

Staff Report 2019-0247

Meeting Date: December 3, 2019

Subject: 2020 Interim Borrowing

Submitted By: Paul Gandhi, Manager, Finance/Deputy Treasurer, Finance

RECOMMENDATION

That a by-law be enacted to authorize external temporary borrowing up to \$48,064,786 from January 1, 2020 to September 30, 2020 and up to \$24,032,393 between October 1, 2020 and December 31, 2020

REPORT HIGHLIGHTS

- Section 407 of the *Municipal Act, 2001* allows for a municipality to pass a by-law authorizing the temporary borrowing of funds of an amount that Council considers necessary to meet the current expenditures for the year.
- Council must pass this temporary borrowing by-law annually.
- In prior years, no temporary external borrowing has been required to meet current expenditures.
- Town staff continually monitors and projects the Town's cash flows to ensure adequate cash is available to meet anticipated needs.
- However, even if municipalities do not anticipate a need to borrow funds temporarily in the coming year, it is good practice to pass such a by-law at the beginning of each year in case of an emergency or a cash flow issue unexpectedly occurs.
- It is recommended that Council enact a by-law permitting staff to borrow up to the maximum allowed in the Municipal Act (up to \$48,064,786 from January 1 to September 30 and up to \$24,032,393 between October 1 and December 31, 2020) in the event that it is deemed necessary to borrow funds externally to meet short term needs until the Town's main revenue source of property taxes is levied and collected.

DISCUSSION

Section 407 of the *Municipal Act, 2001* permits a municipality to authorize temporary borrowing, until the taxes are collected, and other revenues received, of an amount that council considers necessary to meet the current expenditures for the year. It is a best practice to pass such a by-law authorizing temporary borrowing even if a municipality does not expect to utilize such as insurance against unforeseen circumstances. Temporary borrowing by municipalities during the year cannot exceed:

- (a) from January 1 to September 30: 50 per cent of the total estimated revenues of the municipality as set out in the adopted budget; and
- (b) from October 1 to December 31: 25 per cent of the total estimated revenues of the municipality as set out in the adopted budget.

Each year a by-law to authorize the borrowing of temporary funds externally is adopted by Council. The by-law as adopted allows the Town to borrow externally, as needed, on a temporary basis until the Town's main revenue source of property taxes is levied and collected. In past years, the Town has monitored cash flow on a continuous basis and no temporary borrowing has been required.

Estimates were based on an even distribution of expense and revenues in the 2019 approved budget and excluded contributions from reserves, budgeted revenues related to tax arrears, and any prior year surplus. The maximum amount of temporary borrowing allowed by the Act based on these estimates is as follows:

- \$48,064,786 - the maximum amount that may be borrowed at any one time on a temporary basis from January 1st to September 30th, 2020; and
- \$24,032,393 - the maximum amount that may be borrowed at any one time on a temporary basis from October 1st to December 31st, 2020.

The Town is currently able to temporarily borrow funds from the bank at the prime lending rate less 0.8%. In prior years, the Town has not had a need to temporarily borrow funds for cash flow purposes. Cash and investments held by the Town are projected to be sufficient to cover the Town's cash flow requirements for 2020. However, a situation may arise where an unexpected payment may be required/or several large payments may be required prior to the collection of property taxes. In such a circumstance, the Town may have to "cash-in" a medium or long-term investment early in order to have the cash to make the tax or late fee payment(s). If this situation arises, Town staff will determine the cost of:

- 1) Penalty charges or interest revenues foregone by cashing in the investment early to make the payment; and
- 2) Temporarily borrowing the funds to make the payment and then fully paying off the loan after property taxes have been collected.

With a temporary borrowing by-law in place, staff will have the ability to act quickly in the best financial interest of the Town by borrowing funds temporarily when the cost of cashing in investments early exceeds the cost of temporary borrowing.

If the Town was required to borrow funds beyond a one-year period or beyond the term of a Council to help finance certain approved capital projects then the Town would revert to a debenture issue, through the Region of Peel, to ensure compliance with Provincial legislation. Alternatively, the Town may borrow internally, against its own reserves, for a set period of time at an interest rate determined by the Finance department and approved by Council.

FINANCIAL IMPLICATIONS

Any cost to the ratepayers is dependent upon the amount of the borrowings and interest rates in 2020. In past years, the Town has monitored cash flow on a continuous basis and no temporary borrowing has been required. This monitoring process is a normal practice in the Finance division to keep any required borrowings and interest costs to an absolute minimum.

COUNCIL WORK PLAN

The matter contained in this report is not relative to the Council Work Plan.

ATTACHMENTS

None.