



Toronto Trading Floor

# *Overview of Municipal Issuance*

March 6<sup>th</sup>, 2013

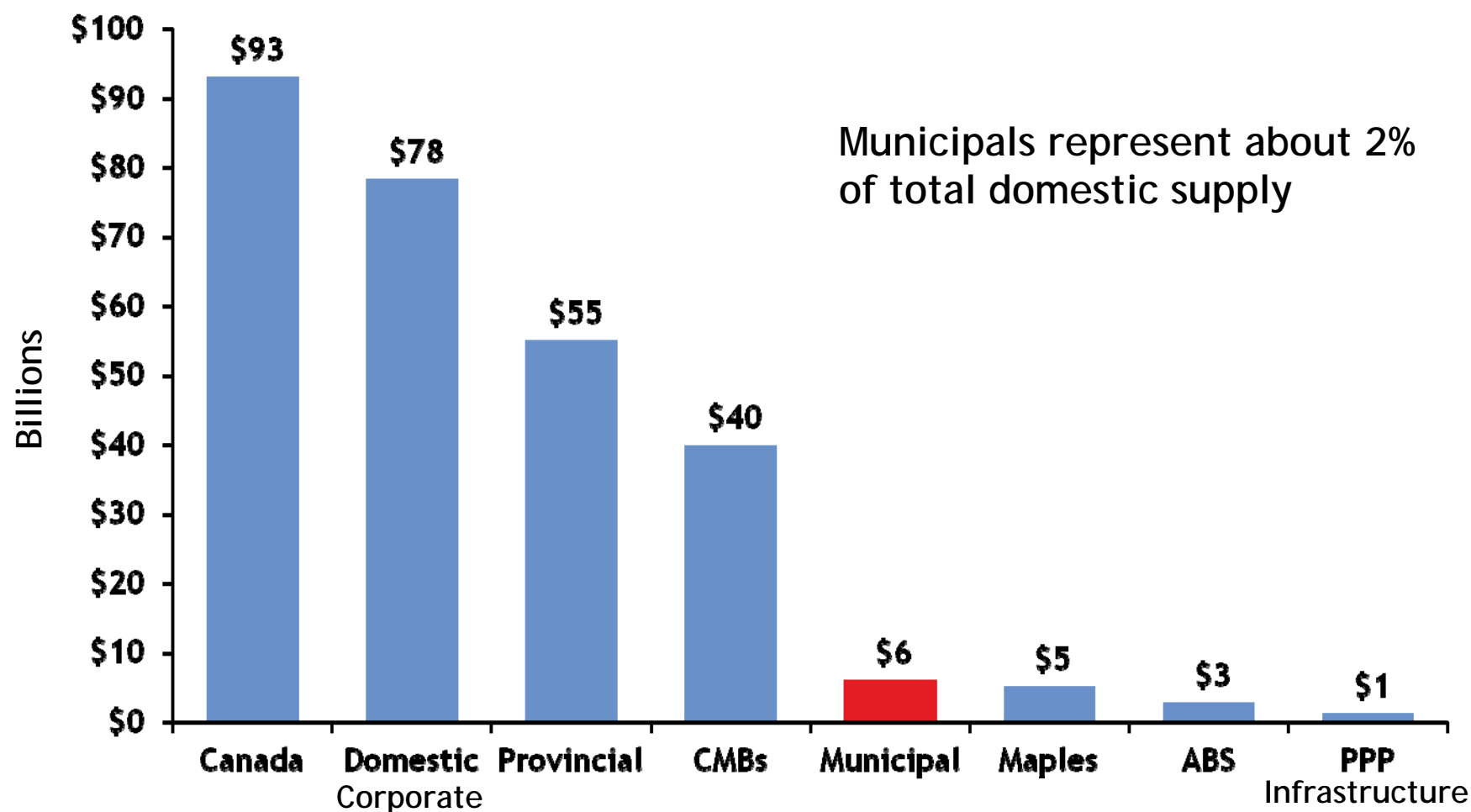
# I. Overview of Municipal Borrowing

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- Municipal medium and longer term debt funding options include:
  - *Borrowing through their host provinces*
    - These provinces or a provincial entity issues debt directly and then on-lends the funds to these local entities
    - E.g., Alberta Capital Financing Authority, New Brunswick Municipal Finance Corporation, Infrastructure Ontario
  - *Borrowing through a pooled entity*
    - E.g., the Municipal Finance Authority of British Columbia (MFABC)
  - *Direct debenture issuance in the market*
- Full range of municipalities and regions issue public debt from the
  - largest cities and regions in Canada (e.g., Toronto, Montreal, Region of Peel)
  - to smaller local entities (e.g., Bradford West Gwillimbury, Muskoka)
- Issue sizes vary considerably
  - range from \$5-15 million serial debentures to \$300 - 500 million bullet issuance
- In Canada, virtually all issuers now use general obligation bonds
  - Many have sinking funds attached to specific bullet debenture issues
  - Ensures sufficient monies are available at maturity to pay off the principal

