City of Richmond

Report to Committee

To:	General Purposes Committee	**Date:**	October 30, 2013
From:	Jerry Chong Director, Finance	**File:**	
Re:	**Loan Authorization Bylaw**		

Staff Recommendation

That one of the following Loan Authorization Bylaw recommendations, that corresponds to the site selection decision for the replacement of Older Adults' Centre and Aquatic Centre, be forwarded to Council for consideration:

> That the Integrated Older Adults' Centre and Aquatic Centre Loan Authorization Bylaw No. 9074 be introduced and given first, second and third readings.
> (Corresponds to Option 1 of the *"Minoru Older Adults and Aquatic Centre Site Selection"* report)
>
> That the Integrated Older Adults' Centre, Aquatic Centre and Minoru Pavilion Loan Authorization Bylaw No. 9075 be introduced and given first, second and third readings.
> (Corresponds to Option 2 or Option 3 of the *"Minoru Older Adults and Aquatic Centre Site Selection"* report)
>
> That the Aquatic Centre Loan Authorization Bylaw No. 9076 be introduced and given first, second and third readings.
> (Corresponds to Option 4 of the *"Minoru Older Adults and Aquatic Centre Site Selection"* report)

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

REPORT CONCURRENCE		
ROUTED TO:	**CONCURRENCE**	**CONCURRENCE OF GENERAL MANAGER**
City Clerk	☑	
Law	☑	
REVIEWED BY DIRECTORS	**INITIALS:** DW	**APPROVED BY CAO**

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Staff Report

Origin

The purpose of this report is obtain Council's authorization to borrow $50,815,000 from the Municipal Finance Authority (MFA) to fund the selected capital project as proposed in the staff report titled *"Minoru Older Adults and Aquatic Centre Site Selection"* dated October 30, 2013 from the General Manager, Engineering & Public Works and General Manager, Community Services.

As outlined in the *"Minoru Older Adults and Aquatic Centre Site Selection"* report, four site options for the replacement of Minoru Older Adults' Centre and Aquatic Centre (herein referred to as OAC/MAC Project) were presented to Council for selection. This report is to follow through with the funding strategy of the external borrowing of net loan proceeds of $50,000,000 as previously endorsed by Council in recommendation 2 of the staff report titled "Major Capital Facilities Program Phase 1" dated May 31, 2013 from the Director, Engineering.

General information on the City's long-term debt process as required by the *Community Charter* and the MFA's borrowing process is found in Attachment A of this report.

Analysis

Depending on the site that was chosen by Council in the *"Minoru Older Adults and Aquatic Centre Site Selection"* report, staff are proposing one of the following loan authorization bylaws that corresponds to Council's site selection decision for Council's consideration:

Bylaw No.9074: If the option selected is the co-located Aquatic and Older Adults' Centre at the existing location in Minoru Park (Option 1 of the *"Minoru Older Adults and Aquatic Centre Site Selection"* report), then staff is recommending that the **"Integrated Older Adults' Centre and Aquatic Centre Loan Authorization Bylaw No. 9074"** be introduced and given first, second and third readings (Attachment B); or

Bylaw No.9075: If the option selected is the co-located Aquatic and Older Adults' Centre at Minoru 2 Field in Minoru Park (Option 2 of the *"Minoru Older Adults and Aquatic Centre Site Selection"* report) or the co-located Aquatic and Older Adults' Centre at Minoru 2 Field in Minoru Park and endorsement of a future Aquatic Centre at Lot 5 adjacent to the Richmond Olympic Oval (Option 3 of the *"Minoru Older Adults and Aquatic Centre Site Selection"* report), then staff is recommending that the **"Integrated Older Adults' Centre, Aquatic Centre and Minoru Pavilion Loan Authorization Bylaw No. 9075"** be introduced and given first, second and third readings (Attachment C); or

Bylaw No.9076: If the option selected is a co-located Aquatic and Older Adults' Centre at the existing location in Minoru Park and an Aquatic Centre at Lot 5 adjacent to the Richmond Olympic Oval, with the Older Adults' Centre and the Aquatic Centre at Lot 5 being constructed concurrently and the Minoru Aquatic Centre

being constructed at a future date (Option 4 of the *"Minoru Older Adults and Aquatic Centre Site Selection"* report), then staff is recommending that the **"Aquatic Centre Loan Authorization Bylaw No. 9076"** be introduced and given first, second and third readings (Attachment D).

