

Town of Whitby Staff Report

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Report Title: Temporary Borrowing By-law

Report to: Committee of the Whole

Date of meeting: December 11, 2023

Report Number: FS 27-23

Department(s) Responsible:

Financial Services Department

Submitted by:

Fuwing Wong, Commissioner of
Financial Services/Treasurer x 4314

**Acknowledged by M. Gaskell, Chief
Administrative Officer**

For additional information, contact:

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1. Recommendation:

1. That a by-law be brought forward to authorize external temporary borrowing of up to \$64,798,000 from January 1, 2024 to September 30, 2024, and up to \$32,399,000 between October 1, 2024 and December 31, 2024, if required for cash flow purposes.

2. Highlights:

- Section 407 (1) of the *Municipal Act, 2001* allows a municipality to pass a by-law authorizing the temporary borrowing of funds of an amount that the Council considers necessary to meet the current expenditures for the year.
- In prior years, no temporary external borrowing has been required to meet current expenditures.
- Town staff continually monitor and forecast the Town's cash flows to ensure adequate cash is available to meet anticipated Town expenditures.
- However, even if municipalities do not anticipate a need to borrow funds temporarily during the year, it is good practice to pass a by-law at the beginning of each year in case of an emergency or a cash flow issue unexpectedly arises.
- In the event that it is deemed necessary to borrow funds externally to meet the Town's short term cash flow needs until the Town's main revenue

source of property taxes is levied and collected, it is recommended that Council enact a by-law permitting staff to borrow up to the maximum allowed in the *Municipal Act*:

- up to \$64,798,000 from January 1, 2024 to September 30, 2024; and
 - up to \$32,399,000 between October 1, 2024 and December 31, 2024
- Section 407(3) of the *Municipal Act, 2001*, states the limit upon borrowing shall temporarily be calculated using the estimated revenues of the municipality set out in the budget adopted for the previous year until the budget is adopted in the year.

3. Background:

Section 407 of the *Municipal Act, 2001* permits a municipality to authorize temporary borrowing (e.g., until the taxes are collected, and other revenues received) of an amount that the council considers necessary to meet the current expenditures for the year. It is best practice to pass a by-law authorizing temporary borrowing, even if a municipality does not expect to utilize it, as prudent and proactive measure to mitigate unforeseen circumstances/cash flow issues. Temporary borrowing by a municipality 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 budget adopted (the Town's 2023 budget, in this case); 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 temporary borrowing of funds externally is adopted by Council. This by-law allows the Town to borrow externally, as needed, temporarily until the Town's main revenue source of property taxes is levied and collected. The Town's strong financial position and continuously monitors cash flow. Temporary borrowing has not been required in the past.

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 early investment redemptions exceeds the cost of temporary borrowing.

4. Discussion:

N/A

5. Financial Considerations:

In accordance with the *Municipal Act, 2001*, the maximum that the Town may externally temporarily borrow for is as follows:

- a) \$64,798,000 – the maximum amount that may be borrowed at any one time temporarily from January 1st to September 30th, 2024; and

b) \$32,399,000 – the maximum amount that may be borrowed at any one time temporarily from October 1st to December 31st, 2024.

The amounts above were calculated based on an even distribution of expenditures and revenues in the 2023 approved budget and excluded contributions from reserves, budgeted revenues related to tax arrears and any prior year surplus.

Subject to Council approval of the by-law, the Town can temporarily borrow funds from the bank at the prime lending rate (e.g., 7.2 % as of November 22, 2023), on the first \$10,000,000. Any short-term debt cost to the taxpayers will be dependent upon the debt amount and interest rates in 2024.

For over the past ten years, the Town has not needed to temporarily borrow funds externally for cash flow purposes as cash and investments held by the Town are typically sufficient to cover the Town's current or operating expenditures. However, external uncontrollable factors such as the economy or natural disasters/weather-related events may require the Town to utilize temporary borrowing to meet the Town's financial commitments, such as payments to the Regional Municipality of Durham (the Region) and Durham School Boards. These payments (approximately \$47,100,000 and \$14,700,000 per quarter) must be submitted to the Region and School Boards, respectively, regardless of whether the Town collects from Whitby taxpayers by the actual property tax due dates.

Staff will continue to monitor the Town's cash flow needs throughout 2024 and determine whether any cash flow issues should be supplemented through temporary borrowing or through the early redemption of investments. This monitoring process is a standard practice in the Finance department to maximize the Town's investment revenues and to keep any required debt servicing costs to a minimum.

If the Town were required to borrow funds beyond one year 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 to ensure compliance with Provincial legislation. Alternatively, the Town may borrow internally, against its own reserves, for a set period at an interest rate determined by the Finance department and approved by Council.

6. Communication and Public Engagement:

N/A

7. Input from Departments/Sources:

N/A

8. Strategic Priorities:

N/A

9. Attachments:

Attachment 1 – Draft By-law XXXX-23