

## REPORT

**REPORT TO:** The Chair and Members of Community & Corporate Affairs Committee

**REPORT FROM:** Dana Stanescu, Accounting Supervisor

**DATE:** November 26, 2018

**REPORT NO.:** CORPSERV-2018-0043

**RE:** Temporary Borrowing of Funds to meet 2019 Current Operating Expenditures  
File No.: C01/BO

### RECOMMENDATION:

THAT Report No. CORPSERV-2018-0043 dated November 26, 2018 regarding the Temporary Borrowing of Funds to meet 2019 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 2019;

AND FURTHER THAT any costs of borrowing will be charged to the 2019 operating fund, and reported to Council in the annual report on investments and cash management.

### BACKGROUND:

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.

### COMMENTS:

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 2017 was 2.96% (2016 – 3.39%). 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).

Following the change in the banking services provider to The Bank of Nova Scotia, operating as Scotiabank, there was an opportunity to leverage alternate short-term borrowing opportunities. An operating line of credit of up to \$10,000,000 was made available to the Town in 2018 by Scotiabank.

Scotiabank has provided documentation related to their borrowing costs, which identifies a current 2.90% interest rate. Staff has calculated that borrowing in the short-term at a lower cost and leaving the Town's reserve monies in the pooled investment portfolio with the Region will create an advantageous net gain on interest returns. The reserves will maintain the appropriate interest income and the operating fund will bear the correct borrowing cost.

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

On November 21, 2017, Council approved through report CORPSERV-2017-0017 that the short-term borrowing costs for using the operating line of credit be included in the 2019 Operating Budget. Following further review of this suggested method, staff is recommending that the cost of any short term borrowing be shown as an actual expense in the operating budget to offset the interest income earned by the operating fund. Staff will report the cost of short term borrowing annually to Council through the annual report on investment and cash management.

#### **RELATIONSHIP TO STRATEGIC PLAN:**

This report is related to the Council priority regarding the effective, efficient and economical delivery of the Town's existing services.

#### **FINANCIAL IMPACT:**

Should borrowing be required and the line of credit utilized, the Town reserves will have a positive financial impact as the funds remain intact. The Operating Budget will record the appropriate interest expense for the duration of the borrowing period. Any excess interest income earned by the operating fund will contribute to the Town's surplus, and an appropriate budget for borrowing costs will be included in the 2019 Operating Budget.

#### **CONSULTATION:**

The Bank of Nova Scotia has been consulted to ensure the format of the by-law is compliant with their requirements.

**PUBLIC ENGAGEMENT:**

There is no public engagement associated with this report.

**SUSTAINABILITY IMPLICATIONS:**

The Sustainability Implications of the recommendations of this report were reviewed against the requirements of the Town's Sustainability Implications Worksheet. The Worksheet is completed for substantial non-administrative reports, major projects, studies, policies and initiatives that are relevant to advancing the Town's economic, cultural, environmental and social wellbeing, and quality of life. Since this report is none of the latter, the Sustainability Implications section is not applicable to this report.

**COMMUNICATIONS:**

The new by-law will be forwarded to The Bank of Nova Scotia.

**CONCLUSION:**

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

Reviewed and Approved by,



Moya Jane Leighton, Manager of Accounting and Town Treasurer



Jane Diamanti, Commissioner of Corporate Services



Brent Marshall, CAO