



# City of Richmond

## Report to Committee

**To:** Finance Committee **Date:** April 8, 2022  
**From:** Ivy Wong **File:** 03-0900-01/2022-Vol  
 Acting Director, Finance 01  
**Re:** **Municipal Security Issuing Resolution**

### Staff Recommendation

1. That a 20-year term \$96 million borrowing with a 20-year amortization period from the Municipal Finance Authority of British Columbia's (MFA's) 2022 Fall Borrowing Session, as authorized through Steveston Community Centre and Branch Library Loan Authorization Bylaw No. 10334, be approved;
2. That the Metro Vancouver Regional District (MVRD) be requested to consent and to include the City of Richmond's 20-year term \$96 million borrowing with a 20-year amortization period in MVRD's Security Issuing Bylaw; and
3. That the Consolidated 5-Year Financial Plan (2022-2026) be amended accordingly.

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

REPORT CONCURRENCE	
<b>CONCURRENCE OF GENERAL MANAGER</b>  Acting GM, F&CS	
<b>SENIOR STAFF REPORT REVIEW</b>	<b>INITIALS:</b> 
<b>APPROVED BY CAO</b> 	

## Staff Report

### Origin

On April 4, 2022, the Inspector of Municipalities granted the Certificate of Approval to the City of Richmond's (City's) Steveston Community Centre and Branch Library Loan Authorization Bylaw No. 10334. The City may now proceed with the Municipal Security Issuing Resolution (MSIR) in order to participate in the MFA Fall 2022 Long-Term Debt Program.

This report seeks Council's approval for the proposed MSIR for a 20-year term \$96 million borrowing with a 20-year amortization period from the MFA.

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.*

### Background

On December 12, 2016, Council identified the Steveston Community Centre and Branch Library as a priority Phase 2 Major Facilities project for 2016-2026. Since then, Council has made a number of critical decisions that led to the enabling works of this major facility project.

On July 26, 2021, Council approved a capital budget of \$95 million for the Steveston Community Centre and Branch Library Capital Project from the following reserve funds:

- \$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
- \$5.0 million in contingency from the Capital Reserve (Revolving Fund).

On November 29, 2021, staff presented alternative funding source options to Council where a 20-year term borrowing of \$95 million with a 20-year amortization period was endorsed.

On February 14, 2022, the \$96 million<sup>1</sup> Steveston Community Centre and Branch Library Loan Authorization Bylaw No. 10334 was adopted.

Upon receipt of the Certificate of Approval from the Inspector of Municipalities, the City may now proceed with the MSIR in order to participate in the upcoming MFA Fall 2022 Long-Term Debt Program.

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<sup>1</sup> The authorized loan amount of \$96 million is higher than the approved budget of \$95 million due to a 1% debt reserve fund that is required to be held by the MFA as security against loan default.

**Analysis**

The timing of the maturity of the City’s current 10-year long-term debt for the Minoru Centre for Active Living (Minoru Centre) allows the City to borrow for the Steveston Community Centre and Branch Library and to avoid any additional tax impact.

Borrowing Interest Rate and Loan Term

The borrowing rate and term for the proposed Steveston Community Centre and Branch Library \$96 million loan are unknown at this time and will be determined by the MFA closer to the time of debt funding.

The actual loan term and interest rate of the City’s borrowing request will depend on how the MFA structures the financing based on requests from its members, conditions of the capital markets and the interest rate environment at the time of debt funding. The final borrowing rate, once set upon debt issuance, will remain unchanged over the approved term of the loan.

The MFA long-term debt rates for the recent Spring 2022 debt issue were set at 3.36% for 10-year term and 3.71% for 20-year term respectively.

Projected Debt Servicing Costs

The proposed \$96 million loan is intended to replace the City’s existing debt servicing costs without any additional tax impact to the taxpayers. The City’s current annual debt servicing cost for the \$50 million Minoru Centre loan is \$6 million. The Minoru Centre debt will be fully repaid and extinguished by April 2024.

The projection of future interest rates remain highly volatile and unpredictable due to economic conditions, interest rate movements, political issues, as well as other unforeseen external factors. Table 1 below provides an illustration of the estimated annual debt servicing costs for the proposed \$96 million MFA loan (20-year term with 20-year amortization period) at various levels of MFA borrowing rates. An average of \$0.5 million in annual debt servicing cost is anticipated for every additional 0.25% in borrowing interest rate.

MFA Borrowing Rate	Estimated Annual Debt Servicing Cost
2.25%	\$6.0 million
2.75%	\$6.5 million
3.25%	\$7.0 million
3.75%	\$7.5 million

Table 1. Estimated Annual Debt Servicing Costs at different MFA borrowing rates

No Anticipated Tax Impact

The actual annual debt servicing cost of the proposed \$96 million MFA loan will not be known until closer to the time of debt funding. For the Fall 2022 MFA debt issue, debt funding is set to take place during October 2022.

Future interest rate conditions may cause the City’s borrowing rate (thus the annual debt servicing cost) to be higher than projected. As illustrated in Table 2 below, the positive correlation between MFA long-term debt rates and the long-term market investment yields can mitigate the financial impact should interest rates go up. When such condition arises, it is anticipated that any potential debt servicing costs in excess of the current debt servicing level will be sufficiently covered by any incremental increase in income that the City will be earning on its investment portfolio. Thus, no additional tax impact is anticipated.

