

Debt Analysis



London
CANADA

Corporate Debt Overview and Analysis (Tax-Supported, Water, Wastewater, and Other Funds)

The City of London continues to benefit from a Aaa credit rating awarded by Moody's Investors Service. The Aaa credit rating is the highest debt rating possible for the municipality and 2011 represents the 35th consecutive year that the City of London has received this rating. This translates into lower costs of borrowing for the City.

" The City of London is rated at the high end of Canadian municipalities, whose ratings remain in a narrow range of Aaa-Aa2. When compared with other Canadian municipalities, London exhibits a lower debt burden, while the City's liquidity, as measured by the level of net cash and investments relative to debt and revenue, is considered healthy and in line with national rating peers, strengthening London's credit profile."

Given the current economic environment, the City of London was able to take advantage of favourable interest rates in 2011 and is in the process of securing \$132.1 million of long term financing (10 year terms) as follows; \$15.9 million through Canada Mortgage and Housing Corporation (CMHC) provided through Canada's Economic Action Plan, at 3.23%, \$52.8 million through Ontario Infrastructure and Lands Corporation (OILC) at 2.86% and \$63.4 million through the capital markets at 2.887%. As a result of these favourable rates approximately \$7.5 million of interest costs have been avoided.

Debt Levels

The City of London's total debt outstanding forecast is reflected in the tables on the next page. By the end of 2011 the anticipated total debt issued will be approximately \$336.6 million. The remaining debt that has been approved but not issued is estimated to be \$254.3 million, for a combined potential debt of \$590.9 million. The continuation of an aggressive debt reduction program by Council could see the "authorized but not issued" debt reduced through allocation of surplus and other one-time sources. However, by the end of 2012 the City's anticipated total debt issued is forecasted to be \$370.5 million. The remaining debt that has been approved but not issued will be approximately \$228.4 million, for a combined potential debt of \$598.9 million.

The Debt Level Overview tables below forecast the debt levels by ratepayer/reserve funds. Major assumptions used in the debt level projection include:

- For the 10 year capital plan, debt for the General tax supported, including the tax-supported reserve funds, have been capped on average at \$26 million, it being noted that the debt cap will be reviewed annually as 2013 - 2016 targets are set by council.
- Debt issuance is anticipated in late 2011 through Ontario Infrastructure and Lands Corporation (OILC) and the Capital Markets as infrastructure stimulus projects and other capital projects have been completed.
- Wastewater debt levels are based on assumptions/parameters used in developing the 20 year plan.
- Based on second quarter building projections, City Services debt could increase by \$34.1 million as a source of funding from the 2011 budgeted forecast projections for 2012 - 2020.
- Debt level forecast does not include prospective debt financing associated with New Economy Projects communicated to Committee of the Whole at the October 4, 2011 meeting.

Debt Level Overview – 2010 to 2011 (in \$ millions)

Debt issued on behalf of...	Total	Issued	To be	Total	To be	Total	Authorized	Potential
	2010	in 2011	Retired in 2011	2011	Issued 2011 *	Projected 2011 *	To date	To date
General Property Taxes	158.5	6.5	24.0	141.0	47.8	188.8	106.7	295.5
Wastewater	63.6	7.3	6.9	64.0	22.5	86.5	42.7	129.2
Water	0.1	2.0	-	2.1	-	2.1	2.3	4.4
Rate Supported Reserve Funds	43.1	-	6.4	36.7	-	36.7	24.1	60.8
Subtotal	265.3	15.8	37.3	243.8	70.3	314.1	175.8	489.9
Joint Water Boards	2.8	-	0.3	2.5	-	2.5	21.7	24.2
City Services Reserve Funds	9.1	-	1.1	8.0	12.0	20.0	56.8	76.8
Net Debt Levels Total	277.2	15.8	38.7	254.3	82.3	336.6	254.3	590.9

Note: The rate supported reserve funds include debt for capital commitments and grants. Retired debt includes amortization of the discount for net debt. Updated to reflect 2011 unconsolidated projected amounts and subject to actual issuance in 2011. Authorized to date reflects adjustments made through sources of financing as of September 30, 2011. * To be issued does not include refinancing of \$33.9 m of debt from 2001 which has been accounted for in existing debt levels. (Expected issuance for 2011 is \$116.2 m less \$33.9 m is \$82.3 m)

Debt Level Forecast – 2011 to 2020 (in \$ millions)

