



REPORT

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

REPORT FROM: Dana Stanescu, Accounting Supervisor

DATE: January 2, 2020

REPORT NO.: CORPSERV-2020-0001

RE: Temporary Borrowing of Funds to Meet 2020 Current Operating Expenditures

RECOMMENDATION:

THAT Report No. CORPSERV-2020-0001 dated January 2, 2020 regarding the Temporary Borrowing of Funds to Meet 2020 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 2020;

AND FURTHER THAT any costs of borrowing will be charged to the 2020 operating fund, and reported to Council in the annual report on investment 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 2018 was 2.86% (2017 – 2.96%).

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 3.15%.

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 2020 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.

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 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.

CONSULTATION:

The Bank of Nova Scotia, operating as Scotiabank, 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,

A handwritten signature in black ink, appearing to read "M. J. Leighton".

Moya Jane Leighton, Manager of Accounting and Town Treasurer

A handwritten signature in black ink, appearing to read "Jane Diamanti".

Jane Diamanti, Acting Chief Administrative Officer