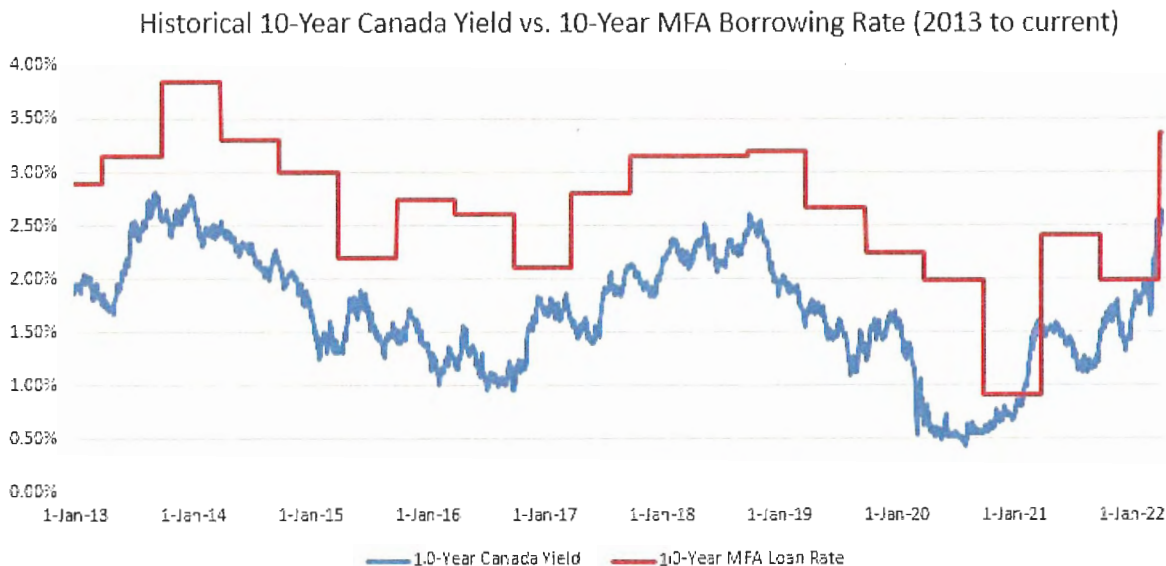


Table 2. Government of Canada 10-Year Bond Yields and 10-Year MFA Borrowing Rates

There are other ways to adjust the debt perimeters to maintain the current debt servicing level, such as reducing the borrowing amount by around \$25 million or extending the loan amortization to 25 or 30 years, etc. Staff believe that as long as no tax impact is resulted from the proposed borrowing, it remains advantageous for the City to undertake the full borrowing amount in order to lock in the interest rate (with anticipation that interest rate will continue to rise) by participating in the upcoming MFA debt issue.

If the City participates in the Fall 2022 MFA debt issue, the annual debt repayment will commence in year 2023. Since the current Minoru Centre debt is not going to be fully repaid until April 2024, the City will use any available debt provision balance and arising surplus to fund the excess debt repayment costs until such time the Minoru Centre debt is fully repaid.

Recommendation

Staff recommend that the following Municipal Security Issuing Resolution be approved by Council:

1. That a 20-year term \$96 million borrowing with a 20-year amortization period from the Municipal Finance Authority of British Columbia's (MFA's) 2022 Fall Borrowing Session, as authorized through Steveston Community Centre and Branch Library Loan Authorization Bylaw No. 10334, be approved;
2. That the Metro Vancouver Regional District (MVRD) be requested to consent and to include the City of Richmond's 20-year term \$96 million borrowing with a 20-year amortization period in MVRD's Security Issuing Bylaw; and

If the above is approved by Council, staff will forward the necessary information package to Metro Vancouver by June 1, 2022 in order for the City's loan request to be included in the Metro Vancouver Regional District Security Issuing Bylaw. The Metro Vancouver Committee and Board meetings to approve the loan requests for MFA Fall debt issue is anticipated to take place in July 2022.

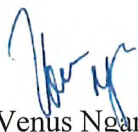
Upon final approval by the Inspector of Municipalities of the MVRD Security Issuing Bylaw, the loan request will be forwarded to MFA for consideration at its Annual General Meeting on September 13, 2022. Loan proceeds will be disbursed to the requesting municipalities by October 2022.

**Financial Impact**

The Consolidated 5-Year Financial Plan (2022-2026) will be amended accordingly to include the net loan proceeds of \$95.04 million for the proposed \$96 million loan as authorized under the Steveston Community Centre and Branch Library Loan Authorization Bylaw No. 10334. Future annual debt repayments of the proposed MFA borrowing will commence in year 2023 with the first payments to be funded from any debt provision balance and arising surplus until the expiry of the Minoru Centre debt.

**Conclusion**

Staff recommend that the Municipal Security Issuing Resolution be approved in order to allow the City to obtain consent from Metro Vancouver to proceed with the MFA loan request for a 20-year term \$96 million borrowing with a 20-year amortization period, as authorized through the City's Steveston Community Centre and Branch Library Loan Authorization Bylaw No. 10334.



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