DECISION ITEM:

BOARD/COMMITTEE:	**BOARD OF DIRECTORS**
MEETING DATE:	**September 25, 2024**
AGENDA ITEM:	**Board Authorization for Line of Credit**

RECOMMENDATION:

The Finance Committee recommends that the Board authorize the Executive Director to enter into an agreement with the Royal Bank of Canada ("RBC") for a line of credit not exceeding $1,000,000.

OVERVIEW:

The Finance Committee is proposing that RODS establish a line of credit with RBC. The purpose of the line of credit is to act as a risk management tool that would enable RODS to better ensure its ability to meet its financial obligations.

BACKGROUND:

A line of credit is a widely used financial tool that typically serves two purposes for an individual or entity:
1. as an emergency source of funds; and/or,
2. as a source of financing.

RODS does not require a line of credit as a financing source, however it is a prudent risk management practice to have an emergency source of funding to meet payment obligations.

Nearly all large private sector and government entities have lines of credit, as do many individuals.

A line of credit is also a common financial management tool for larger entities in the not for profit sector. Examples of agencies with lines of credit include the Canadian Cancer Society and the Heart and Stroke Foundation of Canada. In the settlement sector, entities with lines of credit, include the Saskatoon Open Door Society, the Calgary Catholic Immigration Society and the Immigrant Centre of Manitoba. The overall prevalence of lines of credit in the settlement sector is not easily determinable, because most agencies do not post their detailed financial statements on their website.

The following table shows that more than 80% of costs associated with salaries and benefits and rent. These costs are known well in advance and are highly predictable. In contrast, RODS' periodic cash inflows are far less predictable, because most revenue comes from the federal government, and the timing of these cash flows varies.

RODS' Cash Expenses by Purpose

2018-2024

Salaries and benefits	72.5%
Rent	9.7%
	82.2%
Office supplies	2.7%
Repairs & maintenance	2.2%
Travel & in-town transportation	2.1%
Capital expenditures	1.8%
Other	9.0%
	100.0%

Thus, **RODS' key cash flow risk is ensuring that it meets its payroll obligations. These obligations are approximately $800,000 per month.**

Missing a payroll payment would have a significant impact on staff. Historically, RODS managed this risk by holding large balances in its operating bank account. This is an effective way to mitigate this risk, however it is costly, because cash held in RODS operating bank account does not earn interest. An alternative is to have a line of credit available as a form of insurance that extra funds will be available in the event of an unexpected situation.

Any amounts drawn against a line of credit would bear interest at a rate above the RBC prime rate, so RODS would only use a line of credit in an emergency.

In addition to the interest cost of using a line of credit, there is also a standby fee associated with having the credit facility available. RBC has verbally estimated a cost of $200 per month as an administrative fee plus 10 basis points per year. This means that a $1,000,000 line of credit would cost $3,400 per year ($200 x 12) + ($1,000,000 x .001). **With good cash management, all or a portion of this cost can be recovered through increased interest income resulting from RODS being able to maintain lower cash balances due to the availability of the credit line.** Thus, the net cost of this risk management tool should be very low.

For non-profit organizations, RBC states that it is generally willing to approve an amount up to 10% of an entity's revenue, which for RODS would be $1,300,000.

One of the conditions of applying for a line of credit is a Board resolution stating that the Board "approves negotiating a line of credit for up to $1,000,000 for liquidity purposes." The Finance Committee is recommending the approval of a resolution to this effect. **Approving a resolution does not bind RODS to an agreement**; it is just a necessary step in the process.

ALTERNATIVE:

- The status quo: continue to do without a line of credit. This would save the standby cost associated with having a line of credit, however RODS would lose the assurance that funds are available to it in an emergency, which would impact the way in which RODS conducts its investing activities.

COMMUNICATION STRATEGY:

The resolution will be communicated to RBC as the next step in the process of establishing a line of credit.

If a line of credit is successfully negotiated, it will be disclosed in the notes to RODS' financial statements in future years.

REQUIRED APPROVAL:

Board of Directors

STRATEGIC ALIGNMENT:

I1: internal capacity and process efficiency

TIMEFRAME/CONSEQUENCES OF DEFERRING DECISION:

There is no specific deadline for a decision.