



**STAFF REPORT
ACTION REQUIRED**

2007 Temporary Borrowing Authority

Date:	December 19, 2006
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\CF\Ec07001Cf – 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 2007.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council authorize the temporary borrowing limit to meet 2007 current expenditures, pending receipt of tax levies and other revenues, be established at \$300,000,000;
2. Council authorize the temporary borrowing limit for capital purposes for 2007 be established at \$550,000,000;
3. authority be granted for the introduction of the necessary Bills in Council by the City Solicitor 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

If the entire authority is utilized during 2007, the maximum financial impact would be approximately \$400,000 in interest charges that would be reflected in the 2007 Operating Budget in the area of non-program – temporary borrowing.

DECISION HISTORY

The temporary borrowing bylaw is expressly permitted by the *Municipal Act 2001* (the “Act”) in order for a municipality to be able to borrow funds on a temporary basis pending the receipt of taxes and user fees to meet current expenditures during the year according to a formula that has not been changed in the *City of Toronto Act 2006*. The Act also allows the City to borrow temporarily pending the receipt of debenture proceeds, if required. The authority to temporarily borrow for both current expenditures and for capital purposes is expected to be continued under the *City of Toronto Act, 2006* (“COTA”) and its accompanying regulations, all of which are expected to be in force in early January 2007.

ISSUE BACKGROUND

The draft copy of a regulation entitled “Financial Activities” which is expected to be filed under COTA once COTA is in force, would provide that the City may, at any time during a fiscal year, authorize temporary borrowing of the amount Council considers necessary to meet, until the taxes are collected and other revenues are received, the current expenditures of the City for the year, subject to adherence to a maximum of 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 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).

The draft copy of the same regulation would also permit 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, and would permit the City to undertake temporary borrowing for school board purposes.

A regulation substantially in the form of the above-mentioned draft regulation is expected to be filed upon proclamation of COTA.

COMMENTS

The regulation expected to be filed under COTA upon proclamation of COTA is expected to provide that the amount of temporary borrowing outstanding at any one time together with the total of any similar borrowings, including both principal and accrued interest, that have not been repaid is limited, unless otherwise approved by the Ontario Municipal Board, to 50 per cent of estimated annual revenues from January 1 to September 30 and to 25 per cent thereafter. Until the current year’s budget is adopted, the limitation may be calculated upon the estimated revenues set forth in the budget adopted in the previous year. This formula would allow a maximum borrowing of \$2.5 billion that staff believes is in excess of the City’s normal cash requirements.

Based upon forecasted current requirements for 2007, it is proposed that a limit of \$300,000,000 be established which is less than the expected allowable limit but is projected to be sufficient to provide the necessary flexibility for the operation of the City’s cash management and temporary

borrowing programs during the year. This authority is viewed positively by the City's credit rating agencies, since it provides the City with a financial safeguard in addition to bank lines of credit and the City's financial reserves and reserve funds.

During 2006, Council approved a limit of \$500 million for temporary 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.

Furthermore, temporary borrowing is allowable to meet expenditures made in connection with a capital work to be financed in whole or in part by the issue of debentures, to meet expenditures made in connection with a work to be financed by a bank loan agreement. A limit of \$550 million is recommended, which coincides with the planned debenturing which will be addressed in a separate report that will be tabled with the 2007 – 2011 Capital Budget.

CONTACT

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SIGNATURE

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