



STAFF REPORT ACTION REQUIRED

Multi-Year Temporary Borrowing Authority

Date:	January 26, 2007
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\Cf\Ec07004Cf – et (AFS #2344)

SUMMARY

This report requests Council's authority to temporarily borrow funds, if required, pending the receipt of tax revenues and the issuance and sale of debentures and bank loans during the remaining years of Council's term, 2008, 2009 and 2010.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. the annual temporary borrowing limit to meet the current expenditures in each of 2008, 2009 and 2010, pending receipt of tax levies and other revenues in each of those years, be calculated using the formula in Subsection 5(1) of Ontario Regulation 610/06, and authority be delegated to the Mayor and the Deputy City Manager and Chief Financial Officer to temporarily borrow for current expenditures up to this limit in each of 2008, 2009 and 2010;
2. the annual temporary borrowing limit for capital purposes for each of 2008, 2009 and 2010 be established at \$500,000,000 per year and authority be delegated to the Mayor and the Deputy City Manager and Chief Financial Officer to temporarily borrow for capital expenditures up to this limit in each of 2008, 2009 and 2010;
3. authority be granted for the introduction of the necessary Bills in Council to give effect to the foregoing; and
4. the appropriate City of Toronto officials be authorized to take the necessary actions to give effect thereto.

FINANCIAL IMPACT

The following temporary borrowing limits have been established for 2007:

- (a) \$300,000,000 for current expenditures;
- (b) \$550,000,000 for capital expenditures.

If the entire authority is utilized during 2007, the maximum financial impact would be approximately \$400,000 in interest charges. The financial impact in years 2008 2009 and 2010 is contingent upon capital market conditions occurring in those years and cannot be accurately forecasted.

DECISION HISTORY

At its meeting held on January 15, 2007, Report EX2-9 “Temporary Borrowing Authority” was adopted.

The Executive Committee requested the Deputy City Manager and Chief Financial Officer and the City Solicitor to report to the Executive Committee with appropriate recommendations to allow Council to delegate to the Deputy City Manager and Chief Financial Officer the temporary borrowing limits for each remaining year of the current term of Council, such report to include past history pertaining to this matter.

LINKS TO BACKGROUND INFORMATION

2007-ex2-9

http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/2007-ex2-9_589.pdf

ISSUE BACKGROUND

Subsection 5(1) of Ontario Regulation 610/06 (the “Regulation”) provides that the City may authorize temporary borrowing of such amount as Council considers necessary to meet the current expenditures of the City, until such time as the taxes are collected and other revenues for the current year are received.

The current expenditures for which the City may temporarily borrow include the amounts required for:

- (a) sinking and retirement funds;
- (b) principal and interest falling due within the year upon any debt of the City;
- (c) school purposes;
- (d) other purposes that the City is required by law to provide for; and
- (e) the amount of principal and interest payable by a person or a municipality primarily liable for a debt, if the City has guaranteed the debt and the debt is in default.

Without the approval of the Ontario Municipal Board, the total amount temporarily borrowed for current expenditures at any one time, plus any outstanding amounts of principal borrowed and accrued interest, may not exceed :

- (a) 50% of the total estimated revenues between January 1 to September 30 as set out in the adopted budget (or in the budget adopted for the previous year, if the budget for the year in question is not yet adopted); and
- (b) 25% of the total estimated revenues between October 1 to December 31 as set out in the adopted budget (or budget adopted in the previous year).

Section 4 of the Regulation permits the City to undertake temporary borrowing, under individual project approvals, for capital projects to be financed in whole or in part by the issuance of debentures or by entering into a bank loan agreement. The City is also permitted to undertake temporary borrowing for school board purposes or another municipality, if it has approved the issue of debentures or entering a bank loan for a capital work or permanent improvement of the school board or other municipality.

COMMENTS

Since amalgamation, Council has approved the limits for temporary borrowing for operating and capital purposes on an annual basis. However, with the advent of multi-year budgeting and the greater flexibility provided by the *City of Toronto Act, 2006*, it would be advantageous for Council to approve temporary borrowing for the years remaining in the current term of Council, 2008, 2009 and 2010. This approval process would provide the City with greater financing flexibility since, due to the time of Council meetings, the annual temporary borrowing facility expires on December 31 of each year and is not able to be renewed until the first regular Council meeting that usually occurs in February of the next year

The temporary borrowing authority for current expenditures is viewed positively by the City's credit rating agencies, as it provides the City with a financial safeguard in addition to the City's financial reserves and reserve funds.

Based upon preliminary forecasted operating and working capital requirements for 2008, 2009 and 2010, it is proposed that a limit would be established as the temporary borrowing limit for current expenditures. This recommended limit is based upon the formula under the Regulation and will be sufficient to provide the necessary flexibility for the operation of the City's cash management and temporary borrowing programs during the year.

During 2006, Council approved a limit of \$500 million for temporary current borrowing. However, the City did not have to borrow under this authority since internal working capital was sufficient to fund its operating cash requirements without having to access external sources for short-term financing.

For 2007, Council has again approved a temporary current borrowing limit of \$500 million.

With respect to temporary borrowing to meet capital expenditures to be financed in whole or in part by the issue of debentures or a bank loan agreement, a temporary borrowing limit of \$500 million is being recommended which is based upon the preliminary Capital Budget, 2007 to 2011.

Historically, the temporary borrowing authority for both current and capital expenditures has been delegated to the Mayor and the Deputy City Manager and Chief Financial Officer in accordance with the limits set by Council. It is recommended that the authority be delegated to the Mayor and the Deputy City Manager and Chief Financial Officer to borrow for both current and capital purposes in each of 2008, 2009 and 2010, in accordance with the limits recommended for each of those years by this report.

The City Solicitor has reviewed this report and is in agreement with its content and the recommendations.

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SIGNATURE

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Deputy City Manager and Chief Financial Officer