

Staff Report



To	City Council
Service Area	Corporate Services
Date	Thursday, April 16, 2020
Subject	Temporary Borrowing Policy

Recommendation

1. That the Temporary Borrowing Policy as recommended through report 2020-33 titled Temporary Borrowing Policy dated April 16, 2020 be approved.
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Executive Summary

Purpose of Report

To adopt a policy that allows the Treasurer to access short-term borrowing in order to support operating expenditures during times of unexpected interruptions of normal business which have the potential to impact the operations of the City.

Key Findings

The Municipal Act allows municipalities to borrow short-term funds to cover operating expenses until such time as taxes and other revenues are collected.

The Municipal Act includes specific limits relative to estimated revenues, which ensures a maximum level of in-year indebtedness.

Borrowing to cover operating expenses should only be used within the fiscal year and not to carry expenses into future years.

Use of an approved operating line of credit versus divestiture of investments will be evaluated as needed, with the focus on minimizing the net cost to the City.

The estimated maximum amount of borrowing that may be required is \$100 million, based on the City's current liquidity position. The City typically collects in excess of this amount of property taxes from April to June each year.

Financial Implications

Depending on the level of borrowing required to meet liquidity needs of the organization, there will be increased operating expenses due to unplanned interest expenses. Current rates are at all-time lows and the impact of these expenses will be managed to provide the lowest cost of borrowing over the fiscal year.

Early divestiture of some investments may lead to lower than anticipated returns or penalties, therefore reducing the City's overall investment return, potentially leading to a shortfall in budgeted investment income. Cost of borrowing compared to cost of early redemption of investments will be assessed and the most financially responsible actions will be executed.

Report

Municipalities are able to borrow funds to meet current expenditures until taxes and other revenues are collected in accordance with Section 407 of the Municipal Act, 2001. The total amount borrowed at any one time and not repaid (including unpaid amounts and accrued interest from the previous year) between January 1 and September 30 must not exceed 50% of the estimated revenues of the municipality as set out in the budget adopted for the year, and between October 1 and December 31, must not exceed 25% of the total estimated revenues of the municipality.

This policy allows staff to act quickly in the event borrowing becomes a necessity due to unforeseen circumstances, such as the State of Emergency recently declared by the Mayor.

Based on the City's current liquidity position, the recommended maximum level of temporary borrowing is \$100 million. Only the funding required would be accessed as needed and repayment will occur once the relevant cash inflows are received. The determination of the level of borrowing is based on the City's level of invested assets, provincial direction regarding capital expenditure and provincial deferral of education tax payments.

The City had cash and investment holdings of approximately \$406 million at December 31, 2019. However, a significant portion of this is invested in such a way that unplanned divestiture would incur penalties or reduce the expected return on the investment over the long term. For this reason it is not possible to use all of these funds to provide the additional liquidity which may be required. Further, the City's cash inflows through the period of April through July 2020 are expected to be significantly reduced because of the COVID-19 emergency and having available contingency financing in place is a responsible and efficient response to manage through this period.

On April 3, 2020 the province announced that all non-essential construction activity was to be paused until further notice. This direction impacts a significant portion of the City's planned capital activities for 2020. Staff are working to determine which projects will continue and which will be deferred until a later date, either in 2020 or beyond. Given this change, it is expected that capital spending in 2020 could be reduced by 25 to 50% depending on the duration of pause in construction activities.

On March 25, 2020 the province notified municipalities that payment of the second installment of Education Property taxes was being deferred from June 30, 2020 to September 30, 2020 and that the third installment was deferred from September 30, 2020 to December 30, 2020. These payments are approximately \$16 million per payment, which provides significant flexibility in our short-term cash flow requirements.

Financial Implications

Depending on the level of borrowing required to meet liquidity needs of the organization, there will be increased operating expenses due to unplanned interest expenses. Current rates are at all-time lows and the impact of these expenses will be managed to provide the lowest cost of borrowing over the fiscal year.

If the City required funding of 10% of annual revenues or \$42.5 million, for a period of 12 months at an estimated rate of 2.5% per annum, the cost of borrowing

would be \$1,062,500 per year. At this time, staff do not know the actual borrowing rate that would be available as conversations are ongoing with the City's primary financial institution. This calculation was included to provide context to the cost of cash flow borrowing if it is required. The City is also taking other steps to reduce expenditures so that the requirement for temporary borrowing or early investment redemption is limited.

Finance staff are monitoring City's cash flow on a weekly basis, updating forecasting models as spending trends are changing quickly and evaluating the most appropriate options for business continuity needs.

Consultations

Strategic Plan Alignment

Ensuring sufficient liquidity to support the City's operations during uncertain times is critical in ensuring the objectives of Working Together for our Future are achieved.

Attachments

Attachment-1 Temporary Borrowing Policy

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