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CITY OF KELOWNA

MEMORANDUM

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**Date:** January 23, 2008  
**File No.:** 1760-03  
**To:** City Manager  
**From:** Financial Projects Manager  
**Subject:** \$2 M Community Bond Issue For Mission Recreation Park Aquatic Centre

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**RECOMMENDATION:**

THAT Council receive this report dated January 23rd, 2008 from the Financial Projects Manager for information;

AND THAT Council direct staff to finalize borrowing of the remaining \$2,000,000 (Two Million Dollars) on Loan Authorization Bylaw 9359 from the Municipal Finance Authority (MFA) in the spring of 2008.

**BACKGROUND:**

Of the \$29.5 Million debenture borrowing authorized by Bylaw 9359 (and amendments), \$27.5 Million has already been borrowed from the MFA. Borrowing of the remaining \$2M was put on hold while the City of Kelowna considered the possibility of issuing Community Bonds for up to this amount.

Community Bonds, issued through the MFA, provide an opportunity for BC residents to invest in their communities while providing the municipality with access to funds at rates lower than those provided by the MFA. As well as the gain on the rate differential, there is an opportunity for savings on some MFA charges. The municipality potentially gains on the rate differential and residents have access to a secure investment opportunity at rates potentially as high, or higher than they could earn elsewhere.

An on-line survey was conducted in mid-January 2008 to determine if there was sufficient interest within the community for the City of Kelowna to issue and sell \$ 2M worth of community bonds. There were 672 respondents to the survey over a two week period with the majority of the respondents being City of Kelowna residents; approximately 12% of the respondents were Okanagan Valley residents living outside of Kelowna.

Although there was general support for the issue and sale of community bonds as a concept, support faded as various aspects and potential aspects of a community bond issue were referred to in the survey questions. Issues included the rate of return, the five-year locked in term, and face value of the bonds.

The interest rate that the City of Kelowna will pay when borrowing \$2M from the MFA this spring is projected to be 4.43% based on January 22, 2008 markets. Interest rates available on Canada Savings Bonds, GIC's and other secure investments can range up to 4.35% and higher depending on the length of term and the face value of the investment.

Comparing the internal costs associated with a one month sale period, including advertising and staff costs with the gain that could be realized on a rate differential between MFA rates and rates that might generate sufficient sales show that it would not benefit the City to issue community bonds at this time.

- MFA borrowing would lock-in the City's borrowing rate for a 10 year period while community bonds would need to be re-issued after five years at an unknown interest rate.
- Based on current rates, MFA borrowing would be at 4.43% for 10 years. Assuming the City was able to issue and sell \$2M of community bonds now and once again in five years, then
  - a rate of 4.35% does not create enough savings to offset estimated issuing costs for the first five year term,
  - a rate of 4.25% creates enough savings to offset the estimated issuing costs for the first five year term, but would not cover estimated issuing costs on the second five year term,
  - rates below 4.125% create enough savings to offset the estimated issuing costs over two five year terms; 4.125% provides neither a net savings nor net cost.
- As the rate offered by the City for community bonds decreases, the ability to sell \$2M of community bonds in 2008 and then again five years hence decreases.

Staff were hopeful that there would be an opportunity to successfully issue community bonds for the Aquatic Centre project and will continue to review community bonds as a potential financing option for future projects.

We appreciate the time taken by Kelowna and Okanagan Valley residents to complete the survey; the City's Communication Department is working to contact the winner of the survey draw. A gift certificate to be used for the new aquatic centre will be forwarded once we have contacted the winner.

**LEGAL/STATUTORY AUTHORITY:**

Bylaw 9359 as amended

**INTERNAL CIRCULATION TO:** N/A

**LEGAL/STATUTORY PROCEDURAL REQUIREMENTS:** N/A

**EXISTING POLICY:** N/A

**FINANCIAL/BUDGETARY CONSIDERATIONS:** N/A

**PERSONNEL IMPLICATIONS:** N/A

**TECHNICAL REQUIREMENTS:** N/A

**EXTERNAL AGENCY/PUBLIC COMMENTS:** N/A

**COMMUNICATIONS CONSIDERATIONS:** N/A

**ALTERNATE RECOMMENDATION:** N/A

Submitted by:



LM Walter, CMA

Approved for Inclusion:



Paul Macklem, CMA, Director of Financial Services