



City of Richmond

Report to Committee

To: Community Safety Committee
From: Chuck Gale, P. Eng.
General Manager, Community Safety
Date: June 27, 2002
File: 5000-01
Re: **Community Safety Buildings - Internal Finance Options**

Staff Recommendation

THAT Community Safety Committee approve Scenario 2e for the internal financing of the Community Safety Buildings, and

AND THAT a referendum on financing options not be undertaken as part of the Communications strategy for the Community Safety Buildings.

Chuck Gale, P. Eng.
General Manager, Community Safety

Jim Bruce
General Manager, Finance & Corporate Services

Staff Report

Origin

At the Community Safety committee meeting May 16 the General Manager, Community safety was directed to:

Review and report to Committee on various scenarios with respect to interim financing options, including holding a referendum to determine the financing option preferred by the public.

With reference to the holding of a referendum in conjunction with the November civic election, the following resolutions were carried at the January 14, 2002 Council meeting:

R02/1-15 ***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 ***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.***

On June 11, 2002, the Community Safety Committee received a further report addressing the issue of an opinion referendum. Committee resolved as follows:

That the report (dated May 24th, 2002, from the General Manager, Community Safety), regarding the Community Safety Buildings Project – Update, be referred to the July 9th, 2002 meeting of the Community Safety Committee.

This report provides Council with options for the financing of the Community Safety Buildings project, and addresses the issue of a referendum.

Analysis

Financing Options

The total cost of the replacement of the Community Safety buildings is estimated at \$41M. The City's reserves would be used to finance construction according to the following cash flow requirement, and then be repaid with interest. Table 1 outlines the projected capital required in each year of the project.

TABLE 1

YEAR	CAPITAL REQUIRED
2002	250,000
2003	3,000,000
2004	3,000,000
2005	3,600,000
2006	8,865,000
2007	11,335,000
2008	10,900,000
Total	40,950,000

There are three funding sources which could be used to repay the reserves – Tax Rate increase, Casino Funding and Land Development. Each of these can be used in a number of different combinations dependent upon Council's direction. It is important to note that in all scenarios, the reserve is being paid back with interest, and the interest is calculated using the same rate of return as if the reserve funds were invested. The funding sources are:

1. ***Tax Rate Increase*** - has the potential to offset some or all of the costs of repaying the reserves, however it has the most impact on taxpayers, and may be the most challenging in gaining acceptance from the community, given the five year budget projections.
2. ***Casino Funding*** - has the potential to offset some of the costs of the repaying the reserves and will reduce the impact on taxpayers. Additional casino funding has the potential to fully fund the project and therefore have no impact on taxpayers, however there is uncertainty regarding it's future availability.
3. ***Land Development*** - has the potential to offset some of the costs of repaying the reserves. However, it will be several years before this funding is available. Funding availability 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 29 acre site is undeveloped with the exception of the RV park located to the east. There are several options available for generating revenue from this site, for example:
 - a) The site be sold in its existing condition
 - b) The site be sold with road and park dedications
 - c) The site be sold with zoning in place and servicing installed
 - d) The site be marketed as a prepaid 99 year lease with park and road dedication in place
 - e) The site be marketed as a prepaid 99 year lease with zoning and servicing in place
 - f) The City "joint ventures" with a builder to develop the lands.

The three funding sources can be combined in different ways to form a number of financing scenarios for the project. Previously presented funding scenarios did not include applying the

proceeds from the sale City Land to the project. As requested by Committee, the funding scenarios have been expanded to include the proceeds from the sale of the River Road lands.

Attachment "A" reflects a number of financing scenarios. The scenarios numbered as 1, 2, 3 etc are essentially the same as presented in previous reports. the scenarios numbered 1a, 2a, 2b, etc. represent additional scenarios which incorporate either the revenue from the sale of City lands at 6080 River Road, additional casino funding or a combination of the two.

Commentary of Financing Options

It is very difficult to reflect funding combination in this report, as there are an infinite number of combinations possible. Staff have presented a sample of combinations for the purposes of illustration, and have recommended their preference. During the Committee meeting, staff will have the financial model present in order to address specific questions from committee members.

