



To: Community Safety Committee **Date:** May 7, 2002
From: Chuck Gale, P. Eng. **File:** -
General Manager, Community Safety
Re: **Community Safety Buildings Internal Financing Options**

Staff Recommendation

1. That *Scenario 2 – Blended Tax Rate/Current Casino Funding*, be approved as the funding strategy for the Community Safety Buildings project, and
2. That staff not pursue a referendum question, and
3. That staff implement Phase 2 of the communications strategy for the Community Safety Buildings project.

Att. 1

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Staff Report

Origin

On January 14, 2002, Council resolved to finance internally the replacement of community safety buildings, rather than borrowing the funds from the Municipal Finance Authority. A savings of over \$31 M was identified through the use of internal financing. The difference in cost was attributed to the interest on debt repayment. As a result, staff were directed to report on options available to Council to give effect to the internal financing strategy.

Council also decided to defer the decision on whether to hold an “opinion” referendum on the replacement of community safety buildings, until the financing options were presented to Council (see *Attachment 1* for a detailed description of these resolutions).

Staff identified the need for a communications strategy in support of replacing the Community Safety Buildings in the “Replacement of Community Safety Buildings – Communication Strategy” report to Council January 14, 2002.

Purpose

This report presents the requested internal financing options, and communication strategies for increasing awareness and receiving public input on project issues.

Analysis

Financing Options

The total cost of the replacement of the Community Safety buildings is estimated at \$41M. The Finance Department has proposed using the City’s reserves as a source of bridge financing for this project. The reserves would be used initially to finance construction, and then be repaid.

Staff investigated four possible scenarios available to Council for repaying the reserves. As a comparator the figures illustrating the impact of borrowing from the MFA are included. It is important to note that in each scenario the reserve is being paid back with interest, and that the interest is calculated based on the same rate of return as if the reserve funds were invested.

In each of the scenarios, the funding was calculated up to 2027, which is when the comparator (loan from MFA) would be repaid. A benefit of *Scenarios 1- 3* is the ability to continue contributions to a dedicated Building Reserve, which could be used to fund facility needs identified in the overall Facilities Master Plan once Community Safety Buildings are completed. As an example, utilizing this internal financing method until 2027 would accrue between \$71M and \$75M.

Table 1 – Internal Financing Options, located in *Attachment 2*, outlines the capital required, reserve balance and impact on the average household for the comparator and *Scenarios 1-3*. There are no figures available for *Scenario 4* at this time.

Scenario 1 - Tax Rate Increase

Property taxes are increased 4.5% over a period of three years beginning in 2003. Tax increases would be 1% in the first year, 1.5% in the second year, and 2% in the third year. There is no other revenue source. The length of the term needed to repay the reserve is 12 years.¹

Scenario 2 – Blended Tax Rate/Current Casino Funding

The current level of casino funding available was used in this scenario. A tax rate increase of 1% in the first year and an additional 1.5% in the second year. Casino funding would be as presented in table 1, and was intended to represent the current level of funding available from casino revenues. A 12 year term is needed to repay the reserve².

Scenario 3 –Additional Casino Funding

All funding comes from the casino reserve. In this scenario it is assumed that additional casino funding of approximately 5 to 7 million will be available. Up to 4.4M a year for 11 years will be required to repay the reserve.

Scenario 4 – Land Development (not in Table 1)

This fourth scenario is predicated on using revenue from the development of the city owned lands situated at 6080 River Road (between No. 2 Road and Hollybridge). At present, this 25 acre site is undeveloped with the exception of the RV park located to the east. There are several options available to Council for generating revenue from this site, for example:

1. The site be sold in its existing condition
2. The site be sold with road and park dedications
3. The site be sold with zoning in place and servicing installed
4. The site be marketed as a prepaid 99 year lease with park and road dedication in place
5. The site be marketed as a prepaid 99 year lease with zoning and servicing in place

At the May 16, 2002 General Purposes meeting, the Manager, Lands and Property will be presenting the Land Acquisition Program Update 2002 report. One of the recommendations in the report “directs staff to proceed with site development option planning for the City-owned lands at 6080 River Road, including seeking development proposals”.

