

Staff Report to Council

Financial Services

FILE: 05-1615-01/21

REPORT DATE: December 07, 2021 **MEETING DATE:** December 14, 2021
TO: Mayor and Council
FROM: Cheryl Harding, Director of Financial Services
SUBJECT: Long Term Borrowing for Police Building Project

CHIEF ADMINISTRATIVE OFFICER REVIEW/APPROVAL:



RECOMMENDATION(S):

THAT Council:

- A. Direct staff to include the Police Building Project of \$20 million in the 2022 to 2026 Five Year Financial Plan Bylaw; AND
- B. Grant first, second and third readings to the Police Building Loan Authorization Bylaw No. 2913, 2021 which will initiate the process of obtaining funding through the Municipal Finance Authority of British Columbia (“MFA”) for the construction and related costs of the Police Building Project ; AND
- C. Grant first, second and third readings to the Temporary Borrowing Repeal Bylaw No. 2912, 2021; OR
- D. Other.

PURPOSE

The purpose of this report is to provide information about, and to receive approval to obtain, long-term borrowing through the MFA to fund the construction and related costs of the autonomous RCMP detachment building.

Information Report Decision Report Direction Report

DISCUSSION

Background:

At the March 2, 2021 Regular Meeting of Council, Council passed the following motions:

- A. Receive for information the Staff Report titled "Recommended Site for the New Independent RCMP Detachment" dated February 24, 2021; AND*
- B. Approve Site E-2, the Art Gallery / Athletic Building, as the site preferred for the new independent RCMP detachment; AND*
- C. Refer to Staff to advance conversations and processes required pertaining to statutory right of way, land consolidation, and park designation amendment.*

In addition to the approved site E-2 location and Class-D cost estimate of \$18,251,000, which includes a \$2.8 million contingency, a further contingency of \$1,749,000 was added to the project to arrive at a project budget of \$20 million. The staff report titled "Recommended Site for the New Independent RCMP Detachment" dated February 24, 2021 also recommended borrowing as the funding source for this project.

Relevant Policy, Bylaw or Legislation:

Community Charter Section 179 provides Council the authority to incur a liability by borrowing for capital purposes through the adoption of a loan authorization bylaw.

Community Charter Section 175.4(c) and Community Charter Municipal Liabilities Regulation BC Reg 254/2004 Part 2, Section 7 establishes the approval-free liability zone where approval of the electors is not required if the cost of servicing the debt does not exceed 5% of the annual calculation revenue of the municipality for the previous year. Based on a 30-year borrowing term, the City's approval-free liability zone is currently \$28 million.

Community Charter Section 181 provides for temporary borrowing under a loan authorization bylaw up to the maximum value of the loan authorization bylaw. This is facilitated through the adoption of a temporary borrowing bylaw after a loan authorization bylaw is adopted.

Analysis:

Municipal Finance Authority (MFA) Borrowing Process

The process of obtaining funds through the MFA is initiated by way of the introduction and related readings of a municipal loan authorization bylaw, followed by approval of the Inspector of Municipalities, approval through the Metro Vancouver Board, and finally, approval by the MFA Board. Until such time funding is required for the full cost of construction, temporary borrowing from the MFA may be accessed to meet the cash flow needs of the project. As well, temporary borrowing can be utilized to fund a project rather than converting it to long-term borrowing provided the proceeds are repayed within 5 years.

Subject to Council approval of the recommendations in this report, staff plan to monitor interest rates with the likely intention of completing the long-term borrowing process by June 1st, 2022 which will allow the MFA to deliver the necessary funding to the City in the fall of 2022. Staff is recommending long-term borrowing through the MFA given the presently favourable interest rate environment and the inexpensive cost to access money. Further, the actual interest rate applicable to the City's long-term borrowing will become known when the MFA releases the Fall 2022 debenture issue approximately in October 2022. Securing the building proceeds in the Fall 2022 debenture issue creates certainty, allowing the City to take advantage of the historically low interest rate environment. As is the usual practice for multi-year projects, the City will invest the funds to match the timing of the expenditure outlays, thereby reducing the overall borrowing cost.

Expenditures for the project have begun, most recently related to the approved funds for the detailed design of the detachment building. In 2022, it is anticipated further costs will be incurred by the City to temporarily/permanently relocate the Art Gallery, demolish the Blockhouse building, and to prepare the site for construction. Therefore, the Fall 2022 MFA debenture issue is timely to fund these expenditures.