Under this bylaw, the net loan proceeds will be used solely for the purpose of the construction of an Aquatic Centre on Lot 5, adjacent to the Richmond Olympic Oval.

Under each of the four site options in the *"Minoru Older Adults and Aquatic Centre Site Selection"* report , the estimated cost of construction of the assets subject to borrowing is in excess of $50,000,000. Staff is recommending that a mix of internal and external funding be used to finance the capital facility in order to achieve a balance between impact of tax increase and the preservation of a healthy and sustainable long-term financial reserve position of the City.

Staff is therefore proposing a Loan Authorization Bylaw in the amount of $50,815,000 in order for the City to receive net loan proceeds (after fees) of $50,000,000 to partially finance the project selected by Council. The anticipated debt repayment will be funded by the City's available budget, namely the debt servicing budget of the Terra Nova debt ($1.0 million) that will be maturing in December 2014 and the gaming revenue transfer ($5.0 million) to repay the Oval's construction that will coincidentally also end in December 2014.

Elector Approval Requirement of the Loan Authorization Bylaw

Under the *Municipal Liability Regulation (B.C. Reg. 254/2004)*, if a municipality's annual liability servicing cost (namely the annual interest and principal debt repayments that are capital in nature) is no greater than 5% of the municipality's last year's controllable revenues (such as taxes revenue, utilities revenue, investment income, unconditional grants and other revenues that are consistent from year to year), the municipality qualifies for the elector approval free exemption. The elector approval free exemption permits a municipality to adopt a loan authorization bylaw without elector's consent (i.e. without a referendum or an alternative approval process).

After taking into consideration the annual liability servicing costs of the proposed loan of $50,815,000 and the City's existing debt (estimated to be less than a total of $10 million) and the City's controllable revenue in 2012 (estimated to be at a minimum of $300 million), the City will meet the requirements of the electoral approval free exemption for the Loan Authorization Bylaw. Therefore, Council has the option to proceed with the Loan Authorization Bylaw adoption process without elector's consent.

It is anticipated that the proposed loan authorization will not trigger any additional tax impact as the debt repayment will be funded by existing available budgets. Staff is therefore recommending that Council proceed with the Loan Authorization Bylaw without a referendum or an alternative approval process.

Borrowing Timeline

In order to meet the upcoming MFA issue deadline (Spring 2014), the City and approval authorities have the following actions to complete and timeline to meet prior to the requested funds being advanced to the City from the MFA:

Actions	Performed By	Estimated Completion Date
Three readings of the loan authorization bylaw	City Council	November 12, 2013*
Approval of the loan authorization bylaw	Inspector of Municipalities	November 29, 2013
Adoption of the loan authorization bylaw	City Council	December 9, 2013*
One month quashing period	No action	January 9, 2014
Application of Certificate of Approval from the Ministry of Community Services	City Staff	January 10, 2014
Approval of Certificate of Approval from the Ministry of Community Services	Inspector of Municipalities	January 15, 2014
Passing of Municipal Security Issuing Resolution and Agreement	City Council	January 16, 2014 (Special Council Meeting)
Delivery of all necessary documents to Metro Vancouver	City Staff	January 20, 2014 (Metro Vancouver's affirmative deadline)
Readings and adoption of Regional District Security Issuing bylaw	Metro Vancouver	February 2014
Application of Certificate of Approval of the Regional District Security Issuing bylaw from the Ministry of Community Services	Metro Vancouver	February 21, 2014
Advance of funds to the City	MFA	April 2014

*Scheduled Council Meeting

Financial Impact

The actual rate of borrowing will be determined by MFA at a later time once their bond rates are set when the related MFA debentures are issued in the market. Based on the current market information and the recent MFA loan issues, it is estimated that the interest rate of the City's borrowing would likely range between 3.5% and 4.5%.

