

MINUTES OF THE REGULAR FINANCE / POLICY COMMITTEE OF THE WHOLE MEETING
HELD IN THE BOARD ROOM, CITY HALL,
ON MONDAY, 2006-MAY-01 COMMENCING AT 4:30 P.M.

PRESENT: Councillor Brennan, Chair

Members: Mayor G. R. Korpan
Councillor W. L. Bestwick
Councillor J. D. Cameron
Councillor W. J. Holdom
Councillor L. D. McNabb
Councillor C. S. Manhas
Councillor L. J. Sherry
Councillor M. W. Unger

Staff:	G. D. Berry	E. C. Swabey
	A. C. Kenning	T. P. Seward
	A. W. Laidlaw	G. Franssen
	I. Howat	S. Graham
	B. E. Clemens	L. Coates
	T. M. Hickey	L. Gilson
	K. M. MacKenzie	K. L. Burley
	Chief R. Lambert	K. King

1. CALL THE OPEN MEETING TO ORDER:

The Regular Finance / Policy Committee of the Whole Meeting was called to order at 4:31 p.m.

2. ADOPTION OF MINUTES:

- (a) Minutes of the Regular Finance / Policy Committee of the Whole Meeting held in the Board Room, City Hall on Monday, 2006-APR-03 at 4:30 p.m.

It was moved and seconded that the Minutes be adopted as circulated. The motion carried unanimously.

3. INTRODUCTION OF LATE ITEMS:

Councillor Brennan advised that a Supplemental Agenda had been distributed prior to the meeting.

4. DELEGATIONS PERTAINING TO AGENDA ITEMS:

It was moved and seconded that the Delegations be permitted to address Council. The motion carried unanimously.

(a) Delegations pertaining to the City of Nanaimo 2006 – 2010 Financial Plan

No one requested permission to address Council regarding the Financial Plan.

(b) Mr. Scott Thomson, 348 Wesley Street, Nanaimo, BC, regarding reconsideration of the Nanaimo Empire Day Society request for funding.

Mr. Thomson was previously authorized to address Council.

Mr. Thomson stated that:

- about three weeks ago the Nanaimo Empire Days Society was awarded a grant from the City.
- since then, he was advised that if the Society had sufficient funds to carry on to 2006-JUN-30, which is their year end, they didn't meet the grants policy criteria for a grant.
- he advised that they do require the funds but weren't aware of this criteria when they made their request.
- they have applied for grants from the City in the last few years due to their bingo funding being reduced from approximately \$31,000. to about \$11,000.
- most of the funds are spent in May and June and at this point they have enough money to get to the end of June but as of 2006-JUL-01, the Society won't be in a position to plan for the next year's celebrations as their funds will have been exhausted.
- the celebrations have been going on for 138 years and the Society has been operating since the 1960's.
- they have approximately 35 to 40 volunteers; there are no paid staff.

It was moved and seconded that the presentation be received. The motion carried unanimously.

(c) Mr. Paul Sadler, General Manager, Pacific Harmac, 1000 Wave Place, PO Box 1800, Nanaimo, BC, regarding concerns with Harmac's ongoing viability/tax load issues and partnership opportunities relating to water provision and environmental protection.

Mr. Sadler was previously authorized to address Council.

Mr. Sadler stated that:

- Harmac is the largest taxpayer in Nanaimo and plays a substantial role in the local economic engine.
- last year Harmac produced almost 400,000 tonnes of product, which is a large increase in production over the past few years; they are the second or third largest market craft pulp mill in BC.

