
Report of the Commissioner of Finance

Temporary Borrowing Authorization for 2024

1. Recommendations

1. The Commissioner of Finance and Regional Treasurer be authorized to temporarily borrow during 2024 from either external financing or by means of temporary loans from reserves and reserve funds for the following amounts and purposes:
 - a. Up to \$605 million to fund operating expenditures pending receipt of tax levies and other revenues; and
 - b. Up to \$300 million to fund capital expenditures until such time as long-term financing is in place.
2. The Commissioner of Finance and Regional Treasurer be authorized to execute the necessary documents to enable temporary borrowing in 2024.
3. The Regional Solicitor be authorized to prepare the necessary bylaws.

2. Purpose

This report seeks authorization for temporary borrowing, if and when required, to meet capital and operating expenditures during 2024. The *Municipal Act, 2001* (Act), requires authorization for a temporary borrowing bylaw for each calendar year.

Key Points:

- Provincial legislation allows municipalities to borrow on a temporary basis
- The borrowing limit for operating expenditures for 2024 is \$1.34 billion from January to September and \$671 million from October to December, calculated based on a prescribed formula according to the provincial legislation

- This report seeks authorization for up to \$605 million in temporary borrowing to fund operating expenditures for 2024, which is less than both the upper permissible limit for the first nine months and the last three months of the year
- This report also seeks temporary borrowing authorization for up to \$300 million to fund 2024 capital expenditures before receipt of debenture proceeds
- Temporary borrowing does not have a direct impact on the Region's credit rating

3. Background

Provincial legislation allows municipalities to borrow on a temporary basis

The Commissioner of Finance and Regional Treasurer may engage in temporary borrowing from time to time to fund the operational and capital needs of the corporation.

Section 407 of the Act provides the authority for temporary borrowing for approved operational expenditures until tax levies and other revenues are received where the amounts are considered necessary to meet the expenses of the municipality for the year. The borrowing may include amounts required for principal and interest payments on debt and required payments to local boards.

Provincial legislation limits the amount that can be temporarily borrowed for operating purposes to 50% of budgeted total estimated revenue from January to September and 25% of budgeted total estimated revenue from October to December. The limits include any temporary borrowing from previous years not yet repaid.

In addition, Section 405 of the Act provides the authority for temporary borrowing for approved capital expenditures to be financed in whole, or in part, by the issuance of debentures during the year.

The Province regulates the amount of municipal debt and other financial obligations through an annual repayment limit regulation under the Act, including any temporary borrowing outstanding at the end of the year. Each year, as part of the annual update to the Regional Fiscal Strategy, Council adopts a Long-Term Debt Management Plan, the most recent being the [2023 Long-Term Debt Management Plan](#). The plan includes a multi-year projection of the Region's long-term debt and financial obligation needs and the corresponding annual repayment limit for each year. Any funds borrowed from reserves are always paid back during the year of borrowing with interest at the same rate that would have been earned on the corresponding reserves and excluded from the annual repayment limit.

4. Analysis

The Region's estimated temporary borrowing needs for 2024 are within the limit prescribed by the Province

Using the 2024 revenues in the approved 2023 Regional multi-year budget as an estimate for the allowable revenues, the Region's temporary borrowing limit for operating purposes is \$1.34 billion from January to September and \$671 million from October to December. Allowable revenue includes net taxation, user charges, grants and subsidies, transfer payments, fees and services revenues and excludes development charges, third party recoveries and revenues from fines.

Staff estimate \$605 million of temporary borrowing for operating expenditures would be sufficient to meet the Region's 2024 short-term financing requirements, when used in conjunction with the Working Capital Reserve.

This amount bridges the gap between when bills need to be paid and when revenues are received.

- The estimate is based on approximately one third of the annual tax levies forecasted to be received, the monthly receipt of user charges, half of the expected amount of fees and services, and additional buffer to account for any uncertainties such as impacts of Bill 23 or any other unforeseeable events and legislative changes.
- This report seeks authorization for up to \$605 million for 2024, which is conservatively less than both the upper permissible limit for the first nine months and the last three months of the year.

The Region's Capital Financing and Debt Policy permits temporary borrowing for both operating and capital needs from any of the following sources: reserves and reserve funds; promissory notes; bank credit facilities; bankers' acceptances; and short-term advances.

For this coming year, the \$50 million currently available in the Working Capital Reserve and other short-term financing sources can be used to partially offset temporary borrowing needs prior to the receipt of tax, user rate revenue and fees and charges. The receipt of these revenues will be used to repay any temporary borrowing drawn for operating expenditures during the year.

The 2023 ten-year Capital Plan estimates that \$175 million of debenture issuance would be needed for 2024. This report requests up to \$300 million of temporary borrowing for capital expenditures to provide the Region with flexibility to accommodate timing of receipt of capital revenue and unanticipated temporary shortfalls in other funding sources. Temporary borrowing of up to \$300 million for capital expenditures is proposed as this gives the Region an adequate buffer in the event that development charge collections are less than expected. In addition, this is in line with historical temporary borrowing authorization requests. Receipt of debenture

proceeds along with other sources of revenue such as grants and subsidies, will be used to repay any temporary borrowing for capital expenditures during the year.

Promissory notes may be employed when it is economically advantageous to do so within the context of the Region's investment and debt management programs. It may be used for temporary borrowing for both operating and capital expenditures. As of September 2023, promissory notes borrowing rates were below the interest rates charged on the use of reserves for temporary borrowing and those available under the loan facilities offered by the Region's bank. The interest rate charged on the use of reserves is the rate that would otherwise be earned by investing those reserves in the Region's investment portfolio.

Should this trend continue into late 2023 and into 2024, the use of promissory notes rather than either liquidating reserves or utilizing bank loan facilities would be considered for some of the temporary borrowing needs. It is expected that a combination of reserves and reserve funds and short-term promissory notes, as appropriate, may be used to finance any temporary borrowing needs in 2024.

5. Financial Considerations

The cost of temporary borrowing is estimated to range in the vicinity of \$8.3 million for 2024. The cost of borrowing is mainly driven by the interest rate decisions of the Bank of Canada (i.e., increases during rate hikes and declines during rate cuts). Short term borrowings help to temporarily fund capital requirements until permanent funding is in place. Operating needs tend to be shorter in nature and are mainly funded through the non-interest-bearing Working Capital Reserve described above.

Temporary borrowing does not have a direct impact on the Region's credit rating, as it is based mainly on long-term debt. Although credit rating agencies consider the Region's fiscal management practices, they have not raised any concerns regarding temporary borrowing in the past.

6. Local Impact


Temporary borrowing allows operating and capital spending to proceed throughout the Region on a timely basis. This spending provides essential services and capital infrastructure for residents and business in all local municipalities in York Region.

7. Conclusion

The report requests authorization for the Commissioner of Finance and Regional Treasurer to borrow up to \$605 million to fund operating expenditures and up to \$300 million to fund capital expenditures by way of temporary loans, if needed, to meet the short-term funding needs of the corporation during 2024.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer, at 1-877-464-9675 ext.71644. Accessible formats or communication supports are available upon request.

Recommended by:



Laura Mirabella

Commissioner of Finance and Regional Treasurer



Approved for Submission:

Erin Mahoney

Chief Administrative Officer

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