Staff recommend the long-term borrowing be taken under a 30-year amortization period. The interest rate term would be set at ten years, as per standard MFA practice. At the end of ten years, borrowers have the option to pay off the remaining loan principal in full, make a partial lump-sum principal payment and refinance the balance, or refinance the entire principal outstanding at that time. All interest rate terms, subsequent to the initial 10-year term, are set every five years.

Additionally, after adoption of the loan authorization bylaw, Council may wish to consider approving a temporary borrowing bylaw as a mechanism to allow for increased flexibility to finance the project. The combination of the loan authorization bylaw and the temporary borrowing bylaw cannot exceed the \$20 million that has been authorized however, any combination of loan amounts could be considered. For example, the loan authorization bylaw could be \$15 million while the temporary borrowing bylaw could be \$5.0 million. Using the above example, the City would have the flexibility to repay within 5 years up to \$5.0 million. This would lower interest costs but, would require accessing reserves that Council may wish to use for other purposes. Staff are not seeking Council decision at this time. Later in the process and prior to June 1st, 2022, staff will make recommendations to Council pertaining to a temporary borrowing bylaw and associated amounts for each bylaw.

Assent Free

The Community Charter provides Council with the authority to approve borrowing up to a debt servicing limit (principle & interest payments) of 5% of a city's revenues. The proposed \$20 million project is within the City's assent free debt capacity which is currently \$28 million calculated as:

- 2020 prescribed revenues of \$39,278,043 x 5% = \$1,963,902 Assent Free liability servicing limit;
- The City's 2020 actual debt servicing cost of \$547,868 is deducted from the \$1,963,902 resulting in an assent free liability servicing capacity of \$1,416,034;
- Using the Municipal Finance Authority current rate of interest of 2.68% over a 30-year term equates the \$1,416,034 to assent free debt capacity of \$28 million.

Temporary Borrowing Bylaw No. 2452, 2010

The City currently has a temporary borrowing bylaw for \$4.5 million related to a 2009 Drainage Utility Loan Authorization Bylaw No. 2430, 2009. The Utility Loan Authorization Bylaw No. 2430, 2009 has expired and there are no funds outstanding under these bylaws. Therefore, to maximize the Assent Free capacity for this project and future ones, it is necessary to repeal this temporary borrowing bylaw which is accomplished with the Temporary Borrowing Repeal Bylaw 2912, 2021.

COUNCIL STRATEGIC PLAN ALIGNMENT

- Principled Governance Balanced Economic Prosperity Corporate Excellence
 Community Spirit & Wellbeing Transportation & Infrastructure Initiatives
 Not Applicable

Accessing MFA long-term borrowing at historically affordable interest rates supports Council's Strategic Plan objective under Corporate Excellence of responsible financial management.

FINANCIAL IMPLICATIONS

- None Budget Previously Approved Referral to Business Planning
 Other

The City's 2022-2026 Financial Plan will include appropriate allocations for the annual principal and interest repayments of the MFA long-term borrowing for the Police Building Project. The estimated annual debt servicing cost to borrow \$20 million over a 30 year term is approximately \$1.1 million. Staff propose to fund the debt servicing cost from construction growth revenue previously allocated by staff in anticipation of this project proceeding and re-

direct existing annual funding from the Future Capital Reserve which is designated, by bylaw, to fund new capital infrastructure such as the police building.

This funding approach will result in not creating a property tax increase related to servicing the borrowing for the Police Building Project.

PUBLIC PARTICIPATION

Inform Consult Involve Collaborate Empower

Comment(s):

As defined by the Community Charter, the City’s debt capacity of \$28 million falls within Council’s approval level. The \$20 million budget for the Police Building Project falls below this limit therefore approval of the electorate is not required to borrow funds for this project.

KATZIE FIRST NATION CONSIDERATIONS

Referral Yes No

None

SIGN-OFFS

Written by:

Cheryl Harding,
Director of Financial Services

Reviewed by:

Mark Roberts,
Chief Administrative Officer

ATTACHMENT(S):

- A. Police Building Loan Authorization Bylaw No. 2913, 2021
- B. Temporary Borrowing Repeal Bylaw No. 2912, 2021