- virtually all of their production is exported and is priced in US dollars, which has created substantial problems because of exchange rate changes.
- they have about 520 full-time employees and total wages are \$52 Million.
- Harmac paid \$3.6 Million in taxes in 2005.
- they are experiencing some very severe problems in the pulp business because it is a global industry and they are competing against new operations that are being built all over the world, mostly in South America.
- these are very low-cost competitors producing pulp at about one-third of the cost of Canadian producers and are keeping prices depressed, so in today's climate, given the exchange rate in Canadian and US dollars, their competitors are making huge profits and are reluctant to raise prices.
- they also make pulp that is very high quality and have supportive governments that are doing things that enhance these businesses.
- because all of Harmac's business is done in US dollars, they are actually earning \$90 Million per year less as a result of the exchange rate change.
- another problem in BC is the uncertainty in the business climate since 1990 and it is choking off re-investment with too many changing rules.
- environmental changes, timber availability problems and the softwood lumber dispute are also factors.
- things have been tough for Harmac for many years; they have lost money in twelve out of the last twenty quarters and have had very anaemic performance in the profitable quarters.
- they are working hard to keep the mill viable and sustainable and have increased their production by about 17 percent or 60,000 tonnes.
- over this period, through attrition and retirement programs and taking advantage of some automation opportunities, they have managed to reduce the workforce by 170 jobs and reduced costs by about 21 percent.
- there is no one answer to their problem but they have been looking at every opportunity to save a dollar.
- over the last five years they have accumulated a loss of about \$10 Million.
- he complimented Council on reducing Harmac's tax rate close to the average BC major industry rate, resulting in their taxes being held fairly flat for quite a few years.
- the average major industry tax rate in BC is high compared to most other competing jurisdictions, with Quebec, Alberta and other provinces being lower in comparison.
- he is anticipating a 20 percent compounded tax increase over the next five years and that would take Harmac's taxes from \$3.5 Million to almost \$4.5 Million per year.
- in that five year period, there will be an accumulated loss of \$10 Million at a time when Harmac will have paid about \$17.5 Million in taxes.
- for 50 years the pulp industry has been a "cash cow" for the communities and citizens in BC and there is little doubt that the forest industry has been a major foundation of the BC economy but the "cow" is now dry and the pulp industry needs some relief.
- they have kept Harmac viable by taking advantage of all types of cost reduction opportunities.
- he requested that Council continue to reduce the major industry tax rate over time and to continue with the tax shift program.
- he is aware that the City is in the process of evaluating future water needs and at the same time Harmac is investigating rationalizing its operation.

- they have a three line mill and are looking at consolidating it to two lines, as well as modernizing a very sizable part of the plant thereby reducing the consumption of water and reducing the amount of effluent that the plant would be producing, creating the potential of having an under-utilized mill water system and waste water treatment plant.
- Harmac operates a water supply system that provides about 30 million gallons a day of water per day, as well as an air activated sludge waste water treatment plant that processes about 30 million gallons a day.
- the investment cost for the infrastructure is approximately \$100 Million.
- they may be in a position to provide water services and sewage treatment services to the City if their proposed plans for the mill come together within the next five years.
- he believes there is a need for more water and sewage treatment in the area and he can see the possibility of Harmac being able to assist with about 10 million gallons of capacity per day.
- they have a huge infrastructure and with the cost of installing these systems being enormous, they see the possibility of being able to defer or avoid a lot of that spending for Nanaimo taxpayers.
- this has potential for a win/win opportunity by saving the City huge capital outlays and Harmac would benefit by recovering some costs for providing those services.
- they would welcome the opportunity to meet with City representatives to examine the options for doing this.

It was moved and seconded that the presentation be received. The motion carried unanimously.

- (d) Mr. Fred Taylor, 204 Emery Way, Nanaimo, BC, regarding the *Community Charter* and Council Procedure Bylaw, as it relates to the Mayor's request for reconsideration of a motion made at the Finance / Policy Committee of the Whole Meeting held 2006-APR-03. (*Supplemental*)

Mr. Taylor was previously authorized to address Council.

Mr. Taylor stated that:

- he believes that the Mayor's request under Section 131(2)(a)(ii) of the *Community Charter* to reconsider a resolution to grant the Empire Days Society \$12,000. for their 2006 fireworks demonstration was a violation of the *Community Charter* as it states that "Council" may reconsider a resolution, not a committee.
- he contacted the Ministry of Community Services and they were in agreement with him, although this was not a legal opinion.
- he was also of the opinion that the Mayor could not request reconsideration under Council's Procedure Bylaw because he voted on the prevailing side of the motion.

It was moved and seconded that the presentation be received. The motion carried unanimously.

5. CITY MANAGER'S REPORT:

CORPORATE SERVICES:

LEGISLATIVE SERVICES:

(1) Nanaimo Empire Days Society Application for Funding Request

Under Section 131(2)(a)(ii) of the *Community Charter*, the Mayor may require the Council to reconsider and vote again on a matter that was the subject of a vote. The Mayor may initiate reconsideration under this section if the reconsideration is within 30 days following the meeting it was originally considered, and the matter hasn't been acted upon.

The Mayor has asked that the following resolution from the Finance / Policy Committee of the Whole Meeting held 2006-APR-03 be reconsidered.

"It was moved and seconded that the Nanaimo Empire Days Society be granted \$12,000. for their 2006 fireworks demonstration, but financial support be phased out over a period of three years and cut by one-third each year, commencing in 2007."

