York Region

Clause No. 11 in Report No. 6 of the Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting on November 21, 2013.

11
SHORT-TERM BORROWING AGREEMENT WITH TD BANK

Committee of the Whole recommends adoption of the following recommendations contained in the report dated October 31, 2013 from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. Council approve increasing the Region's short-term borrowing agreement with the Toronto Dominion Bank (TD Bank) to $100,000,000.

2. The Commissioner of Finance and the Regional Chair be authorized to execute all documents necessary to implement this increase.

2. PURPOSE

The purpose of this report is to seek Council approval to increase the limit on the Region's short-term borrowing agreement with the TD Bank from $10,000,000 to $100,000,000.

3. BACKGROUND

The short-term borrowing agreement is part of the overall banking services provided by the TD Bank

The TD Bank is the main banking service provider for York Region. Among the services that it provides is a short-term borrowing facility that currently has a limit of $10 million. This facility was originally put in place in order to provide overdraft protection for our bank accounts; however, it can be used in an emergency to fund other short-term cash deficiencies if needed. The facility has rarely been used as it is the Region's practice to maintain sufficient cash on hand and short-term investments in its portfolio to cover all of its planned cash requirements plus a contingency.

The borrowing facility is provided at no cost unless it is utilized. The facility can be utilized in two alternative ways depending on the term requirements of any cash flow deficiencies. When used as an overdraft loan, the rate charged is bank prime minus 50 basis points, which would equate to an annual rate of 2.50% as of October 15, 2013. When used as a short-term loan, the rate charged by the TD Bank would be Bankers Acceptance plus 37.5 basis points, which would currently equate to an annual rate of approximately 1.50% for a 30 to 90 day term.

4. ANALYSIS AND OPTIONS

Historically, the bank borrowing facility was viewed only as a means of providing emergency back-up for the Region's day-to-day cash needs. However, if enhanced, the facility could form a more integral part of the Region's cash management strategy, with the added benefit of increasing the rate of return earned on the investment portfolio.

The Region has significant cash flow requirements

The Region's operating and capital expenditures are expected to total approximately $2.9 billion in 2013. While the timing and amount of many of these expenditures and the associated revenues are fairly predictable, others such as payments for capital expenditures and the collection of development charges are more difficult to forecast.

Also, needs can vary significantly on a day-to-day basis, due to unknown or unanticipated cash flows and expenditures. For these reasons, it has been deemed prudent to provide a contingency to cover uncertainties in forecasting.
This contingency has averaged approximately $100 million over the past several years.

Table 1 illustrates the variability of investments held in the General Fund Portfolio during the past two years. The General Fund Portfolio is comprised of investments being held for reserves, reserve funds, working capital accounts and deferred revenue funds (e.g., development charges, Metrolinx, Quick Wins, etc.)

Table 1
Value of Investments Held
in the General Fund Portfolio
($millions)

	2012	2011
January 1	1,600	1,400
March/April	1,400	1,000
December 31	2,000	1,600

As depicted, the investment portfolio balances vary in both years by as much as $600 million between the spring and the end of the year. These variances arise due to reoccurring factors such as the timing of cash receipts from the tax levy, development charges and debenture proceeds, as well as the timing of payments associated with capital construction. Managing these variances is quite complex and underscores the need for contingency funds either in the form of short-term investments or a back-up credit facility.

The enhanced borrowing facility would reduce the need to hold cash and short-term investments for planned operational needs

While maintaining some cash and short-term investments (liquidity) to fund operations is prudent, maintaining excessive liquidity results in an opportunity cost in the form of potential lost investment income. This is because short-term funds have historically earned significantly less than the Region's longer-term investments.

By increasing the bank borrowing facility to $100 million, staff can better manage the amount of short-term investments that must be held in the Region's portfolio. This would be achieved by reducing or eliminating the need for maintaining a contingency and by using the facility to fund short-term needs (e.g., working capital until the receipt of tax levy) where there is the ability to earn more from investments than the cost of using the facility. It should be noted that the use of the facility would not be mandatory and would only be used where there was a financial benefit to the Region.

The TD Bank is offering more favourable terms under a revised agreement

The TD Bank, as with other banks, normally charges a stand-by fee ranging from $20,000 to $30,000 for maintaining a credit facility of $100 million. However, the bank is proposing to waive this stand-by fee under the terms of a new agreement. The TD Bank has also offered to lower the rate it charges on the overdraft portion of the facility. Although it is rarely used, the rate on this facility which is currently calculated at bank prime minus 50 basis points would fall to bank prime minus 75 basis points, dropping the existing rate based on current market conditions from 2.5% to 2.25%.

Link to key Regional Council-approved plans

The recommendation proposed in this report promotes the prudent management of the Region's finances, which is a key component of the 2011 to 2015 Strategic Plan. Access to an increased bank borrowing facility supports and enhances the Region's cash management program by providing opportunities to increase investment returns and control borrowing costs.

5. FINANCIAL IMPLICATIONS

Access to short-term credit at favourable rates leaves long-term investments at higher rates

The ability for the Region to draw upon the increased borrowing facility with the TD Bank, even if it is not actually required, provides staff more opportunities to earn a higher rate of return on the investment portfolio, which in turn benefits the Region's reserve and reserve funds, particularly the amount available to fund the future replacement of assets.

Table 2 compares the returns earned over the past 5 years by the short-term portion of the General Fund Portfolio with returns earned from the long-term portion.

Table 2
Comparison of Rate of Return Earned
Long-term versus Short-term

Year	Short-term	Long-term	Difference
2008	3.52%	5.47%	1.95%
2009	0.74%	6.27%	5.53%
2010	1.07%	6.09%	5.02%
2011	1.03%	6.31%	5.28%
2012	1.26%	4.57%	3.32%
Average	1.52%	5.74%	4.22%

Based on the five year average as shown above, the incremental return by investing long-term rather than short-term has averaged approximately $4 million for every $100 million invested. Although this amount of extra return may be different going forward, the benefits of investing at a higher return are expected for the foreseeable future.

It should also be noted that all loans transacted by means of this bank credit facility are short-term (under 1 year), and therefore have no impact on the Region's Annual Repayment Limit.

6. LOCAL MUNICIPAL IMPACT

There is no direct impact from these recommendations on local area municipalities.

7. CONCLUSION

By approving the increase in the short-term borrowing facility with the TD Bank, Council is putting in place appropriate measures to promote best practices in the administration of the Region’s cash management program.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at Ext. 1644.

The Senior Management Group has reviewed this report.

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