

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON MAY 28, 2013
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2013 DEBENTURE ISSUANCE

RECOMMENDATION

That the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, **BE AUTHORIZED** to proceed with the issue of debentures to provide permanent financing for capital works in an amount not to exceed \$50,000,000 (**Appendix A**) through debentures in the capital markets with the flexibility to postpone the issuance for unfavourable market conditions.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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2012 Capital Budget Status – Fourth Quarter Report (April 9, 2013 meeting of the Corporate Services Committee, Agenda Item 5)

City of London's Credit Rating (November 5, 2012 meeting of Finance and Administration Committee, Agenda Item 2)

BACKGROUND

The City manages debt by employing strategies that include maintaining a debt cap on capital budgets, applying year-end debt servicing savings and/or excess assessment growth funding to cancel authorized but unissued debt, as well as increasing pay-as-you go financing, in lieu of debenture financing to fund life cycle renewal projects. Because of the Strategic Financial Planning Process, the City has been able to limit the amount of debt authorized on an annual basis. The City issued \$72 million of debentures in 2012, and is now anticipating issuing debentures in 2013, on substantially completed capital projects while taking advantage of the continued favourable economic conditions.

In 2012, the City took advantage of favourable interest rates and issued a total of \$72 million of debentures as follows:

- \$2 million to the Federation of Canadian Municipalities, as Trustee for the Green Municipal Fund at 2.0% (20-year); and
- \$70 million in the capital markets at 2.817% (10-year).

As shown in Table 1 below, municipal debt per household has decreased from 2008 – 2010 and increased in 2011, due to a substantial debt issuance and capital grant commitments. In 2011, the City issued \$132.1 million of debentures (\$63.4 million in capital market debentures, \$52.8 million to Infrastructure Ontario and \$15.9 million to Canada Mortgage and Housing Corporation). The City also committed to \$30 million in capital grants to Fanshawe College (\$20 million) and University of Western Ontario (\$10 million). In 2012, debt per household is anticipated to decrease again.

Table 1: Total Municipal Debt per Household

2008	2009	2010	2011	2012
\$1,949	\$1,660	\$1,692	\$2,126	\$2,112 ^(A)

^(A) Subject to change pending completion of 2012 Audited Financial Statements

The most common practice for issuing debt is in the capital markets using a fiscal agent. The City is currently under agreement with RBC Capital Markets Inc., CIBC World Markets Inc. and TD Securities Inc. to act as the City's fiscal agent in capital markets debenture issuances. The main advantage of issuing debentures in the capital markets is the eligibility of capital projects and traditionally (pre 2008) lower interest (borrowing) rates than government programs. Unlike government programs, capital markets generally have less restrictive program requirements allowing more projects to be eligible for debenture issuance. On April 24, 2013, rates provided by TD Securities Inc. to the City of London on a 10-year term debenture, was 2.95% excluding fees. (Note: the projected all in rate including fees would be approximately 3.04%, rates change on a daily basis depending on market conditions).

Where is the City Headed?

Based on completion of approved capital projects, modest annual increases for issuances are anticipated over the next few years. As part of the 2013 Budget, Civic Administration anticipated issuing debt in 2013, with a 10-year term and an all in borrowing rate (all in rate includes fees) of 3.60%. As of February 28, 2013, debt authorized and unissued totalled \$288.7 million for all rate sources and of this total, the maximum anticipated issuance for 2013 is \$50 million.

A review of the approved Capital Plan indicates that projects available for long-term debenture financing total \$50 million. The details of these projects are listed in Appendix A.

The Government of Canada Bond Rate is a benchmark for forecasting the City of London's future borrowing rates. With Government of Canada Bonds forecasted to increase steadily from 2013 through to 2017, as shown in Table 2, it would be beneficial to secure financing as early as possible.

Table 2: 10-year Bank of Canada Bond Rates (%), Annual Average

2013	2014	2015	2016	2017
2.05	2.55	3.35	4.15	4.60

Forecast by TD Bank Group as at March 2013, TD Economics
(Source: Statistics Canada, Bank of Canada, Bloomberg)

Joint Water Board (JWB)

The City in its capacity as the Administering Municipality for Huron Primary Water Supply System, in accordance with the Transfer Order issued by the Minister of the Environment (effective September 15, 2000), has authorization to issue debt on behalf of the JWB. On June 8, 2012, the Board of the Huron Primary Water Supply System authorized the City to issue \$1.5 million of debentures on behalf of the Huron Primary Water Supply System for capital project LH1326 Backup Generator.

Financial Impact

The financial impact of this debenture issuance has been included in the operating budget forecast for 2014.

Acknowledgements

This report was prepared with support from Marta Semeniuk, Financial Planning & Policy and external support from the law firm of Borden Ladner Gervais LLP (BLG) in Toronto.

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CONCURRED BY:	RECOMMENDED BY:
Larry Palarchio Director of Financial Planning & Policy	Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

APPENDIX A

Project Number	Project Title	Financing Amount
Property Tax Supported		
ID1168-1239	Innovation Park Phase 3	\$ 3,288,106
TS1446/11	2010-2011 Road Rehabilitation	5,173,090
TS1523	Bradley Ave Extension Property Purchase	628,462
TS3014	2010 Road Rehabilitation - Local & Rural	4,878,186
TS3014-11	2011 Road Rehabilitation - Local & Rural	4,564,600
TS3014-12	2012 Road Rehabilitation - Local & Rural	3,543,200
TS1763	2010 Bridges - Major Upgrades	397,710
TS1156	Wonderland Road Widening	2,306,810
TS5010	Downtown Street Lighting Program	799,392
PD1022	2009 District Park Infrastructure	500,000
PD1120	Forks of the Thames	2,150,000
MU1044-12	2012 Bus Purchase Replacement	3,579,700
PP4460	Police Facilities	4,734,720
RC2201	2010 Recreation Facilities	471,024
TS1253	2009 Local Roadworks	430,000
GG1312-03	Fountain Area Plaza - Skate Canada	355,000
MU1136-12	2012 Existing Facility Upgrades	200,000
Total Property Tax Supported		\$ 38,000,000
Wastewater and Treatment		
ES3020-HP1B1	Hyde Park 1B1 SWM Facility	\$ 378,000
ES3020-UPNB2	Uplands North SWM Facility	294,521
ES5249	SS22 Wonderland-Dingman Pumping Station	827,479
ES6071	Southcrest Storm Outlet	620,000
Total Wastewater and Treatment		\$ 2,120,000
Water		
EW3666	Wonderland Rd N Feeder Watermain	\$ 960,600
Total Rate Supported		\$ 41,080,600
Joint Water Boards		
LH1326	Backup Generator	\$ 1,500,000
Non-rate Supported (City Services RF)		
PP4460	Police Facilities	\$ 3,719,400
ES3020-HP1B1	Hyde Park 1B1 SWM Facility	2,100,000
ES3020-UPNB2	Uplands North SWM Facility	1,600,000
Total Non-rate Supported (City Services RF)		\$ 7,419,400
Total Issuance		\$ 50,000,000