



THE CORPORATION OF THE CITY OF VERNON

MEMORANDUM

TO: Will Pearce, Chief Administrative Officer **FILE:** 1700-02 (2023)
PC: Mayor and Council **DATE:** June 7, 2022
FROM: Debra Law, Director, Financial Services
SUBJECT: ACTIVE LIVING CENTRE BORROWING STRATEGY

Administration has investigated the cost to borrow up to \$121,000,000 to fully fund the projected cost to build the Active Living Centre. As per Attachment 1, based on the 30-year amortization table and the long-term debt interest rate table (4.23%) available on the Municipal Finance Authority (MFA) website, as of May 31, 2022, it is estimated the annual debt servicing costs will be \$7,874,395 once the full amount of the loan has been issued from MFA (Attachment 1). This is the sum of \$5,118,300 (interest) and \$2,756,095 (principal) payment.

Attachment 2 – Debt Servicing and Tax Impact is based on estimated costs and timeline from the FaulknerBrowns Active Living Centre Feasibility Study. It is anticipated the debt will be issued from MFA over a four-year period. The first year will be to pay for design costs, estimated at approximately 10% of the total project cost - \$12,000,000. Administration will request the first draw in the Fall of 2023. The only debt servicing payment required in 2023 will be a small interest payment at the end of the year, about \$85,000. 2023 is also the last year of the 10-year Strategic Infrastructure program, which has increased taxation by 1.9% annually to create a stable, consistent funding source for infrastructure maintenance and renewal.

Once construction starts in 2024 and 2025, Administration estimates it will request MFA issue \$40,000,000 in the Spring of each year to pay for the cost of the project. For 2026, the year of completion, Administration will request MFA issue the final amount needed to fund the project, up to \$29,000,000, in the Fall of 2026. Based on this schedule, Attachment 2 estimates the amount of debt servicing payments each year, along with the needed increase in taxation. An estimate of the total tax increase for an average homeowner is also shown. This is a worst-case scenario and does not consider any other funding the City may receive for this project. It also does not include any consideration for future neighbouring community participation in the service.

Attachment 3 – Debt Servicing and Borrowing Strategy, provides an alternative borrowing strategy for Council consideration. Administration is recommending Council consider a strategy that provides for taxation increases that are relatively consistent over a five-year period. In 2023, the Borrowing Strategy shows a 3%

operating increase and the final year of the 1.9% infrastructure levy, for a total taxation increase of 4.9%. It does not show a taxation increase for the interest payment that will be required for the first draw in the Fall of 2023. Administration recommends this payment be funded by a “Loan from Reserves”. In addition, based on the 2022 non-market growth in taxation, it is estimated that there will be about \$824,000 available in ongoing taxation revenues for service level increases not related to the Active Living Centre but desired by Council.

For 2024 to 2027, Administration recommends a 2% operating increase and a 3.5% increase annually for debt servicing costs, for a total taxation increase of 5.5%. In September 2026, due to the opening of the Active Living Centre, there will also be a 0.4% taxation increase needed for additional operating costs. Then in 2027, the final taxation increase to pay debt servicing costs would be about 3.0%, with additional Active Living Centre operating costs, for the full year, estimated at \$549,000, or 0.9%. The amount the City is short for debt servicing costs each year (2023 – 2027) would be funded by a “Loan from Reserves”, estimated to be fully repaid by the end of 2027. During all of these years, based on projected growth, there will be approximately \$800,000 available annually to Council for desired service level increases.

RECOMMENDATION:

THAT Council receive the memorandum titled “Active Living Centre Borrowing Strategy”, dated June 7, 2022 and respectfully submitted by the Director, Financial Services;

AND FURTHER, that Council direct Administration, upon electoral assent, to authorize the expenditure for the Active Living Centre project, at a cost of up to \$121,000,000, in the 2023 five-year financial plan;

AND FURTHER, that Council direct Administration, upon electoral assent, to include the expenditure to pay the debt servicing costs for the Active Living Centre in the 2024 and future annual budgets by including a 3.5% increase in taxation each year until the full amount of annual debt servicing costs are funded by taxation;

AND FURTHER, that Council direct Administration, upon electoral assent, to create a Loan from Reserves account to internally borrow sufficient funds to pay annual debt servicing costs, in excess of a 3.5% taxation increase, from 2023 through 2027, with full repayment of the Loan from Reserves by year end 2027.

