



Council Report

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Date: March 4, 2025
To: Anthony Haddad, City Manager
From: Courtney Jones, Manager of Financial Planning
Subject: Loan Authorization Bylaw No. 2025-03 – Ellis 4 Dam Upgrades

File No: 1610

Staff Recommendation

THAT Council give first, second and third reading to “Ellis 4 Dam Upgrades Loan Authorization Bylaw No. 2025-03”, a bylaw to borrow up to \$11.0M for Ellis 4 Dam upgrades for a term of 20 years.

Strategic priority objective

Mission: Penticton will serve its residents, businesses and visitors through organizational excellence, partnership and the provision of effective and community focused services.

Background

In the 2024 – 2028 Financial Plan, which was adopted on December 14, 2023, the Ellis 4 Dam upgrades were funded for \$10M, with \$6.6M planned to be funded through grant opportunities and the balance of \$3.4M to be funded through the Water fund.

In late 2023, the City received notification of the success of a grant from the Investing in Canada Infrastructure Program in the amount of \$7.1M to assist with this project, which updated the approved budget to \$10.5M based on the increased grant funds secured.

In August 2024, the dam work began and will continue through the fall and winter and is expected to be completed in the Spring of 2025. However, since the project commenced last fall, the project has experienced a series of challenges which have significantly impacted the costs to date, as well as the forecasted cost to complete, as presented to Council in a project update on February 11, 2025. At that meeting, Council approved the budget amendment for the Ellis 4 Dam Upgrades to provide a total budget of \$18M, with \$11.0M to be funded through external debt financing and directed staff to prepare the appropriate loan authorization bylaw, which is the content of this report.

The beginning steps in obtaining debt financing from the Municipal Finance Authority (MFA), is to seek Council’s approval of the first three readings of the Loan Authorization Bylaws. The MFA Loan Authorization Bylaw Procedure flowchart is detailed in Attachment A.

Once the Certificate of Approval is received the City has the option to either issue Temporary Borrowing or a Security Issuing resolution. A Temporary Borrowing resolution allows municipalities to temporarily borrow smaller amounts of funds, up to the Loan Authorization Bylaw maximum, before locking in the long-term debt borrowing. This allows flexibility of completing the project and only borrowing the required funds to complete the project, before moving into the long-term debenture, which is described next.

Twice a year, the MFA issues long-term debentures on behalf of municipalities that have borrowing requirements. Municipalities must pass a security issue resolution and request that the corresponding regional district include the borrowing in its security-issuing bylaw prior to the issue date. The MFA directs all funds through regional districts, in turn the regional districts deal directly with each municipality.

Section 179 of the *Community Charter* provides that after giving first three readings to loan authorization bylaws for long term borrowing (loan terms that exceed five (5) years) for capital, and prior to adoption of the bylaws by Council, statutory approval from the Inspector of Municipalities must be obtained, and approval of the electors, if applicable, must be obtained. The maximum borrowing term allowed is 30 years.

Section 180 of the *Community Charter* provides that electoral approval is required for some loan authorization bylaws, however in some instances electoral approval is not required. Section 7 of the *Municipal Liabilities Regulation* provides that electoral approval is not required if the annual costs of the total liabilities for the year does not exceed 5% of the annual calculation of revenues of the municipality for the previous year. There are other exemptions that are found in this regulation, that are specific to drinking water protection orders and liquid waste management plans. This section also provides temporary funding under a loan authorization bylaw to secure funding if required between the bi-annual long-term debt issuances.

Section 182 of the *Community Charter* provides that all municipal financing must be undertaken by the applicable regional district under section 410 of the *Local Government Act* through the Municipal Financing Authority (MFA) of British Columbia.

