



City of Richmond

Report to Committee

TO FIN - Apr. 7 2014

To: Finance Committee

Date: March 31, 2014

From: Jerry Chong
Director, Finance

File: 03-0900-01/2013-Vol
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Re: **Excess or Extended Services and Latecomer Payment Interest Rate
Establishment Bylaw No. 6936, Amendment Bylaw No. 9084**

Staff Recommendation

The Excess or Extended Services and Latecomer Payment Interest Rate Establishment Bylaw No. 6936, Amendment Bylaw No. 9084 be introduced and given first, second, and third readings.

Jerry Chong
Director, Finance
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REPORT CONCURRENCE		
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
Engineering Law	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: 	APPROVED BY CAO

Staff Report

Origin

The Excess or Extended Services and Latecomer Payment (EESLP) Interest Rate Establishment Bylaw No.6936, Amendment Bylaw No. 8632 was adopted by Council in 2008. Staff have reviewed the Bylaw and have identified that the following items require changes:

- (i) the approach in establishing the interest rate for the EESLP be amended;
- (ii) the references to specific locations to be excluded from the Bylaw’s interest rate be updated; and
- (iii) the wordings of the Bylaw be expanded to clarify the calculation of interest for the EESLP.

Analysis

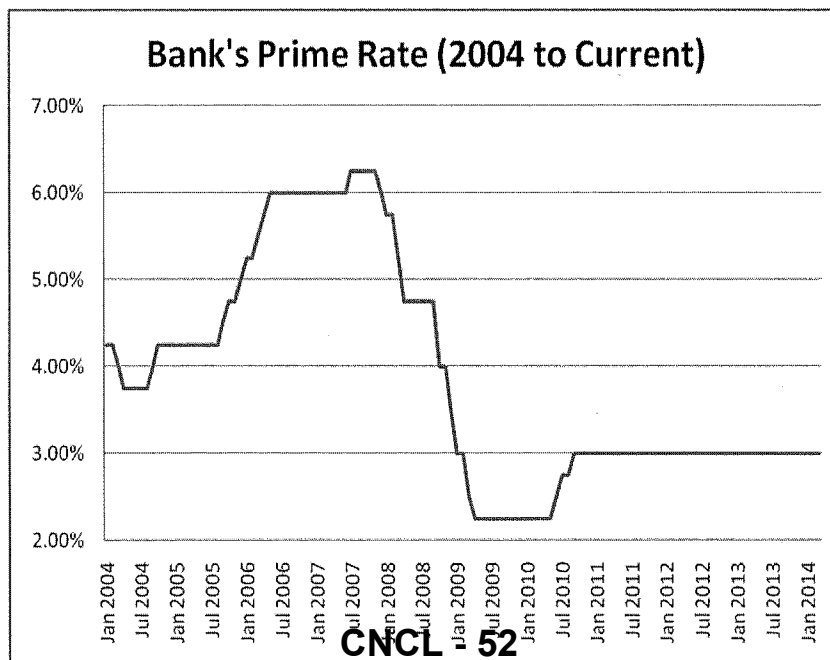
Excess or Extended Services refer to infrastructure installed by a developer (known as the front-ender) that benefits other developments.

Sections 1 and 3 of the Bylaw – Interest Rate

The purpose of including an interest rate in the Bylaw is to compensate the front-ending parties for the borrowing or opportunity costs of the expenditures incurred for providing new infrastructure that also benefits other developments. Conversely, from the benefiter’s (latecomers’) perspective, the interest rate charged to them is equivalent to paying the financing costs incurred by the front-ending parties.

The current bylaw establishes a fixed interest rate of ten percent (10%) per annum. Staff have reviewed the suitability of a fixed interest rate and suggested that a more flexible approach be implemented to ensure that the interest rate established by the Bylaw is more reasonable.

Staff recommend the use of the “prime plus” method. The bank’s prime rate is typically defined as the interest rate that banks charge their most credit-worthy customers. The use of the bank’s prime rate is recommended because prime rate directly affects the lending rates which are available for mortgage and commercial/personal loans. The chart below provides the bank’s prime rate since year 2004:



The interest rate of the Bylaw is recommended to include an additional three percent (3%) on top of the bank's prime rate (Bank of Nova Scotia's prime rate is the selected bank's prime rate to be used in the Bylaw). Staff choose a mark-up of 3% which represents the estimated cost of borrowing as well as risk factors borne by the front-ending developers.

