

## Report to Corporate Services Committee

**To:** Chair and Members  
Corporate Services Committee

**From:** Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

**Subject:** 2022 Debenture Issuance

**Date:** March 28, 2022

## Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports:

- 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 \$21,000,000;
- 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 debentures through the capital markets using a fiscal agent for complete projects, substantially complete projects or projects for which a significant milestone has been achieved. Civic Administration is recommending issuing 10-year debentures in the amount of \$21,000,000 representing the 2022 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 2022 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 complete, substantially complete or projects for which a significant milestone has been achieved. The City reviews capital project status reports regularly 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, August 30, 2021, Agenda Item 2.1, City of London's Credit Rating.

<https://pub-london.escribemeetings.com/FileStream.ashx?DocumentId=84577>

## 2.0 Discussion and Considerations

A review of approved capital projects indicates that projects meeting the required criteria for long-term debenture financing total \$21,000,000. The details of these projects are listed in **Appendix A**.

Over the past five years, the City has issued a total of approximately \$204.4 million in long-term debt as follows:

Issuance Date	Amount of Issuance (\$)	Term (years)	All in Rate of Borrowing*	Agency
16-April-2021	23,000,000	10	1.82%	Capital Markets-CDS&CO
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
<b>Total</b>	<b>204,380,000</b>			

\*All-in rate includes fees

CDS& CO- nominee of CDS Clearing and Depository Services Inc – serial debentures

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.

RBC Capital Markets 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. It is anticipated that the City's debenture issuance deal will be brought to Committee in early May 2022.

## 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 recent market turbulence caused by recent events in Ukraine, investor demand for municipal debenture issuance remains strong. We have seen several issuances in the municipal space early in 2022, with issuances from City of Ottawa, First Nations Finance Authority (FNFA), Regional Municipality of Peel, and City of Greater Sudbury. 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 March 2, 2022 Bank of Canada (BOC) policy decision announcement, the BOC increased the overnight rate by 0.25% to 0.5%, representing the first BOC interest rate increase since October 2018. Current market expectations indicate that this rate increase will be the first of multiple increases to the overnight rate over the coming months given current economic conditions. The overnight rate is the rate at which major financial institutions borrow and lend one-day (or "overnight") funds among themselves. While not the only determinant of interest rates on municipal debentures, changes in this rate influences other rates and has a resulting effect on bond yields, including municipal debentures. Market expectations regarding the future path of BOC rate increases will warrant monitoring over the coming months, as this may impact the City's borrowing rates in future years.

## **Conclusion**

The City's 2022 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.

<b>Prepared by:</b>	<b>Folakemi Ajibola, CTP, Manager, Financial Modelling, Forecasting and Systems Control (Treasury)</b>
<b>Submitted by:</b>	<b>Kyle Murray, CPA, CA, Director, Financial Planning and Business Support</b>
<b>Recommended by:</b>	<b>Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports</b>

Attachment: Appendix A

## Appendix “A”

### Capital Projects for Issuance

Project Number	Project Title	Amount to be Financed (\$)	By-Law #
	Property Tax Supported		
<b>TS1306</b>	Adelaide Street - Land (PTIS ineligible)	2,020,000	W.-5600-57
<b>TS1355-1</b>	Wharnccliffe Rd - Becher St to Springbank	4,000,000	Note A
<b>TS173919</b>	Active Transportation	1,500,000	W.-5654-291
<b>TS1748</b>	Dundas Place - TVP Active Transportation Conn-PTIS	1,013,000	W.-5656-14
<b>TS1749</b>	Dundas Street Old East Village Streetscape- PTIS	955,640	W.-5662-111
<b>RC2756</b>	East Multi-Purpose Rec Centre	2,800,000	W.-5598-54
		12,288,640	
	Non-Rate Supported (City Services Reserve Funds)		
<b>ID1057</b>	Industrial Wastewater Servicing	590,000	W.-5643-22
<b>ES2681</b>	Mud Creek East Br Stormwater Servicing	750,000	W.-5558-198
<b>ID2095A</b>	Huron Industrial Lands SWMF	3,525,000	W.-5667-198
<b>ES5263</b>	Southwest Capacity Improvement	2,846,360	W.-5642-466
<b>ES5264</b>	Wonderland Pumping Station Upgrade	1,000,000	W.-5641-465
		8,711,360	
	<b>Total 2022 Debenture Issuance</b>	<b>21,000,000</b>	

Note A - Current By-Law W-5569(a)-19 approves debenture issuance up to the amount of \$1,324,832. Amount of \$4,000,000 to be financed through 2022 debenture issuance for this project is contingent on a By-Law amendment being approved at Council on March 22, 2022. Should it not be approved, amount will be revised to \$1,300,000 for project TS1355-1 and total 2022 debenture issuance amount will not exceed \$18,300,000.