



# City of Richmond

## Report to Committee

**To:** Finance Committee  
**From:** Ivy Wong  
Acting Director, Finance  
**Date:** November 2, 2021  
**File:** 03-0905-01/2021-Vol  
01  
**Re:** **Alternative Sources of Funding Referral Response**

### Staff Recommendation

That:

1. The funding strategy Option 3 and the external borrowing Option C as outlined in the staff report titled "Alternative Sources of Funding Referral Response" be endorsed;
2. Staff be directed to prepare a report for external borrowing of \$95 million for the Steveston Community Centre and Branch Library Capital Project; and
3. That the Consolidated 5 Year Financial Plan (2022-2026) be amended accordingly.

Ivy Wong  
Acting Director, Finance  
(604-276-4046)  
Att. 3

REPORT CONCURRENCE		
<b>ROUTED TO:</b>	<b>CONCURRENCE</b>	<b>CONCURRENCE OF GENERAL MANAGER</b>
Facility Services & Project Development	<input checked="" type="checkbox"/>	 Acting GM, F&CS
<b>SENIOR STAFF REPORT REVIEW</b>	<b>INITIALS:</b> 	<b>APPROVED BY GAO</b> 

## **Staff Report**

### **Origin**

This report is in response to a Council referral from the July 26, 2021 Council meeting:

*That staff examine alternative sources of funding for the Steveston Community Centre and Branch Library and anticipated future capital needs, and report back.*

This report is in response to a referral from the December 11, 2017 Finance Committee meeting:

*That staff conduct an analysis on the Long Term Financial Management Strategy, specifically examining the need for the 1% transfer to reserves going forward.*

At the July 26, 2021 Council meeting, a total of \$95 million in reserve funding was approved, \$90 million for the Steveston Community Centre and Branch Library Capital Project and an additional \$5 million in reserve funding for contingency.

This report supports Council's Strategic Plan 2018-2022 Strategy #5 Sound Financial Management:

*Accountable, transparent, and responsible financial management that supports the needs of the community into the future.*

*5.1 Maintain a strong and robust financial position.*

*5.2 Clear accountability through transparent budgeting practices and effective public communication.*

### **Analysis**

#### **Facility Reserves**

The main reserve used to fund the City's facility capital costs is the Capital Building and Infrastructure Reserve. This reserve was originally established as the City Facilities Reserve Fund in 1992 and was re-established in 2002 under the current name. The Capital Reserve (Revolving Fund) and the Leisure Facilities Reserve, have also been utilized to assist in funding major facilities when there is insufficient funding in the Capital Building and Infrastructure Reserve. For the purposes of this report the "Facilities Reserves" include all of the previously mentioned reserves along with the Steveston Community Amenity Provision.

The Capital Reserve was originally established in 1965 and was re-established in 2002 when the Revolving Fund was established as a sub-fund to the Capital Reserve. The Capital Reserve (Revolving Fund) is funded by \$3.9 million tax revenue annually and gaming revenue. The Capital Reserve (Revolving Fund) can be used for general capital purposes and is typically utilized for replacement park and road infrastructure which are not eligible for Development Cost Charges (DCC) funding, the City assist factor on park and road DCC projects, building repair and restoration work and other various projects. This fund was also utilized for partial funding towards the Corporate Facilities Implementation Plan.

The Capital Building and Infrastructure Reserve is funded from tax revenue generated through the Long Term Financial Management Strategy (Council Policy 3707) 1% transfer to reserves and from any net surplus of gaming revenue.

The current annual transfer to the Capital Building and Infrastructure Reserve due to the 1% is \$18.1 million with a cumulative impact since the inception of the 1% transfer to reserves in 2003 of over \$144 million. Each year, the 1% increase in transfers to reserves is considered as part of the annual budget process for Council approval. Details of the 1% increase in transfers to reserves approval history are included in Attachment 1.

The 1% increase in transfer to reserves was originally implemented in 2003 as part of the Long Term Financial Management Strategy to address decreasing reserve balances and to reduce the reliance on debt, which at the time was subject to high rates of interest. The background and supporting policies are included in Attachment 2.

The Capital Building and Infrastructure Reserve has been utilized in previous years to fund facility repair and maintenance as well as partial funding for Phases 1 and 2 of the Corporate Facilities Implementation Plan:

Phase 1 – *completed*

- Community Safety Building
- Hamilton Community Centre
- City Centre Community Centre
- Minoru Centre for Active Living
- Fire Hall #1
- Fire Hall #3

Phase 2 – *in progress*

- Animal Shelter
- Steveston Community Centre
- Phoenix Net Loft
- City Centre Community Centre North
- Bowling Green Community Activity Centre

At the July 26, 2021 Council meeting, \$95 million in reserve funding was approved for the Steveston Community Centre and Branch Library Capital Project and for contingency. The reserve funding allocation for the Steveston Community Centre and Branch Library Capital Project is:

- \$63.0 million from the Capital Building and Infrastructure Reserve;
- \$21.3 million from the Capital Reserve (Revolving Fund);
- \$5.7 million from the Steveston Community Amenity Provision; and
- Contingency \$5.0 million from the Capital Reserve (Revolving Fund).