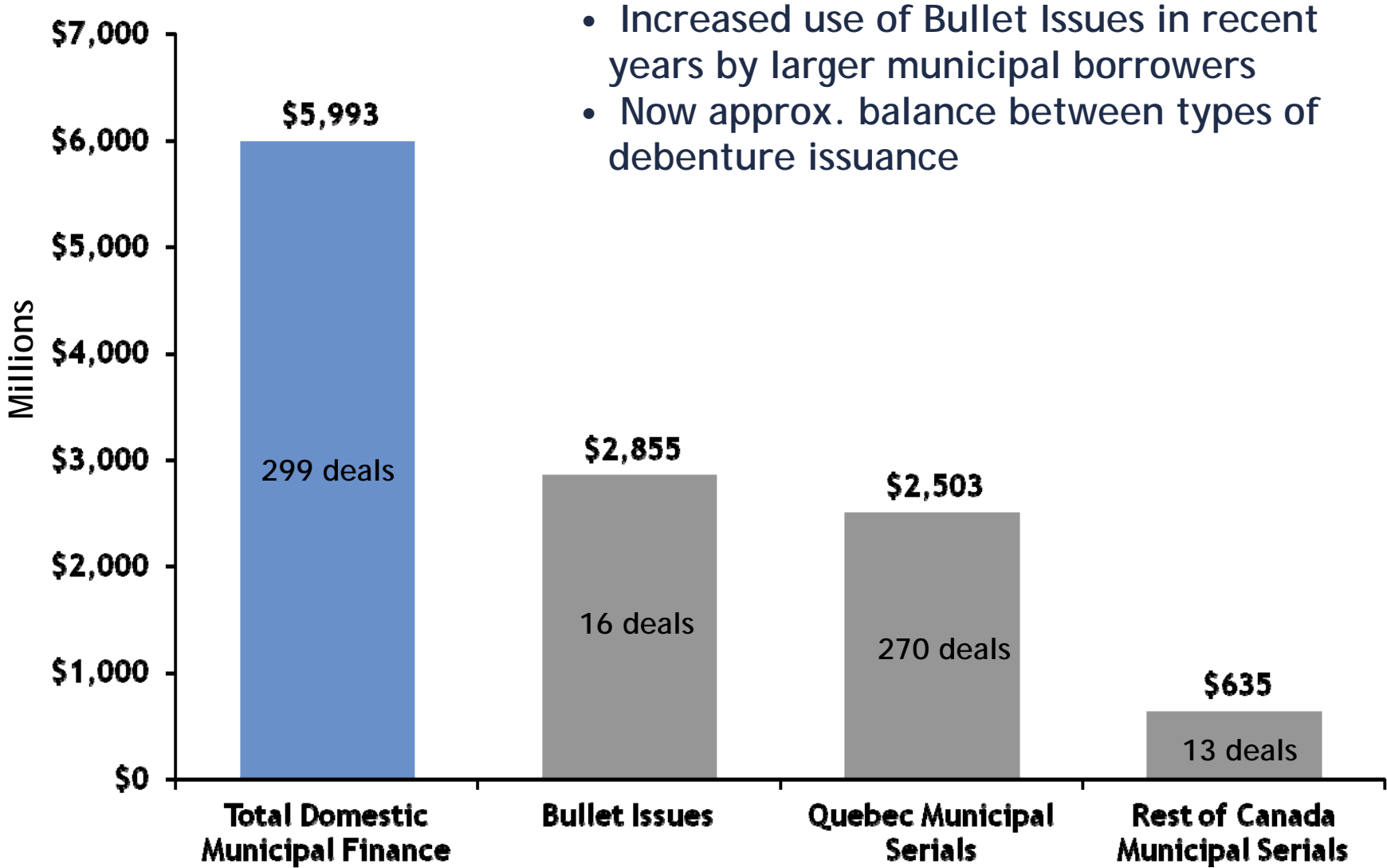
## II. Total Bond & Debenture Issuance by Type of Borrower