A consultant was retained to estimate the net revenues the City could expect to realize from the sale of the 6080 River Road property. The estimate was to be based on a number of development scenarios provided by the City's planning staff. The work of the consultant could not be completed in time to include a "certain" number in the report. Therefore, staff have used an estimate of \$15M in net revenue for the purposes of developing the attached funding scenarios. The consultant's estimate will be available at the Committee meeting, and staff will be able to provide updated information on the funding scenarios.

There are two realities staff had to reconcile in making their recommendation:

- A. We could not rely on casino funding that might be realized as a consequence of a change in the gaming environment.
- B. We could not rely on funding from the development of the River Road lands.

Both these circumstances presented uncertainties that staff felt were unacceptable as part of a project funding strategy. To address these variables, staff made the following assumptions:

- A. That only currently available casino funds be incorporated into the funding strategy, adjusted to reflect any known commitments.
- B. That potential additional casino funds be incorporated into the funding strategy in a way that reduces the financing needs but is not required in order to fund the project.
- C. That 6080 River Road would be sold by the end of 2003 and the proceeds could be made available to fund the building project in the 2004 fiscal year.

Staff recognize that some form of development of the River Road lands would likely return a larger net profit to the City than its sale, but the uncertainty regarding the timing for this option was unmanageable. The city does not have the flexibility to front end finance the development of this land as well as the community safety building project and other possible City commitments.

Any combination of funding sources that were considered prudent and achievable, resulted in a recognition that, to fund the building project, a tax increase would be necessary. Staff, therefore, recommended the use of a phased tax increase, uncommitted casino funding and the possibility of augmenting funding with the use of additional casino funding, should it materialize. It was also recognized that if financial circumstances changed in the second or third year of the phased increase, the authorized increase could be mitigated accordingly.

Referendum Issue

Attachment "E" is a copy of the report submitted to the June 11th Committee meeting, which contains comments regarding the referendum issue. The matter was referred to the July 9th Committee meeting.

The Local Government Act in **Section 245 - Referendums to obtain electors' opinion** states:

A council may, by bylaw, provide for a referendum to obtain the electors' opinion on a question that affects the municipality and with which the council has power to deal.

If council wishes to conduct an 'opinion poll' in conjunction with the next civic election, it would be considered a referendum and would have to follow the legislated requirements for holding a referendum. It is only possible to vote yes or no, therefore the referendum question(s) would have to be appropriately worded to allow a yes/no response. To accommodate the City Clerk's requirements to establish a referendum, a bylaw authorizing such a referendum must receive three readings, no later than the August 26 Council meeting.

A significant issue lies at the heart of the question on whether or not to hold a referendum. Staff are concerned about the implications of doing this for the purposes of determining the best or most appropriate way to finance the project. If the issue was whether or not to undertake the project, a referendum or survey has some validity. But as has been clearly stated, the City will be replacing our community safety buildings ... the issue is how we want to fund the project. In considering the funding issue, it is staff's concern that the issue is far too complex to fairly and properly represent in a referendum question. It is staff's opinion that Council are best suited to decide on this complex issue.

It is likely that any person faced with a question on financing options will ultimately select the option that has the least impact on them. Given the choices Committee is considering, the least impact options would be land development or casino revenues. The City is currently in the process of addressing the issue of gaming, and a final outcome, which would allow Committee to assess the funding available from that source, will not be known in time for consideration as part of the decision process for this project. The option of developing the River Road site will only address part of the funding need as this one project is unlikely to net sufficient funds to fund the building project, (specifics will be available for July as noted above).

Finally, the financing of City initiatives is not a static issue. As circumstances change, Committee may find it appropriate and beneficial to alter the method of financing their operations. Commitment to a methodology through the Referendum or survey process could remove some of the flexibility necessary to ensure prudent management of City financial resources.

Implications of a referendum for the Community Safety Buildings work schedule

If Council choose not to hold a referendum then work on all the Community Safety Buildings can proceed according to the schedule laid out in the Master Plan for Community Safety Buildings.

