
MEETING TYPE AND DATE:

REGULAR COUNCIL MEETING – NOVEMBER 16, 2021

AUTHOR:

TREVOR JAMES, CHIEF FINANCIAL OFFICER

SUBJECT:

BORROWING FOR FIRE HALL

ESSENTIAL QUESTION:

Does Council wish to proceed with the long-term borrowing as approved in the Loan Authorization (Fire Hall) Bylaw 1062, 2018? Does Council want to sell the previous Fire Hall site as originally planned?

OPTIONS:

- A. THAT borrowing from the Municipal Finance Authority (“MFA”) of British Columbia, as part of the 2022 Spring Borrowing Session in the amount of \$6.124 million as authorized through Loan Authorization (Fire Hall) Bylaw 1062, 2018 be approved;
AND THAT that the Regional District of the Central Okanagan be requested to consent to the District’s borrowing over a 20-year term and include the borrowing in their Security Issuing Bylaw;
AND THAT the 2021-2025 Financial Plan be amended to include funding \$1,000,000 of the new fire hall from the Fire Facilities and Equipment Reserve
AND THAT staff be directed not to proceed with the sale of the existing fire hall site (roll numbers 2473000, 2455000 and 2456000) at this time.
- B. THAT borrowing from the Municipal Finance Authority (“MFA”) of British Columbia, as part of the 2022 Spring Borrowing Session in the amount of \$6.6 million as authorized through Loan Authorization (Fire Hall) Bylaw 1062, 2018 be approved;
AND THAT the Regional District of the Central Okanagan be requested to consent to the District’s borrowing over a 20-year term and include the borrowing in their Security Issuing Bylaw;
AND THAT staff be directed to proceed with the sale of the existing fire hall site (roll numbers 2473000, 2455000 and 2456000) with proceeds to be allocated towards the new fire hall.
- C. THAT borrowing from the Municipal Finance Authority (“MFA”) of British Columbia, as part of the 2022 Spring Borrowing Session as authorized through Loan Authorization (Fire Hall) Bylaw 1062, 2018 not undertaken at this time.

EXECUTIVE SUMMARY:

The new fire hall on Okanagan Centre Road East is substantially complete and is about to be placed into operation. The majority of the construction costs have now been incurred. As interest rates have been low and strong mid to long term investment options have been limited, the District has been “borrowing” internally from our other reserves to fund this project. Going ahead with this borrowing will allow the District to replenish the reserves that were “borrowed” from to proceed with their intended use as necessary.

As per the Community Charter section 182, a municipality must not borrow money under a loan authorization bylaw unless the financing is undertaken by the applicable regional district and the regional district board has consented to undertake the financing. In order for the RDCO to bring forward a security issuing bylaw to their board to eventually go to the MFA, a security issuing resolution from the municipality is required.

As part of the original project plan and budget, \$1 million of the budget was to be covered by the proceeds from the sale of the existing fire hall site. It is up to Council whether to proceed with selling this property or fund this amount from alternative sources.

Property taxes were increased 2019 to cover annual debt payments. As the debt has not yet been taken on, the funds collected to date have been added to the Fire Facilities and Equipment Reserve.

Key Information:

Approval of the electorate was acquired through a referendum held October 20, 2018 allowing to borrow up to \$6.6 million. Please see certified copy of Bylaw 1062 attached in **Appendix A** and Statutory Approval from the Deputy Inspector of Municipalities in **Appendix B**.

While subject to be different at the time of borrowing, currently the 20-year interest rate per Municipal Finance Authority of British Columbia is 2.91% with estimated annual debt payments of \$456,000 if \$6.6 million is borrowed or \$424,000 if \$6.124 million is borrowed. This is better than the assumed borrowing rate of 3.5% and \$476,000 in annual payments that was presented at the time of the referendum.

The budget for the project is \$9 million and was set to be funded from the following sources:

- \$500,000 – Fire Facilities and Equipment Reserve – These funds have already been used to pay some of the construction progress payments.
- \$900,000 – Capital Works Reserve – These funds have already been used to pay some of the construction progress payments.
- \$6,600,000 – Long Term Debt Financing – this resolution would trigger the borrowing of these funds at MFA's Spring borrowing.
- \$1,000,000 – Proceeds from sale of existing fire hall site – Council to decide as part whether to proceed with selling the site or funding from alternative sources. Please note that while \$1 million in proceeds was originally budgeted, there is no guarantee that this is how much in proceeds net of selling costs the District would actually receive in the event of a sale.

In 2019 property taxes were increased to cover the annual debt repayments. As the debt has not yet been issued, these funds, approximately \$952,000 (\$476,000 x 2 years) are in the Fire Facilities and Equipment Reserve and as such could be used to cover the majority of the \$1 million if Council wishes to not sell the existing fire hall site. The \$476,000 from the 2021 property taxes as a result of this tax increase slated to go into reserves at the end of the 2021 fiscal year could then be used to reduce the amount borrowed to \$6.124 million.

