



City of Richmond

Report to Committee

To: Finance Committee

Date: May 17, 2011

From: Jerry Chong
Director, Finance

File: 03-0900-01/2011-Vol
01

Re: External Borrowing for Corporate Facilities Referral

Staff Recommendation

That the External Borrowing for Corporate Facilities Referral report from the Manager, Treasury Services be received for information.

Jerry Chong
Director, Finance
(604-276-4064)

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ROUTED TO:		CONCURRENCE		CONCURRENCE OF GENERAL MANAGER	
Budgets		Y	<input checked="" type="checkbox"/>	N	<input type="checkbox"/>
City Clerk		Y	<input checked="" type="checkbox"/>	N	<input type="checkbox"/>
Law		Y	<input checked="" type="checkbox"/>	N	<input type="checkbox"/>
REVIEWED BY TAG		YES	NO	REVIEWED BY CAO	
	<input checked="" type="checkbox"/>	<input type="checkbox"/>		DGARY	<input checked="" type="checkbox"/>

Staff Report

Origin

At the May 9, 2011 Finance Committee Meeting following the discussion on future reserve balances, Committee passed the following referral motion:

That staff report back on possibilities for external borrowing for capital projects and possibilities for referendum in conjunction with the 2011 Civic Election.

Analysis

1. External Borrowing for Capital Projects

Loan Authorization Bylaw

External borrowing for capital projects is possible under section 179(1)(a) of the *Community Charter*, which states that Council may, by a loan authorization bylaw adopted with the approval of the inspector, incur a liability by borrowing for any purpose of a capital nature.

Long-term financing with a term longer than five years must be done through the Municipal Finance Authority (MFA) and must receive approval of the electors prior to adoption of a loan authorization bylaw, unless the borrowing falls within the “approval-free liability zone” described below.

Approval-Free Liability Zone

Pursuant to the *Municipal Liabilities Regulation* that was introduced in 2004, approval of the electors is not required if a municipality’s annual liability servicing cost does not exceed 5% of the municipality’s controllable revenue for the previous year. This exemption can be exercised at Council’s discretion and is referred to as the “approval-free liability zone”.

The following illustrates how the calculation for the “approval-free liability zone” would apply to the City if borrowing was to take place in year 2011:

2010 Controllable Revenue	\$ 300 million
5% Approval-Free limit	<u>x 5 %</u>
Approval-Free Liability Zone for 2011	\$ 15 million
2011 Annual Liabilities Servicing Costs (on existing debts)	<u>\$ 5 million</u>
Remaining 2011 Annual Liability Servicing Room (approval-free)	\$ 10 million

Using the May 2011 MFA published 15-year financing rate of 4.54%, the City would be within the “approval-free liability zone” if no more than \$100 million in MFA debt financing is obtained (see below for calculation of annual liability servicing costs).

Liabilities Servicing Costs and Tax Impact

The sinking fund structure of the MFA loan requires principal to be repaid annually and interest to be repaid semi-annually over the term of the loan. Using the current 15-year MFA long-term debt rate of 4.54%, the annual liabilities servicing costs (i.e. cash outflow) and annual tax impact for various borrowing amounts are estimated to be:

Amount of Borrowing	Annual Liabilities Servicing Costs	Annual Tax Impact
\$ 10,000,000	\$ 954,000	0.62%
\$ 50,000,000	\$ 4,770,000	3.10%
\$ 100,000,000	\$ 9,540,000	6.20%

For every 1.00% increase in the MFA borrowing rate, both the annual liabilities servicing cost and the annual tax impact will increase by approximately 10.50%. (e.g. \$50,000,000 @ 5.54% will result in annual liabilities servicing cost of \$5,267,000 and annual tax impact of 3.40%)

2. Referendum Questions in Conjunction with 2011 Civic Election

As discussed above, elector approval is only required prior to adoption of a loan authorization bylaw if the amount of borrowing will cause the City’s annual liability servicing costs to exceed the “approval-free liability zone” (i.e. the borrowing exceeds approximately \$100 million as illustrated above).

There are two possible methods for obtaining elector approval:

- (a) Referendum, either in conjunction with a general election or on a standalone basis; or
- (b) Alternative approval process under section 86 of the *Community Charter*.

Referendum

A referendum is a vote on an opinion question, proposal or bylaw that is organized and run to all intents and purposes under the same statutory rules, requirements and procedural parameters as a general local election.

