



THE CORPORATION OF THE CITY OF COURTENAY

STAFF REPORT

To: Council

File No.:

From: City Manager (CAO)

Date: August 30, 2023

Subject: Temporary Borrowing Bylaw 3104, 2023

PURPOSE:

To continue with the borrowing process for the 1st Street lift station project.

EXECUTIVE SUMMARY:

A temporary borrowing bylaw may be adopted on an approved loan authorization bylaw to allow access to funds similar to a line of credit as an alternative to waiting for the bi-annual Municipal Finance Authority (MFA) long term debt issues. The City can access funds through the construction period, and once the project is complete, then the outstanding temporary borrowing balance will be converted into long-term debt.

BACKGROUND:

At the May 17th, 2023 Council meeting, Council adopted the Sewer Infrastructure Project 2023 Loan Authorization Bylaw No. 3093, 2023, which provides funding to the 1st Street lift station project. The project is scheduled for construction commencing fall 2023 with substantial completion in spring 2024.

DISCUSSION:

The City has the option of securing funding semi-annually from the MFA through their spring and fall debt issues, however this process is not flexible and requires cash requests to be made several months prior to cash being received. This slow turnaround time could lead to the City running into a cash shortage, or more likely result in the City taking on more debt sooner than necessary in anticipation of future cash demands. The benefits of going directly to long-term debt is to take advantage of fixed interest rates, which are typically lower than the daily variable interest rates, and that a fixed repayment schedule is easier to budget for as there are no payment fluctuations.

A solution to facilitate cashflow is to enact a temporary borrowing bylaw on the existing loan authorization bylaw. The temporary borrowing bylaw allows a municipality to access cash between the spring and fall debt issues from the MFA. This type of financing is similar to a line of credit or construction loan where interest is paid only on the outstanding loan amount with no required principal payments until the loan is paid off or converted to long-term debt. The cash that is borrowed is charged daily interest at the MFA's variable interest rate on the balance outstanding.

Funds can be accessed on the same day for amounts less than \$5 million (provided notice is given prior to 10:30 a.m.). For amounts between \$5 million and \$10 million, the MFA allows for three days' notice, and for amounts in excess of \$10 million, five business days' notice is required. This quick turnaround time would allow the City to only borrow cash that is needed for expenses that are imminent; and not based on a forecast of expected spending from several months prior.

By adopting a just-in-time borrowing strategy, the City will be able to reduce the amount of time cash is being held unutilized, thus reducing unnecessary interest payments. Once the City has taken on temporary borrowing, it can then convert that balance to long-term debt, secure the interest rate, and start the 20-year payment process at the time of spring or fall debt issues. The maximum that can be borrowed temporarily is limited to the maximum amount remaining under the loan authorization bylaw which would currently be \$2,500,000.

At the completion of the project, the City will be in a better position to assess cash reserves and outstanding debt, and to decide how much of the debt the City is able to pay down prior to locking it in for the long-term.

POLICY ANALYSIS:

2023-2027 Consolidated Financial Plan Bylaw No. 3096, 2023
Sewer Infrastructure Project 2023 Loan Authorization Bylaw No. 3093, 2023

FINANCIAL IMPLICATIONS:

Per the 2023-2027 Financial Plan, the expected total cost of the 1st Street Lift Station project is budgeted at \$3,008,500 for 2023. Funding for the project is set to come from the following:

1st St Lift Station Funding	
Funding Source	Amount
General Revenue	\$ 71,200
Reserves	300,000
Reserve for future exp	224,400
Debt	2,500,000
Total	\$ 3,095,600

*General revenue are funds from current year sewer fees

*Reserve draws come from the sewer capital reserve

*Reserve for future expenditures represent budgeted general revenue from the prior year not spent and carried forward for use in current or future years.

The expected interest rate used in the 2023-2027 Financial Plan for long term debt was 4.14%. As of July 31, 2023, the long-term interest rate estimation from the MFA is 4.40%. Although the interest rate expectation has changed, the City will not begin accessing long-term debt until fall 2024 or spring 2025 depending on construction completion.

The temporary borrowing interest rate as at July 31, 2023 is 5.41%. This is the rate that will be charged daily on the outstanding temporary borrowing bylaw balance. This rate is variable and hit a historical low of 0.90% on March 3, 2021, however has risen with the Bank of Canada's interest rate increases. If the City uses the maximum available borrowing under the bylaw which is \$2.5M, the daily interest would be \$370.55 which is equivalent to \$135,250 annually; however, the City would move the fully utilized temporary borrowing capacity to long-term debt and commence the repayment process at the next scheduled MFA debt issue.

The City would only pay interest when the temporary borrowing is used, the City will not incur charges or fees to enact a temporary borrowing bylaw. A temporary borrowing bylaw is used as an additional tool to help municipalities fund capital projects and to ensure adequate cash flow.

ADMINISTRATIVE IMPLICATIONS:

Finance staff will work with the Engineering department to determine cash requirements and draw upon the temporary borrowing bylaw as work progresses and payment requirements arise.

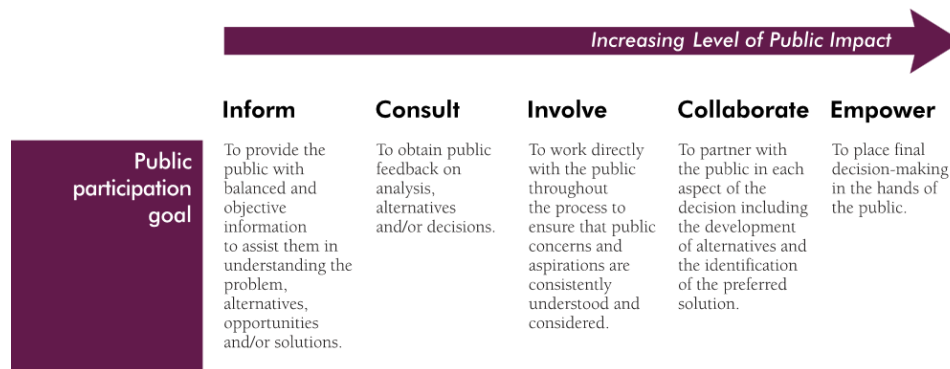
STRATEGIC PRIORITIES REFERENCE:

Municipal Infrastructure – This project contributes to improvements to municipal infrastructure by renewal of existing infrastructure prior to failure.

Financial Sustainability – This approach to project funding contributes to financial sustainability by creating the ability to borrow precisely the funds needed to complete the project.

PUBLIC ENGAGEMENT:

Staff would inform the public based on the IAP2 Spectrum of Public Participation:



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OPTIONS:

1. THAT Council give three readings of Temporary Borrowing Bylaw 3104, 2023
2. THAT Council provide alternative direction to staff.

ATTACHMENTS:

Appendix A - Temporary Borrowing Bylaw 3104, 2023

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