For the purposes of funding the building project, this option could not be relied on in the short-term. If development occurred, and Council wished to make a contribution to pay down the internal loan at an accelerated rate, that option could be exercised at any time. Staff do not recommend a decision based on this option because of the uncertainty associated with development projects.

^{1 & 2} The impact on the taxpayer was calculated using the assessed value of an average home in Richmond (\$237,000).

Additional Revenue

Although the current Public Safety Building does not meet the criteria for a post disaster building. It could be leased as commercial office space. It is estimated the City would realize a revenue offset for this project of approximately \$300,000 per year if the building were retained as a lease property. This revenue opportunity has not been factored into this financing proposal.

Summary

There are several scenarios available to Council for repaying the reserves. *Scenario 1* has the most impact on taxpayers, and may be the most challenging in gaining acceptance from the community, given the five year budget projections. *Scenario 3* has no impact on taxpayers, however there is uncertainty about whether additional casino funding will become available. The land development in *Scenario 4* has the potential to offset some or all of the costs of repaying the reserves, however it will be several years before this is known.

Staff recommend *Scenario 2* be adopted. This is with the understanding that if the additional casino funds, or the revenue from the development of the City owned lands at 6080 River Road become available staff could be directed to present alternative funding options at that time.

Communications Strategy

The first phase of the communication strategy focused on the need to create awareness in the community, of the current state of the community safety buildings and the need for replacement.

In early February two media tours were held to build support for the need to replace the Community Safety buildings. The tours consisted of one for English language media and one for Chinese language media. The response in the local media was positive. Articles in the Richmond Review and Richmond News highlighted the condition of the current fire halls and Public Safety building, citing the cramped conditions, operational inadequacies and the concerns over seismic capabilities.

Phase 2 of the communications strategy was scheduled to begin in the Spring, once Council approved the sites for the community safety buildings. Phase 2 focuses on public information and consultation, through a series of neighbourhood meetings and larger public information meetings.

Council were also considering a referendum question in the fall of 2002 regarding this project. A decision on the possibility of a referendum "opinion" question, was postponed until after staff had an opportunity to present the approved siting and building proposals for each of the halls, to the community as proposed in the Phase 2 communications plan.

Many things have transpired to upset our timetable, and push us into the early summer months for part of our public process. Staff will begin implementation of Phase 2 once the sites for the individual buildings are known.

As an alternative to the opinion referendum question, staff have established that by undertaking a telephone survey, we could obtain a statistically representative sample of our community in order to provide Council with the communities collective opinion on this project. A telephone survey could give an indication of the community's opinion on the use of casino funds and/or revenue from land development to fund the replacement of community safety buildings. The telephone survey would be conducted in both English and Cantonese and would take approximately four weeks to complete. In the alternative, if Council currently have a sufficiently comfortable "feel" of the communities interest in this issue, staff could be directed not to pursue the referendum question, but simply to continue with the information sessions with the community.

Financial Impact

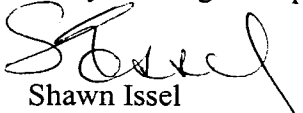
The cost to replace the community safety buildings is approximately \$41M. The impact of the various funding scenarios is identified in Table 1.

The cost of conducting a telephone survey is \$11,500.

Conclusion

Financial support for the replacement of Community Safety Buildings through a internal financing ensures an adequate, ongoing source of funding. *Scenario 2* being recommended by staff is the option which is most feasible and has the least impact on taxpayers. Other financing options could be considered in the future as they become available.

Phase 2 of the Communication Strategy will be implemented once the sites for the community safety buildings are approved.



