues debenture through the capital markets using a fiscal agent for complete or substantially complete projects. Civic Administration is recommending issuing 10-year debentures in the amount of \$23,000,000 representing the 2021 issuance. The purpose of this report is to obtain authorization to proceed with the issuance and a second report will follow to enact the issuance of the debenture and associated by-law upon successful placement in the capital markets.

Linkage to the Corporate Strategic Plan

Council's 2019 to 2023 Strategic Plan for the City of London identifies "Leading in Public Service" as a strategic area 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 2021 Debenture Issuance report ensures that the proper mechanisms are in place to fund major capital projects while supporting intergenerational equity.

Analysis

1.0 Background Information

A municipality may issue debt for long-term borrowing to provide financing for capital works. The City typically 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. Debt issuances of the City of London are denominated in Canadian Dollars.

1.1 Previous Reports Related to this Matter

Corporate Services Committee, October 19, 2020, Agenda Item 2.2, City of London's Credit Rating.

2.0 Discussion and Considerations

A review of approved capital projects indicates that projects meeting the required criteria for long-term debenture financing total \$23,000,000. The details of these projects are listed in **Appendix A**.

Over the past five years, the City has issued a total of approximately \$211.4 million in long-term debt as follows:

Issuance Date	Amount of Issuance (\$)	Term (years)	All in Rate of Borrowing*	Agency
5-Jun-2020	36,000,000	10	1.67%	Capital Markets-CDS&CO
2-Apr-2019	49,380,000	10	2.66%	Capital Markets-CDS&CO
13-Mar-2018	55,000,000	10	2.98%	Capital Markets-CDS&CO
7-Mar-2017	41,000,000	10	2.48%	Capital Markets-CDS&CO
29-Apr-2016	27,000,000	10	2.30%	Capital Markets-CDS&CO
7-Mar-2016	3,048,000	10	2.25%	Government Agency-FCM-GMF
Total	211,428,000			

*All-in rate includes fees

CDS& CO- nominee of CDS Clearing and Depository Services Inc – serial debentures
FCM-GMF- Federation of Canadian Municipalities-Green Municipal Fund – amortizing debenture

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.

TD Securities 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.

3.0 Financial Impact/Considerations

The financial impact of this debenture issuance has been included in the 2020 to 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.

4.0 Key Issues and Considerations

4.1. Current Market Conditions

Despite the COVID-19 pandemic and the corresponding effect on the financial/capital markets in 2020, investor appetite for municipal debenture issuance has been quite strong recently. We have seen several issuances in the municipal space early in 2021, with First Nations Finance Authority (FNFA) pursuing their largest issuance ever, followed by issuances by Peel Region and City of Montreal. All issuances were well received and at attractive levels for the issuers. 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 its January 20, 2021 Bank of Canada (BOC) policy decision announcement, the BOC maintained the overnight rate at 0.25%. The overnight rate is the rate at which major financial institutions borrow and lend one-day (or "overnight") funds among themselves. Changes in this rate influences other rates and has a resulting effect on bond yields, including municipal debentures. The Bank is also maintaining a minimum of \$4 billion per week for the quantitative easing (QE) program which was started April 1, 2020. The BOC bond purchases through the QE program is focused across the yield curve and will expand the Bank's balance sheet, thus promoting liquidity/market functioning in Canada's bond market; this also results in keeping rates low further out the yield curve for longer duration borrowings.

The BOC acknowledged that the outlook remains highly uncertain but noted that "earlier than expected vaccine arrivals and additional policy support have boosted the longer-term growth outlook" and that the medium/long-term outlook had grown "stronger and more secure".

Conclusion

The City's 2021 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 issue debentures through the capital markets.

Prepared by: Folakemi Ajibola, CTP, Manager, Financial Modelling, Forecasting and Systems Control (Treasury)

Submitted by: Kyle Murray, CPA, CA, Director, Financial Planning and Business Support

Recommended by: Anna Lisa Barbon, CPA, CGA, Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

Attachment: Appendix A

Appendix “A”

Capital Projects for Issuance

Project Number	Project Title	Amount to be Financed (\$)	By-Law #
	Property Tax Supported		
MU104420	Bus Purchase	5,367,700	Note A
PD218118	New Sportspark	542,000	W.-5652-260
TS1306	Adelaide Street Grade Separation	6,921,000	W.-5600-57
TS1749	Dundas Street Old East Village Streetscape	1,231,300	W.-5662-111
		14,062,000	
	Non-Rate Supported (City Services Reserve Funds)		
ES2204	Colonel Talbot Pumping Station	4,291,000	W.-5593-37
ES5253	RB1B Riverbend Growth Area Oxford PCP Sewershed	1,047,000	W.-5236-9
ES5263	Southwest Capacity Improvement	2,000,000	W.-5642-466
ID1057	ILDS Sanitary Servicing Trunk	1,600,000	W.-5643-22
		8,938,000	
	Total 2021 Debenture Issuance	23,000,000	

Note A – Project related to London Transit Commission (LTC) bus purchases approved in the 2020 to 2023 Multi Year Budget. As sources of financing are not created for LTC projects, a separate process is undertaken to request a By-Law number. By-Law number is to be provided after the February 23rd Council meeting.