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The Corporation of **THE CITY OF NORTH VANCOUVER**
FINANCE DEPARTMENT

REPORT

To: Mayor Linda Buchanan and Members of Council

From: Larry Sawrenko, Chief Financial Officer

Subject: HARRY JEROME COMMUNITY RECREATION CENTRE
FINANCIAL STRATEGY

Date: January 21, 2022 File No: 05-1705-01-0001/2022

The following is a suggested recommendation only. Refer to Council Minutes for adopted resolution.

RECOMMENDATION

PURSUANT to the report of the Chief Financial Officer, dated January 19, 2022, entitled "Harry Jerome Community Recreation Centre Financial Strategy";

THAT the Harry Jerome Community Recreation Centre Financial Strategy, as presented, be endorsed.

ATTACHMENTS

1. Report of the Deputy Director, Strategic & Corporate Services dated March 31, 2021, entitled "Harry Jerome Community Recreation Centre – Project Approval" (CityDocs 2042867)

SUMMARY

The Harry Jerome Community Recreation Centre ("HJCRC") project received Council approval to proceed at the Regular Council meeting of April 12, 2021. The HJCRC project was planned to be significantly funded upfront through the disposition of the Harry Jerome Neighbourhood Lands ("HJNL") and through a dedicated levy.

This report details a new financial strategy for completing the project that combines low-cost, short-term financing from the Municipal Financing Authority ("MFA") with contributions from a dedicated levy, Development Cost Charges ("DCCs") and Community Amenity Contributions ("CACs") – enabling construction of the replacement recreation centre to begin in 2022. Under the proposed new Financial Strategy, the City

would delay disposition of the HJNL until completion of the new recreation centre in 2025, and use the proceeds to repay the MFA loan.

The total funding required for the HJCRC capital program is unchanged at \$226.3 million, which includes \$181 million for the recreation centre. To date, \$92.2 million (40%) has already been secured through completion of a land lease agreement for Phase 1 of the HJNL. In November 2021, the City terminated its Offer to Lease for Phase 2 of the HJNL as a result of the developer not meeting a key contractual term of the agreement – prompting Council's request for a new Financial Strategy for the project.

In developing the new strategy, staff were guided by Council's direction to limit any impacts on City taxpayers. Key features of the Financial Strategy include:

- Taking advantage of low interest rates offered by the MFA through a short-term loan that is well within the limits of the City's borrowing capacity, while still leveraging the value of the HJNL lands as part of the longer-term strategy;
- The new strategy avoids burdening City taxpayers as it will enable staff to recommend a 2022 budget that limits the increase in property tax to 3.75%. This increase is less than 2021 and within the average range of increases brought in by other Metro Vancouver municipalities.
- The existing HJCRC will stay open and operating during the construction phase;
- Project scope and timelines are unchanged – a replacement recreation centre can still be completed in 2025.

As the City of North Vancouver's largest ever infrastructure project, replacement of the 56-year-old HJCRC provides an opportunity to create a vibrant new community hub in the area of Lonsdale Avenue and East 23rd Street that will include new spaces for seniors and recreation clubs, upgrades to the Mickey McDougall Community Recreation Centre and a new community park.

Planning and design work is underway, including assessing proposals from suppliers who will deliver various aspects of construction, which will get underway later this year

BACKGROUND

The HJCRC project received Council approval to proceed at the Regular Council meeting of April 12, 2021. A copy of the Council resolution and supporting report is included as Attachment 1. Staff are proceeding with a Class A cost estimate and will bring this estimate to Council once available.

The HJCRC project was planned to be significantly funded upfront through the disposition of the HJNL. In addition to funding from land disposition, the HJCRC program is also funded through a dedicated levy. On November 19, 2021, the City terminated its Offer to Lease for the second phase of the HJNL as a result of the developer not meeting a key contractual term of the agreement. As such, the land transaction scheduled for phase two will not take place on January 31, 2022.