Projected Facility Reserves Balances

There are two main outflows for the Facility Reserves, the general facility costs (repair, maintenance and replacement) and the Corporate Facilities Implementation Plan. The general

facility costs are included in the annual capital budget process and are recommended based on rankings and funding availability. Included in the 2022-2026 Capital Budget for consideration is approximately \$150 million in identified projects. The details of these projects are included in Attachment 3.

The Corporate Facilities Implementation Plan Phase 3 is in the initial stages of development. The cost estimates for the next 10 years are in the \$300 million range for this illustration. Note that the actual amount may be higher or lower than the \$300 million estimate and will depend on Council priorities, project scope, public consultation, design, timing (0 - 20+ years), and offset by possible amenity contributions etc. Projects totalling close to \$1 billion have been identified as possible projects for the next several phases of the Corporate Facilities Implementation Plan.

The funding inflows for the Facility Reserves are primarily the tax revenue 1% increase in transfers to reserves from the Long Term Financial Management Strategy. The annual transfer is currently \$18.1 million. Two examples are shown below, the first continues the current level of funding of \$18.1 million as the annual transfer while the second example includes the annual 1% increase to the transfer to reserve as indicated in the Long Term Financial Management Strategy.

Based on the current assumptions, if there are no further 1% increases and the current contribution level remains level while identified facilities plans are implemented, the facility reserves would deplete in approximately 2025 as shown in Table 1 and at the end of 2031 there would be a deficit of \$192.4 million. Table 2 illustrates that maintaining the Long Term Financial Management Strategy policy of increasing the annual transfers to reserves by 1% with \$550 million in projects funded as facility costs would result in an ending reserve balance over the period 2021-2031 with a deficit of \$38.3 million.

**Table 1: Projected Facilities Reserves Balances – No increase to the 1% transfer to reserves**

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Opening	176.6	81.6	54.7	27.8	0.9	(26.0)	(52.9)	(79.8)	(106.7)	(133.6)	(160.5)	176.6
Annual Transfer to Reserve <sup>1</sup>	-	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	181.0
Facilities Costs <sup>2</sup>	(95.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(50.0)	(550.0)
Ending	81.6	54.7	27.8	0.9	(26.0)	(52.9)	(79.8)	(106.7)	(133.6)	(160.5)	(192.4)	(192.4)

<sup>1</sup> The 2021 annual transfer of \$18.1M is included in the opening reserve balance listed above

<sup>2</sup> The Facilities Costs include the 2021 Steveston Community Centre and Branch Library Capital Project that was approved at the July 26, 2021 Council meeting for \$90M plus an additional \$5M for contingency.

Table 2: Projected Facilities Reserves Balances – Maintain annual increase to the 1% transfer to reserves

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Opening	176.6	81.6	57.3	35.6	16.6	0.4	(12.9)	(23.3)	(30.6)	(34.8)	(35.7)	176.6
Annual Transfer to Reserve <sup>1</sup>	-	20.7	23.3	26.0	28.8	31.7	34.6	37.7	40.8	44.1	47.4	335.1
Facilities Costs <sup>2</sup>	(95.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(50.0)	(550.0)
Ending	81.6	57.3	35.6	16.6	0.4	(12.9)	(23.3)	(30.6)	(34.8)	(35.7)	(38.3)	(38.3)

<sup>1</sup> The 2021 annual transfer of \$18.1M is included in the opening reserve balance listed above

<sup>2</sup> The Facilities Costs include the 2021 Steveston Community Centre and Branch Library Capital Project that was approved at the July 26, 2021 Council meeting for \$90M plus an additional \$5M for contingency.

The timing of the projects can also impact the overall costs of projects. Delaying projects can result in cost escalation as well as deferred maintenance costs. The City's facilities are in a period of accelerated ageing with average age of approximately 48 years and deferred maintenance of approximately \$39 million. Deferred maintenance is defined as work that should have been completed based on a variety of factors including manufacturer's recommendations, standard replacement time frames, building assessments, etc., but has not been completed.

A generally accepted industry observation known as the De Sitter Law of Fives is that it costs five times as much to repair a facility as compared to having a preventative maintenance program, and that it costs five times as much to replace a non-maintained facility than what it would have cost to complete the maintenance proactively, notwithstanding the impacts related to service disruption.

Staff will continue to gather information and update the reserve projections as the building scope is determined, construction estimates are updated and the timing defined. A separate report will be presented on the Corporate Facilities Implementation Plan funding options at a later date.

The above analysis is concentrated on major facility replacement and construction and does not factor in the costs associated for preventative maintenance programs, repair and restoration works. These amounts are currently funded through the City's operating budget for maintenance and minor works, and the Capital Reserve fund for major repair and restoration works. A separate report, "Ageing Facility Infrastructure – Update" was presented to Council on January 20, 2020 detailing these funding requirements.

### Funding Strategies

Staff have identified three options to consider in order to finance the Steveston Community Centre and Branch Library and other facility projects that include maintaining the status quo, increasing the annual transfer to reserves and obtaining external debt.