Holding a referendum will affect the schedule of work. The scope of the project can not be finalized until there is certainty regarding the financing of the project. There is sufficient funding in the 2002 Capital Program to allow work to continue on the Bridgeport and Hamilton Fire Halls only, as follows:

- Community Safety Headquarters is on hold until funding resolved.
- **July** – Select consultant(s) for Bridgeport and Hamilton Fire Halls
- **August and September** - The consultant(s) and staff develop spatial designs
- **October** - Neighbourhood Meetings to gather community input on designs
- **November** - Bridgeport Fire Hall put on hold. Work continues on Hamilton Fire Hall to the construction and permit drawings stage
- **January 2003** – Hamilton Fire Hall is put on hold

(See Attachment “B” for Workplan)

Financial Impact

The cost to replace the community safety buildings is approximately \$41M. City’s reserves when used as a source of financing would be repaid with interest. The impact of the funding option selected by Committee will depend on the option selected as reported by staff at the committee meeting and in this report.

Conclusion

Internal Financing is the most cost effective method of financing the replacement of the Community Safety Buildings. The recommended method to pay for project financing is through a tax rate increase, casino revenues or land development needs to be determined. The issue of deciding which method is most appropriate is too complex to frame in a referendum question.

Shawn Issel
Manager, Divisional Programs

SI:si

Attachment "A"

CITY OF RICHMOND
Community Safety Buildings - Funding Options
 July 4, 2002

	2002	2003	2004	2005	2006	2007	2008	Thereafter 2009 - 2027	TOTAL
CAPITAL REQUIRED	250,000	3,000,000	3,000,000	3,600,000	8,865,000	11,335,000	10,900,000	0	40,950,000
<u>SCENARIO 1</u>									
Loan from MFA	0	0	10,000,000	0	9,000,000	11,000,000	10,950,000	0	40,950,000
Repayments	-7,125	-65,655	-896,780	-896,780	-1,703,882	-2,690,340	-3,672,314	-62,689,404	-72,622,280
Reserve Balance	0	0	0	0	0	0	0	0	0
Tax Impact (2002 base)	0.00%	0.07%	0.94%	0.94%	1.79%	2.82%	3.85%	65.75%	76.16%
Impact per Avg. household	0.00	0.62	8.47	8.47	16.08	25.40	34.67	591.77	685.46
<u>SCENARIO 1 a.</u>									
Loan from MFA	0	0	10,000,000	0	9,000,000	11,000,000	10,950,000	0	40,950,000
Land Sale	0	0	15,000,000	0	0	0	0	0	15,000,000
Repayments	-7,125	-65,655	-896,780	-896,780	-1,703,882	-2,690,340	-3,672,314	-62,689,404	-72,622,280
Reserve Balance	0	0	15,000,000	15,855,000	16,806,300	17,814,678	18,883,559	63,734,084	63,734,084
Tax Impact (2002 base)	0.00%	0.07%	0.94%	0.94%	1.79%	2.82%	3.85%	65.75%	76.16%
Impact per Avg. household	0.00	0.62	8.47	8.47	16.08	25.40	34.67	591.77	685.46
<u>SCENARIO 2</u>									
Tax 1.0% / 1.5% / 2.0%	0	953,426	2,383,565	4,290,417	4,290,417	4,290,417	4,290,417	81,517,914	102,016,571
Reserve Balance	-257,125	-2,369,355	-3,070,885	-2,448,312	-7,233,582	-14,706,510	-21,955,577	71,984,281	71,984,281
Tax Impact (2002 base)	0.00%	1.00%	2.50%	4.50%	4.50%	4.50%	4.50%	85.50%	107.00%
Impact per Avg. household	0.00	9.00	22.50	40.50	40.50	40.50	40.50	769.50	963.00
<u>SCENARIO 2 a.</u>									
Tax 1.0% / 1.5% / 2.0%	0	953,426	2,383,565	4,290,417	4,290,417	4,290,417	4,290,417	81,517,914	102,016,571
Land Sale	0	0	15,000,000	0	0	0	0	0	15,000,000
Reserve Balance	-257,125	-2,369,355	12,356,615	13,418,872	9,109,617	2,126,985	-4,617,076	104,155,132	104,155,132
Tax Impact (2002 base)	0.00%	1.00%	2.50%	4.50%	4.50%	4.50%	4.50%	85.50%	107.00%
Impact per Avg. household	0.00	9.00	22.50	40.50	40.50	40.50	40.50	769.50	963.00
<u>SCENARIO 2 b.</u>									
Tax 1.0% / 1.5% / 2.0%	0	953,426	2,383,565	4,290,417	4,290,417	4,290,417	4,290,417	81,517,914	102,016,571
Casino Funding-Current	0	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	36,100,000	46,100,000
Reserve Balance	-257,125	-1,340,855	-573,173	2,074,735	-617,843	-5,935,300	-10,964,230	142,296,874	142,296,874
Tax Impact (2002 base)	0.00%	1.00%	2.50%	4.50%	4.50%	4.50%	4.50%	85.50%	107.00%
Impact per Avg. household	0.00	9.00	22.50	40.50	40.50	40.50	40.50	769.50	963.00