With approximately \$92 million dollars in place for the construction of the recreation centre and other amenities, Council passed a resolution on November 22, 2021 that the current recreation centre would remain open while the project to deliver the new HJCRC moves forward, with anticipated completion in 2025.

With the termination of the phase two Offer to Lease, a revised Financial Strategy is now required for the HJCRC capital program.

This strategy will inform the capital and operating budget which will be considered by Council in February.

DISCUSSION

The total funding required for the HJCRC capital program is \$226.3 million. The projects in this larger program are:

- Construction of a new HJCRC
- Relocation and construction of a new North Vancouver Lawn Bowling Club and lawn bowling facilities;
- Relocation of the Flicka Gymnastics Club;
- Upgrades to the Mickey McDougall Community Recreation Centre;
- Relocation and construction of a new Silver Harbour Centre;
- Relocation of Centennial Theatre electric power; and
- Delivery of a New Community Park on the HJNL.

Of the required funding, \$92.2 million (40%) has already been secured. The secured funding is comprised of:

	(\$ millions)
Tax Levy*	24.6
Contributions**	13.7
HJNL Land Lease Phase I	50.4
Parks DCC Reserve	3.5
TOTAL	92.2

* Currently \$2.6M per year

**1441 St. Georges Density Transfer (\$5.6M) and 150 8th Street East Community Amenity Charge (\$8.1M)

Financial Strategy

The Financial Strategy makes use of a number of solutions available to the City, including the use of external debt. The overall strategy is summarized in the following table, with details provided below:

Capital Appropriations by Year

(\$ millions)	Total	Prior	2022	2023	2024	2025	2026	2027
Total	226.3	38.4	166.3	11.5	3.1	6.2	0.4	0.4

Funding Sources

(\$ millions)	Total	Prior	2022	2023	2024	2025	2026	2027
1) Amenity levy	35.0	24.6	2.6	2.6	2.6	2.6	-	-
2) Contributions (CAC and Density Sale)	13.7	13.7	-	-	-	-	-	-
3) MFA loan – draws	117.0	-	110.0	7.0	-	-	-	-
3) MFA loan – repayment	(122.8)	-	(0.6)	(1.7)	(2.3)	(118.2)	-	-
4) Accumulated surplus	5.4	-	5.4	-	-	-	-	-
5) DCC Parks	3.5	0.1	-	-	0.5	2.9	-	-
6) Internal borrowing – draws	4.6	-	-	2.2	2.4	-	-	-
6) Internal borrowing – repayments	(5.1)	-	-	(0.1)	(0.1)	(4.9)	-	-
7) HJNL dispositions	217.4	50.4	-	-	-	167.0	-	-
Total	268.7	88.8	117.4	10.0	3.1	49.4	0.0	0.0

Surplus	42.4	50.4	1.5	0.0	0.0	43.2	42.8	42.4
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¹ Amenity Levy

The City began collecting property taxes dedicated to a new HJCRC in 2013. The annual amount has increased from \$400K in 2013 to the current \$2.6 million; \$24.6 million has been collected to date. The annual \$2.6 million is planned to continue as a funding source through project completion in 2025, for a total of \$35.0 million. The Financial Strategy recommends continuation at this level of contribution and does not propose any additional tax funding.

² Contributions

At its Regular Council Meeting held July 23, 2018, Council endorsed that the Community Amenity Contributions for 150 East 8th Street, \$8.1 million, and the proceeds of density sale for 1441 St. Georges Avenue, \$5.6 million, be allocated to the capital program. Allocations of additional contributions are not included in the plan.

³ MFA Loan

It is estimated that the City has borrowing capacity of up to \$117 million within its assent-free zone. The Financial Strategy recommends full use of this borrowing capacity as short term financing. MFA short-term borrowing rates are currently 0.99%. MFA's short term loans must be repaid within 5 years.

Details of the MFA loan process are being presented to Council in a separate report.

