

TO:	CHAIR AND MEMBERS FINANCE AND ADMINISTRATIVE SERVICES MEETING ON DECEMBER 6, 2011
FROM:	MARTIN HAYWARD CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	CAPITAL MARKETS DEBENTURE ISSUE UPDATE

RECOMMENDATION

It is recommended that;

1. the issue of a ten year serial debenture for \$63,400,000, reflecting an average all in rate of 2.887% to close on December 15, 2011, **BE CONFIRMED**; and
2. the attached proposed By-Law D.-765-16 **BE INTRODUCED** at the Municipal Council meeting of December 6, 2011 for three readings to authorize the borrowing upon serial debentures for a ten year term in the amount of \$63,400,000 towards the cost of certain capital works of the Corporation of the City of London.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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2011 Debenture Issuance

(June 15, 2011 meeting of the Finance and Administration Committee, Agenda Item #8)

Fiscal Agent Service Agreement

(November 2, 2011 meeting of the Finance and Administration Committee, Agenda Item #12)

Book Entry Only Securities-Service Agreement

(December 6, 2011 meeting of the Finance and Administrative Services Committee)

BACKGROUND

Municipal Council at its session on June 20, 2011, authorized the City Treasurer, Chief Financial Officer to proceed with the issue of debentures to provide permanent financing for capital works in an amount not to exceed \$119,714,911.

Under the direction of the City's lead fiscal agent, RBC Capital Markets, a debenture issue for \$63.4 million was launched on November 21, 2011 and is set to close on December 15, 2011. A ten year serial debenture is structured with coupon rates ranging from 1.40% to 3.55% with an average sale price of \$99.868. The all in net cost of the issue is 2.887% (includes fiscal agency fees).

Outlined in the table below is a comparison of the rates that were accepted on November 28, 2011 in comparison to rates on offer noted in the June 15, 2011 report, as well as the interest cost avoided over the life of the debentures. Total interest costs avoided as a result of the decrease in the rate is approximately \$4.4 million.

Term (based on a serial issue)	Rate on offer as noted in June 15, 2011 report *	Accepted rate on November 28, 2011
10 Year	4.27%	2.887%
Interest cost avoided over life	\$4.4 million	

*Rate quote provided by TD Securities at May 24, 2011
Rates noted above include fees

The accepted all in rate of 2.887% is very favourable in comparison to the City's previous capital market debenture rates for ten year terms. The accepted rate of 2.887% ranges from 1.92% to 2.80% **less than** rates from issuances from 2001 to 2007. The table below summarizes the rates from City of London debentures in the capital markets from 2001 to 2007.

Issuance Date	Amount of Issuance (\$)	Term (years)	All in rate (*) of borrowing
18-Oct-01	87,000,000	10	5.69%
23-Sep-02	75,000,000	10	5.06%
19-Sep-03	46,205,000	10	4.81%
30-Jun-04	21,000,000	10	5.11%
26-Oct-07	38,000,000	10	4.99%

* All in rate includes fees

The \$63.4 million of debenture issuance includes \$33.9 million of refinancing of a balloon payment, which came due on October 18, 2011, for the following capital projects; John Labatt Centre (\$12.7 million), the Western Fair Arena (\$7.6 million), the Central Library Expansion/Relocation (\$10.8 million), the Burbrook Storm Sewer Phase I and II (\$2.2 million), and the New Public Market Mezzanine (\$0.6 million). The original debt issued for these projects was in 2001 for an all in rate (all in rate includes fees) of 5.69% for the ten (10) year term. The new issuance for the refinancing portion will be paid over a nine (9) year term at an all in rate of 2.887%. The interest cost avoided over the life of the debenture related to the refinancing portion will be approximately \$ 5 million.

By-Law D.-765-16

The by-law to be introduced on Tuesday, December 6, 2011 will allow the Corporation of the City of London to borrow upon serial debentures for the debenture term and amount identified above as well as authorize the Mayor, City Treasurer, and City Clerk to execute all documents and other papers in the name of the Municipality in order to carry out the issue of the debentures.

The schedules that accompany the by-law provide the following:

- Schedule A – Listing of projects to be financed by debenture
- Schedule B – Debenture certificates and legal opinion provided by Borden Ladner Gervais
- Schedule C – Serial debenture schedule (repayment schedule)

The by-law which is to be introduced to Municipal Council on Tuesday, December 6, 2011 will allow the issuance to close on December 15, 2011.

Financial Impact

The financial impact of this capital market debt issuance is incorporated in the 2012 operating budgets submitted to Municipal Council.

Conclusion

For 2011 the City has secured \$132,077,496 of long term financing as follows; \$15,867,582 through Canada Mortgage and Housing Corporation (CMHC) at 3.23%, \$52,809,914 through Ontario Infrastructure and Lands Corporation (OILC) at 2.86% and \$63,400,000 (of which \$33,901,000 is refinancing of a balloon payment made in October 2011) through the capital markets at 2.887%.

Acknowledgements

The attached proposed by-law was prepared with support from the law firm of Borden Ladner Gervais LLP (BLG) in Toronto, Ontario.

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Annette Ripepi Manager of Financial Forecasting, Modelling, and Systems Control	Ian Collins Manager of Financial Planning & Policy
CONCURRED BY:	RECOMMENDED BY:
Larry Palarchio Director of Financial Planning & Policy	Martin Hayward City Treasurer, Chief Financial Officer

Attach.

cc. M. Turner, Deputy City Treasurer