SCENARIO 2 c.

Tax 1.0% / 1.5% / 2.0%	0	953,426	2,383,565	4,290,417	4,290,417	4,290,417	4,290,417	81,517,914	102,016,571
Casino Funding-Current	0	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	36,100,000	46,100,000
Casino Funding-Addn'	0	0	1,000,000	2,500,000	2,500,000	2,500,000	2,500,000	47,500,000	58,500,000
Reserve Balance	-257,125	-1,340,855	455,327	5,703,798	5,695,091	3,142,022	960,412	230,104,928	230,104,928
Tax Impact (2002 base)	0.00%	1.00%	2.50%	4.50%	4.50%	4.50%	4.50%	85.50%	107.00%
Impact per Avg. household	0.00	9.00	22.50	40.50	40.50	40.50	40.50	769.50	963.00

SCENARIO 2 d.

Tax 1.0% / 1.5% / 2.0%	0	953,426	2,383,565	4,290,417	4,290,417	4,290,417	4,290,417	81,517,914	102,016,571
Casino Funding-Current	0	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	36,100,000	46,100,000
Casino Funding-Addn'	0	0	1,000,000	2,500,000	2,500,000	2,500,000	2,500,000	47,500,000	58,500,000
Land Sale	0	0	15,000,000	0	0	0	0	0	15,000,000
Reserve Balance	-257,125	-1,340,855	15,882,827	21,570,981	22,038,290	19,975,518	18,298,912	262,275,780	262,275,780
Tax Impact (2002 base)	0.00%	1.00%	2.50%	4.50%	4.50%	4.50%	4.50%	85.50%	107.00%
Impact per Avg. household	0.00	9.00	22.50	40.50	40.50	40.50	40.50	769.50	963.00

SCENARIO 2 e.

Tax 1.0%/1.5%/ 2.0%/1.0%	0	953,426	2,383,565	4,290,417	5,243,842	5,243,842	5,243,842	99,633,007	122,991,941
Casino Funding-Current	0	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	36,100,000	46,100,000
Reserve Balance	-257,125	-1,340,855	-573,173	2,074,735	364,185	-3,941,781	-7,928,877	172,978,157	172,978,157
Tax Impact (2002 base)	0.00%	1.00%	2.50%	4.50%	5.50%	5.50%	5.50%	104.50%	129.00%
Impact per Avg. household	0.00	9.00	22.50	40.50	49.50	49.50	49.50	940.50	1,161.00

SCENARIO 2 f.

Tax 1.0% / 1.5% / 2.0%	0	953,426	2,383,565	4,290,417	4,290,417	4,290,417	4,290,417	81,517,914	102,016,571
Casino Funding-Current	0	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	36,100,000	46,100,000
Casino Funding-Addn'	0	0	0	1,000,000	2,500,000	2,500,000	2,500,000	47,500,000	56,000,000
Reserve Balance	-257,125	-1,340,855	-573,173	3,103,235	3,016,512	383,086	-1,881,292	224,832,266	224,832,266
Tax Impact (2002 base)	0.00%	1.00%	2.50%	4.50%	4.50%	4.50%	4.50%	85.50%	107.00%
Impact per Avg. household	0.00	9.00	22.50	40.50	40.50	40.50	40.50	769.50	963.00

SCENARIO 3

Tax 1.0% / 1.50%	0	0	953,426	2,383,565	2,383,565	2,383,565	2,383,565	45,287,732	55,775,418
Casino Funding-Current	0	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	36,100,000	46,100,000
Reserve Balance	-257,125	-2,321,453	-3,052,616	-2,436,569	-7,228,544	-14,708,379	-21,964,558	71,787,601	71,787,601
Tax Impact (2002 base)	0.00%	1.00%	2.50%	2.50%	2.50%	2.50%	2.50%	47.50%	61.00%
Impact per Avg. household	0.00	9.00	22.50	22.50	22.50	22.50	22.50	427.50	549.00

SCENARIO 3 a.