⁴ Accumulated Surplus

The Council approved policy on Maintenance and Use of Accumulated Surplus specifies that the City's unappropriated accumulated surplus be maintained between 5% and 10% of total operating revenues; excess accumulated surplus may be used to fund capital projects.

At 11.9%, the City's December 31, 2020 accumulated surplus is currently in excess of policy requirements. The financial strategy allocates \$5.4 million of excess accumulated surplus to fund the HJCRC capital program. This allocation will leave the City's accumulated surplus at 7.5% of total operating revenues, which remains within policy guidelines.

⁵ Development Cost Charges - Parks

Development Cost Charges ("DCCs") are monies collected from developers to offset some of the costs associated with servicing growth. The City revised its DCC program in 2016 to include provisions for City-wide parkland development. DCC funds can be used for 49.5% of eligible costs.

The Financial Strategy recommends use of DCC funding for qualifying HJCRC park improvements, including the development of a new community park on the HJNL.

⁶ Internal Borrowing

The strategy recommends use of internal borrowing from the City's Tax Sale Land Reserve ("TSLR"); the City's largest reserve available to fund capital works, to close remaining up front funding gaps. Planned borrowing is modest at \$4.6 million and all borrowed funds would be repaid with interest.

7 HJNL Dispositions

The disposition of the remaining HJNL continues to be an important component of the overall Financial Strategy. This disposition is now planned for 2025 at a value of \$167 million. The value is based on current real estate market conditions and would be affected by changes in the market. Sensitivity analysis shows that, even if the site were disposed of at a value 25% less than currently expected, sufficient proceeds to retire the MFA loan and repay internal borrowing in 2025 would still be available.

Risk Management

It's also recommended that the City preserve financial capacity to be able to respond to unexpected events, should they occur. As such, the Financial Strategy includes the recommendation to maintain a minimum balance of \$20 million in the TSLR to provide a financial "safety net". The level of borrowing included in the Financial Strategy maintains the balance of the Tax Sale Land Principal Reserve Fund above this threshold.

FINANCIAL IMPLICATIONS

A key component of this strategy is minimizing impact of the HJCRC on other parts of the capital and operating budget, so as to make the project manageable financially for taxpayers. Draft Preliminary Capital and Operating Plans that integrate with this recommended financial strategy, preserves internal capacity to deliver the HJCRC capital program, and continues to advance Council's Strategic Plan is to be considered by Council as follows.

1. January 31, 2022 – Harry Jerome Financing Strategy, and HJCRC Loan Authorization Bylaw
2. February 14 2022 – Draft Preliminary Capital Plan
3. February 28, 2022 - Draft Preliminary Operating Plan
4. March 28, 2022 – Final Capital and Operating Plans
5. April 4, 2022 – Financial Plan Bylaw readings
6. April 11, 2022 – Financial Plan Bylaw adoption

If the Harry Jerome Capital program is funded via the above Financial Strategy, it can be accommodated within a 3.75% tax rate increase for 2022. The recommended 3.75% increment is expected to include 1.75% for operating costs (below current general inflation levels) and an additional 2% for capital (consistent with allocations in 2017 and earlier; taxes funding capital have increased below inflationary levels starting in 2018). The recommended tax rate increment is subject to change through Council's consideration during the steps listed above.

INTER-DEPARTMENTAL IMPLICATIONS

The successful delivery of the HJCRC capital program and this Financial Strategy will require effort and support from all City departments, as well as the North Vancouver Recreation and Culture Commission.

STRATEGIC PLAN, OCP OR POLICY IMPLICATIONS

The replacement of the HJCRC supports Council's vision to be the Healthiest Small City in the World and multiple objectives of the OCP, including:

- Goal 5.2, support, enhance and maintain recreation as a vital aspect of a healthy community, and
- Goal 5.3, provide a variety of public spaces for community engagement and stewardship.

RESPECTFULLY SUBMITTED:



Larry Sawrenko
Chief Financial Officer