Analysis

For this project, debt borrowing of \$11.0M for terms of 15, 20, or 25 years have been analyzed, and the table below shows the calculations based on the current MFA market rate and the annual debt payment and the overall estimated debt interest.

| | Market Rate | Annual Debt Payments (principal & interest) | Estimated Total Debt Interest |
|----------|-------------|--|----------------------------------|
| 15 years | 4.23% | \$1.04M | \$4.6M |
| 20 years | 4.41% | \$874k | \$6.5M |
| 25 years | 4.41% | \$768k | \$8.2M |

Cost to Rate Payers

The additional costs for annual debt payments for this project have not been incorporated into the Water user rates and will need to be incorporated during the next annual Fees & Charges Bylaw update, at which time Council will have options to either incorporate all at once or over a period of years. Below is a table of the estimated costs to rate payers, if incorporated all at once, for each of the terms analyzed.

| Term | Annual Debt Payments (principal & interest) | Estimated % Rate Increase | Estimated Cost to Rate Payers |
|----------|---|---------------------------|---|
| 15 years | \$1.04M | 9.57% | Residential = \$6 monthly, \$73 annually Business = \$34 monthly, \$414 annually |
| 20 years | \$874k | 8.05% | Residential = \$5 monthly, \$61 annually Business = \$29 monthly, \$348 annually |
| 25 years | \$768k | 7.07% | Residential = \$4 monthly, \$54 annually Business = \$25 monthly, \$306 annually |

Staff are recommending a 20-year term based on historic loan terms, the life of the asset, cost to the rate payers and estimated debt servicing costs.

Electoral Approval Exemption (Assent Free Zone)

The City's debt borrowing is in a favorable position, and meets the conditions for the Electoral Approval Exemption otherwise known as the Assent Free Zone. This means that once the Inspector's approval is received, bylaw adoption can proceed without seeking electoral approval. The City's 2025 assent free zone debt servicing capacity is \$6.7M, which is based on 2023 calculated revenue, with current debt servicing of \$3.5M, leaving just over \$3.2M in annual debt servicing capacity before this loan is authorized. Staff estimate the available loan principal borrowing capacity, after issuance of this loan request, would be in the range of approximately \$29M, for loan terms between 15-25 years using current interest rates.

| | 15-year term | 20-year term | 25-year term |
|---------------------------------------|--------------|--------------|--------------|
| Estimated Annual Debt Servicing costs | \$1.04M | \$874k | \$768k |

Financial implication

Staff are recommending a loan term of 20 years, with annual estimated debt servicing payments of \$874k, and an estimated total interest cost over the term of \$6.5M (adjusted for actuarial). The approximate percent increase to Water user rates for this debt borrowing is 8.05%. If the rate increase were incorporated all at once, residential customers would see an increase of \$5 monthly (\$61 annually), and for business customers \$29 monthly (\$348 annually). The actual annual Water rate increase will be determined as part of the annual Fees & Charges Bylaw update later this year.

Alternate recommendations

THAT Council provide alternate direction to staff.