#### **1. Status Quo**

The City could use internal reserves to fund the Steveston Community Centre and Branch Library while maintaining the annual 1% increase in transfer to reserves. There is sufficient funding available in the short-term, however, this option will result in significantly lower reserve levels as illustrated in Table 2 above, limiting the availability

of reserve funding and potentially impacting the timing of future projects. At the end of the 2021-2031 period it is forecast that the ending facilities reserves balance would be in a deficit position of \$38.3 million. This deficit could be moderated through project approvals, scope and the timing of projects which are currently based on assumptions. Even with mitigation efforts to address the potential deficit, the overall reserve balances would be reduced from existing funding levels. This would have further implications to other City capital programs that utilize the Capital Reserve (Revolving Fund) as a funding source.

Due to the significant impact on reserves, 100% reserve funding for the Steveston Community Centre and Branch Library is not recommended.

## 2. Increase the annual transfer to reserves to 2%

The City could consider increasing the annual transfer to reserves from the existing 1% as included in the Long Term Financial Management Strategy to 2%. This would enable the reserves to receive increased levels of funding and allow for increased project funding in both the short and long term. As shown in Table 3, the reserve balance at the end of the 2021-2031 period is projected to be \$296.8 million, a \$120.2 million increase over the existing balance of \$176.6 million.

Table 3: Projected Facilities Reserves Balances – Increase the annual transfer to the reserves to 2%

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Opening	176.6	81.6	78.0	79.6	86.6	99.2	117.6	141.8	172.2	208.8	252.0	176.6
Annual Transfer to Reserve <sup>1</sup>	-	41.4	46.6	52.0	57.6	63.4	69.2	75.4	81.6	88.2	94.8	670.2
Facilities Costs <sup>2</sup>	(95.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(50.0)	(550.0)
Ending	81.6	78.0	79.6	86.6	99.2	117.6	141.8	172.2	208.8	252.0	296.8	296.8

<sup>1</sup> The 2021 annual transfer of \$18.1M is included in the opening reserve balance listed above

<sup>2</sup> The Facilities Costs include the 2021 Steveston Community Centre and Branch Library Capital Project that was approved at the July 26, 2021 Council meeting for \$90M plus an additional \$5M for contingency.

The 1% annual increase in transfer to reserves was approved or partially approved 12 out of the 19 years the Long Term Financial Management Strategy was implemented. Each year Council considers this 1% increase along with other budget demands. Increasing the transfer from 1% to 2% would have a direct impact on the tax rate and potentially impact other City services.

Due to the tax impact and alternative measures available to obtain facility funding, Staff are not recommending increasing the Long Term Financial Management Strategy Policy of 1% transfer to reserves to 2%.

## 3. Use External Financing from the Municipal Finance Authority (Recommended)

The City could consider the use of external financing through the Municipal Finance Authority (the "MFA") to fund the capital requirements of the \$95 million Steveston Community Centre and Branch Library and contingency in order to take advantage of the current low borrowing rate. Specific details on the borrowing options are detailed in the



External Borrowing Options section. The process to obtain MFA financing typically takes between 6 to 8 months and would likely result in the City obtaining the funding in Fall 2022. The timing may require bridge financing of temporary internal funding for the start of the project, but would not delay the project.

Utilizing external MFA financing of \$95 million reduces the overall Facilities Costs from \$500 million to \$455 million over the 2021-2031 period. As shown in Table 4, the ending reserve balance over this period is \$56.7 million.

Table 4: Projected Facilities Reserves Balances – Maintain the annual increase to the 1% transfer to reserves and obtain \$95 million in external MFA financing

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Opening	176.6	176.6	152.3	130.6	111.6	95.4	82.1	71.7	64.4	60.2	59.3	176.6
Annual Transfer to Reserve <sup>1</sup>	-	20.7	23.3	26.0	28.8	31.7	34.6	37.7	40.8	44.1	47.4	335.1
Facilities Costs <sup>2</sup>	-	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(50.0)	(455.0)
Ending	176.6	152.3	130.6	111.6	95.4	82.1	71.7	64.4	60.2	59.3	56.7	56.7

<sup>1</sup> The 2021 annual transfer of \$18.1M is included in the opening reserve balance listed above

<sup>2</sup> The Facilities Costs do not include the 2021 Steveston Community Centre and Branch Library Capital Project that was approved at the July 26, 2021 Council meeting for \$90M plus an additional \$5M for contingency as in this illustration that amount is funded through external MFA financing.

The City could consider the terms for external financing from the MFA to achieve a balance between impact of tax increase and the preservation of a healthy and sustainable long-term financial reserve position for the City. The costs for servicing the debt payment will create an additional expenditure for the City. However, beginning in year 2024, the City has the opportunity to use the following two funding sources (totalling \$6.0 million) which are currently being utilized to pay the annual servicing costs for the \$50 million Minoru Centre for Active Living external debt:

- (i) The City has budgeted and is currently servicing debt in the amount of approximately \$1.0 million with respect to the annual debt repayment concerning Minoru Centre for Active Living. The final repayment for the debt will occur in April 2024. This amount was originally related to the Terra Nova parkland acquisition external debt that ended in 2014.
- (ii) As of 2015, the City has been transferring \$5.0 million annually from its gaming revenue distribution to offset a similar amount in debt servicing without creating any additional tax impact for the repayment of Minoru Centre for Active Living external debt.