### Canadian Domestic Supply 2012



Source: Bloomberg and NBF data

# III. Municipal Issuance by Type of Debenture Structure



- Increased use of Bullet Issues in recent years by larger municipal borrowers
- Now approx. balance between types of debenture issuance

Source: NBF Data

## IV. A) Major Municipal Bullet Debenture Issuers

### Major Municipal Issues by Term & Size

|             | 5-years | 10-years | 20-years | 30-years | 40-years | Total  |
|-------------|---------|----------|----------|----------|----------|--------|
| Total       | \$220   | \$800    | \$565    | \$775    | \$495    | \$2855 |
| # of Issues | 1       | 4        | 3        | 3        | 5        | 16     |

### 2012 Major Municipal Issues by Borrower

| Issuer   | Size     | Term  | Issue Date   | Issuer    | Size     | Term  | Issue Date   |
|----------|----------|-------|--------------|-----------|----------|-------|--------------|
| MFABC    | \$220 mm | 5-yr  | Nov 19, 2012 | TransLink | \$150 mm | 40-yr | Jul 18, 2012 |
|          | \$165 mm | 10-yr | Sep 27, 2012 |           | \$100 mm | 40-yr | Feb 2, 2012  |
|          | \$125 mm | 10-yr | Apr 3, 2012  | Vancouver | \$120 mm | 40-yr | Oct 4, 2012  |
| Montreal | \$210 mm | 10-yr | Apr 11, 2012 | Winnipeg  | \$75 mm  | 40-yr | Sep 27, 2012 |
|          | \$165 mm | 20-yr | Apr 11, 2012 |           | \$50 mm  | 40-yr | Jun 25, 2012 |
| Ottawa   | \$175 mm | 30-yr | Aug 21, 2012 | York      | \$250 mm | 20-yr | Oct 11, 2012 |
| Peel     | \$300 mm | 30-yr | Oct 19, 2012 |           | \$150 mm | 20-yr | May 15, 2012 |
| Toronto  | \$300 mm | 30-yr | Dec 3, 2012  |           |          |       |              |
|          | \$300 mm | 10-yr | May 8, 2012  |           |          |       |              |

## IV.B) Municipal Serial Issuers

### Quebec (270 issues)

| Issuer       | Total (\$ million) |
|--------------|--------------------|
| Quebec Total | 2,503.2            |

### Rest of Canada (13 issues)

| Issuer                        | Total (\$ million) |
|-------------------------------|--------------------|
| Bradford West Gwillimbury     | 13.7               |
| Region of Durham              | 98.7               |
| Region of Halton              | 58.0               |
| City of London                | 70.0               |
| District of Muskoka           | 5.7                |
| New Brunswick Mun. Fin. Corp  | 69.5               |
| Region of Niagara             | 23.5               |
| Nova Scotia Muni. Fin. Corp.  | 57.0               |
| City of Ottawa                | 75.0               |
| City of Saskatoon             | 35.0               |
| Region of Waterloo            | 111.5              |
| County of Wellington          | 17.8 (2 issues)    |
| <b>Serial Debenture Total</b> | <b>635.4</b>       |

# V. Investor Base in Municipal Issues

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## 1. Bullet Debentures -- Large base of

- *Mutual fund managers*
- *Insurance firms*
- *Pension funds*
- *US-based managers of CDN investor funds*
- *Other municipalities and*
- *Retail investors*

## 2. Serials Debentures -- Smaller, Select Group of Investors

- *Insurance firms and other fund managers*
- *Other municipalities*
- *US-based managers of CDN investor funds and*
- *Retail investors*

## 3. Institutional Investor Base has Changed Significantly

- Strong growth in asset managers, insurance firms and pension funds
  - Largest component demand for bullet issues
- Robust increase in U.S. investor participation versus 3-5 years ago
  - As of early 2013, over 20 potential buyers, with 11 regular purchasers

