



Legislation Text

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TAMRMS#: B06

Bylaw 26/2020 Operating Line of Credit Borrowing Bylaw (1st reading)

Presented by: Diane McMordie, Director, Finance & Assessment

RECOMMENDED MOTION

That Bylaw 26/2020 being an Operating Line of Credit Borrowing Bylaw to finance operating expenditures subject to certain conditions, be read a first time.

PURPOSE OF REPORT

This report presents a borrowing bylaw to increase the limit on the City's line of credit with ScotiaBank in order to provide flexibility for the City to

- a. address any financial shortfall that may occur as a result of measures taken by the City in response to the Covid - 19 virus pandemic.
- b. address any cash flow issues that could arise in the future for reasons unrelated to the current pandemic

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

N/A

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

Business and Financial Planning Management - Financial Planning (Stewardship of development of annual operating and capital budgets for Municipal and Utility operations.)

ALIGNMENT TO COUNCIL POLICY

Council Policy C-FS-03 Debt Management contains the following relevant provisions

Service Standards/ Expectations

1. Short-term Debt

- a. The City may, from time to time, incur short-term debt to:
 - i. Manage short-term cash flow requirements such as interim financing for capital projects;
 - ii. Provide financing for emergency purposes; or to

iii. Offset cash flow timing issues;

b. Short-term debt shall be financed through:

i. Internal financing;

ii. **A line of credit;** or

iii. Short-term debt, either conventional banking or ACFA.

c. All short-term debt in excess of one year shall be subject to City Council approval through the budget process, by bylaw, or by resolution as required.

8. Reporting

The Chief Administrative Officer or designate shall report quarterly to Council regarding the City's compliance with this policy. Reporting on the City's outstanding debt, debt limits and long-term projections shall be provided through the annual budget process and current financial statements.

BACKGROUND AND DISCUSSION

As part of a comprehensive financial management strategy, many organizations ensure they have access to a line of credit facility that can help support fluctuations in cash flow to ensure seamless operation of the organization.

The City currently has an operating line of credit with ScotiaBank for \$5,000,000 as per Bylaw 4/95. Due to the financial uncertainty arising from measures the City has taken to mitigate the spread of Covid-19 and the impacts on the City's financial position, Administration requested ScotiaBank to increase the limit on our line of credit. Many municipalities in Alberta have also taken the step of increasing or establishing their line of credit facilities as a pro-active financial measure to deal with COVID-19.

ScotiaBank is prepared to increase the limit on the line of credit to \$20,000,000.

This is a operating facility for the purpose of financing operating expenditures. All borrowings will be at the rate of prime minus 1%.

Borrowing Bylaw 26/2020 sets out conditions and security requirements for this temporary operating facility.

An operating line of credit is a financing mechanism to support fluctuations in cash flow and is not an approval to expend dollars. Section, 248(1) of the MGA states:

248(1) A municipality may only make an expenditure that is

(a) included in an operating budget, interim operating budget or capital budget or otherwise authorized by the council,

(b) for an emergency, or

(c) legally required to be paid.

Should the City anticipate a temporary cash shortfall, financial analysis would be undertaken to determine the most cost effective option to address the cash shortfall. This could include both cashing in short or long term investments or utilizing the line of credit facility as an alternative. Items such as prevailing interest rates on both investment and short term debt (line of credit) as well as any foregone returns on investments would need to be considered in the analysis.

Any required draw on the line of credit will be for the sole purpose of managing cash flows for expenditures already included in a Council approved budget or by a resolution of Council.

As per Standard 8 of Council Policy C-FS-03 quoted above below, Council will be informed quarterly on the status of any and all borrowings

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

In alignment with the advertising requirements set out in Council Policy C-CAO-22, notification in the St. Albert Gazette regarding the proposed Bylaw will take place on the following dates:

June 17 - initial advertisement
July 29 - 1st advertisement
August 5 - 2nd advertisement

This scheduled series of notifications will allow the public 60 days for consideration of a petition, as contemplated by the Policy.

If first reading is given to this Bylaw, Administration will recommend that 2nd and 3rd readings be scheduled for August 31, 2020.

IMPLICATIONS OF RECOMMENDATION

Financial:

Passing of Bylaw 26/2020 authorizes Administration to secure access to short-term financing through Scotiabank.

Legal / Risk:

Section 256 of the *Municipal Government Act* provides that when a municipality borrows for the purpose of financing operating expenditures:

- The amount to be borrowed, together with the unpaid principal of other borrowings made for the purpose of financing operating expenditures, must not exceed the amount the municipality estimates will be raised in taxes in the year the borrowing is made; and

- A borrowing bylaw that authorizes the borrowing does not have to be advertised if the term of the borrowing does not exceed 3 years.

Due to the uncertainty as to how long this increased operating line of credit will be required, Administration is recommending that Bylaw 26/2020 be advertised so that the credit facility will be available for more than 3 years if necessary.

If second and third readings of the Bylaw are passed on August 31, 2020, the Bylaw will then come into effect as soon as it is signed by the Mayor and Chief Legislative Officer.

Program or Service:

n/a

Organizational:

None at this time.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

If the Borrowing Bylaw is not passed the City will be unable to secure the increase line of credit for Covid-19 and other financial measures will need to be reviewed.

Report Date: June 15, 2020

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Chief Administrative Officer: Kevin Scoble