The annual principal and interest repayment for the loan is not expected to have any tax impact due to the use of the existing $1 million debt servicing budget and $5 million gaming revenue transfer, both of which will be available starting in fiscal year 2015. If borrowing was to take place during 2014, a one-time bridging to service the 2014 partial debt repayments will be funded from the debt provision account.

Conclusion

To ensure that financing is in place to fund the construction of the Council endorsed OAC/MAC Project, staff is recommending that the appropriate Loan Authorization Bylaw be forwarded to Council for consideration, so that actions can be taken immediately in order to meet the deadlines for obtaining the necessary financing through the MFA.

Venus Ngan
Manager, Treasury and Financial Services
(604-276-4217)

General Information on the City's Long-Term Debt Process

Under section 179 of the *Community Charter*, a council may, by a loan authorization bylaw adopted with the approval of the inspector, incur a liability by borrowing for any purpose of capital nature. Any debt with term of over 5 years must be obtained through the MFA.

Loan Authorization Bylaw

Any time when long-term borrowing is required, a Loan Authorization Bylaw is required to be approved by Council and the Province. Some characteristics of a Loan Authorization Bylaw are:

(i) Joint and several obligations with Metro Vancouver

- Metro Vancouver must consent to the borrowing requested by the City through the Regional District Security Issuing Bylaw
- Metro Vancouver and the City have joint and several obligations on the debt

(ii) Content of a Loan Authorization Bylaw

- The total amount proposed to be borrowed under the Loan Authorization Bylaw
- The purpose of which the debt is to be incurred
- The term of the borrowing, which is the lesser of 30 years or the life expectancy of the capital asset financed by the debt
- A Loan Authorization Bylaw may not be included as part of a general bylaw

(iii) Life of a Loan Authorization Bylaw

- The Loan Authorization Bylaw, once adopted, has a life of five years
- Municipalities have the flexibility in determining the timing of borrowing, as long as the borrowing takes place within five years from the adoption date of the Loan Authorization Bylaw
- The actual amount of borrowing can be equal to or less than the amount authorized by the Loan Authorization Bylaw
- Any authorized but unissued amount of the Loan Authorization Bylaw will automatically expire in five years from the bylaw adoption date if remained unused
- Any authorized but unissued amount of the Loan Authorization Bylaw can be cancelled at any time as authorized by Council

Loan Authorization Process

Since the City and Metro Vancouver have joint and several obligations on all MFA loans, this makes the loan authorization process lengthier then a typical bylaw adoption as it requires review and approval from the Province at various steps of the process and it also requires formal consent from the Board of Metro Vancouver.

These are the steps in obtaining a MFA loan:

1. Three readings of Loan Authorization Bylaw by Council

2. Review and approval by the Province

3. Elector approval, alternative approval process, or no elector approval if exemption requirement is met

4. Adoption of Loan Authorization Bylaw by Council

5. Application of Certificate of Approval of the Loan Authorization Bylaw from the Province

Once approval in step 5 is obtained, the Loan Authorization Bylaw is effective and valid for five years from the date of adoption. When the City is ready to initiate the actual borrowing process, these steps will follow:

6. Council passes the Municipal Security Issuing Resolution and Agreement (this resolution is one of the mandatory components that forms part of the legal documentation for all MFA debt due to the joint and several liability between the City and Metro Vancouver)