Had the District borrowed the full \$6.6 million in Spring 2019 when interest rates from MFA on 20-year loans were approximately 3.5%, there would have been \$9,918,753 in repayments over the 20 years. By internally borrowing and putting off the loan until now the District is looking at \$9,139,953 in payments if the full \$6.6 million is borrowed (currently the MFA rate on 20-year loans is 2.91%) or \$8,480,769 in total payments if only \$6.124 million is borrowed. Because interest rates are low, the District only missed out on approximately \$30,000 in interest income on what could have been invested based on project spending over the past 3 years and as such the internal borrowing proved to be financially beneficial for the District.

Relevant Observations:

Interest rates are at historic lows. While it is not possible to predict where interest rates are going, the Bank of Canada has shown hints that these record low interest rates will end soon and will likely go up such as ending the quantitative easing program. As such it may be prudent to lock in this loan, which will need to occur at some point anyway, at these current low rates. There are several large capital projects that are either ongoing or upcoming and delaying obtaining this loan past the Spring Borrowing Session could put a strain on future cash flows.

Strategic Questions:

Does Council wish to sell the property where the existing fire hall was located or maintain possession for either repurposing or future sale?

Strategic Relevance & Community Sustainability:

This project contributes to the safety of the community.

Key Result:

Obtain a loan, replenish the reserves which were “borrowed” from and create financial flexibility in the upcoming years.

Unintended Outcomes:

If obtaining the loan is delayed and interest rates rise, could result in significantly higher annual and total payments. For example a 1% increase from 2.91% to 3.91% would mean \$67,000 in additional annual debt payments and \$1.3 million in additional interest payments over the 20 year term.

BACKGROUND/HISTORY

The existing Winfield Fire Hall (Station 71) is over 60 years old and is showing obvious signs of deterioration and has a number of limitations which currently affect operations. It was determined by Council that a new fire hall was needed and because the loan that would enable construction would be paid back over a period of more than five years the approval of electors was necessary. A referendum was held on October 20, 2018. Approval was obtained with 1,724 votes in favour and 1,026 votes opposed and as such Bylaw 1062 was adopted by Council.

Construction on the fire hall is now substantially complete. Progress payments on construction have been paid along the way with the District “borrowing” from other reserves. These amounts will be “repaid” at the time of borrowing.

DISCUSSION/ANALYSIS**Legislation & Applicable Policies**

Local Government Act Section 410 – Financing municipal undertakings

Local Government Act Section 411 – security issuing bylaws

Community Charter Section 179 – Loan authorization bylaws for long term borrowing

Community Charter Section 182 – Municipal financing through regional district

Technical Considerations:

- **Impact on Infrastructure and Other Municipal Services**

Delay in borrowing could cause cash flow restraint on other capital projects.

ANALYSIS OF OPTIONS FOR CONSIDERATION:

Option A takes the original funding plan but reflects that other funding sources can be used rather than the portion of the funding that was expected to come from selling the existing fire hall site. This allows the District to maintain this land for either repurposing or future sale and to apply the funds collected from the tax increases and apply towards the project reducing the amount required to be borrowed.

Option B represents what was originally presented as the project budget when the referendum occurred in 2018. Below is a screenshot from the Fire Hall Referendum FAQ on the District’s website:

— I heard the project estimate is \$9 million - where does the other money come from?

It is estimated that the total cost of the fire hall including design, building, servicing and contingency will be approximately \$9,000,000. Funding of the fire hall would come from the following sources:

- \$1 million in proceeds from sale of existing firehall site
- \$500,000 from Fire Capital Reserve
- \$900,000 from Capital Works Reserve
- \$6.6 million in Long Term Debt Financing

It should be noted however that this option does not reflect that property taxes were increased for 2019, 2020 and 2021 to cover the annual debt payments which we do not yet have as we have not yet incurred this debt and as such does not reflect that we have funds in reserves from those tax increases.

Option C results in us not undertaking any borrowing at this time and as mentioned above puts us at risk of increased interest rates and cash flow constraints on other capital projects.

Council does have the option for an alternative resolution that combines facets of the above options that results in funding the project, with or without selling the existing land.

Respectfully Submitted,

Trevor James, CPA, CA
Director of Finance & Administration, Chief Financial Officer

This report has been prepared in consultation with the following departments:

CONCURRENCES	
DEPARTMENT	NAME
Chief Administrative Officer	Tanya Garost
Corporate Officer	Reyna Seabrook
Director of Parks, Recreation and Culture	Matt Vader

ATTACHMENTS:

Appendix A - Loan Authorization (Fire Hall) Bylaw 1062, 2018
Appendix B - Statutory Approval from the Deputy Inspector of Municipalities