Respectfully submitted,



Attachments: 1. Estimated Annual Debt Payments
 2. Debt Servicing & Tax Impacts
 3. Debt Servicing & Borrowing Strategy

ATTACHMENT 1.

30 Year Term **Estimated Annual Debt Payments: 7,874,395** 2.5% Capitalization Rate
 Principal: **121,000,000** Interest Rate: **4.23%** S/F Factor: 0.022777641

	Estimated Principal Payment	Estimated Interest Payment	Estimated Total Payment	Estimated Actuarial	Reducing Balance
					121,000,000
Yr 1 Semi Annual		2,559,150	2,559,150		121,000,000
Yr 1 Annual	2,756,095	2,559,150	5,315,245		118,243,905
Yr 2 Semi Annual		2,559,150	2,559,150		118,243,905
Yr 2 Annual	2,756,095	2,559,150	5,315,245	68,902	115,418,909
Yr 3 Semi Annual		2,559,150	2,559,150		115,418,909
Yr 3 Annual	2,756,095	2,559,150	5,315,245	139,527	112,523,287
Yr 4 Semi Annual		2,559,150	2,559,150		112,523,287
Yr 4 Annual	2,756,095	2,559,150	5,315,245	211,918	109,555,274
Yr 5 Semi Annual		2,559,150	2,559,150		109,555,274
Yr 5 Annual	2,756,095	2,559,150	5,315,245	286,118	106,513,062
Yr 6 Semi Annual		2,559,150	2,559,150		106,513,062
Yr 6 Annual	2,756,095	2,559,150	5,315,245	362,173	103,394,794
Yr 7 Semi Annual		2,559,150	2,559,150		103,394,794
Yr 7 Annual	2,756,095	2,559,150	5,315,245	440,130	100,198,569
Yr 8 Semi Annual		2,559,150	2,559,150		100,198,569
Yr 8 Annual	2,756,095	2,559,150	5,315,245	520,036	96,922,439
Yr 9 Semi Annual		2,559,150	2,559,150		96,922,439
Yr 9 Annual	2,756,095	2,559,150	5,315,245	601,939	93,564,405
Yr 10 Semi Annual		2,559,150	2,559,150		93,564,405
Yr 10 Annual	2,756,095	2,559,150	5,315,245	685,890	90,122,421
Yr 11 Semi Annual		2,559,150	2,559,150		90,122,421
Yr 11 Annual	2,756,095	2,559,150	5,315,245	771,939	86,594,387
Yr 12 Semi Annual		2,559,150	2,559,150		86,594,387
Yr 12 Annual	2,756,095	2,559,150	5,315,245	860,140	82,978,152
Yr 13 Semi Annual		2,559,150	2,559,150		82,978,152
Yr 13 Annual	2,756,095	2,559,150	5,315,245	950,546	79,271,511
Yr 14 Semi Annual		2,559,150	2,559,150		79,271,511
Yr 14 Annual	2,756,095	2,559,150	5,315,245	1,043,212	75,472,204
Yr 15 Semi Annual		2,559,150	2,559,150		75,472,204
Yr 15 Annual	2,756,095	2,559,150	5,315,245	1,138,195	71,577,915
Yr 16 Semi Annual		2,559,150	2,559,150		71,577,915
Yr 16 Annual	2,756,095	2,559,150	5,315,245	1,235,552	67,586,268
Yr 17 Semi Annual		2,559,150	2,559,150		67,586,268
Yr 17 Annual	2,756,095	2,559,150	5,315,245	1,335,343	63,494,831
Yr 18 Semi Annual		2,559,150	2,559,150		63,494,831
Yr 18 Annual	2,756,095	2,559,150	5,315,245	1,437,629	59,301,107
Yr 19 Semi Annual		2,559,150	2,559,150		59,301,107
Yr 19 Annual	2,756,095	2,559,150	5,315,245	1,542,472	55,002,540
Yr 20 Semi Annual		2,559,150	2,559,150		55,002,540
Yr 20 Annual	2,756,095	2,559,150	5,315,245	1,649,937	50,596,509
Yr 21 Semi Annual		2,559,150	2,559,150		50,596,509
Yr 21 Annual	2,756,095	2,559,150	5,315,245	1,760,087	46,080,327
Yr 22 Semi Annual		2,559,150	2,559,150		46,080,327
Yr 22 Annual	2,756,095	2,559,150	5,315,245	1,872,992	41,451,241
Yr 23 Semi Annual		2,559,150	2,559,150		41,451,241
Yr 23 Annual	2,756,095	2,559,150	5,315,245	1,988,719	36,706,427
Yr 24 Semi Annual		2,559,150	2,559,150		36,706,427
Yr 24 Annual	2,756,095	2,559,150	5,315,245	2,107,339	31,842,993
Yr 25 Semi Annual		2,559,150	2,559,150		31,842,993
Yr 25 Annual	2,756,095	2,559,150	5,315,245	2,228,925	26,857,974
Yr 26 Semi Annual		2,559,150	2,559,150		26,857,974
Yr 26 Annual	2,756,095	2,559,150	5,315,245	2,353,551	21,748,329
Yr 27 Semi Annual		2,559,150	2,559,150		21,748,329
Yr 27 Annual	2,756,095	2,559,150	5,315,245	2,481,292	16,510,942
Yr 28 Semi Annual		2,559,150	2,559,150		16,510,942
Yr 28 Annual	2,756,095	2,559,150	5,315,245	2,612,226	11,142,621
Yr 29 Semi Annual		2,559,150	2,559,150		11,142,621
Yr 29 Annual	2,756,095	2,559,150	5,315,245	2,746,434	5,640,092
Yr 30 Semi Annual		2,559,150	2,559,150		5,640,092
Yr 30 Annual	2,756,095	2,559,150	5,315,245	2,883,998	0
TOTALS:	82,682,836	153,549,000	236,231,836	38,317,164	