The City Manager advised that a cheque had already been sent to the Nanaimo Empire Days Society and therefore it was too late for the Mayor to reconsider the motion.

It was moved and seconded that council rescind the following portion of the 2006-APR-03 motion *"that the Empire Days Society be granted \$12,000. for their 2006 fireworks demonstration"* as the Society has sufficient funds to carry out their 2006 activities; and further, that the Society return the \$12,000. grant monies previously awarded to them. The motion was defeated.

Opposed: Councillors Bestwick, Brennan, Manhas, McNabb and Sherry

Councillor Bestwick vacated the Board Room at 5:40 p.m.

Councillor Bestwick returned to the Board Room at 5:41 p.m.

FINANCE:

(2) 2005 Annual Financial Report

The 2005 Annual Financial Report (Report) for the City of Nanaimo has now been completed. The City's auditors, Church Pickard, have issued an unqualified opinion that the financial statements fairly represent the financial position of the City as at 2005-DEC-31. Ms. Lorana LaPorte of Church Pickard was in attendance to answer any questions concerning the audit review.

As was noted in the report, Council has delegated the responsibility for the accuracy, integrity and objectivity of the financial information presented in the financial statements to the management of the City. The City's auditors are required to express an opinion as to whether the financial statements present the City's financial position and operating results in accordance with generally accepted accounting principles.

In past years, this Report included information (graphs and statistics) that will now be presented in the Annual Municipal Report, which will be available 2006-MAY-15. The Annual Financial Report now contains only the Consolidated Financial Statements as required by the *Community Charter*. Statements for the individual funds (General, Water, Sewer, Statutory Reserves) are available in the Finance department.

The Report continues to reflect a healthy financial position for the City of Nanaimo. Council's ongoing commitment to ensure the financial stability of the City will provide a strong framework in which to meet community requirements in future years.

Highlights of the Report follow:

- Operating revenues exceeded expenditures by \$464,736 in 2005. These funds were added to the accumulated operating surplus, which totals \$4.8 million.
- Certain unbudgeted reserve account contributions were made in 2005, due to positive financial results for the year. These amounts are as follows:

Property Acquisition Reserve	\$1,000,000
General Capital Reserve	600,000
New Nanaimo Centre Reserve	800,000
Sick Leave Accrual	348,152
Bad Debt Reserve	4,929

Surplus in the sewer fund allowed a transfer to reserves of \$300,000. In the water fund, water consumption was lower than budget requiring a \$200,000 transfer from the leveling reserve account. This reserve was established some time ago to level fluctuations in revenue due to weather. This is the first time that it has been used.

- Funds held in reserves totalled \$101.7 million at December 31, 2005 (2004 - \$98.8 million), allocated as follows:

Work in progress	\$ 15.9	million
Reserve accounts (surplus appropriations)	47.1	
Development Cost Charges (developer contributions)	25.4	
Statutory Reserves	13.3	
	<u>\$101.7</u>	million

A listing of reserve accounts was shown on page 17 of the Report. The majority of the funds have been set aside for specific projects or purposes. Much of the remaining reserve accounts have been earmarked to fund major capital initiatives including the New Nanaimo Centre, Nanaimo Ice Centre and Oliver Road Leisure Centre.

Development Cost Charges (DCC) can only be used to fund projects specified in the DCC bylaws. DCC revenues in 2005 totaled \$6.7 million (2004 - \$6.1 million). The City continues to construct growth-related projects, which are funded from DCC's (\$3.0 million in 2005).

Statutory Reserves are established by bylaw and can only be used for the purposes specified in the bylaw, e.g. Equipment Depreciation. A new statutory reserve, Community Works Reserve, was established in 2005 for the New Deal Gas Tax Revenue Sharing. Most of the Facility Development (Recreation) Reserve has been committed to the construction of the Oliver Road Leisure Centre. These are the statutory reserve funds and the balance at December 31, 2005:

Facility Development (Recreation) Reserve	\$ 5,535,130
Equipment Depreciation Reserve	4,731,756
Local Improvement Reserve	1,197,259
Community Works Reserve	624,581
Cemetery Care Fund	451,617
Parkland Dedication Reserve	344,861
Property Sales Reserve	262,172
Water Supply Parkland Acquisition Reserve	120,291
Old City Neighbourhood Parking Reserve	41,420

- Outstanding debt and debt servicing costs

	<u>2005</u>	<u>2004</u>
Outstanding debt	\$15.2 million	\$16.7 million
Per capita debt	\$194.81	\$215.12
Debt as a % of total expenditure	1.94%	2.21%
Debt reduction during current year	\$1.4 million	\$1.5 million
Authorized and unissued debt	\$30.0 million	-

Pages 14-15 of the Report provided note disclosure of the outstanding debt and detailed the principal reductions for the next five years.

