



REPORT

TO: Mayor Lawlor and Members of Council

FROM: Kathryn Brott, Senior Financial Analyst – Cash Planning

DATE: October 25, 2023

REPORT NO.: CS-2023-033

SUBJECT: Temporary Borrowing of Funds to Meet 2024 Current Operating Expenditures

RECOMMENDATION:

THAT Report No. CS-2023-033 dated October 25, 2023 regarding the Temporary Borrowing of Funds to Meet 2024 Current Operating Expenditures be received;

AND FURTHER THAT a by-law be passed, authorizing the temporary borrowing of up to \$10,000,000 to meet the current operating expenditures of the municipality for the year 2024;

AND FURTHER THAT any costs of borrowing will be charged to the 2024 operating fund and reported to Council in the annual report on investment and cash management.

KEY POINTS:

The following are key points for consideration with respect to this report:

- This report fulfills the requirements of the Municipal Act, 2001, S.O. 2001, c. 25, as amended, section 407

BACKGROUND AND DISCUSSION:

Section 407 of the Municipal Act, 2001, c. 25, as amended, provides that at any time during the fiscal year, a municipality may authorize temporary borrowing, until the taxes are collected and other revenues are received, in the amounts that the municipality considers necessary to meet the operating expenses for the year.

In recent years, the Town has chosen not to borrow funds to meet current operating expenditures from financial institutions and has instead utilized its own reserves. The Town's reserves are invested with the Regional Municipality of Halton (the Region) and earn a return based on a pooled investment portfolio. The average rate of return on these pooled investments in 2022 was 2.24% (2021 – 2.46%).

There are a few factors to consider when following this methodology of borrowing:

- a. The pooled investment portfolio balance may be reduced and this in turn lowers the eligible share of interest earned, and
- b. When borrowing from reserves, the reserves lose out on the investment interest and are therefore indirectly funding the cost of borrowing. The operating budget does not reflect any costs related to the short-term borrowing (such as interest expenses) and
- c. There are penalty costs for withdrawals that result in the need to withdraw funds from financial instruments prior to their maturity dates.

The Bank of Nova Scotia, operating as Scotiabank, provides the Town with an opportunity to leverage alternate short-term borrowing up to \$10,000,000 in the form of an operating line of credit which currently carries a borrowing rate of 6.4%.

As per operating procedures, Town staff conducts appropriate analysis prior to determining the need for any borrowing. Once a need to borrow is established, staff conducts further analysis to determine the appropriate source of financing to ensure the optimal mix of borrowing and investments is maintained.

It is therefore proposed that Council approve a by-law to authorize the Mayor and the Treasurer to borrow funds through the Scotiabank line of credit to a limit of \$10,000,000 during 2024 if the need arises for pre-approved budgeted operating expenses only. Any such funds borrowed from the line of credit will be repaid as soon as property tax revenues and other revenues are received throughout the year.

Staff is recommending that the cost of any short-term borrowing from the operating line of credit be shown as an actual expense in the operating budget to offset any interest income earned by the operating fund. Staff will report the cost of any short-term borrowing annually to Council through the annual report on investment and cash management.

STRATEGIC PLAN ALIGNMENT:

This report aligns to the Town's Strategic plan recognizing the value to provide responsive, effective municipal government and strong leadership in the effective and efficient delivery of municipal services.

This report also identifies fiscal and corporate management as one of the Town's Strategic priorities.

RELATIONSHIP TO CLIMATE CHANGE:

This report is administrative in nature and does not directly impact or address climate change and the Town's Net Zero target.

PUBLIC ENGAGEMENT:

Public Engagement was not needed as this report is administrative in nature.

INTERNAL CONSULTATION:

Finance staff consulted with The Bank of Nova Scotia, operating as Scotiabank, to ensure the format of the by-law is compliant with their requirements.

FINANCIAL IMPLICATIONS:

This report is administrative in nature and does not have any financial implications.

Should borrowing be required through the operating line of credit, the associated borrowing cost will be recorded in the Operating Budget. Any additional interest income earned by the operating fund as a result of leaving Town reserves intact and borrowing from the bank, will contribute to the Town's surplus.

Reviewed and approved by,

Joseph Vandermeer, Deputy Treasurer & Senior Manager of Accounting and Taxation

Moya Jane Leighton, Director of Finance & Town Treasurer

Laura Lancaster, Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer