

DATE OF MEETING March 26, 2018

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SUBJECT Nanaimo Recycling Exchange (NRE) Funding Options

## **OVERVIEW**

### **Purpose of Report**

To provide Council with options for the provision of a capital grant to the Nanaimo Recycling Exchange (NRE) to fund the construction of a new facility.

### **Recommendation**

That the Nanaimo Recycling Exchange Funding Options report dated 2018-MAR-26 be received for information.

## **DISCUSSION**

The NRE approached Council seeking support for construction of a new recycling facility. NRE provided a figure of \$6.05 million, representing a preliminary cost estimate for the facility. The NRE currently owns the land on which the facility would be located and would own and operate the newly constructed facility.

At the 2018-MAR-12 Committee of the Whole meeting, Council directed staff to provide options for funding a \$6.05M capital grant to the NRE for the construction of a new facility.

### **Options:**

Staff explored three possible funding options:

1. Provide an annual grant

The City would provide an annual grant for the next 20 years to cover the annual debt servicing cost of a mortgage secured by the NRE for the construction of a new facility.

Commercial borrowing rates will vary based on the assessed risk by the lender. Assuming a \$6.05M loan over 20 years' the annual debt servicing would be approximately \$429,750 per annum at 3.7% borrowing rate or \$521,329 per annum at 6% borrowing rate. These annual debt servicing costs and borrowing rates are provided for illustrative purposes only.

The City could increase annual sanitation user fees or general revenue to fund this grant. Using general revenues would impact property tax rates.

a) The estimated range of potential increase if sanitation user rates funded the grant:

	2018		2019		2020		2021		2022	
	3.7%	6.0%	3.7%	6.0%	3.7%	6.0%	3.7%	6.0%	3.7%	6.0%
Current user rate	\$ 165.00	\$ 165.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00
Projected NRE operating grant	\$ 8.96	\$ 10.87	\$ 15.18	\$ 18.41	\$ 15.00	\$ 18.19	\$ 14.82	\$ 17.98	\$ 14.64	\$ 17.76
Revised user rate	<b>\$ 173.96</b>	<b>\$ 175.87</b>	<b>\$ 165.18</b>	<b>\$ 168.41</b>	<b>\$ 165.00</b>	<b>\$ 168.19</b>	<b>\$ 164.82</b>	<b>\$ 167.98</b>	<b>\$ 164.64</b>	<b>\$ 167.76</b>

b) The estimated range of impact on property taxes, if the grant was funded from general revenue:

	2018		2019		2020		2021		2022	
	3.7%	6.0%	3.7%	6.0%	3.7%	6.0%	3.7%	6.0%	3.7%	6.0%
Projected property tax increase	0.26%	0.31%	0.18%	0.22%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The property tax increase would apply not only to residential properties but to all property classes including commercial and industrial, whereas sanitation user rates apply to residential properties exclusively.

Under the *Community Charter*, the City may provide a guarantee for the NRE's mortgage:

- This may result in a more favorable interest rate.
- The City would be required to provide notice of its intention, adopt a loan authorization bylaw and receive elector approval.
- The amount of the guarantee would also be included in the liability servicing limit of the City thereby reducing the City's borrowing ability.

The City would need to obtain legal advice on the implications of guaranteeing a mortgage for construction of a building on property that is not owned by the City.

## 2. One-time capital grant of \$6.05 million funded from reserves

The City maintains general, statutory and development cost charge (DCC) reserves. These reserves are used to fund investment in infrastructure to deliver City services, strategic initiatives and contingent liabilities.

Statutory and DCC reserves are established by bylaw for a specific purpose and funds may only be used for those purposes. These reserves could not be used to fund grants.

The City also maintains General Operating Reserves which includes the Council's Strategic Infrastructure Fund (SIF) Reserve. The SIF Reserve would be an appropriate funding source for this capital grant. However, the projected 2018 closing balance for this reserve is \$340,000. The current estimated balance in this reserve fund over five years is shown below.

### Strategic Infrastructure Reserve

	2018	2019	2020	2021	2022
Opening Balance	\$ 680,000	\$ 340,000	\$ 1,920,000	\$ 3,900,000	\$ 5,880,000
Contributions	\$ 2,080,000	\$ 2,480,000	\$ 2,880,000	\$ 2,880,000	\$ 2,880,000
Withdrawals	\$ 2,420,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000
Closing Balance	\$ 340,000	\$ 1,920,000	\$ 3,900,000	\$ 5,880,000	\$ 7,860,000

Staff does not recommend funding a capital grant from the City's reserves.

### 3. One-time capital grant of \$6.05 million funded from City borrowing

The Municipal Finance Authority (MFA) provides financing to local governments throughout British Columbia.

The Municipal Finance Authority provides financing for:

- a. Temporary, short and long-term borrowing for capital projects
- b. Equipment leasing
- c. Liabilities under agreement (*Community Charter*, section 175)
- d. Revenue anticipating borrowing (*Community Charter*, section 177)

The provision of a capital grant to the NRE does not meet the criteria for the City to borrow funds through the MFA. In addition, the *Community Charter*, section 179 outlines the purposes for which a Council may, by a loan authorization bylaw adopted with the approval of the inspector, incur a liability by borrowing. The provision of a capital grant does not fall within the permitted purposes. Thus, borrowing funds to provide a grant to the NRE is not an option.

### Other Considerations:

There are also a number of other factors that may be considered in evaluating the options:

- Financial Risks
  - Construction Cost Estimates – The cost estimate provided by NRE is a preliminary estimate and will be subject to change. The NRE will need to provide risk management strategies including identifying additional funding sources should construction costs exceed the preliminary estimate.
  - Business Plan – The NRE will need to provide a robust business plan that includes both capital investment, interim financing requirements, annual operating projections and all sources of funding/revenues.
  - Risk – The City would need to obtain legal advice on the City's obligations should there be a default on the mortgage.
- Governance
  - Council policy – Council may consider developing a policy that provides direction and expectations for responding to requests from non-profit organizations for financial support outside of the current grant programs.
  - Operating agreement with the NRE – Council may consider an operating agreement with the NRE to ensure this grant achieves specific desired outcomes.

As Council is aware the Regional District of Nanaimo approved funding through their draft Solid Waste Management Plan (SWMP), which is currently undergoing public consultation. The SWMP proposes to provide \$300,000 per year for 5 years starting in 2019 for the NRE to act as a research and recycling hub for recycling items not commercially marketable. The City of Nanaimo's share of this contribution is \$167,700. This allocation is contingent on final approval by the RDN Board and the Province of the SWMP after completion of public consultation. The final SWMP will be submitted to the Province in May 2018 for their approval.

The NRE currently receives the following funding from the City:

- a. The City has a contract with the NRE for the 3R's Programs and Services. This contract is valued at \$6,450 per month (\$77,400 annually) to provide a centrally located one-stop drop-off facility, community networking and outreach, public relations, independent research and education services, and development of 3R's programs and services in the community.
- b. The City also provides a permissive tax exemption to the NRE which was valued at \$16,132 (\$10,264 City portion) in 2017.

#### **SUMMARY POINTS**

- Staff has reviewed three funding options for the provision of a capital grant to the NRE.
- Provision of a capital grant would impact either sanitation user fees or property taxes.
- Significant issues and risks will need to be considered.

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