As established by each agreement, the bank's prime interest rate to be used shall be the bank's prime interest rate on the date the excess or extended services are completed (i.e. the date of which the City is satisfied with the works and a Certificate of Completion is issued). The interest rate (bank's prime rate +3%) will remain fixed for the entire term of the agreement and will not be subject to further changes for that agreement even if the bank's prime rate fluctuates throughout the term of the agreement.

Section 2 of the Bylaw – Specific Locations

The existing bylaw lists three specific locations (Maple Place, 6th Avenue Lane, and Gilmore Crescent) where the interest rates of the EESLP are separately listed. The agreements for these three specific locations have expired, therefore, references to these locations and interest rates should be removed.

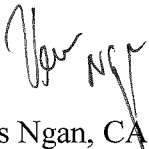
Currently, there are six developments where excess or extended services and latecomer works have been completed, where latecomer agreements either exist or are in the process of being finalized. To ensure the interest rate for these works will not be affected by the above proposed changes, staff recommend that section 2 of the Bylaw be amended to include these six latecomer projects that will be subject to the grandfathered interest rates.

Financial Impact

The City acts as an administrator between developers under latecomer agreements. Imposing these changes will not result in any financial impact to the City.

Conclusion

Staff is recommending that the Excess or Extended Services and Latecomer Payment Interest Rate Establishment Bylaw No. 6936, Amendment Bylaw No. 9084 be adopted by Council. This will ensure the Bylaw is kept up to date and will ensure that a more reasonable and flexible approach is being used in deriving the excess or extended services and latecomer payment interest rate.



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**EXCESS OR EXTENDED SERVICES AND LATECOMER PAYMENT
INTEREST RATE ESTABLISHMENT BYLAW NO. 6936,
AMENDMENT BYLAW NO. 9084**

The Council of the City of Richmond enacts as follows:

1. Excess or Extended Services and Latecomer Payment Interest Rate Establishment Bylaw No. 6936 is amended by:

a) deleting Section 1 and substituting the following:

“1. Except as specified in section 2 of this bylaw, all charges imposed pursuant to section 939(5)(c) of the *Local Government Act*, as amended or replaced from time to time, will have added to them interest at the Prime Rate, as of the date the City issued a certificate of completion for the excess or extended services works, plus three percent (3%). For the purposes of this bylaw, “Prime Rate” means the rate of interest equal to the floating interest rate established from time to time by the Bank of Nova Scotia as the base rate that will be used to determine rates of interest charged by it for Canadian dollar loans to customers in Canada and designated by the Bank of Nova Scotia as its prime rate.”

b) deleting Section 2 and substituting the following:

“2. All charges imposed pursuant section 939(5)(c) of the *Local Government Act*, as amended or replaced from time to time, for the following excess or extended services works will have added to them interest at the following interest rates:

	PROJECT	INTEREST RATE
(a)	Ryan Road Drainage (completed August 27, 2004 with City funding)	8%
(b)	West Cambie Alexandra Neighbourhood Utility Works (pursuant to a latecomer agreement dated June 25, 2007)	10%
(c)	Elmbridge Way / Alderbridge Way Drainage (pursuant to Servicing Agreement No. 06-333115)	10%
(d)	Stolberg Street Drainage and Sanitary Sewer (pursuant to Servicing Agreement No. 08-434616)	10%
(e)	No. 4 Road Sanitary Sewer (pursuant to Servicing Agreement No. 09-502425)	10%
(f)	Pearson Way Drainage and Sanitary Sewer (pursuant to Servicing Agreements No. 11-5894605 and 11-564833)	10%

c) deleting Section 3 and substituting the following:

“3. For the purposes of sections 1 and 2 of this bylaw:

(a) the interest rate for a latecomer agreement for excess or extended services is fixed, for the term of the agreement, at the rate established in accordance with section 1 or 2, as applicable; and

(b) interest is calculated annually and payable for the period beginning on the date when the City issued a certificate of completion for the excess or extended services works, up to the date that the connection to the excess or extended services is made by the benefiting property or the use by the benefiting property begins.”

2. This Bylaw may be cited as “**Excess or Extended Services and Latecomer Payment Interest Rate Establishment Bylaw No. 6936, Amendment Bylaw 9084**”.

FIRST READING

SECOND READING

THIRD READING

ADOPTED

CITY OF RICHMOND
APPROVED for content by originating dept. <i>W</i>
APPROVED for legality by Solicitor <i>M</i>

MAYOR

CORPORATE OFFICER