## VI. Principal Determinants of New Issue Spreads

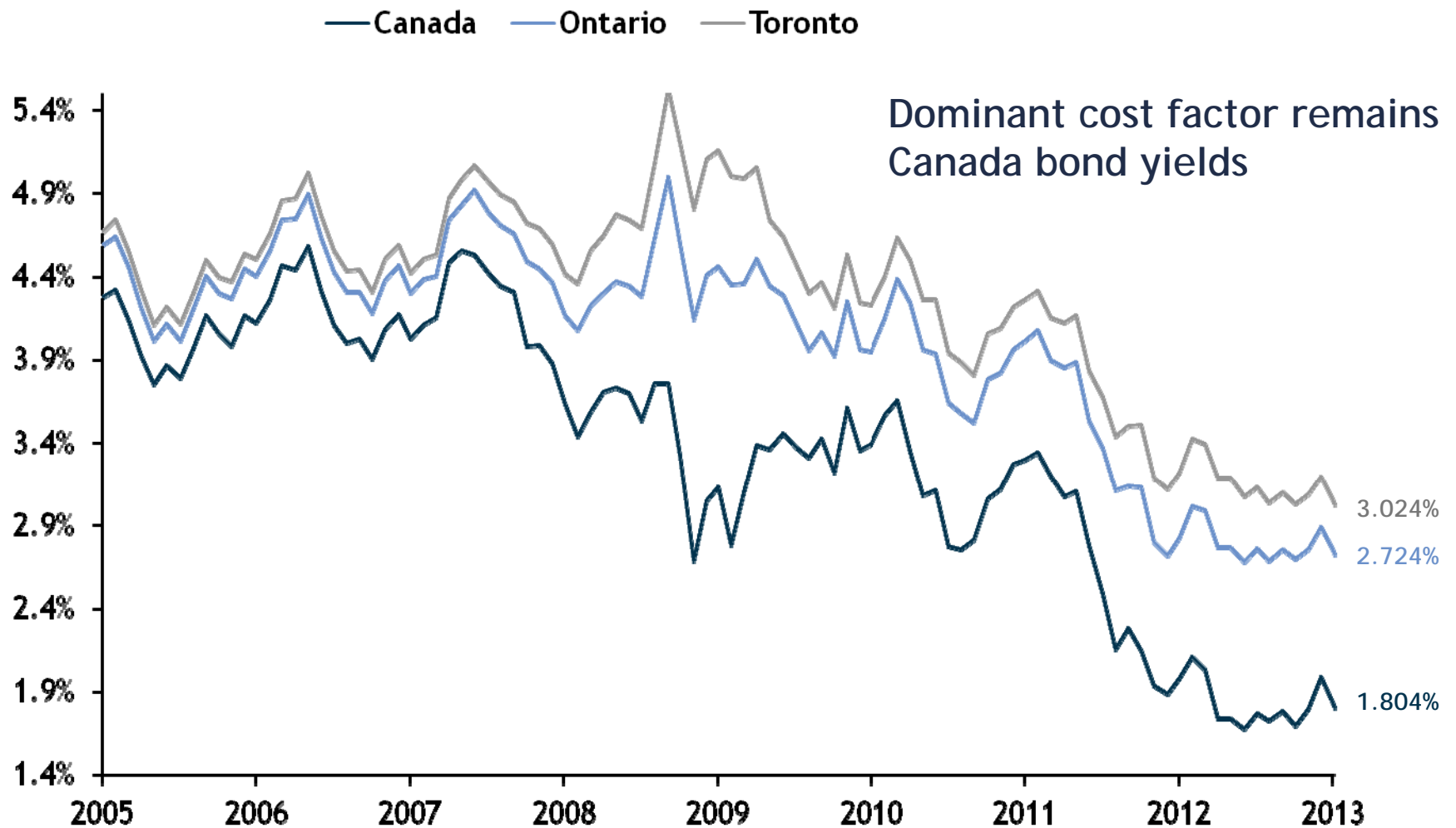
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- First and foremost is the credit quality of municipal entity
  - Dominant factor is the credit rating
- Issue size and structure
  - Minimum \$100 million maturity to be eligible for bond indices
    - Permits larger new issue purchase amounts and secondary liquidity
    - Large-size bullet issues crucial for institutional investors
  - Smaller investor base in serials and lesser size
    - Leads to modestly wider spreads
    - In bearish environments, more volatile market access
- Overall Credit Spreads
  - Provincial spreads are very important
    - Generally, strong directional relationship between
      - provincial spreads vs. Canada bonds and
      - municipal spreads vs. their host province
  - High-quality corporate spreads
    - Sharply wider bank and corporate spreads during 2H2007-1H2009 drove municipal spreads much wider as well
    - Narrowing in 2012 - early 2013 helping to reduce municipal spreads