Based on experiences of past referenda held by the City of Richmond and other municipalities, where voters were asked to vote on their opinion on whether external funding should be used to finance specific public facility/facilities, it is noted that the three main categories of public facilities that typically are more successful in obtaining elector’s approval for external financing, in the order of the probability of success from high to low, are:

- 1. Community Safety Facilities
- 2. Public Use Facilities
- 3. Civic Services Facilities

Although it is possible to include the referendum question(s) relating to obtaining external financing to fund the City's capital projects in the upcoming 2011 Civic Election, it should be noted that in order for the referendum to be ready by November 19th, 2011, the loan authorization process must begin immediately, where the specific capital project(s) and the amounts (design and construction costs etc.) to be funded by debt must first be determined.

After the project(s) and the amount(s) are determined, Council's approval of three readings of the loan authorization bylaw must be completed no later than July 25th, 2011, which is the last scheduled council meeting before the end of August deadline in order for the City to meet the statutory timing requirements for a referendum. (Refer to **Attachment 1** for an estimated timeline of the entire external borrowing process.)

Given the existing time constraint for loan authorization bylaw preparation and referendum planning in conjunction with the 2011 Civic Election, the City, as an alternative, can hold a standalone referendum for a loan authorization bylaw. A standalone referendum is more flexible as it can take place on any Saturday during the year. The downside is that a standalone referendum typically attracts a lower voter turn-out than a civic election. In addition, a referendum that is held in conjunction with a civic election generally would not incur any significant incremental costs over what is budgeted for the election; however, a basic standalone referendum with 5 to 10 voting places throughout the City would require an additional budget of at least \$75,000 to \$100,000.

Alternative Approval Process

The City may also seek elector approval for a loan authorization bylaw by using the alternative approval process under section 86 of the *Community Charter* (formerly known as the counter-petition process), which can take place any time during the year. Under this process, eligible electors have the option to submit prescribed response forms in opposition to the loan authorization bylaw within a 30-day response window. If the number of valid forms received exceeds 10% of all eligible electors, then the bylaw is deemed to have failed. If the number of forms received falls short of the 10% threshold, then the bylaw is deemed to have received elector approval. The costs for this process for statutory advertising and general administration are considered negligible and can be absorbed into existing budgets.

Financial Impact

None.

Conclusion

The need for new and/or replacement public facilities will continue to grow as the demand for public spaces and services continue to increase. The decision to finance the costs of these public facilities either internally or externally should be evaluated carefully to ensure that the City will continue to operate in a financially sustainable manner, while continuing to meet the growing needs of the public.



Venus Ngan, CA
Manager, Treasury Services
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Attachment 1

Estimated Timeline of External Borrowing Process
(If referendum in conjunction with 2011 Civic Election is involved)

Estimated Dates	Event	Parties Responsible
May 2011	Determine the specific capital project(s) and the amounts (design and construction costs etc.) to be funded by external borrowing	City (All relevant departments and Council)
May/June 2011	Loan Authorization Bylaw Preparation	City (Finance)
July 25 th , 2011 (last Council meeting before summer break)	1 st , 2 nd , and 3 rd readings of Loan Authorization Bylaw by Council	City (Council)
Late July 2011	Submission to Ministry of Community Services for approval by the Inspector of Municipalities	City (Clerk's Office)
Aug 31 st , 2011	Receive approval letter from the Inspector of Municipalities	Province*
Sep / Oct 2011	Election/referendum planning and preparation	City (Clerk's Office)
Nov 19 th , 2011	Election Day	City (Clerk's Office)
Nov 28 th , 2011	If referendum passes, adoption of Loan Authorization Bylaw by Council	City (Council)
Dec 2011	1 month quashing period	City (All)
Early Jan 2012	Submission to Ministry of Community Services to apply for Certificate of Approval	City (Clerk's Office)
Mid Jan 2012	Receive Certificate of Approval from Inspector of Municipalities	Province*
Mid Jan 2012	City Council passes Municipal Security Issuing Resolution to Metro Vancouver and MFA	City (Council)
Late Jan 2012	Metro Vancouver prepares Regional District Security Issuing Bylaw	Metro Vancouver*
Early Feb 2012	1 st , 2 nd and 3 rd readings by the Board of Metro Vancouver, followed by adoption of Bylaw	Metro Vancouver*
Early Feb 2012	10 days quashing period	Metro Vancouver*
Mid Feb 2012	Submission to the Ministry of Community Services to apply for Certificate of Approval	Metro Vancouver*
Mid Feb 2012	Receive Certificate of Approval from Inspector of Municipalities	Province*
Feb 28, 2012 (MFA deadline)	Metro Vancouver forwards all information to MFA for funding on or before the spring issue deadline (next offering: fall issue, with deadline of August 31, 2012)	Metro Vancouver*

*Timing of these events is estimated based on best-case scenario. As scheduling of these events performed by other parties are out of City's span of control, any delay of these events may result in changes to the timeline. Staff will work closely with the Province and Metro Vancouver to ensure that the MFA deadline of Feb 28, 2012 will be met.