The City is able to obtain a new \$95 million debt with a 20-year term which would result in maintaining a similar annual debt servicing cost to the existing annual servicing cost and thereby having no impact on the tax rate.

It is recommended that the Steveston Community Centre and Branch Library be funded with \$95 million external financing from MFA.

### External Borrowing Options

Under section 179 of the *Community Charter*, a council may, by a loan authorization bylaw adopted with the approval of the Inspector (Ministry of Municipal Affairs), incur a liability by borrowing for any purpose of capital nature within 5 years from the adoption of the loan authorization bylaw. Long-term debt with loan term of over 5 years must be obtained through the MFA.

### The City's Borrowing Limit

As summarized in Table 5 below, in accordance with Section 174(2) of the *Community Charter* and the *Municipal Liabilities Regulation (B.C. Reg. 254/2004)*, B.C. municipalities have the following borrowing limits:

- The annual liability servicing costs (ALSC<sup>1</sup>) of the municipality cannot exceed 25% of the annual calculation of revenue for the municipality for the previous year;
- Approval of the electors are not required under section 180(1) Loan Authorization Bylaws of the *Community Charter* if the ALSC of the municipality for the year does not exceed 5% of the annual calculation of revenue for the municipality of the previous year.

Table 5: Potential Borrowing Range and Elector Approval Requirements

	ALSC under 5%	ALSC between 5% and 25%
City's Potential New Borrowing Amount	up to \$100M	\$100M to \$800M
Elector's Approval Required	Optional	Yes
Qualifies for Elector Approval Exemption	Yes	No

### Interest Rate Environment

The Bank of Canada (the Bank) has been keeping the overnight interest rate at a historical low level of 0.25% since March 2020 as its monetary policy to soften the impact of the economic fallout of the COVID-19 pandemic. In the latest interest rate announcement on October 27, 2021, the Bank announced that while its current policy rate remains steady at 0.25%, it will likely increase as early as the second quarter of next year as the global economic recovery from the COVID-19 pandemic continues to progress. The market anticipates that interest rate hiking cycles will start to take place in mid-2022 and will continue into year 2023 (Table 6).

Table 6: Canadian Interest Rate Outlook (*Source: November 2, 2021 TD Economics Report*)

Interest Rates	Spot Rate Nov-01	2021				2022				2023			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
<b>CANADA</b>													
Overnight Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50	1.75	1.75
3-mth T-Bill Rate	0.16	0.09	0.15	0.12	0.15	0.18	0.57	0.85	1.13	1.38	1.63	1.75	1.75
2-yr Govt. Bond Yield	1.07	0.22	0.45	0.53	1.05	1.25	1.45	1.60	1.70	1.80	1.85	1.85	1.85
5-yr Govt. Bond Yield	1.51	0.99	0.97	1.11	1.35	1.50	1.70	1.80	1.90	1.95	1.95	1.95	1.95
10-yr Govt. Bond Yield	1.75	1.55	1.39	1.51	1.85	2.00	2.10	2.20	2.25	2.30	2.30	2.20	2.15
30-yr Govt. Bond Yield	2.04	1.98	1.84	1.99	2.15	2.30	2.40	2.50	2.55	2.60	2.60	2.50	2.45
10-yr-2-yr Govt Spread	0.68	1.33	0.94	0.98	0.80	0.75	0.65	0.60	0.55	0.50	0.45	0.35	0.30

<sup>1</sup> The annual liability servicing costs (ALSC) is the annual expenditures to service the aggregate liabilities of a municipality for the year. The City's existing aggregate ALSC includes the current annual debt repayment (approximately \$6 million) for the Minoru Centre for Active Living, which will be fully paid off by April 2024.



### The MFA Long-Term Borrowing Program

Municipalities are only permitted, through their regional district, to enter into long-term borrowing arrangement with the MFA for specific capital project(s) under the loan authorization bylaw. New debt issues (typically twice a year, in Spring and Fall) are funded by MFA by issuing a 10-year bond, locking in a fixed interest rate for ten years. MFA long-term loan can be up to thirty years. Loans longer than ten years are typically refinanced every five years, following the initial ten years.

Once Council adopts the loan authorization bylaw, additional time will also be required by other external agencies, such as the Ministry, Metro Vancouver and the MFA, in undertaking their required approval processes. The time required to complete the entire loan process could take up to 6 to 8 months to complete. The projected timeline is summarized in Table 7 if the City would like to participate in the upcoming Fall issue in October 2022. (The City will not be able to meet the required documentation deadlines for the April 2022 Spring Issue.)

