

**REPORT TO HOSPITALS AND HOUSING COMMITTEE  
MEETING OF WEDNESDAY, NOVEMBER 01, 2023**

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**SUBJECT**     **Revenue Anticipation Borrowing Resolution for Current Capital Regional Hospital District Operating Expenditures**

**ISSUE SUMMARY**

Adoption of a Revenue Anticipation Borrowing Resolution (General Purpose) authorizing borrowing up to \$11 million if required prior to receipt of requisition and other revenues expected in 2024.

**BACKGROUND**

Under Section 31 of the Hospital District Act (HDA), regions are permitted to adopt a revenue anticipation borrowing resolution to secure short-term funding to meet financial obligations in advance of expected revenues. The section requires borrowed funds be repaid within nine (9) months from the date of borrowing.

Annually, the Capital Regional Hospital District (CRHD) receives multiple types of income such as requisition and lease revenue. While lease revenues are received monthly, requisition is received annually, typically in August. As a result of regular cash flow variations, the CRHD has potential borrowing requirements at various points during the year.

To minimize cash flow risk and continuity of CRHD operations, the use of revenue anticipation borrowing is recommended.

The proposed revenue anticipation resolution will authorize up to an average of four (4) months of expenditure outflows, ensuring uninterrupted operations and the lowest cost of financing. For 2024, based on current market interest rates and cashflow forecasts, the limit on the general borrowing is recommended to be \$11 million. The calculation for 2024, is equal to four-twelves (4/12) of the approved 2024 provisional operating budget of \$33 million.

When utilized, the CRHD will borrow funds by leveraging overdraft arrangements within current banking agreements or through the Municipal Finance Authority (MFA). Currently, Royal Bank of Canada's overdraft rate is 7.2% and MFA's short-term borrowing rate is 5.62% (both variable rates as of October 24, 2023).

**ALTERNATIVES**

*Alternative 1*

The Hospitals and Housing Committee recommends to the Capital Regional Hospital District Board:

That the Revenue Anticipation Resolution be adopted to allow the temporary borrowing of up to \$11 million for current Capital Regional Hospital District operating expenditures.

*Alternative 2*

That this report be referred back to staff for additional information.

## **IMPLICATIONS**

### *Financial Implications*

Historically, staff have presented the revenue anticipation resolution as a fiscal risk management tool annually. The last time borrowing was exercised under this authority was July 2017 for \$1.1 million to cover short-term interest payments, which were repaid in August upon receipt of requisition revenue.

Under current economic conditions and in consideration of CRHD's growth, there is an opportunity to optimize this financial strategy. For this fiscal year, the CRHD plans to utilize revenue anticipation borrowing to enhance working capital management. Short-term borrowing ensures liquidity, particularly during periods of revenue fluctuations, it also stabilizes annual budget expenditures, enables quick access to capital projects financing and readies the CRHD for emergencies if required. Despite current high short-term interest rates, this method is more cost-effective due to the brief borrowing duration and payback requirements. Additionally, elevated short-term investment rates can make revenue anticipation borrowing advantageous by maintaining or potentially increasing interest revenue.

Effective January 1, 2024, the proposed revenue anticipation bylaw limit of \$11 million will allow the CRHD to leverage short-term borrowing, addressing working capital needs based on anticipated requisition and other revenue sources. These funds will only be accessed when necessary and will be repaid within nine (9) months of borrowing, in compliance with HDA Section 31.

While the CRHD historically only utilized the revenue anticipation borrowing bylaw once in recent history, it has been consistently presented for annual approval as a prudent fiscal risk management tool. In the upcoming fiscal year, adopting this bylaw permits a cost-effective borrowing mechanism to address revenue variations and optimally manage working capital.

## **CONCLUSION**

This proposed resolution is brought forward annually for consideration. Adoption of the resolution is necessary to authorize borrowing to cover expenditures in 2024 if required, pending receipt of anticipated revenues.

## **RECOMMENDATION**

The Hospitals and Housing Committee recommends to the Capital Regional Hospital District Board:

That the Revenue Anticipation Resolution be adopted to allow the temporary borrowing of up to \$11 million for current Capital Regional Hospital District operating expenditures.

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**ATTACHMENT**

Appendix A: Revenue Anticipation Resolution