

Intent to Borrow – 3815 Wanuskewin Road and 3802 Arthur Rose Avenue Land Acquisition

ISSUE

This report is requesting City Council approval to finance the purchase of 3815 Wanuskewin Road and 3802 Arthur Rose Avenue through an internal borrowing.

RECOMMENDATION

1. That a \$6,350,000 loan, subject to a 10% variance on borrowing requirements, from the General Account long-term investment portfolio, amortized over a 5-year term, for the purchase of 3815 Wanuskewin Road and 3802 Arthur Rose Avenue (Capital Project 1425) be approved;
2. That any variance greater than 10% of the borrowing amount be reported to City Council; and
3. That the City Clerk be requested to update Council Policy No. C03-027, Borrowing for Capital Projects, as detailed in the report of the Chief Financial Officer dated November 30, 2020, that clarifies that borrowing may be done internally through an investment of its own available cash balances similar to investments the City makes externally.

BACKGROUND

A borrowing bylaw is not required for internal loans; however, City Council approval is required for any borrowing related to the funding of capital projects, including the terms outlined in this report.

The Cities Act and Bylaw 8171, The Public Notice Policy Bylaw, 2003, require Public Notice Hearings for any borrowing.

At its meeting on September 28, 2020, City Council approved the purchase of 3815 Wanuskewin Road for the purchase price of \$15 million, and the purchase of 3802 Arthur Rose Avenue for \$1.799 million.

Of the \$16.80 million total purchase price for both lots, \$6.35 million is required in borrowings to help source the funds required for the land acquisition.

DISCUSSION/ANALYSIS

Due to the lower dollar value being requested, the Administration is recommending an internal loan for this borrowing. An internal loan will not have any impact to the City of Saskatoon's (City) borrowing limit, and it will be possible to pay off the loan in 5 years. The rate for the loan will be what the City would be able to make if the money were instead invested, which is currently 0.82% on a 5-year investment. The interest will compensate the City for the opportunity cost of the money during the term of the loan. Using an internal loan will also minimize debt service costs and commissions that would be paid to external parties, and provide effective utilization of the City's financial capacity.

The internal loan will be held in the General Account's long-term investment portfolio with the following terms of borrowing:

Project No.	Principal Borrowed	Amortization Term	Variable Interest Rate*	Payment Frequency
1425	\$6,350,000	5 years	0.82%	Quarterly

* Fixed interest rate is derived from calculating what the City would receive if the principal were instead invested in the market in a 5-year investment.

The Administration is recommending that City Council authorize planned borrowing in the form of an internal loan up to the amount of \$6.35 million plus a variance of 10% for Capital Project 1425 - Land Development – Future City Operations North Yard. The source of funding for this internal loan will be the City's cash reserve. The quarterly repayment for borrowing the full \$6.35 million will be \$324,336.30 or \$1,297,345.18 annually which will be funded from the expected lease payments as well as expired leases the City currently pays.

Council Policy No. C03-027, Borrowing for Capital Projects, currently allows internal loans from existing civic reserves. The Administration is requesting a change to this policy to clarify that the City would be able to borrow internally through an investment of its own available cash balances similar to investments the City makes externally. In essence the City would be investing in itself using these funds. The requested amendments to section 2.2. of Council Policy No. C03-027 would define Internal Debt as follows:

“Internal Debt - refers to funds loaned from existing funding that would have otherwise been invested through the investment committee or civic reserves, in accordance with various City policies, for the financing of capital projects.”

Additionally, section 3(g) would be amended as follows:

“Internal loans may be made from funds that would have otherwise been invested in accordance with City Council Policy C12-009 (“Portfolio Management”) and City Council Policy C012-002 (“Investment Committee”) or from those reserves and under conditions specified in City Council Policy C03-003 (“Reserves for Future Expenditures”). This includes cash flowing capital projects from the City's available cash balances as a short-term loan.”

The 5-year maturity of the loan is compliant with Council Policy No. C12-009, Portfolio Management, section 3, subsection 3.4, (a)(i), which states “the term structure of each security held in the portfolio shall not exceed 10 years.”

Public Notice

Public Notice is required for consideration of this matter, pursuant to Section 3(e) of Policy No. C01-021, Public Notice Policy. As shown in Appendix 1, the following notice was given:

- Posted on the City's website on Friday, November 20, 2020; and
- Advertised in the Saskatoon StarPhoenix on Saturday, November 21, 2020.

NEXT STEPS

Once the loan is approved, the funds will be allocated to Capital Project 1425, and the Finance Division will oversee the repayment of the loan until it matures.

APPENDICES

1. Copy of Public Notice – Land Acquisition

REPORT APPROVAL

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Approved by: Kerry Tarasoff, Chief Financial Officer

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