CITY OF VERNON

Active Living Centre Debt Servicing & Tax Impacts

Loan Authorization Amount: \$ 121,000,000

Project Timeline:

- 2023 - Design
- 2024 - Construction beginning in Apr
- 2025 - Construction
- 2026 - Completion in Sep

Debt Servicing:

	Amount Borrowed	MFA Intake	Debt Servicing Amounts				
			2023	2024	2025	2026	2027
Draw 1	\$ 12,000,000	Fall - 2023	\$ 85,000	\$ 781,000	\$ 781,000	\$ 781,000	\$ 781,000
Draw 2	40,000,000	Spring - 2024	-	2,039,000	2,603,000	2,603,000	2,603,000
Draw 3	40,000,000	Spring - 2025	-	-	2,039,000	2,603,000	2,603,000
Draw 4	29,000,000	Fall - 2026	-	-	-	204,000	1,887,000
	<u>\$ 121,000,000</u>		<u>\$ 85,000</u>	<u>\$ 2,820,000</u>	<u>\$ 5,423,000</u>	<u>\$ 6,191,000</u>	<u>\$ 7,874,000</u>
		Incremental:	85,000	2,735,000	2,603,000	768,000	1,683,000

ALC Net Operating Costs:

	\$ -	\$ -	\$ -	\$ 275,000	\$ 824,000
Incremental:	-	-	-	275,000	549,000

Tax Impact:

	Tax Base	Current Year Change	Percent	Total Tax for Avg House	Increase for Avg House
2022 Tax Base	\$ 48,657,779			\$ 1,727	<i>(based on assessed value of \$611,523)</i>
2023	Operating	\$ 1,459,733	3.0%		52
	Capital Levy (final year)	924,498	1.9%		33
	ALC New Debt	85,000	0.2%		3
	2023 Budget Increase	2,469,231	5.1%	1,815	88
	2023 Non-Market Increase	824,000			
2023 Tax Base	51,951,010				
2024	Operating	1,039,020	2.0%		36
	ALC New Debt	2,735,000	5.3%		96
	2024 Budget Increase	3,774,020	7.3%	1,946	132
	2024 Non-Market Increase	840,480			
2024 Tax Base	56,565,510				
2025	Operating	1,131,310	2.0%		39
	ALC New Debt	2,603,000	4.6%		90
	2025 Budget Increase	3,734,310	6.6%	2,075	129
	2025 Non-Market Increase	857,290			
2025 Tax Base	61,157,110				
2026	Operating	1,223,142	2.0%		41
	ALC New Debt	768,000	1.3%		26
	ALC New Operating Costs	275,000	0.4%		9
	2026 Budget Increase	2,266,142	3.7%	2,152	77
	2026 Non-Market Increase	874,435			
2026 Tax Base	64,297,688				
2027	Operating	1,285,954	2.0%		43
	ALC New Debt	1,683,000	2.6%		56
	ALC New Operating Costs	549,000	0.9%		18
	2027 Budget Increase	3,517,954	5.5%	2,270	118
	2027 Non-Market Increase	891,924			
2027 Tax Base	68,707,566				