*Table 7: Timeline for Participation in the Fall 2022 MFA Debt Issue*

Required Steps	Performed By	Timeline
Three readings of the loan authorization bylaw	City of Richmond	December 2021
Approval of the loan authorization bylaw	Ministry	January 2022
Adoption of the loan authorization bylaw	City of Richmond	January 2022
One month quashing period	No action	February 2022
Application of Certificate of Approval to the Ministry	City of Richmond	March 2022
Approval of Certificate of Approval from the Ministry	Ministry	March 2022
Passing of Municipal Security Issuing Resolution and Agreement	City of Richmond	April 2022
Delivery of all necessary documents to Metro Vancouver	City of Richmond	May 2022
Readings and adoption of Regional District Security Issuing bylaw	Metro Vancouver	June 2022
Application of Certificate of Approval of the Regional District Security Issuing bylaw from the Ministry	Metro Vancouver	July 2022
MFA Annual General Meeting	MFA	September 2022
Advance of funds to the City	MFA	October 2022

The actual MFA borrowing rate for upcoming debt issue is unknown at this time as it will depend on how the MFA structures the financing of each debt issue request. MFA will structure each issue based on factors such as the size of the issue, the conditions of the capital markets,

and the interest rate environment at the time of funding. MFA loans with terms of ten years or longer will generally receive the 10-year loan rate for the first 10 years, with the relending rate reset every 5 years. The MFA's 10-year indicative rate is 2.38% at the time of this report.

### Long-Term Borrowing Considerations

Under the Debt Management Policy of the City's Long Term Financial Management Strategy, the City will follow the "pay as you go" approach unless unique circumstances exist that support borrowing. Long-term debt is strategically used to achieve long-term financial sustainability for the City. Some of the main opportunities and risks factors in making such determination are summarized in Table 8 below.

Table 8: Opportunities and Risks of Obtaining External Financing

	Internal and External Environment Scans
Opportunities of Debt	<ul style="list-style-type: none"> <li>Secure low borrowing rate in the current interest rate environment, while anticipating that interest rates will increase over time.</li> <li>Make available and advance facility reserve funding to other capital projects in the Corporate Facilities Implementation Plan.</li> <li>Lessen competition of internal funding requirements for capital funding needs.</li> <li>Preserve long-term sustainability of facility reserve balances for ongoing and future capital needs.</li> <li>Opportunity to advance the timing of some major facilities and infrastructure projects to prevent foreseeable future construction cost escalation.</li> </ul>
Risks of Debt	<ul style="list-style-type: none"> <li>Potential property tax impact to fund debt principal and interest repayment.</li> <li>Future interest rate risks at time of refinancing.</li> <li>Long-term commitment in fulfillment of annual debt servicing costs for future Councils and taxpayers.</li> </ul>

The City currently has an outstanding balance of \$17.4 million in MFA long-term debt for the Minoru Centre for Active Living Building. The current debt is scheduled to be fully repaid by April 2024. In order for any external borrowing to be obtained on a tax neutral basis, the annual debt servicing costs of any potential new debt should remain at the current level of \$6 million a year. Annual debt servicing costs will continue to be funded by \$1 million of debt servicing costs from the tax base and \$5 million transfer from gaming revenue each year.

### Proposed Borrowing Options

As global economic recovery continues to progress, the anticipated interest rate hikes by the Bank of Canada will have a direct impact on the City's cost of borrowing. Based on the internal funding analysis and reserve balances projection presented, staff recommend that external borrowing of \$95 million be considered to finance the Steveston Community Centre and Branch Library Capital Project for the City to lock in the low financing rate.

To debt finance the \$95 million Steveston Community Centre and Branch Library Capital Project, the City could select any preferred loan term in 5-year increments. Table 9 below provides a sensitivity analysis of the financial impact for 10, 15, 20 and 25 year loan terms.

Table 9: Borrowing Options Under Different Loan Terms

Borrowing Options	Option A (10-Year)	Option B (15-Year)	Option C (20-Year) Recommended	Option D (25-Year)
MFA Loan Amount	\$95 million	\$95 million	\$95 million	\$95 million
Loan Term	10 years	15 years	20 years	25 years
Estimated ALSC for the Debt	\$10.8 million	\$7.6 million	\$6.0 million	\$5.1 million
Required Tax Increase to Fund Additional ALSC	2.0%	0.7%	-	-

External Borrowing Recommendation: Option C (\$95 million for 20 Years)

If debt financing is considered for the Steveston Community Centre and Branch Library Capital Project, staff recommend that Option C (20-year) be considered where the full \$95 million of the budgeted capital cost of the project be externally financed without immediate impact to the taxpayers. Future tax impact is possible when the debt is being refinanced after the initial 10-year of the loan. Every 25 basis point increases in future financing interest rates on the proposed \$95 million borrowing will translate to approximately 0.1% in future property tax rate increases.

Based on the timing of the project and the interest rate hike projections, the proposed external borrowing for the Steveston Community Centre and Branch Library Capital Project will likely require to be advanced to Fall 2022 in order for the City to take advantage of locking in a lower rate before the borrowing rates start to rise. As a result, temporary bridge funding will be required during the period when both debts are outstanding. Any such temporary funding shortfall would need to be funded by rate stabilization or surplus until the current long-term debt is fully extinguished by April 2024.