- Capital assets totalled \$576 million at December 31, 2005 (December 31, 2004 - \$534 million).

Recommendation: That Council approve the 2005 Annual Financial Report for the City of Nanaimo.

It was moved and seconded that the recommendation be adopted. The motion carried.

Opposed: Councillor Sherry

Councillor Brennan vacated the Chair at 5:42 p.m.

Councillor McNabb assumed the Chair.

Councillor Brennan resumed the Chair at 5:45 p.m.

(3) 2006-2010 Financial Plan

Council has adopted the draft 2006-2010 Financial Plan and has continued to review the plan on an ongoing basis. In order to meet the statutory deadline of 2006-MAY-15, Staff intends to introduce the final bylaw on 2006-MAY-08, with final adoption on 2006-MAY-15.

Since the last report, Staff has received the revised assessment roll from BC Assessment and has the final information on new construction revenue. It is now expected that \$1,186,000. will be received from new construction, compared to \$1,600,000. contained in the earlier version of the Financial Plan. City Staff had estimated that revenue from new construction would be at the same level as last year, but this estimate was not confirmed by BC Assessment. This is down about 25% from 2005 and is mostly related to commercial construction.

Finance Staff has done a detailed review of the budget and made many adjustments for information received since the budget was first prepared last fall. This includes increasing some revenue projections.

The net impact of all of these changes is that property taxes in 2006 will have to increase more than was projected earlier this year. The budget now includes an increase of about 3.6 percent for residential and 3.1 percent for other categories. This compares to 3.3 percent residential and 2.8 percent for other categories, which was previously estimated. The major change was the reduction in new construction as noted above. All other changes would have resulted in a net decrease in the budget. Future years' property tax increases are similar to those already reported to Council:

2007	7.5%
2008	2.7%
2009	3.7%
2010	2.5%

Attached to this report was a list of potential Higher Service Levels. This is a list of potential services, new staff or programs that Council could add to the budget. Three of the requests are identified with an "R", indicating that they are recommended by the City Manager and are included in the 2006-2010 Financial Plan. One is identified with an "A", indicating that Council has already specifically approved its inclusion.

Two of these requests have been forwarded by Council to budget deliberations. These are the Downtown Ambassador Program (\$81,389) and the request from PacificSport (\$15,000 in 2006, \$10,000 in future years). These are not currently included in the budget, and would require a motion from Council to have them included. As no other source of revenue is available, this would require an increase in taxation.

Council may also provide direction on any other Higher Service Level or any other budget issue. Staff will prepare the budget and property tax bylaws for the next Council meeting.

Recommendation: That Council receive the report and provide direction on any Higher Service Levels not included in the budget.

It was moved and seconded that a two percent cost of living increase to the Port Theatre operating grant in the amount of \$8,000. be included in the budget. The motion carried.

Opposed: *Mayor Korpan, Councillors Cameron, Sherry and Unger*

It was moved and seconded that funding in the amount of \$15,000 in 2006 and \$10,000. per year from 2007 to 2011 to PacificSport be included in the budget.

It was moved and seconded that the motion be amended to read that a one-time grant of \$15,000. for 2006 to PacificSport be included in the budget. The motion, as amended, carried.

Opposed: *Councillors Brennan, Holdom and Unger*

COMMUNITY SERVICES:

ENGINEERING AND PUBLIC WORKS:

(4) Nanaimo Recycling Exchange Funding Request

At the Finance / Policy Committee of the Whole Meeting held 2006-APR-03, Mr. Michael Schellinck, Executive Director for the Nanaimo Recycling Exchange Society (NRE) appeared as a delegation to request financial support for the development of a large, full service recycling center.

The NRE has been located on McCullough Road and provided locally and regionally oriented recycling services there for many years. Their services have been valuable and include the collection of hazardous wastes supported under provincially mandated stewardship programs and public education and promotion of the 3R's through weekly newspaper articles, school education programs and other community based promotional opportunities.

In addition, under contract with the City via a cost plus arrangement, they provide collection services for specific hazardous wastes not included in any stewardship programs. They also provide a recycling drop-off facility for all the materials collected under the City's curb side recycling service, plus glass. In 2005, 47 percent of the drop-off recyclables received went to the NRE site. 53 percent were collected through the site presently located at Public Works. Within the NRE's proposal the Public Works drop-off site would be discontinued and they would collect all drop-off materials at the proposed site on Kenworth Road.