## VII.A) Provincial and Municipal Issuance Costs

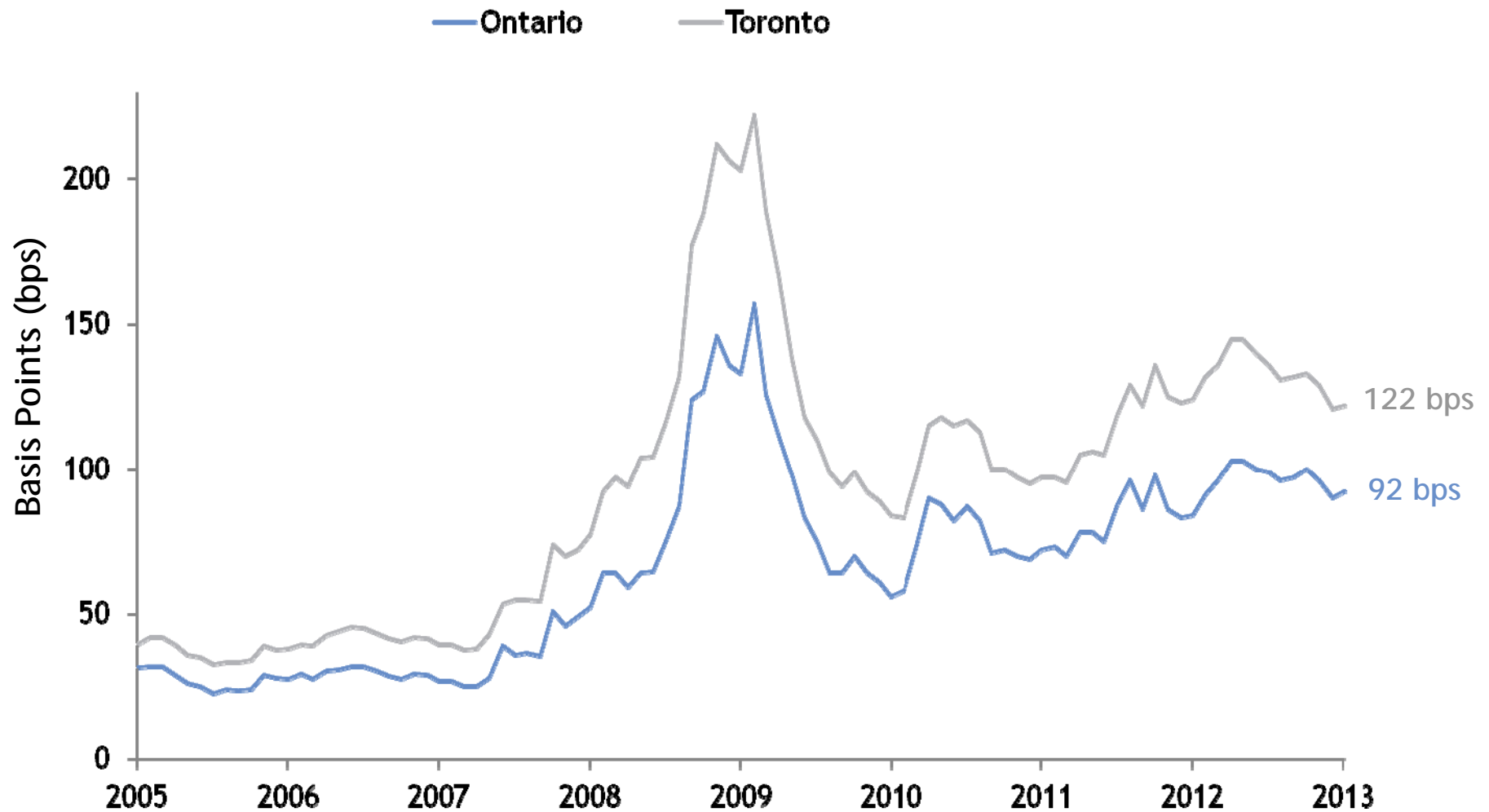
### Absolute Yields (2005 to Early March 2013)



Source: NBF and Bloomberg data as of March 4<sup>th</sup>, 2013

## VII.B) Ontario & Major Municipal New Issue Spreads Over Canada Bonds

### Spreads (2005 to Early March 2013)



Note: 1 basis point equals .01%

Source: NBF and Bloomberg data as of March 4<sup>th</sup>, 2013

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