Next Steps

If Council endorses the use of MFA debt to finance the capital cost of the the Steveston Community Centre and Branch Library Capital Project, staff will prepare a separate report to present the Loan Authorization Bylaw for Council's consideration and approval in order to follow the steps as outlined in Table 7 in obtaining the required debt financing from the MFA.

**Financial Impact**

None.

## Conclusion

This report provides a plan to adjust the funding for the Steveston Community Centre and Branch Library to allow for existing reserve funding to be available for other City projects. Council endorsement of returning \$95 million reserve funding is recommended coinciding with the recommendation that external MFA financing of \$95 million for a 20-year term be endorsed. It is also recommended that the Long Term Financial Management Strategy policy of increasing the annual transfer to reserve by 1% be maintained.



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Venus Ngan, CPA, CA  
Manager, Treasury and Financial Services  
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- Att. 1: Analysis of LTFMS 1% Increase tax rate for transfer to reserves (in \$ millions)  
2: Long Term Financial Management Strategy – Background and Supporting Policies  
3: 2022-2026 Capital Budget General Facility Requests



**Analysis of LTFMS 1% Increase tax rate for transfer to reserves (in \$ millions)**

Actual Impact of the 1% as implemented				Illustration of 1% if implemented fully each year	
Year	Actual % Increase to Reserves	Actual Annual \$ Increase to Reserves	Compounded Annual Actual Transfer to Reserves	1% Amount \$ amount	Compounded Transfer to Reserves if 1% every year
2003	1.00%	\$1.0	\$1.0	\$1.0	\$1.0
2004	0.47%	0.5	1.5	1.1	2.1
2005	0.00%	0.0	1.5	1.1	3.2
2006	1.00%	1.1	2.6	1.1	4.3
2007	0.82%	1.0	3.6	1.2	5.5
2008	0.00%	0.0	3.6	1.3	6.8
2009	0.00%	0.0	3.6	1.4	8.2
2010	0.00%	0.0	3.6	1.5	9.7
2011	0.00%	0.0	3.6	1.5	11.2
2012	1.00%	1.6	5.3	1.6	12.9
2013	1.00%	1.7	6.9	1.7	14.5
2014	1.00%	1.7	8.7	1.7	16.3
2015	0.00%	0.0	8.7	1.8	18.1
2016	1.00%	1.9	10.6	1.9	20.0
2017	1.00%	2.0	12.6	2.0	22.0
2018	1.00%	2.1	14.6	2.1	24.1
2019	0.50%	1.1	15.7	2.2	26.2
2020	0.00%	0.0	14.6	2.3	26.4
2021	1.00%	2.4	18.1	2.4	28.6
Total		\$18.1	\$140.7	\$30.9	\$261.2

**One-time contributions**

2011	-	1.5	142.2	1.5	262.7
2015	-	1.8	144.0	1.8	264.5
Total		\$3.3	\$144.0	\$3.3	\$264.5

- The 1% increase to reserves was fully met in 2003 and 2006, there was no increase in 2005 and a partial increase in 2004, 2007 and 2019. The years beginning 2008 to 2011 do not include a 1% increase in taxes for transfer to reserves as the reserves are being funded from interest earned on the Community Legacy & Land Replacement Reserve Fund as approved by Council on July 23, 2007.
- The 2011 1% increase was offset by a one-time transfer of \$1,500,000 from the general surplus.
- The 2015 1% increase was offset by a one-time transfer of \$1,838,219 from the gaming revenue provision