The NRE's contract with the City is presently half way through the first year of its initial three year term. Services provided are budgeted at a maximum of \$99,500 per year which includes funding for cost plus services.

Similar to the City, the Regional District of Nanaimo (RDN) has been approached for a \$75,000 contribution to assist them in making a down payment on a property on Kenworth Road. The NRE suggests the RDN consider allocating yard waste drop-off services to them at the new site. This request and the possibility of a subsequent operating agreement for yard waste services is considered favourable by RDN staff. RDN staff indicate appropriate boards and committees will be approached in the next month.

The OCP provides a section specifically related to Solid Waste Services and contains as one objective "*to Practice the 3R's: Provide City residents with incentives and opportunities to practice the 3R's – reduce, re-use and recycle.*" Supporting the NRE helps support this objective. The NRE is a key player in helping the community strive to reduce the environmental impact of waste and increase the community's waste diversion through the provision of 3R's educational programs, increased public participation and the availability of physical services that divert waste from the landfill.

The existing site on McCullough Road is stretched to its limits. Providing centrally located one-stop 3R's service has always been important to the NRE's success in the community. The new location should provide the NRE with the opportunity to provide a much safer and more usable site for residents, with improved access and parking. The location they propose to purchase is approximately three times the size of their existing one and would still provide a central location for one stop 3R's services, potentially including yard waste. Yard waste service may otherwise not be available centrally as Vancouver Island Recycling, who presently provides RDN supported yard waste drop-off on Cienar Drive, is actively pursuing the relocation of their business to a site on Tenth Street.

The Kenworth Road location has appropriate zoning and given the available space and existing structures, the NRE's ability to maintain operations appropriately within that zoning would be enhanced. The NRE is aware of the zoning limitations and has indicated to Staff they will be able to work within the zoning. The new proposed location has its access on Kenworth Road. Engineering Staff indicate, given the increased number of users that would enter the site, an access review is likely necessary. A previous traffic study on Kenworth Road recognizes the need for traffic control signals at the intersection of Bowen Road and Kenworth Road. It is anticipated that signalization of this intersection could take place later this year.

The new location would improve the NRE's ability to meet and stay within the requirements of the Regional District's Waste Stream Management Licensing Bylaw. The NRE proposes to pursue a contract for provision of Yard Waste services with the RDN and RDN staff indicate this is supportable, at least at the staff level.

Discontinuing the recycling bin service currently provided outside Public Works on Labieux has pros and cons attached to it. The Public Works recycling bins are provided as a service under the curb side recycling contract with Waste Services Inc. The drop-off bins are available to users 24/7, which would not be the case at the Nanaimo Recycling Exchange site. This is not necessarily a disadvantage from an operational perspective. The Labieux site frequently experiences contamination in the bins, illegal dumping of just about any household, automotive or hazardous waste imaginable. Safety and liability issues exist, due to high traffic volumes and vehicles frequently entering and leaving the sites inappropriately. Traffic safety/visibility issues exist due to the proximity of the Public Works Yard entrance. Liability concerns exist related to limited visibility to observe illegal activities such as the scavenging of personal information placed in the bins which could result in identity theft, which has on occasion been observed.

This location is difficult to maintain as there are no controls on the volume of materials delivered or time of day/night. The City's contractor, who services and provides the bins, has indicated they would be in favour of the bins being removed from their contract, and would provide a service fee reduction of \$4,500. per month associated with their removal. This equates to \$54,000. annually, which over the first year would cover two-thirds of the funds the NRE has requested. It is staff's opinion that the level of use, and safety and liability issues associated with the existing bins at Public Works are at a point where continuing to provide bin service is or soon will be unacceptable. The NRE indicates they could accommodate the additional volume and as a minimum, the facility at Kenworth Road would be open for public drop-off 7 a.m. to 7 p.m., seven days a week with Christmas Day being the only exception.

The NRE's request for \$75,000. can be funded by the existing provisional Solid Waste Budget, as the majority of the cost will be reimbursed through reduced monthly fees associated with the removal of the Public Works Drop-off facilities.

Recommendation: That Council support:

1. the NRE's request for funding in the amount of \$75,000. for the sole purpose of purchasing property at 2477 Kenworth Road, which will be funded from the existing provisional Solid Waste Budget; and,
2. the NRE's request to the Regional District of Nanaimo for \$75,000. in funding for the purchase of the property.