Attachments

Attachment A – MFA Loan Authorization Bylaw Procedures

Attachment B – MFA Current Market Rates

Attachment C - MFA Historic Debt Issue Rates

Attachment D - Ellis 4 Dam Upgrades Loan Authorization Bylaw No. 2025-03

Respectfully submitted,

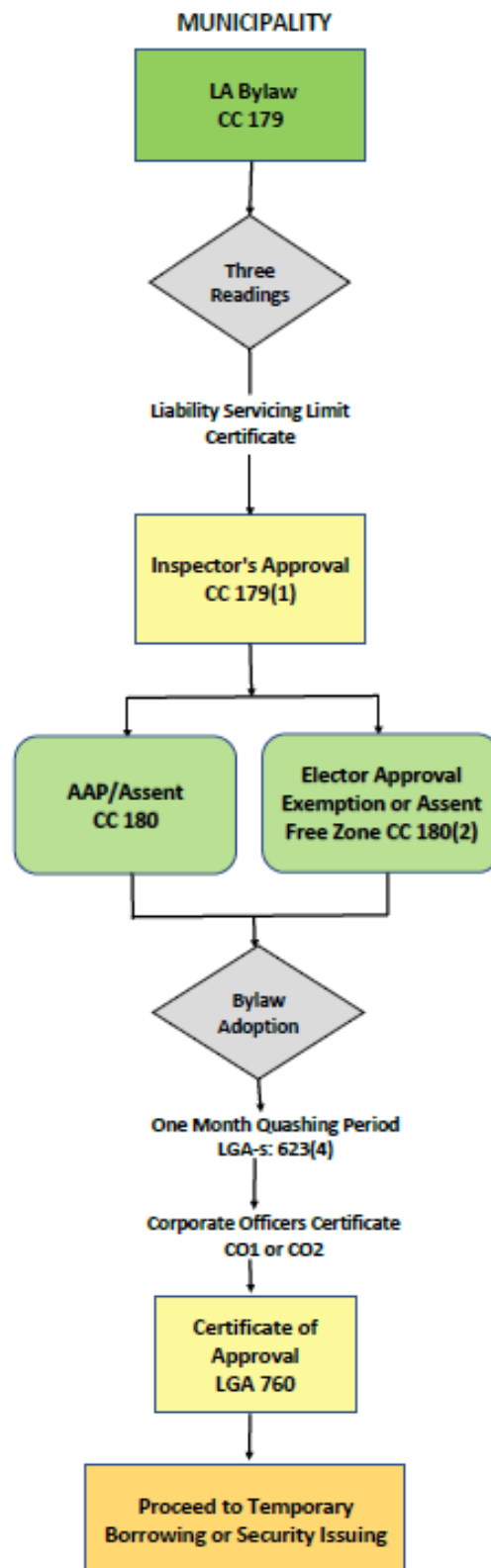
Courtney Jones

Courtney Jones
Manager of Financial Planning

Concurrence

| | | |
|--|---|-------------------------------|
| Director of Finance and Administration <i>AMC</i> | General Manager, Infrastructure <i>KD</i> | City Manager <i>NH</i> |
|--|---|-------------------------------|

Attachment A – MFA Loan Authorization Bylaw Procedures



INDICATIVE LENDING RATE

| | |
|-------------------|--------------|
| 5 years* | 3.14% |
| 10 years** | 3.82% |
| <i>15 years</i> | <i>4.23%</i> |
| <i>20 years</i> | <i>4.41%</i> |
| <i>25 years</i> | <i>4.41%</i> |
| <i>30 years</i> | <i>4.41%</i> |

Attachment C – MFA Historic Debt Issue rates

| Year | Issue # | 5 yr | 10 yr | 15 yr | 20 yr | 25 yr | 30 yr |
|-------------|---------|--------------|--------------|-------|-------|-------|-------|
| 2024 Spring | 161 | 4.05% | 4.44% | 4.44% | 4.44% | 4.44% | 4.44% |
| 2023 Fall | 160 | 4.73% | 4.97% | 4.97% | 4.97% | 4.97% | 4.97% |
| 2023 Spring | 159 | 3.90% | 4.15% | 4.15% | 4.15% | 4.15% | 4.15% |
| 2022 Fall | 158 | 3.82% | 4.09% | 4.09% | 4.09% | 4.09% | 4.09% |
| 2022 Spring | 157 | 3.07% | 3.36% | 3.36% | 3.36% | 3.36% | 3.36% |
| 2021 Fall | 156 | 1.25% | 1.98% | 1.98% | 2.58% | 2.58% | 2.58% |
| 2021 Summer | 154 | 1.47% | 2.41% | 2.41% | 2.41% | 2.41% | 2.41% |
| 2021 Spring | 153 | 1.53% | 2.41% | 2.41% | 2.41% | 2.41% | 2.41% |
| 2020 Fall | 152 | 0.91% | 0.91% | 0.91% | 0.91% | 0.91% | 0.91% |
| 2020 Summer | 151 | 1.28% | 1.28% | 1.28% | 1.28% | 1.28% | 1.28% |
| 2020 Spring | 150 | 1.99% | 1.99% | 1.99% | 1.99% | 1.99% | 1.99% |