Debt issued on behalf of...	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General Property Taxes	188.8	195.9	213.4	236.4	229.9	224.1	216.4	205.2	193.3	164.9	149.6
Wastewater	86.5	92.2	98.3	105.2	97.2	88.6	77.9	66.7	55.0	43.2	31.0
Water	2.1	4.2	3.8	3.4	3.0	2.6	2.2	1.8	1.3	0.8	0.3
Rate Supported Reserve Funds	36.7	41.7	44.3	44.4	39.4	35.1	29.7	24.2	18.6	12.8	7.7
Subtotal	314.1	334.0	359.8	389.4	369.5	350.4	326.2	297.9	268.2	221.7	188.6
Joint Water Boards	2.5	10.2	12.9	35.0	33.5	31.8	30.1	28.3	26.9	25.4	23.8
City Services Reserve Funds	20.0	26.3	48.0	69.2	65.9	73.8	83.9	90.3	95.6	97.5	89.0
Net Debt Levels Total	336.6	370.5	420.7	493.6	468.9	456.0	440.2	416.5	390.7	344.6	301.4

Note: All figures in this section exclude any new commitments that may be recognized by 2011 year end, assumes a 2011 debt issuance and excludes all current and future commitments against Urban Works.

Annual Repayment Limit

The Annual Repayment Limit (ARL) for debt is a calculation regulated by the province's Ministry of Municipal Affairs and Housing (MMAH). The ARL is based on limiting total debt repayments to twenty five percent of a previous years 'own source' revenues as a measure of financial constraint and sustainability. For 2012, the ARL calculations would indicate additional debt capacity of \$138.8 million; if this were approved and issued the total potential debt outstanding would be \$729.7 million (consisting of \$336.6 million – issued; \$254.3 million – authorized but not issued and \$138.8 million additional debt allowed by the ARL). Use of the entire amount available would jeopardize the City's Aaa credit rating and put upward pressure on the property tax levy or user

Debt Servicing Costs

Debt servicing costs on all projected debt issued (tax-supported, water, wastewater, reserve funds, non-rate supported) will total \$60.3 million in 2012 and is anticipated to increase to \$62.5 million in 2013. The total annual debt servicing costs are broken down by the ratepayer/budget in the following table. For example, the General property tax budget will support \$35.9 million, and the Wastewater rates budget will support \$13.2 million for debt serving costs in 2012.

Major assumptions used in the debt servicing cost are consistent with the assumptions used to project debt levels, as shown on the previous page, as they correlate to one another. However, if the City were to match recent efforts to use one-time revenue to displace “authorized but not issued” debt (e.g. operating budget surplus); the total debt outstanding and debt repayments could be lower in the future.

Debt Servicing Costs – 2011 to 2020 (in \$ millions)

Debt Servicing Costs (Forecast \$ million's)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General Property Taxes	34.5	35.9	36.4	38.5	41.7	44.4	46.3	46.9	47.5	48.5	47.5
Wastewater	11.9	13.2	13.3	13.8	14.7	14.9	15.1	14.5	14.4	14.1	13.9
Water	-	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Rate Supported Reserve Funds	9.4	7.4	7.1	7.2	7.4	7.4	7.1	7.1	6.9	6.8	6.6
Subtotal	55.8	56.8	57.3	60.0	64.3	67.2	69.0	69.0	69.3	69.9	68.5
Joint Water Boards	1.0	0.5	1.2	1.5	3.5	3.5	3.5	3.5	3.0	3.0	3.0
City Services Reserve Funds	1.5	3.0	4.0	7.0	10.4	10.9	12.9	14.6	16.9	19.1	21.2
Total Debt Servicing Costs	58.3	60.3	62.5	68.5	78.2	81.6	85.4	87.1	89.2	92.0	92.7

Note: All figures in this section exclude any new commitments that may be recognized by 2011 year end, assuming a 2011 debt issuance and excludes all current and future commitments against Urban Works. Debt servicing forecasts are subject to change depending on market conditions that can affect interest rates, issue timing, and issue term which are used in calculating debt servicing costs.

The debt projections above are based on a modest pace of spending against approved capital project budgets and the proposed capital plan, consistent with recent experience. If the pace of spending increases, debt will be issued sooner, and the total debt outstanding along with the annual debt servicing costs will exceed the projections identified above. Note: the projected regular debt repayments over ten years are calculated using interest rates ranging from 3.65% - 5.90% for 2012 - 2021. Interest rates are derived using forecasts published by the "Big Five Canadian Banks".