7. Three readings and adoption of Regional District Security Issuing Bylaw by Metro Vancouver's Board

8. Application of Certificate of Approval of the Regional District Security Issuing Bylaw from the Province

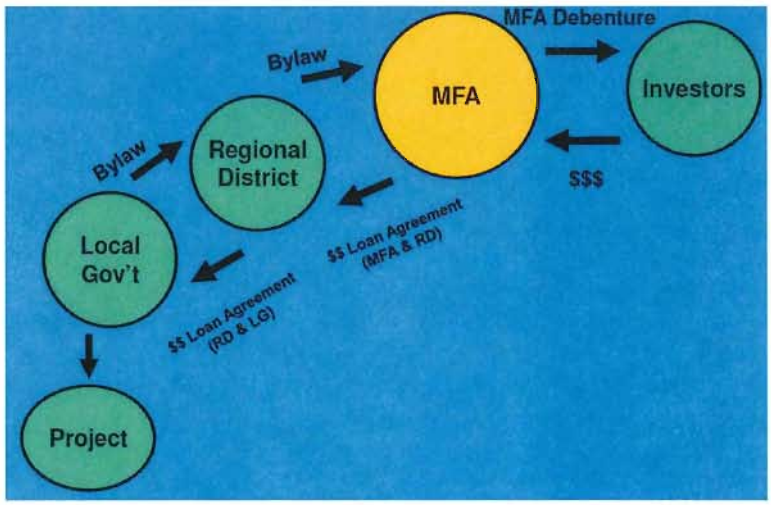
9. MFA Annual General Meeting

10. Advance of loan proceeds to the City

Municipalities are advised by MFA that the entire loan authorization process will normally take an average of six to nine months to complete due to the various agencies being involved. In order for the City to meet the upcoming MFA Spring Deadline (February 2014), the above steps must begin by early November 2013 in an expedite manner for the MFA deadline to be met.

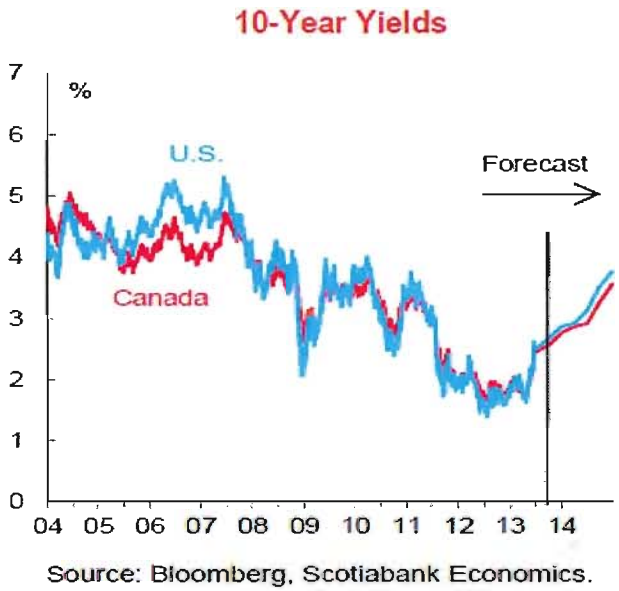
MFA Loan Process

MFA generates funds to be loaned to municipalities by issuing MFA Debentures in the financial market. The actual borrowing rate of the MFA loan issue is therefore tied to the market yield of the MFA bond at the time of the bond issue (i.e. local government's loan interest payment is used to pay bond interests to the investors). See below for process flow:



MFA Loan Rate

The actual borrowing rate is therefore unknown to the municipalities at the time of the loan process but an estimated rate is published by the MFA for analytical purposes based on the current market condition and their outlook of the economy. The current economic forecast is anticipating that the long-term rate will slowly rise as the market makes its gradual transition towards recovery. See forecast of long-term yield below:



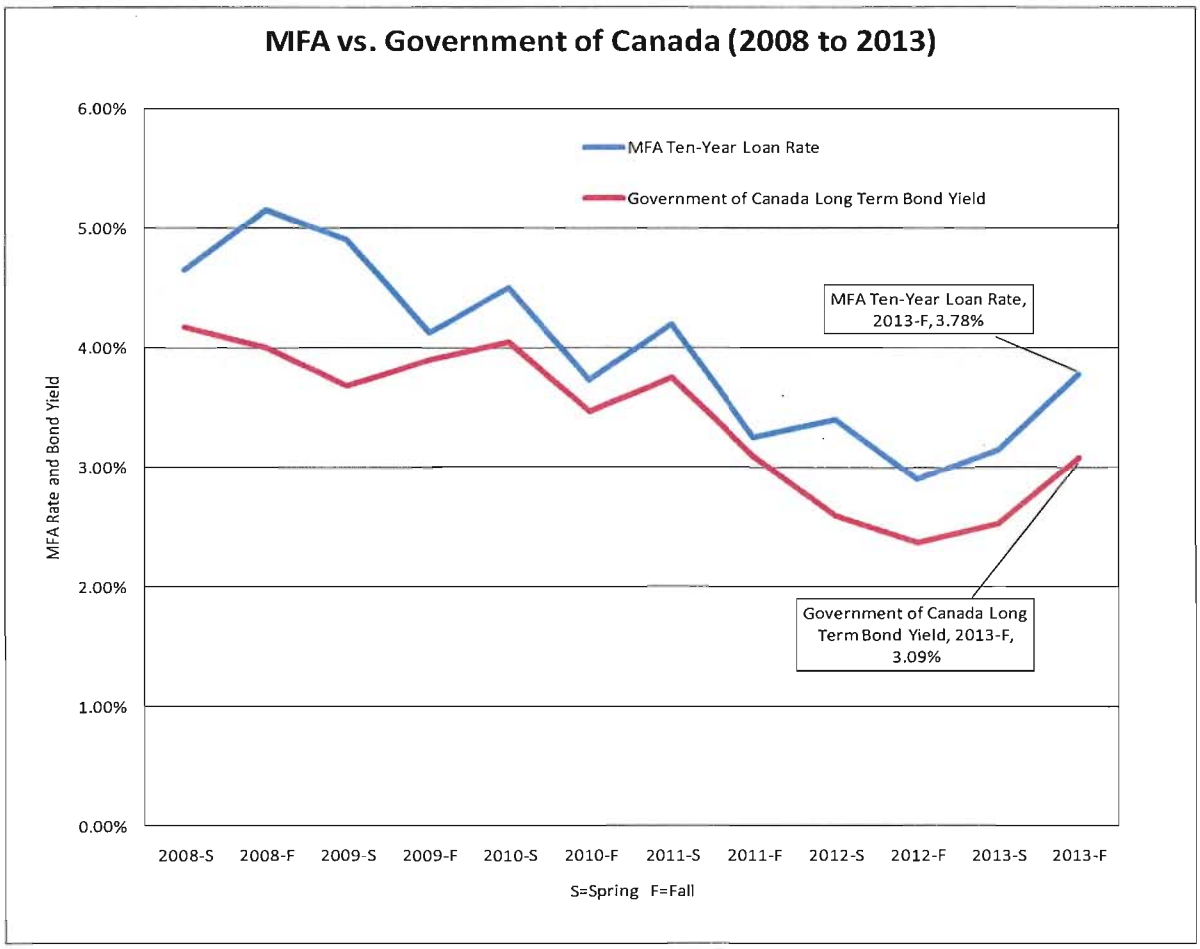
The actual interest rate of MFA loan is determined by MFA at a later time once their bond rates are set when the related MFA debentures are issued in the market. The actual interest rate information is typically released after their Annual/Semi-Annual General Meeting that takes place every Spring and Fall.

The most recent Fall 2013 MFA loan was issued at a 10-year loan rate of 3.78%.

Municipalities that have requested a loan from the MFA are committed to the loan and they are not allowed to renege on their loan request (e.g. if the borrowing rate is higher than expected, or if the capital project requiring funding got cancelled after submission of the loan request etc.).