Shawn Issel
Manager, Divisional Programs

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Attachment 1

1. REPLACEMENT OF COMMUNITY SAFETY BUILDINGS - FINANCING OPTIONS

(Report: Oct. 24/01, File No.: 2052-02) (REDMS No. 580012, 539084)

R02/1-11
It was moved and seconded

- (1) *That the funding method for the replacement of Community Safety Buildings be approved (as outlined in Option C of the report dated October 24th, 2001, from the General Manager, Community Safety).*
- (2) *That the following, Parts 1 and 4 of Resolution IC01/15-4 (adopted by Council on Monday, July 23, 2001), be rescinded:*
 - “(1) That funding for the replacement of community fire hall facilities, at an estimated value of \$22 million (including land acquisition), be presented to the electorate as a referendum question at the 2002 civic election.*
 - (4) That funding for the replacement of a new RCMP/Public Safety Building, at an estimated cost of \$27 million, be presented to the electorate as a referendum question at the 2005 civic election.”*

The question on Resolution No. R02/1-11 was not called, as the following **amendment** was introduced:

R02/1-12
It was moved and seconded

That Resolution No. R02/1-11 be amended by adding the following as Part (3), “That staff examine and report on additional alternative financing methods for the replacement of the community safety buildings.”

WITHDRAWN

The question on Resolution No. R02/1-11 was not called, as a further **amendment** was introduced:

R02/1-13
It was moved and seconded

That Resolution No. R02/1-11 be amended by deleting Part (1) in its entirety, and by substituting the following, “That an internal financing method for the replacement of community safety buildings, be approved, and that staff report to Council on ways to achieve that.”

CARRIED

The question on Resolution No. R02/1-11, as amended by Resolution No. R02/1-13 was then called, and it was **CARRIED**.

R02/1-14 It was moved and seconded

That additional alternative financing methods for the replacement of the community safety buildings be identified.

WITHDRAWN

R02/1-15 It was moved and seconded

That an opinion referendum be held on the replacement of community safety buildings at the 2002 General Local Election.

The question on Resolution No. R02/1-15 was not called, as the following **tabling** motion was introduced:

R02/1-16 It was moved and seconded

That Resolution No. R02/1-15 be tabled until staff report to Council on internal financing options for the replacement of the community safety buildings.

CARRIED

OPPOSED: Cllr. Howard

Table 1 – Internal Financing Options

Attachment 2

	2003	2004	2005	2006	2007	2008	2007 TOTAL
CAPITAL REQUIRED	3,000,000	3,000,000	3,600,000	8,865,000	11,335,000	10,900,000	40,950,000
COMPARATOR							
Loan from MFA	0	10,000,000	0	9,000,000	11,000,000	10,950,000	40,950,000
Repayments	-65,655*	-896,780	-896,780	-1,703,882	-2,690,340	-3,672,314	-72,622,280
Reserve Balance	0	0	0	0	0	0	0
Impact per avg. household over the 2002 base	0.62	8.47	8.47	16.08	25.40	34.67	685.46
<i>*interest repayment in 2003 is to Revolving Fund</i>							
SCENARIO 1							
Tax 1.0% / 1.5% / 2.0%	953,426	2,383,565	4,290,417	4,290,417	4,290,417	4,290,417	102,016,571
Reserve Balance	-2,369,355	-3,070,885	-2,448,312	-7,233,582	-14,706,510	-21,955,577	71,984,281
Impact per avg. household over the 2002 base	9.00	22.50	40.50	40.50	40.50	40.50	963.00
SCENARIO 2							
Tax 1.0% / 1.50%	0	953,426	2,383,565	2,383,565	2,383,565	2,383,565	55,775,415
Casino Funding-Current	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	46,100,000
Reserve Balance	-2,321,453	-3,052,616	-2,436,569	-7,228,545	-14,708,379	-21,964,559	71,787,598
Impact per avg. household over the 2002 base	9.00	22.50	22.50	22.50	22.50	22.50	549.00
SCENARIO 3							
Casino Funding-Addn'	1,000,000	2,400,000	4,400,000	4,400,000	4,400,000	4,400,000	104,600,000
Reserve Balance	-2,321,453	-3,004,714	-2,267,549	-6,934,525	-14,285,611	-21,409,179	75,877,179
Impact per avg. household over the 2002 base	0.00	0.00	0.00	0.00	0.00	0.00	0.00