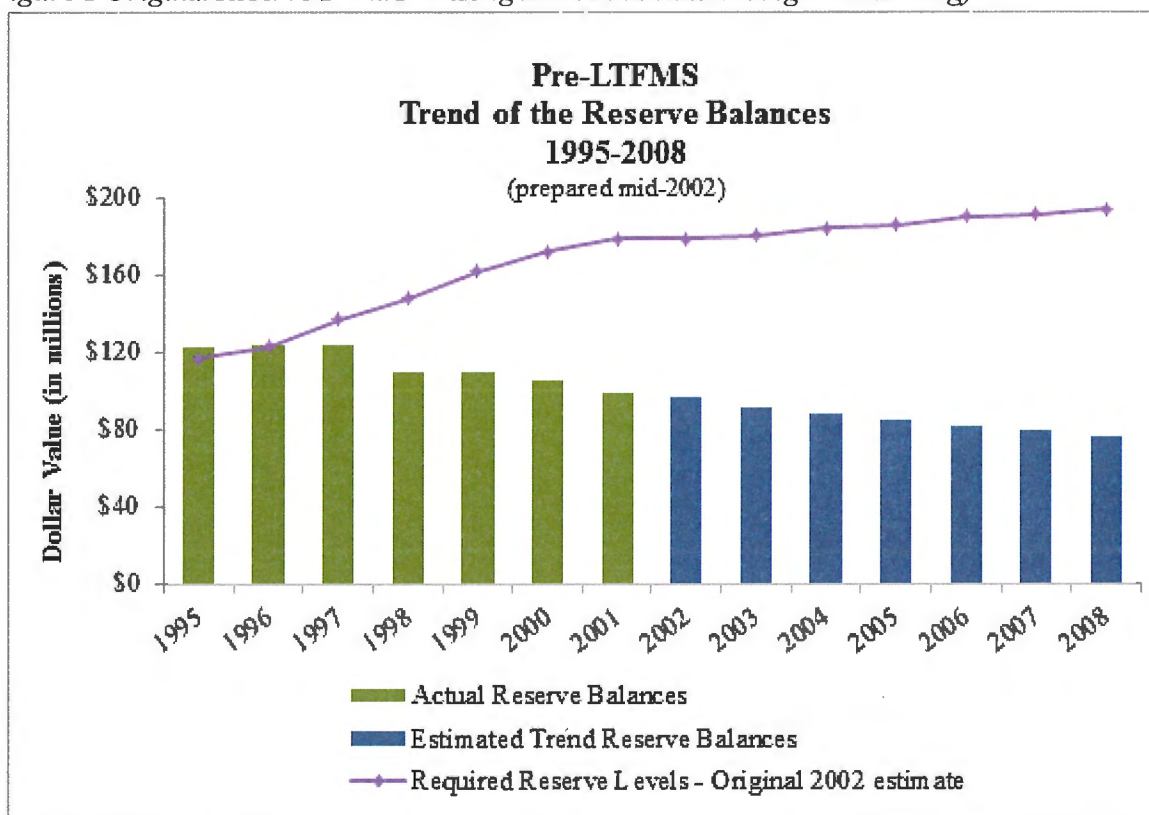


### Long Term Financial Management Strategy – Background and Supporting Policies

In mid-2002, after a review of the trend of the City's reserves (blue bars in *Figure 1*), the Chief Administrative Officer directed staff to prepare a plan to address the long term financial sustainability of the City. Up to that point in time, the City's long term financial direction was driven by the annual budget decisions, which in turn were driven by Council's desire to keep the tax impacts artificially low. In the mid to late 1990's for instance, the City absorbed approximately \$5.7 million in loss of grants from the Province, absorbed growth and incurred debt, while keeping tax increases in the range of 0% to 1.8%. The City obtained \$37.6 million in debt for the Terra Nova land acquisition and No. 2 Road Bridge construction at rates of 5.99% and 8.5% respectively. The last of the outstanding obligation on this debt was only recently extinguished in 2014.

The consequence of these decisions was the gradual deterioration of the City's reserves (green bars in *Figure 1*). This path was clearly not sustainable and a more comprehensive financial strategy was required.

*Figure 1 Original Reserve Trend Pre-Long Term Financial Management Strategy*



To develop the vision, Council held a number of workshops to gain an understanding of the environmental factors that were impacting the City's financial position as well as 'gaps' reflected in the operating budgets, capital plans, ageing infrastructure funding plans and reserve balances. The end result being that Council decided to focus on "*enhancing the City's economic well-being for present and future generations as part of the well managed component of the vision without*

*sacrificing the overall liveability of the community”* and in September 2003, Council approved the Long Term Financial Management Strategy (the Strategy).

Council went a step further in order to guide and protect the sustainability of the City’s long term financial position and approved 10 supporting policies. From the time that the Strategy was adopted, Council has approved updates to the supporting policies. The 10 supporting policies as currently adopted are as follows:

1. **Tax Revenue** - Tax increases will be at Vancouver’s Consumer Price Index (CPI) rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1.0 % towards infrastructure replacement needs.
2. **Gaming Revenue** - Gaming revenues are designated for the capital reserves, the major capital community facility replacement program, the grants program, the Council initiatives account and towards the cost of policing relating to gaming activities.
3. **Alternative Revenues & Economic Development** - Any increases in alternative revenues and economic development beyond all the financial strategy targets can be utilized for increased levels of service or to reduce the tax rate.
4. **Changes to Senior Government Service Delivery** - Any additional costs imposed on the City as a result of mandatory senior government policy changes should be identified and added to that particular year’s taxes above and beyond the CPI and infrastructure percentage contribution.
5. **Capital Plan** - Ensure that long term capital funding for infrastructure (e.g. parks, trails, facilities, roads, etc.) is in place in order to maintain community liveability and generate economic development.
6. **Cost Containment** - Staff increases should be achieved administratively through existing departmental budgets, and no pre-approvals for additional programs or staff beyond existing budgets should be given. A continuous review of the relevancy of the existing operating and capital costs should be undertaken to ensure that the services, programs and projects delivered continue to be the most effective means of achieving the desired outcomes of the City’s vision.
7. **Efficiencies and Service Level Reductions** - Savings due to efficiencies or service level reductions identified in the strategy targets should be transferred to the capital reserves. Any savings due to efficiencies beyond the overall strategy targets can be utilized to reduce the tax rate or for increased levels of service.
8. **Land Management** – Sufficient proceeds from the sales of City land assets will be used to replenish or re-finance the City’s land inventory. Any funds in excess of such proceeds may be used as directed by Council.
9. **Administrative** - As part of the annual budget process, the following shall be undertaken:
  - all user fees will be automatically increased by CPI;
  - the financial model will be used and updated with current information; and

- the budget will be presented in a manner that will highlight the financial strategy targets and indicate how the budget meets or exceeds them.
10. **Debt Management** - Utilize a “pay as you go” approach rather than borrowing for financing infrastructure replacement unless unique circumstances exist that support borrowing.

