
City of Kelowna

MEMORANDUM

DATE: November 22, 2001
FILE: 1760-04
TO: City Manager
FROM: Director of Finance and Corporate Services
RE: **REPAYMENT OF OUTSTANDING DEBT AND FUNDING CHANGE TO BUDGETED DEBT**

Prepared by: Deputy Director of Finance

RECOMMENDATION:

THAT Council approve the payout of \$1,495,876.17 in mortgage debt owing to BCBC for the former provincial courthouse property (James Stuart Park) on December 31, 2001 with funding from general reserves;

AND THAT Council approve a funding change to finance the City's \$500,000 obligation for the Rotary Centre for the Arts from short term borrowing to general reserves;

AND FURTHER THAT the 2001 Financial Plan be amended to reflect the increased expenditure for the mortgage payout and financing of each of these initiatives.

BACKGROUND:

Former Provincial Courthouse Property

The City purchased this property in 1996 from BC Buildings Corporation, financing \$2.0 million of the total purchase price through a mortgage agreement over a ten year period at 8.35%. The terms of the agreement allow the City to pay out the outstanding balance without penalty. The balance due at December 31, 2001 will be \$1,495,876.17. Considering current favourable interest rates on borrowing, it is prudent to either refinance this debt or alternatively, pay the balance from existing reserves.

The Finance division has reviewed the City's general reserve account balances and believes elimination of this debt will provide greater budget flexibility in addition to savings on interest. Repayment will result in an annual operating budget saving of \$268,521 in each of the next 6 years.

Financing is proposed from the following general reserves:

Unspent Budget Reserve	\$839,376.17
Tax Appeals Reserve	\$221,700.00
Street Cleaning	\$294,000.00
Parks DCC	\$205,545.00

The unspent budget reserve represents funding for projects that have been carried over from prior years. In some cases, projects have not been re-budgeted in whole or in part for a number of reasons (i.e. accompanying grant not secured, land not acquired, etc.). A balance of approximately \$250,000 will remain over and above that necessary to fund 2001 budgeted projects and will be drawn on for emergent projects that had been deferred pending resolution of specifically identified issues.

There are presently no major tax appeals anticipated requiring this reserve funding. Past practice has been to absorb successful tax appeals in the current year's budget. A balance of approximately \$178,000 will remain after the proposed expenditure.

As a direct result of decreased use of sand on City streets, the street cleaning averaging reserve is no longer required. In past years of heavy snowfall, the spring sweeping program had years of considerable over-expenditure. The Works & Utilities de-icing program has been successful in eliminating expenditure fluctuations from year-to-year. The remaining balance in this reserve will be approximately \$100,000.

A portion of the cost of the property (\$500,085) was designated for purchase from the Parks DCC reserve and amortized over the mortgage term. A total of \$205,545 remains to be funded from this source.

Rotary Centre for the Arts

The 2001 budget for the construction of the Rotary Centre for the Arts budget of \$6.75 million included funding of \$500,000 from short term borrowing, to be repaid over a 5-year period. While bank rates of interest are reasonably low at this time, it remains prudent to 'pay-as-you-go' to reduce impacts on the City's operating budget and enhance opportunities for ongoing service maintenance and/or improvements in 2002. The annual operating budget impact over the next 5 years is \$118,698.

It is proposed to fund this expenditure from the Permit Averaging Reserve. This reserve is intended to cover the costs of completion of building permit and subdivision processing files and inspections in times of economic slowdown. Finance believes the remaining reserve balance of approximately \$862,000 will more than meet any required expenditures in the near to mid-term.

Conclusion

Council approval of this proposal will result in a reduction of tax funded debt servicing of approximately \$388,000 per year over the next 5 years and \$268,500 in 2007.

C.P. Kraft

cc: Deputy Director of Finance