

Borrowing Bylaw Supplementary Report

Date	February 26, 2020
To	City Council
From	Financial Strategy & Sustainability
Service Area	Financial Services
Item No.	CM20-4

RECOMMENDATION

That City Council receive and file this report.

ISSUE

On January 29, 2020, City Council approved (through report CR20-7) that the Executive Director, Financial Strategy and Sustainability be authorized to negotiate the banking and related agreements with the highest ranked proponent who responded to the City's Request for Proposals (RFP) and that the required borrowing bylaw be brought forward for approval by Council at a later date. As the negotiations are close to being finalized, the borrowing bylaw is being brought forward to the February 26, 2020 Council meeting for approval. This supplemental report provides information about the operating line of credit and corporate credit card (procurement/ purchasing card) facility that are set out in the borrowing bylaw.

IMPACTS

Financial Impact

The City Administration is recommending that the City's operating line of credit be set at a \$9 million maximum and that the corporate credit card facility be limited to up to \$1 million. Both of these types of debt are a form of short term borrowing as they are repayable within the current year (i.e. the debt is not outstanding for more than 365 days).

The proposed borrowing of \$10 million is within the City's authorized debt limit of \$450 million. The City's total outstanding debt as of December 31, 2019, was \$301.5 million, 67% of the debt limit approved by the Saskatchewan Municipal Board.

In addition to this limit, section 136 of *The Cities Act* states that the amount to be borrowed for the purpose of financing operating expenditures, together with the unpaid principal of other borrowings made for that purpose, may not exceed an amount equal to twice the amount the city estimates that it will raise in taxes in the year the borrowing is made and that the City will receive in unconditional provincial or federal grants the year the borrowing is made. The City Administration confirms that the borrowing contemplated also falls within this limit.

There are no accessibility, environmental or other implications or considerations.

OTHER OPTIONS

The City could choose not to have an operating line of credit and corporate credit card program. This is not recommended as these are important and essential to the City's operations. A common practice across all municipalities, an operating line of credit provides the City with financial flexibility to respond to emergency situations. The corporate credit cards can offer a wide range of financial and operational benefits. This includes cash rebates on corporate purchases and streamline expense management for the organization.

COMMUNICATIONS

Public notice is required to be provided for Council to consider borrowing. The borrowing contemplated in this report was advertised on the City's website and public notice board on January 3, 2020 and the Leader Post on January 4, 2020.

DISCUSSION

Through report CR 20-7, the Executive Director, Financial Strategy and Sustainability was delegated the authority to designate and appoint the City's financial institution based on the results of the City's RFP. This included the authority to negotiate, approve, award and enter into the various banking agreements. City Administration is close to finalizing the various banking agreements that have been negotiated with the Bank of Montreal, which was the highest ranked proponent from the RFP adjudication process. The short-term debt contemplated in the agreements, however, must be authorized by Council through a borrowing bylaw. The following provides some details on the operating line of credit and corporate credit card facility.

Operating Line of Credit

Historically, the City has obtained a \$20 million operating line of credit to provide the City with financial flexibility to respond to emergency situations or where funds are not immediately available in the City's bank account to meet a payment obligation. Through an assessment of the City's short-term borrowing needs, Financial Services recommends that this amount be reduced so that the operating line of credit be set at \$9 million.

The \$9 million is sufficient in the event of a liquidity constraint requiring the City to use short-term debt as contingency until short-term investments are liquidated. The City's short-term investments can be available as cash within four business days in the unlikely event that the line of credit is exhausted. In addition, in terms of cash flow, the City is currently working towards improved planning of cashflows through projects to help manage financial risk, governance around capital expenditures and capital carry-forward.

Lowering the limit of the line of credit from \$20 million to \$9 million will also reduce the City's debt limit impact. With the \$1 million corporate credit card facility and \$9 million line of credit, the debt limit impact is reduced from 4.4% to 2.2%. In addition, reducing the amount is reasonable given that the operating line of credit has rarely been used by the City. As a contingency, the line of credit has only been utilized once since it was established and was repaid within four hours.

Access to the operating line of credit with the Bank of Montreal will be effective September 1, 2020 when the current banking contract expires. This debt is required to be repayable over a term not exceeding one year from the date of the borrowing. The debt is available at the City's option by way of a prime rate-based loan minus 1.00% (2.95%) or letters of credit up to a maximum of \$5,000,000 having a term of up to one year which include a letter of credit fee. The source of money to be used to repay the principal and any interest owing under the line of credit includes municipal property taxes and the general fund reserve.

Corporate Credit Card (Procurement / Purchasing Card) Facility

As part of the banking RFP, the City asked for proposals on providing a procurement/purchasing card program. The City has historically had a purchasing card program that allows certain authorized employees to use corporate credit cards to pay for authorized business expenses instead of relying on their own credit cards or the City requisitioning cheques for each purchase. In addition to corporate credit cards being convenient, these credit cards can offer a wide range of financial, operational and security benefits. This includes cash rebates on corporate purchases, statement reporting for spend analysis and simplify purchase transactions.

In addition to the \$9 million operating line of credit, the City recommends entering into agreements with the Bank of Montreal and BMO Harris Bank N.A. for up to a \$1 million Mastercard corporate credit card facility. Access to this facility will be effective May 1, 2020 when the current contract expires. This debt is repayable in accordance with the Mastercard Agreement which provides that the principal and interest is due and payable in full monthly. The source of money to be used to repay the principal and any interest owing under the corporate credit card facility includes municipal property taxes and the general fund reserve.

DECISION HISTORY

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related agreements with the highest ranked proponent who responded to the City's Request for Proposals (RFP) and that the required borrowing bylaw be brought forward for approval by Council at a later date. As the borrowing bylaw is being brought forward to the February 26, 2020 Council meeting, this report provides further information to support the borrowing bylaw.

Respectfully Submitted,

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Carla Koot, Manager, Accounting Services

2/18/2020



Shauna Pzdel, A. Exec. Dir., Financial Strategy & Sustainability

2/19/2020

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