It was moved and seconded that the recommendations be adopted. The motion carried unanimously.

ADMINISTRATION:

(5) New Nanaimo Centre – Intertech Construction Management Contract:
(Supplemental)

Implementation of Council's direction to proceed with site works for the New Nanaimo Centre is proceeding.

Golder Associates (geotechnical and environmental engineers) recommended a program of rapid impact compaction (RIC) and deep soil mixing (DSM). RIC deployed over the entire site; DSM over a major portion of the site.

RIC is now virtually complete. Some "touch up" is required after compliance testing is complete. DSM is now underway. DSM is scheduled for completion in August. The objective is to complete the north section of the site (auditorium and Museum Way ramp) by 2006-JUN-15, so this portion of the site can be turned over to the general contractor for detail excavation and footing construction. From the City's perspective, the main risks of this process are related to potential delays. Council should be aware that delays are possible which could impact the general contractor schedule and increase costs beyond the current projection. In addition the City is responsible for extra costs related to unidentified manmade obstructions (i.e. old pilings, concrete) and contaminated soils.

The next step to get this project built is for the City to enter into a contract for construction with Intertech Construction Managers Ltd. (ITC).

The City is in receipt of a "Maximum Fixed Price Proposal" (MFP) for ITC in the amount of \$35,987,577. The negotiated increase to \$36.3M primarily reflects an increase in the "cash allowances" included in the MFP. Cash allowances are items for which detail costing is not available, so an estimated cost is included in the contract. If the cost exceeds the cash allowance, it results in an addition to the contract. If the cost is less than the cash allowance (unlikely), it reduces the contract.

ITC has also agreed to add many cost items to the contract that were previously excluded or unspecified without adding to the MFP. These are listed in the attached report.

The proposed contract states that ITC will commence construction by 2006-JUN-15 and obtain substantial performance by 2008-MAR-29.

While ITC's price has increased substantially from its 2005-SEP-07 Guaranteed Maximum Price (approximately 20%, or \$6M), Staff believe it is in the City's interest to accept ITC's updated MFP (\$36,300,000.) as amended.

The City engaged a quantity surveyor to review ITC's MFP who has advised that the increases are primarily due to higher concrete costs (\$1.0M), structural steel increases (\$1.4M), doors and windows (\$.3M), finishes (\$.5M), and general conditions (\$.3M). Where it was possible for the quantity surveyor to comment on the increases he generally did not find them unreasonable.

The City has the option of not accepting the MFP and soliciting other pricing proposals or undertaking a public tender process. It is the opinion of the City's project partners that given the current market situation, the risks of not accepting this MFP exceed the potential benefits. Our partner believes it is quite possible that other prices (even if submitted through a tender process) would be substantially higher. It is possible that there may be very few qualified general contractors that would even submit pricing.

Delay has negative potential implications as the sub-contractor pricing in the ITC MFP may not be valid after 2006-MAY-01.

The ITC MFP does not include finishing for the Museum since this area has not yet been fully designed. The City is carrying a budget of \$1.3M for this work within the overall budget. Approval of the Museum's "cultural spaces" application by the Federal Government is expected to be critical to completion of this work as it is a key source of overall project funding.

The MFP does not include general contractor bonding as it is not available. Subtrade bonding for major trades will be acquired where possible. Staff are advised that general contractor bonding largely duplicates the subtrade bonding and is commonly not provided in the current market. Without general contractor bonding, there is risk of negative consequences should ITC encounter financial difficulties during the construction period.

The MFP pushes the limits of the \$72.5M project cap (see summary budget attached). It reduces the unallocated contingency to approximately \$3.9M. Staff believe an unallocated contingency of over \$5M is required for a project of this magnitude and complexity. This would require potential additional funding of \$2.0. Staff believe Council should provide for this additional contingency requirement in the City's financial plan.

Council could consider cuts to scope; however, a great deal of value engineering has already gone into the project. ITC was brought onto the design team early in the process to provide this function and many changes were made at their suggestion throughout the design process in order to reduce the building cost. Significant further cost reductions are not likely without a major reduction in the scope of the project, the functionality of the facilities, or the appearance of the buildings. The public approval for the necessary borrowing included specific reference to the major components of the project so deletion of major components may also have ramifications for the public. One option is to delete the entire auditorium building. Should this option be of interest to Council, Staff would recommend that Council request a staff report on the potential implications and expected cost savings.

