

## Committee of the Whole (2) Report

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**DATE:** Tuesday, November 12, 2019

**WARD(S):** ALL

**TITLE: LETTER OF CREDIT POLICY**

**FROM:**

Michael Coroneos, Deputy City Manager, Corporate Services and Chief Financial Officer

**ACTION:** DECISION

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**Purpose**

The Letter of Credit Policy has been created to define the requirements for the use of a letter of credit or other acceptable forms of security including a standardized letter of credit format, financial institution requirements, the process for unclaimed securities and the responsibilities and approval authorities related to the collection and release of securities.

**Report Highlights**

- The Letter of Credit Policy will govern the collection, administration, release, reduction or draw on letters of credit or cash securities collected by the City.

**Recommendations**

1. That Council approve the Letter of Credit Policy as presented, including giving Staff the authority to release, reduce, or draw on a letter of credit or cash security as required.

**Background**

Various departments within the Corporation require letters of credit or cash securities to secure financial and/or performance obligations through various development approval processes and agreements between the City and outside parties.

A letter of credit is a document issued by a financial institution on behalf of its customer authorizing the City to receive a value up to an amount stipulated in the letter of credit in the event that the customer defaults on a contractual obligation with the City.

Various departments are involved in the letter of credit process, with Development Finance being the primary administrator for the bulk of the City's securities. Currently there is no policy in place to govern the City's letter of credit process. The intention of this policy is to streamline the approach across the Corporation to ensure a consistent process and approval authority framework.

It was determined that this policy would exclude securities collected by Recreation Services due to the short-term and immaterial nature of the securities collected as a part of their business operations. Additionally, any electronic bonds collected by Procurement are also exclude from this policy.

### **Previous Reports/Authority.**

N/A

### **Analysis and Options**

#### **A standard letter of credit format will ensure consistency across all letters of credit received by the City**

A standardized letter of credit format has been prepared by staff and is attached as Appendix A to this report. The format will ensure that all pertinent and required information will be included on the form to assist staff in the administration of the securities.

#### **Acceptable Financial Institutions**

Letters of credit will only be accepted by Schedule 1 Canadian Chartered banks which have a credit rating of a R-1 (mid) or higher as provided by Dominion Bond Rating Service (DBRS), or an equivalent rating by the rating agency Moody's Investor Service (Moody's) or Standard and Poor's (S&P). This includes several larger Canadian Banks which are listed within the policy. Any deviations from the list of acceptable banks may only be accepted on the approval of the Director of Financial Planning and Development Finance.

Cash securities in an equal amount to the letter of credit may be accepted, to the satisfaction of the Manager, Development Finance and may include a certified cheque, money order or bank draft.

### **Unclaimed Letters of credit and cash securities will be reviewed annually**

On an annual basis, the Development Finance Development Clerk shall review the cash securities and identify those securities that are five or more years old. If it is determined that the letters of credit are in a position to be released, they will be released to the last known address of the Applicant. In the event that an applicant cannot be found, and the securities continue to remain unclaimed, they shall be added to an annual list of unclaimed securities.

Unclaimed cash securities that are five or more years old may be deemed forfeited to the City after a ninety-day public notice period. Once the public notice period has expired, a report will be brought to Council to authorize the transfer of forfeited cash securities into tax-funded reserves as recommended at the time of the report. A minimum of 10% of the forfeited cash will be transferred into the Tax Rate Stabilization Reserve. A record of the forfeited cash securities will be retained in the event that an Applicant comes forward to claim their security. If an Applicant has fulfilled the obligations of the original agreement the Treasurer will be authorized to release the security through a withdrawal of monies from the Tax Rate Stabilization Reserve.

### **Approval Authority for the Reduction or Release of Securities**

All requests for reduction or release of securities will be directed to the appropriate department(s) responsible for the secured works. A framework has also been developed for the authority to release, reduce, or draw on a letter of credit or cash security and is structured as follows:

Type of Security	Type of Inspection	Authority
Permit	Building (Under \$15,000)	Inspector
	Building (\$15,000 and Over)	Manager
	Grading (Under \$10,000)	Supervisor
	Grading (\$10,000 and Over)	Manager
	By-law	Inspecting By-law Officer
	Parks & Forestry	Manager
Tree Protection		Urban Design Manager
Site Plan		Urban Design & Engineering Managers
Conditional Permit		Building Standards Technical Manager
Subdivision		Development Engineering Director
All Other		Department Head

### **Financial Impact**

Letters of Credit and cash securities are intended to protect the City in the event that an Applicant defaults on their contractual obligation to the City. These transactions reduce risk to the City by ensuring that financial and/or performance obligations are secured for. As a result, there are no direct financial implications to the City as a result of the collection of letters of credit or cash securities.

In the instance of unclaimed securities, they will be considered a revenue source applied to reserves based on a recommendation of Staff to Council.

### **Broader Regional Impacts/Considerations**

N/A

### **Conclusion**

With Council approval of the Letter of Credit Policy, staff will have a clear direction on how to administer letters of credit and cash securities across the organization.

**For more information**, please contact: Nelson Pereira, Manager Development Finance

## **Attachments**

1. Letter of Credit Policy
2. Appendix A: Standard Format for Letters of Credit
3. Appendix B: Lottery Licence Letter of Credit

## **Prepared by**

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