Tax 1.0% / 1.50%	0	0	953,426	2,383,565	2,383,565	2,383,565	2,383,565	45,287,732	55,775,418
Casino Funding-Current	0	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	36,100,000	46,100,000
Land Sale	0	0	15,000,000	0	0	0	0	0	15,000,000
Reserve Balance	-257,125	-2,321,453	12,374,884	13,430,615	9,114,655	2,125,117	-4,626,058	103,958,452	103,958,452
Tax Impact (2002 base)	0.00%	1.00%	2.50%	2.50%	2.50%	2.50%	2.50%	47.50%	61.00%
Impact per Avg. household	0.00	9.00	22.50	22.50	22.50	22.50	22.50	427.50	549.00

<u>SCENARIO 3 b.</u>									
Tax 1.0% / 1.50%	0	0	953,426	2,383,565	2,383,565	2,383,565	2,383,565	45,287,732	55,775,418
Casino Funding-Current	0	1,000,000	1,400,000	1,900,000	1,900,000	1,900,000	1,900,000	36,100,000	46,100,000
Casino Funding-Addn'	0	0	1,000,000	2,500,000	2,500,000	2,500,000	2,500,000	47,500,000	58,500,000
Reserve Balance	-257,125	-2,321,453	-2,024,116	1,192,493	-915,610	-5,631,057	-10,039,917	159,595,656	159,595,656
Tax Impact (2002 base)	0.00%	1.00%	2.50%	2.50%	2.50%	2.50%	2.50%	47.50%	61.00%
Impact per Avg. household	0.00	9.00	22.50	22.50	22.50	22.50	22.50	427.50	549.00
<u>SCENARIO 4</u>									
Casino Funding-Addn'	0	1,000,000	2,400,000	4,400,000	4,400,000	4,400,000	4,400,000	83,600,000	104,600,000
Reserve Balance	-257,125	-2,321,453	-3,004,714	-2,267,549	-6,934,525	-14,285,611	-21,409,179	75,877,179	75,877,179
Tax Impact (2002 base)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Impact per Avg. household	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<u>SCENARIO 4 a.</u>									
Casino Funding-Addn'	0	1,000,000	2,400,000	4,400,000	4,400,000	4,400,000	4,400,000	83,600,000	104,600,000
Land Sale	0	0	15,000,000	0	0	0	0	0	15,000,000
Reserve Balance	-257,125	-2,321,453	12,422,786	13,599,635	9,408,674	2,547,884	-4,070,679	108,048,030	108,048,030
Tax Impact (2002 base)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Impact per Avg. household	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Attachment "B"

Community Safety Buildings Workplan – June to November, 2002

	June	July	August	September	October	November
Bridgeport	June 17 - Neighbourhood meeting June 28 - RFP for Consultant	Mid July - Consultant hired	Early August - Begin design work with Fire Rescue	Sept 10 - Schematic Design Report to CS Committee	Early October - Neighbourhood meeting for design input	
Hamilton	June 18 - Neighbourhood meeting June 28 - RFP for Consultant	Mid July - Consultant hired	Early August - Begin design work with Fire Rescue	Sept 10 - Schematic Design Report to CS Committee	Early October - Neighbourhood meeting for design input	
Headquarters	June 19 - Neighbourhood meeting					
Sea Island	Mid June - Response from YVR					
Financing	Mid June – Random Telephone Survey (proposed)	July 15 - report to GP – City owned land 6080 River Road July 15 - Financing Options Report to Council, including decision to hold referendum, results of telephone survey		If Referendum, then Referendum Bylaw Report to Council		Referendum held as part of Civic Election