Historical MFA Loan Rate

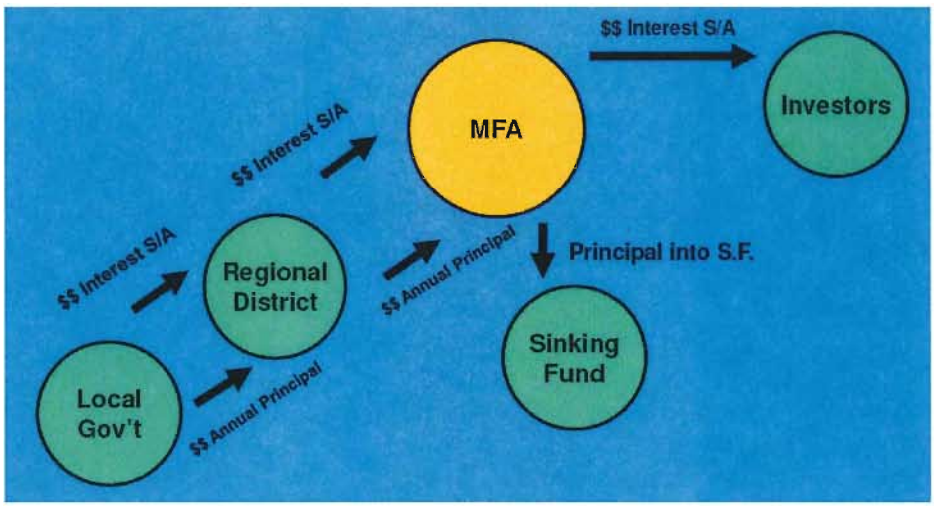
Using the Government of Canada (same AAA credit rating as MFA) 10-year bond yield as a benchmark for comparison purpose, it is expected that MFA's loan rate can typically range anywhere from 0.50% to 1.00% above the Government of Canada bond yield, as shown below:



MFA Loan Repayment Structure

The interest rate is fixed for the duration of the loan and is calculated based on gross amount requested. Each new loan issue will generally be for a 10 year term, which means the lending rate will be set from the date of funding for a period of 10 years. Any terms that exceed the 10 year period will have the lending rate reset starting in year 11. Typically, the rate will be reset for the next 5 years covering the start of year 11 to the end of year 15, and this "5 year reset process" will continue as required (i.e. until loan obligations mature).

Interest is payable semi-annually and principal is payable annually. The amount of principal repaid is deposited into a sinking fund account. The estimated interest earned on the sinking fund pool (known as actuarial credit) is being applied to the outstanding principal amount as a non-cash repayment annually. If the actual earnings of the sinking fund are greater than the estimated earnings, surplus will be paid back to the municipality at the expiry of the loan. In some cases, there is possibility of stop or forgiven payments where the outstanding debt is repaid by the earnings in the sinking fund, so municipalities do not need to make any further debt repayments.



MFA Loan Proceeds

All MFA loan request is subject to a deduction of 1.00% by the MFA for security against loan default (this is held in trust by the MFA in its Debt Reserve Fund and will be refunded to clients, with interest, at loan expiry) and another 0.60% is deducted by MFA as issue expenses (non-refundable) to cover the costs of raising money. The City must take into consideration this 1.60% deduction to ensure adequate funds remain to fully finance the funding requirement of the capital project(s). Below illustrates the amount of loan request required in order for the City to obtain $50,000,000 in net proceeds from the MFA:

Loan Request Amount	$ 50,815,000
Less:	
1.0% Debt Reserve Fund	$ 508,150
0.6% Issue Expenses	$ 304,890
Net Loan Proceeds	$ 50,001,960

City of Richmond

Bylaw 9074

Integrated Older Adults' Centre and Aquatic Centre Loan Authorization Bylaw No. 9074

WHEREAS Council considers it desirable to construct an integrated Older Adults' Centre and Aquatic Centre in Minoru Park, Richmond;

AND WHEREAS the City wishes to partially fund the construction of the integrated Older Adults' Centre and Aquatic Centre by borrowing the sum of $50,815,000, which is the amount of debt intended to be borrowed by this bylaw;

NOW THEREFORE the Council of the City of Richmond, in open meeting assembled, enacts as follows:

1. The City is hereby empowered and authorized to borrow upon the credit of the City a sum not exceeding $50,815,000 for the purpose of constructing an integrated Older Adults' Centre and Aquatic Centre in Minoru Park, including all expenses incidental thereto.

2. The maximum term for which debentures may be issued to secure debt created by this bylaw is thirty (30) years.

3. This bylaw may be cited as "**Integrated Older Adults' Centre and Aquatic Centre Loan Authorization Bylaw No. 9074**".