Another option is to delete one complete level of parking. Unfortunately, the potential savings from this option are significantly offset by the need to bring in fill to raise the level of the site to compensate for the lost level of parking. Savings will only be in the range of \$1.0M to \$2.0M which, in staff's view, is not sufficient to warrant the change.

Recommendation: That Council:

1. enter into a general construction contract with Intertech Construction Managers Ltd. in the amount of \$36.3M for the construction of the New Nanaimo Centre; and,
2. establish an additional reserve of \$2.0M in the event it is necessary to increase the project contingency by reserving this amount within projected 2006 year-end surplus.

It was moved and seconded that recommendation 1. be adopted. The motion carried.

Opposed: *Councillors Bestwick and Sherry*

It was moved and seconded that recommendation 2. be adopted. The motion was defeated.

Opposed: *Councillors Bestwick, Brennan, Holdom, Sherry and Unger*

CORPORATE SERVICES:

FINANCE

(6) Funding for the New Nanaimo Centre

At the Regular Meeting of Council held 2006-JAN-23, Council received a report indicating that the capital budget for the New Nanaimo Centre will be \$72.5 Million. The report also indicated that the funding for this budget was short by \$2.2 Million and that this would likely mean the reallocation of existing or future projects.

Staff has identified four potential options to fund the \$2.2 Million shortfall:

1. Delay construction of the Oliver Road Recreation Centre
2. Borrow funds from sewer or water reserves
3. Defer or cancel traditional infrastructure projects
4. Increase property taxes

Option 1 – Delay Oliver Road Recreation Centre

The 2006-2010 Financial Plan includes the construction of the Oliver Road Recreation Centre beginning in 2006. The project is currently budgeted to cost \$8.8 Million which is funded mostly from the Facility Development Reserve Fund plus \$2 Million in private contributions from a developer. Under the agreement with this developer, these funds must be spent by 2015-NOV-01 or the City will lose this contribution.

The City could potentially use the Facility Development Reserve Fund as a funding source for the new museum at the New Nanaimo Centre. If the City were to use \$2.2 Million from this fund for the museum, the effect would be to delay construction of the Oliver Road Recreation Centre for approximately three years, until the Fund was once again built up enough to pay for the project. Similarly, future projects that are scheduled to be funded from the Facility Development Reserve Fund would also be delayed (Bowen and Beban facility upgrades).

The Facility Development Reserve Fund was established by bylaw to fund capital improvements for parks, recreation or cultural facilities. The money in the reserve is collected by adding a 20 percent surcharge on admissions and rentals of all City operated recreation and cultural facilities and sports fields. Users of non-City operated cultural facilities, such as the Museum, do not pay into this fund but these facilities are clearly cultural facilities as defined in the bylaw.

The Oliver Road Recreation Centre has been in the planning stages for several years and is about to commence design. A decision to defer this project is going to disappoint those users who are anticipating its construction. The people that have paid into this Reserve Fund are likely to object to its use for a facility that did not contribute to the Reserve Fund. Although it is legal to use the Reserve Fund for this purpose, the understanding of the user groups is that it would be used for recreation facilities. Also, as construction of Oliver Road is delayed, costs will be increased. Since the design is in the early stages, cost increases are quite likely even on the current schedule.

Should Council choose this course of action, Staff would postpone the use of these funds on the museum as long as possible. If additional funds became available for the museum from a new source (e.g. senior government), then Oliver Road could proceed as soon as possible.

Option 2 – Borrow from Sewer or Water Reserves

In the past few years, the City has accumulated reserve accounts in both the water and sewer funds. This is largely due to the retirement of long term debt and the fact that there has been no new borrowing for either of these functions. Also, senior government grant programs favour this kind of infrastructure and the City has been successful in getting some of these grants. The new Community Works Fund will provide another source of funding for sewer and water projects.

Both water and sewer have more than adequate reserves to cover the expenditures already set out in the 2006-2010 Financial Plan. The City is currently undertaking a Strategic Water Supply plan that will provide information about the long term water needs for the City. It is likely to recommend significant expenditures over the next 50 years on water supply and treatment.

Council will recall that the budget for the Nanaimo Ice Centre requires the temporary borrowing of \$3.65 Million, with repayment to come from the proceeds of the sale of the condos at the Foundry/Civic Arena site. As Staff has previously advised Council, it is our intention to “borrow” those funds from water or sewer reserves, rather than from a financial institution. Those funds will be borrowed from water distribution reserves, as the balances of those reserve accounts are not

projected to fall below \$4.4 Million over the next five years. Staff believe that this is an adequate reserve, and those reserves will be restored when the condos are constructed (beginning no later than December 2010). There are additional reserves for water supply capital.

