



CITY OF ESTEVAN



January 26, 2015

To: His Worship the Mayor
Members of City Council

From: Amber Smale, City Manager

RE: External Financing – 2015 General Capital Program

RECOMMENDATION

1. That the City Treasurer be authorized to negotiate external financing, including signing any necessary documents, to a maximum of \$5 million to address the financial requirements of the 2015 General Capital Program.
2. A report summarizing the financing arrangements to be negotiated be forwarded to City Council with the bylaw once the external financing has been arranged.

CONCLUSION

Based on current cash flow projections, the City will require external financing of \$5 million to fund the 2015 General Capital Program. Since financing is required, it is important to be in a position to arrange the financing when the markets are receptive and rates are viewed as being reasonable.

The final authority for external financing rests with City Council and the passage of the necessary bylaw. While any arrangements negotiated by the City Treasurer will be subject to approval of City Council through the passage of a bylaw, it is important for City Council to realize that once direction is given to the City Treasurer to arrange financing, if City Council does not pass the necessary bylaw, there may be irreparable harm done to the City's ability to borrow externally.

BACKGROUND AND DISCUSSION

The purpose of this report is to seek the authority for the City Treasurer to pursue external financing through the issuance a long-term loan.

The long-term debt of the City is subject to the provisions of *The Cities Act* and the debt limit as authorized by the Saskatchewan Municipal Board. The following are the applicable sections of *The Cities Act*:

"101(1) No Council shall delegate:

(f) its power to borrow money, lend money or guarantee the repayment of a loan pursuant to section 133 to 153;

133(1) The Saskatchewan Municipal Board may establish a debt limit for each city, taking into account the factors set out in subsection 23(2) of *The Municipal Board Act*.

(2) No city shall borrow money if the borrowing will cause the city to exceed its debt limit, unless the borrowing is approved by the Saskatchewan Municipal Board.

134(1) A city may only borrow moneys if the borrowing is authorized by a borrowing bylaw.

(2) A borrowing bylaw must contain details of:

- a) the amount of money to be borrowed and, in general terms, the purpose for which the money is to be borrowed;
- b) the rate or rates of interest, the term and the terms of repayment of the borrowing; and
- c) the source or sources of money to be used to pay the principal and interest owing under the borrowing."

Legislation allows for cities to incur long-term debt without application to the Saskatchewan Municipal Board providing the debt does not exceed the amount authorized by the Saskatchewan Municipal Board pursuant to Section 133(2). In 2013, the City requested and received approval from the Saskatchewan Municipal Board for a debt limit of \$55 million.

The reason for taking out this debt is to resolve the remaining outstanding contractual, legal and legislatively binding agreements the City is currently a party to. While the City anticipates receiving \$3.2 million from the Provincial Disaster Assistance Program for the airport project, this is at project completion. The external financing will be used towards the 2015 General Capital Program of \$7,990,000, with the remaining funding coming from property taxes and fees and charges.

Once provincial funding is received, City Council has the option at year end to determine how these funds are used, whether that be applying it to the outstanding City debt or transferring to a general fund reserve.

While a debt issuance requires a bylaw approved by City Council, due to the nature of the capital markets, it is necessary for the City Treasurer to have the authority from City Council to undertake the borrowing, with the details of the borrowing subsequently approved by City Council by way of a borrowing bylaw. This approach recognizes the need to provide a quick response to lenders. The authority granted to the City Treasurer is subject to the approval of a bylaw by City Council.

Key points with respect to this process are:

- City Council has the authority to not proceed with a debt issue on the terms conditionally agreed to by the City Treasurer. However, if City Council did not approve the borrowing bylaw based on the details agreed to with the lender there could be irreparable harm done to the City's ability to borrow externally.
- The timing of external borrowing is dependent on market conditions. However, once the City Treasurer authorizes the Lender to proceed, the debt issue must be completed within several days. Given the schedule of City Council meetings there is the potential a special City Council meeting would be required.

With a potential financing of \$5 million, the City's position relative to the authorized debt limit of \$55 million is as detailed in the following table.

Water and Sewer Utility Debt*	\$ 17,239,446
General Debt	\$ 15,021,353
Capital Lease Obligations	\$ 1,375,000
Loan Guarantees (Golf Course)	\$ 325,000
2015 General Capital Program	\$ 5,000,000
Total	\$ 38,960,799

*Outstanding balance at December 31, 2014.

As detailed in the above table, a proposed borrowing of \$5 million is within the authorized debt limit. It should be noted that the debt limit of \$55 million was not intended to represent the theoretical maximum debt that could be sustained by the City of Estevan. The limit was requested on the basis that it met the City's projected maximum debt requirement for the foreseeable future.

While the projected debt after issuance of the \$5 million in debt is well below the debt limit, it is important to note that in the next five years debt is expected to be very close to the debt limit due to future debt related to the Waste Water Treatment Plant and proposed over/underpass.

RECOMMENDATION IMPLICATIONS

Financial

The repayment of external debt, and the related interest costs are budgeted in the annual general operating budget.

Policy and/Strategic

The City has a duty to look after its assets and therefore not having a capital program is not an option. With the lack of reserves and desire to reduce the property tax burden, the City can't avoid increasing user fees or considering long-term debt. There are outstanding projects that

need to be cleared up due to their legal or legislative implications. With these out of the way, the City is in a better position to move forward with a practical capital program and better prepared to develop financing requirements over the next five years.

COMMUNICATION PLAN

Public Notice has been given as required by Section 101 and 102 of *The Cities Act*. City Council will consider the proposed borrowing at its January 26, 2015 meeting with a Borrowing Bylaw to follow. All 2015 Budget material is available on the City's website.

DELEGATED AUTHORITY

The disposition of this report requires City Council approval.

Respectfully submitted,

Amber Smale
City Manager