FIRST READING _____

SECOND READING _____

THIRD READING _____

RECEIVED the approval of the Inspector of Municipalities _____

ADOPTED _____

_____ MAYOR

_____ CORPORATE OFFICER

City of Richmond

Bylaw 9075

Integrated Older Adults' Centre, Aquatic Centre and Minoru Pavilion Loan Authorization Bylaw No. 9075

WHEREAS Council considers it desirable to construct an integrated Older Adults' Centre, Aquatic Centre and Pavilion at Minoru 2 Field in Minoru Park, Richmond;

AND WHEREAS the City wishes to partially fund the construction of the integrated Older Adults' Centre, Aquatic Centre and Pavilion by borrowing the sum of $50,815,000, which is the amount of debt intended to be borrowed by this bylaw;

NOW THEREFORE, the Council of the City of Richmond, in open meeting assembled, enacts as follows:

1. The City is hereby empowered and authorized to borrow upon the credit of the City a sum not exceeding $50,815,000 for the purpose of constructing an integrated Older Adults' Centre, Aquatic Centre and Pavilion in Minoru Park, including all expenses incidental thereto.

2. The maximum term for which debentures may be issued to secure debt created by this bylaw is thirty (30) years.

3. This bylaw may be cited as "**Integrated Older Adults' Centre, Aquatic Centre and Minoru Pavilion Loan Authorization Bylaw No. 9075**".

FIRST READING _____

SECOND READING _____

THIRD READING _____

RECEIVED the approval of the Inspector of Municipalities _____

ADOPTED _____

_____ MAYOR

_____ CORPORATE OFFICER

City of Richmond

Bylaw 9076

Aquatic Centre Loan Authorization Bylaw No. 9076

WHEREAS Council considers it desirable to construct an Aquatic Centre on a parcel owned by the City and legally described as Lot 5 Section 6 Block 4 North Range 6 West New Westminster District Plan BCP30383 ("Lot 5");

AND WHEREAS the City wishes to partially fund the construction of the Aquatic Centre by borrowing the sum of $50,815,000, which is the amount of debt intended to be borrowed by this bylaw;

NOW THEREFORE the Council of the City of Richmond, in open meeting assembled, enacts as follows:

1. The City is hereby empowered and authorized to borrow upon the credit of the City a sum not exceeding $50,815,000 for the purpose of constructing an Aquatic Centre on Lot 5, including all expenses incidental thereto.

2. The maximum term for which debentures may be issued to secure debt created by this bylaw is thirty (30) years.

3. This bylaw may be cited as "**Aquatic Centre Loan Authorization Bylaw No. 9076**".

FIRST READING _____

SECOND READING _____

THIRD READING _____

RECEIVED the approval of the Inspector of Municipalities _____

ADOPTED _____

_____ MAYOR

_____ CORPORATE OFFICER

City of Richmond

Bylaw 9075

Integrated Older Adults' Centre, Aquatic Centre and Minoru Pavilion Loan Authorization Bylaw No. 9075

WHEREAS Council considers it desirable to construct an integrated Older Adults' Centre, Aquatic Centre and Pavilion at Minoru 2 Field in Minoru Park, Richmond;

AND WHEREAS the City wishes to partially fund the construction of the integrated Older Adults' Centre, Aquatic Centre and Pavilion by borrowing the sum of $50,815,000, which is the amount of debt intended to be borrowed by this bylaw;

NOW THEREFORE, the Council of the City of Richmond, in open meeting assembled, enacts as follows:

1. The City is hereby empowered and authorized to borrow upon the credit of the City a sum not exceeding $50,815,000 for the purpose of constructing an integrated Older Adults' Centre, Aquatic Centre and Pavilion in Minoru Park, including all expenses incidental thereto.

2. The maximum term for which debentures may be issued to secure debt created by this bylaw is thirty (30) years.

3. This bylaw may be cited as "**Integrated Older Adults' Centre, Aquatic Centre and Minoru Pavilion Loan Authorization Bylaw No. 9075**".

FIRST READING _____

SECOND READING _____

THIRD READING _____

RECEIVED the approval of the Inspector of Municipalities _____

ADOPTED _____

CITY OF RICHMOND
APPROVED for content by originating dept.
JC
APPROVED for legality by Solicitor

_____ MAYOR

_____ CORPORATE OFFICER

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