CITY OF VERNON
Active Living Centre Debt Servicing & Borrowing Strategy

ATTACHMENT 3.

Loan Authorization Amount: \$ 121,000,000
Estimated Interest Rate 4.23%
Estimated Annual Debt Payments \$ 7,874,395

Debt Servicing:

	Amount Borrowed	MFA Intake	Debt Servicing Amounts				
			2023	2024	2025	2026	2027
Draw 1	\$ 12,000,000	Fall - 2023	\$ 85,000	\$ 781,000	\$ 781,000	\$ 781,000	\$ 781,000
Draw 2	40,000,000	Spring - 2024	-	2,039,000	2,603,000	2,603,000	2,603,000
Draw 3	40,000,000	Spring - 2025	-	-	2,039,000	2,603,000	2,603,000
Draw 4	29,000,000	Fall - 2026	-	-	-	204,000	1,887,000
	<u>\$ 121,000,000</u>		<u>\$ 85,000</u>	<u>\$ 2,820,000</u>	<u>\$ 5,423,000</u>	<u>\$ 6,191,000</u>	<u>\$ 7,874,000</u>
		Incremental:	85,000	2,735,000	2,603,000	768,000	1,683,000

ALC Net Operating Costs:

	\$ -	\$ -	\$ -	\$ 275,000	\$ 824,000
Incremental:	-	-	-	275,000	549,000

Tax Impact:

	Tax Base	Current Year Change	Percent	Accumulated Loan Payment	Accumulated Reserve Loan	Percent	Total Tax for Avg House*	Increase for Avg House*
2022 Tax Base	\$ 48,657,779						\$ 1,727	
2023	Operating	\$ 1,459,733	3.0%			3.0%		52
	Capital Levy (final year)	924,498	1.9%			1.9%		33
	ALC New Debt	85,000	0.2%	-	(85,000)	0.0%		-
	2023 Budget Increase	2,469,231	5.1%		(85,000)	4.9%	1,812	85
	2023 Non-Market Increase	824,000						
2023 Tax Base	51,951,010							
2024	Operating	1,039,020	2.0%			2.0%		36
	ALC New Debt	2,735,000	5.3%	1,818,285	(916,715)	3.5%		63
	2024 Budget Increase	3,774,020	7.3%	1,818,285	(1,001,715)	5.5%	1,911	100
	2024 Non-Market Increase	840,480						
2024 Tax Base	56,565,510							
2025	Operating	1,131,310	2.0%			2.0%		38
	ALC New Debt	2,603,000	4.6%	1,979,793	(623,207)	3.5%		67
	2025 Budget Increase	3,734,310	6.6%	3,798,078	(1,624,922)	5.5%	2,016	105
	2025 Non-Market Increase	857,290						
2025 Tax Base	61,157,110							
2026	Operating	1,223,142	2.0%			2.0%		40
	ALC New Debt	768,000	1.3%	2,140,499	1,372,499	3.5%		71
	ALC New Operating Costs	275,000	0.4%			0.4%		9
	2026 Budget Increase	2,266,142	3.7%	5,938,577	(252,423)	5.9%	2,136	120
	2026 Non-Market Increase	874,435						
2026 Tax Base	64,297,688							
2027	Operating	1,285,954	2.0%			2.0%		43
	ALC New Debt	1,683,000	2.6%	1,935,423	252,423	3.0%		64
	ALC New Operating Costs	549,000	0.9%			0.9%		18
	2027 Budget Increase	3,517,954	5.5%	7,874,000	0	5.9%	2,262	125
2027 Non-Market Increase	891,924							
2027 Tax Base	68,707,566							

*(based on assessed value of \$611,523)