

Clause embodied in Report No. 6 of the Policy and Finance Committee, as adopted by the Council of the City of Toronto at its regular meeting held on April 23, 24, 25, 26, 27, and its special meeting held on April 30, May 1 and 2, 2001.

2**Loans from the Bank of Canada**

(City Council at its regular meeting held on April 23, 24, 25, 26, 27, and its special meeting held on April 30, May 1 and 2, 2001, adopted this Clause, without amendment.)

The Policy and Finance Committee recommends that:

- (1) the Federal Minister of Finance, in conjunction with the Province of Ontario, be requested to provide low cost, below prime, long-term loans to municipalities, such as through the Bank of Canada; and**
- (2) a copy of this request be forwarded to the Federation of Canadian Municipalities and the Association of Municipalities of Ontario.**

The Policy and Finance Committee reports, for the information of Council, having received the report (February 14, 2001) from the Chief Financial Officer and Treasurer, entitled “Loans from the Bank of Canada”.

The Policy and Finance Committee submits the following report (February 14, 2001) from the Chief Financial Officer and Treasurer, entitled “Loans from the Bank of Canada”:

Purpose:

To provide information regarding the availability of loans to municipalities from the Bank of Canada.

Financial Implications and Impact Statement:

N/A.

Recommendation:

It is recommended that this report be received for information.

Background:

At its meeting held on January 30, 2001, Council adopted the following amendment to Clause No. 6 of Report No. 1 of The Policy and Finance Committee, "Authority to Issue Debentures during 2001":

- "(2) requested the Chief Financial Officer and Treasurer to investigate and submit a report to the Policy and Finance Committee on:
- (i) the availability of Bank of Canada debenture loans to municipalities;
 - (ii) the applicability to this portfolio or to any other borrowing needs of the City of Toronto; and
 - (iii) the financial terms of Bank of Canada loans and the business case for or against using the Bank of Canada as a purchaser for the sale and issuance of debentures."

A representative of The Canadian Action Party addressed the Financial Priorities Committee of Metropolitan Toronto Council who, at its meeting held on December 4, 1996, deferred consideration of the following motion until a working seminar to discuss monetary policy could be organized during 1997:

"That the Financial Priorities Committee recommend to Council that:

- (1) the Metropolitan Chairman be requested to meet with the Provincial Government to discuss the feasibility of accessing a mechanism within the Bank of Canada Act that can provide low-cost money to finance the Sheppard Subway; and
- (2) the Federation of Canadian Municipalities be also requested to explore such mechanism."

This recommendation was not implemented by the Metropolitan Chairman or Metro staff and no further action was taken.

Since 1998, we have received several proposals from various groups and individuals regarding the availability of interest-free loans from the Bank of Canada under section 18 of the Bank of Canada Act. In response to the City's inquiry, the Bank stated that "according to the Bank of Canada Act, section 18 permits us to conduct monetary policy as set out in our mandate and we have told several cities that, under existing legislation, we are not authorized to loan funds to municipalities".

Comments:

Section 18 (j) of the Act states that the Bank of Canada may:

"make loans to the Government of Canada or the government of any province, but such loans outstanding at any one time shall not, in the case of the Government of

Canada, exceed one-third of the estimated revenue of the Government of Canada for its fiscal year, and shall not, in the case of a provincial government, exceed one-fourth of that government's estimated revenue for its fiscal year, and such loans shall be repaid before the end of the first quarter after the end of the fiscal year of the government that has contracted the loan;"

The Act is silent concerning the rate of interest to be charged for these short-term loans. However, we have been informed by Bank of Canada staff that the bank rate could be used and is currently set at 5.75 percent per annum. However, according to Bank of Canada staff, the current legislation does not currently allow them to loan funds to municipalities and these advocate groups appear to be misinterpreting the Bank Act as the legislation only refers to the federal and provincial governments.

This type of short-term financing facility was designed to assist the federal and provincial governments in times of extreme economic difficulties such as was encountered during the 1930's and should not be considered as an appropriate source for the financing of capital expenditures. The Municipal Assistance Act, which was passed by Parliament in 1938, used this provision in the Bank Act to provide municipalities with loans for self-sustaining projects to increase employment during the Depression. Since some municipalities had defaulted on their outstanding debt and were having difficulties in collecting taxes due to increased personal and business bankruptcies, the projects eligible under the Act were required to be self-sustaining or self-financing so that the interest and principal payments would not form part of the general tax levy. This Act was subsequently repealed by Parliament after World War II.

Summary:

Given that loans from the Bank of Canada are not interest-free and not available directly to municipalities under the Bank Act, we believe that the lowest cost of funds and most flexible terms can be achieved in competitive capital markets without resorting to federal loans or programs that could have higher interest rates and restrict the City's future financing program. The City continues to have a strong credit rating and enjoys excellent access to domestic and global capital markets.

As new opportunities for financing capital projects arise, we will continue to evaluate their applicability for improving the City's current and future financial position.

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