Similarly, sewer reserve accounts are not projected to go below \$6.2 Million over the next five years, with an additional \$4.3 Million available exclusively for sewer capital. Therefore, Staff believe that the \$2.2 Million for the New Nanaimo Centre could be borrowed from this reserve account without impacting any currently planned sewer project.

Note that when we refer to "borrowing" from reserves, this is not the same as issuing long term debt or a loan authorization bylaw. In effect, we are simply using these funds with the intention of replenishing the reserves in the future.

Although Staff has confirmed with the City Solicitor that these funds can be used for any municipal purpose, these funds were originally collected for sewer purposes. Therefore, Staff recommends that, should Council choose this option, these funds be returned to the sewer fund over time. It would be Staff's intention to rebuild the reserve over five years by allocating a portion of the general surplus. Also, if additional funds become available, the sewer reserves could be returned for their original purpose.

Option 3 – Defer or cancel traditional infrastructure projects

Even without considering the New Nanaimo Centre, the City has a very ambitious five year capital plan. Excluding the NNC, the total General Fund (excluding sewer and water) capital is projected to be \$87 Million over the next five years, with about half of that funded from general revenue.

Council could consider cutting or deferring other capital projects to make up the \$2.2 Million required to fund the New Nanaimo Centre. The largest of the projects funded from general revenue (the most flexible funding source) are traditional infrastructure projects such as road improvements and storm sewers.

Of the four options presented, Staff believe that this would be the least acceptable to the taxpayers and have therefore not presented a list of specific projects. If Council wishes to pursue this option, a list can be put together.

Option 4 – Increase property taxes

If Council were to increase property taxes by an additional 1.2 percent in 2006 (making the residential tax increase 4.5 percent), it would raise an extra \$740,000. per year. Over three years, this would be approximately equal to the \$2.2 Million shortfall for the New Nanaimo Centre. Council could then reduce taxes by an equivalent amount in 2009.

Each of these options has its drawbacks. In reviewing the options, Staff believe that Option 2 – use of sewer reserves, has the least negative impact. The sewer reserves are not needed in the next few years and can likely be paid back before they are required.

Recommendations: That Council:

1. approve the use of \$2.2 Million from the Sewer Reserve Account to fund the capital construction of the New Nanaimo Centre; and,
2. direct Staff to reimburse the Sewer Reserve Account with future allocations of surplus, or other revenues that may become available.

It was moved and seconded that Council approve the use of \$2.2 Million from the Sewer Reserve Account to fund the capital construction of the New Nanaimo Centre, provided that the Sewer Reserve Account is reimbursed within four years with future allocations of surplus or other revenues that may become available. The motion carried.

Opposed: *Councillors McNabb and Sherry*

7. INFORMATION ONLY ITEMS:

- (a) Report from Ms. L. Coates, Manager, Accounting Services, re: 2005 Fund Statements and Schedules.

It was moved and seconded that the Information Only Item be received. The motion carried unanimously.

8. CORRESPONDENCE:

- (a) Letter dated 2006-APR-13 from Mayor Clement, Corporation of the Township of Esquimalt, providing a statement in support of the New Nanaimo Centre Project.
- (b) Letter dated 2006-APR-24 from Ms. Larana LaPorte, CA, CFP, Church Pickard, Chartered Accountants, Suite 301, 17 Church Street, Nanaimo, BC, informing council of their process and responsibilities while conducting the City of Nanaimo's 2005 audit.

It was moved and seconded that the Correspondence be received. The motion carried unanimously.

9. CONSIDERATION OF LATE ITEMS / OTHER BUSINESS:

- (a) Appointments to the Grants Policy/Process Committee

At the "In Camera" Finance / Policy Committee of the Whole Meeting held 2006-MAY-01, Council appointed the following individuals to serve on the Grants Policy / Process Committee:

- Jim Spinelli
- Kim Smythe
- Keri Wehlander

Recommendation: That Council ratify the appointments to the Grants Policy / Process Committee.

It was moved and seconded that the appointments of Mr. Jim Spinelli, Mr. Kim Smythe and Ms. Keri Wehlander be ratified. The motion carried.

Opposed: *Councillors Holdom and McNabb*

10. ADJOURNMENT:

It was moved and seconded at 7:17 p.m. that the meeting terminate. The motion carried unanimously.

CHAIR

CERTIFIED CORRECT:

DIRECTOR,
LEGISLATIVE SERVICES