

To: Chief Administrative Officer **Date:** May 2, 2022
From: Doug Stewart, Director of Finance
Subject: **Acquiring Funds through Long-term Borrowing from the Municipal Finance Authority of British Columbia**

Recommendation(s)

1. That Council approve borrowing from the Municipal Finance Authority of British Columbia, as part of the 2022 Fall Borrowing Session, \$12,500,000 as authorized through the City of Mission Fraser River Sewer Crossing Improvements Loan Authorization Bylaw 6031-2021; and
2. That the Fraser Valley Regional District be requested to consent to our borrowing over a 20-year term and include the borrowing in a Security Issuing Bylaw.

Purpose

To seek a Council resolution requesting that the Fraser Valley Regional District (FVRD) borrow funds from the Municipal Finance Authority of BC (MFA), on behalf of the City, with a security-issuing bylaw for the Fraser River Sewer Crossing Improvements project.

Background

On April 6, 2021 Council approved a revised 2022 budget for the Fraser River Sewer Crossing of \$23,823,827. Including the amount spent prior to 2022 (\$9,940,129), the total project budget is \$33,763,956. To date the total amount committed and spent is \$31,250,000. Some additional costs will be incurred to complete the project. A report on a subsequent Council agenda will be brought forward to provide more details as to the amounts spent and to seek additional funding if required.

Twice a year, the MFA issues long-term debentures on behalf of municipalities that want to take part in a particular debt issue. Municipalities must pass a security issue resolution and request that the corresponding regional district include the borrowing in its security-issuing bylaw prior to the issue date. The MFA does not deal directly with municipalities; it directs all funds through regional districts.

Obtaining funds through debt requires the following steps:

1. Council includes a project in its Five-year Financial Plan.
2. Council adopts a loan authorization bylaw.
3. The Inspector of Municipalities issues a Certificate of Approval for the loan authorization bylaw stating that it has been "lawfully and validly made and enacted".
4. Work on the project begins once approvals are in place. Until the borrowing process is complete, the project costs are funded using the City's cash reserves.
5. Council passes a security issue resolution requesting the FVRD include the borrowing in its security-issuing bylaw.
6. The MFA issues long-term debentures on the City's behalf.

The Fraser River Sewer Crossing Improvements project has gone through the first four steps and now requires a security issuing resolution from Council to borrow the funds.

The MFA issued a memo on March 28, 2022 stating:

“The Municipal Finance Authority (MFA) will hold its Semi-Annual General Meeting on September 13, 2022. As borrowing requests for the Fall 2022 long-term debt issue will be reviewed at this meeting, all regional districts must submit any applications for Certificate(s) of Approval (C of A) on Security Issuing (SI) bylaws, to the Ministry of Municipal Affairs (Ministry), by August 2, 2022”.

To meet this deadline the Fraser Valley Regional District will need to read a Security Issuing bylaw at the May 26th Board Meeting and adopt the bylaw at the June 29th Board Meeting.

Discussion and Analysis

In the April 6, 2021 report to Council, the following chart detailing the funding for the Fraser River Sewer Crossing project was included:

| Fraser River Sewer Crossing - Proposed budget as at April 6, 2021 | | | |
|---|-------------------|--------------------|------------------------|
| | Budget | Total Actual Costs | 2021 and beyond budget |
| Federal Grant (*1) | 4,155,436 | 4,155,436 | - |
| Provincial Grant (*2) | 13,742,587 | 2,418,760 | 11,323,827 |
| Cost Recoveries (*3) | 4,566 | 4,566 | - |
| Sewer DCC's (*4) | 7,694,349 | 1,685,802 | 6,008,547 |
| Sewer Capital Reserve | 8,167,018 | 1,675,565 | 6,491,453 |
| | 33,763,956 | 9,940,129 | 23,823,827 |

Any cost incurred prior to 2017 are not part of this calculation
 *1 - the Federal grant is the share of the CWWF grant only
 *2 - the Provincial grant is the share of CWWF grant plus \$11 million
 *3 - the cost recovery is what has been recovered to date
 *4 - the Sewer DCC is 49% of the costs after grants recoveries less the 1% assist factor
 *5 - the Sewer Capital Reserve is the remaining amount after all other funding sources are calculated

As the Regional Sewer DCC reserve does not have sufficient funds to cover the share of costs funded from this source, staff recommend acquiring \$6 million in debt funds. The debt servicing costs can be repaid utilizing future DCC revenue collected.

Funding approximately \$6.5 million from the Sewer Capital Reserve will reduce the balance in the reserve to approximately \$1.65 million by 2026 based on the current sewer capital plan. The Utilities Master Plan, soon to be finalized, may identify other significant capital projects not yet anticipated in the capital plan. Utilizing current reserve funds could impact the ability of the reserve to fund planned capital projects in the future. Staff recommend acquiring \$6.5 million in debt funds to ensure the Sewer Capital Reserve is able to fund future capital projects.

The Loan Authorization bylaw states that the maximum term for the long-term debt is 30 years, but the City can choose to amortize the debt over 5, 10, 15, 20, 25 or 30 years. Staff recommend acquiring debt with a 20-year term as the impact on the current rate payers is not much higher

than going with a 30-year term but the interest saving is significant. The following chart shows the differences between a 20-year, a 25-year or a 30-year term:

| Debt servicing cost based on 3.65 % interest | | | |
|--|-----------|------------|------------|
| | Debt Term | | |
| | 20 years | 25 years | 30 years |
| \$6 million funded from Regional DCC levies | 453,883 | 394,656 | 355,666 |
| \$6.5 million funded from Sewer Levies | 491,706 | 427,543 | 385,305 |
| \$12.5 million - total debt | 945,589 | 822,199 | 740,971 |
| Total interest over the term of the debt | 9,125,000 | 11,406,250 | 13,687,500 |
| Sewer levy increase required | 9.31% | 8.09% | 7.29% |
| Impact on the flat rate charge | \$44.04 | \$38.29 | \$34.51 |

Council Goals/Objectives

This report addresses the goals under Council's strategic focus areas of, Secure Finances, Assets and Infrastructure, and Organizational Excellence.

Financial Implications

The total estimated cost for the Fraser River Sewer Crossing is \$33,763,956 million. \$17,574,196 has been received in Federal and Provincial grants. The remaining costs will be funded from Regional Sewer DCC levies (49% less the 1% assist factor) and Sewer Levy Revenue (51% plus the 1% assist factor). To ensure the City maintains adequate cash reserves staff recommend borrowing \$12,500,000.

On April 26, 2022 the 10-year indicative lending rate on the MFA website was 3.65%. The actual lending rate for the Fall 2022 security issue will not be known until the funds are secured. A debt of \$12,500,000 with an interest rate of 3.65% amortized over 20-years will require an annual payment for both interest and principle of \$945,589. The Regional DCC levy can pay \$453,883 of the annual debt servicing costs. A sewer levy increase of 9.31% will be required to fund the remaining debt servicing costs of \$491,706. This is equivalent to a 1.25% property tax increase.

Summary and Conclusion

Twice a year, the MFA issues long-term debentures on behalf of municipalities that want to take part in a particular debt issue. Municipalities must pass a security issue resolution and request that the corresponding regional district include the borrowing in its security-issuing bylaw prior to the issue date. The MFA does not deal directly with municipalities; it directs all funds through regional districts.

Staff are seeking a Council resolution requesting that the FVRD borrow funds from the MFA, on behalf of the City, with a security-issuing bylaw for the Fraser River Sewer Crossing Improvements project.

Report Prepared by: Doug Stewart, Director of Finance

Approved for Inclusion: Mike Younie, Chief Administrative Officer