These policies are used by staff during the budget process and are integral to the financial decision making of the City in ensuring a long-term focus and financial sustainability.

## 2022-2026 Capital Budget General Facility Requests

Recommended (in '000s)

Building Program	2022	2023	2024	2025	2026
<b>Building</b>					
Annual Infrastructure Replacements and Building Improvements	3,000	-	-	-	-
Britannia Heritage Shipyards Overwater Building Renewals	-	12,000	-	-	-
Britannia Shipyards Envelope & Mechanical System Renewals	2,125	-	-	-	-
Curling Club Priority 2 Repairs - Phase 1	-	935	-	-	-
Fire Hall Renewals	-	-	3,200	-	-
Hugh Boyd Field House	-	-	-	-	14,000
Richmond Curling Club - Priority 1 Repairs	650	-	-	-	-
Richmond Ice Centre Life / Safety and Interior Renewals	-	-	-	-	1,700
Richmond Ice Centre Renewals - Phase 2 Construction and associated works	6,000	-	-	-	-
Richmond Nature Park Infrastructure Renewals	4,775	-	-	-	-
South Arm Community Centre Infrastructure Renewals	1,900	-	-	-	-
South Arm Hall Infrastructure Renewal	-	-	-	-	1,800
Thompson Community Centre - Interior Finish Renewals	-	-	-	2,000	-
Waterman Mechanical and Pool Equipment Renewals	2,200	-	-	-	-
Works Yard Infrastructure Renewals - Phase 1 (Design)	420	-	-	-	-
Works Yard Infrastructure Renewals - Phase 1 (Implementation)	-	3,780	-	-	-
Works Yard Infrastructure Renewals - Phase 2	-	-	4,000	-	-
<b>Total Building</b>	<b>\$21,070</b>	<b>\$16,715</b>	<b>\$7,200</b>	<b>\$2,000</b>	<b>\$17,500</b>
<b>Heritage</b>					
Japanese Duplex and First Nations Bunkhouse Reconstruction and Exhibit Development	-	-	10,800	-	-
Phoenix Net Loft Interpretive Centre Implementation	-	-	-	16,000	-
Steveston Museum - Post Office, Program Space and Exhibit Upgrades	354	-	-	-	-
<b>Total Heritage</b>	<b>\$ 354</b>	<b>\$-</b>	<b>\$10,800</b>	<b>\$16,000</b>	<b>\$-</b>
<b>Total Building Program</b>	<b>\$ 21,424</b>	<b>\$ 16,715</b>	<b>\$ 18,000</b>	<b>\$18,000</b>	<b>\$17,500</b>

Recommended but insufficient funding (in '000s):

Building Program	2022	2023	2024	2025	2026
City Hall Annex Infrastructure Replacements	-	-	2,400	-	-
City Hall Mechanical and Interior Finish Renewals	-	-	-	6,800	-
Citywide Caretaker Suite Renewals	-	3,100	-	-	-
Community Safety Building Mechanical System Renewals	-	-	-	1,400	-
Curling Club Priority 2 - Phase 3	-	-	-	4,885	-

Building Program	2022	2023	2024	2025	2026
Curling Club Priority 2 Repairs - Phase 2	-	-	680	-	-
Curling Club Priority 3 Repairs	-	-	-	-	900
Debeck House Life Safety and Envelope Renewals	-	-	-	-	500
East Richmond Hall Envelope and HVAC Renewals	-	-	-	-	250
Gateway Theatre Mechanical and HVAC Renewals	-	-	-	5,500	-
Library Cultural Centre Envelope System Renewals	-	-	-	2,400	-
Outdoor Pool Renewals	-	-	3,000	-	-
Richmond Courthouse HVAC and Interior Renewals	-	-	1,300	-	-
Richmond Ice Centre Mechanical and Electrical Renewals	-	-	3,700	-	-
South Arm Community Centre Envelope and Infrastructure Renewals	-	-	-	-	9,000
Steveston Martial Arts Envelope and Interior Renewals	-	-	-	-	550
Steveston Post Office and Museum Infrastructure Renewals	-	-	-	-	450
Watermania Infrastructure Renewals	-	5,300	-	-	-
West Richmond Pitch & Putt Mechanical and Interior Renewals	-	-	-	-	600
Works Yard Building System Renewals	-	-	-	4,000	-
Works Yard Infrastructure Renewals	-	-	-	-	4,000
Works Yard Infrastructure Renewals - Phase 3	-	-	4,000	-	-
Works Yard Replacement - Concept Design	-	2,000	-	-	-
<b>Total Building</b>	<b>\$-</b>	<b>\$10,400</b>	<b>\$15,080</b>	<b>\$24,985</b>	<b>\$16,250</b>
<b>Total Building Program</b>	<b>\$-</b>	<b>\$10,400</b>	<b>\$15,080</b>	<b>\$24,985</b>	<b>\$16,250</b>