

# Report to Council



**Date:** May 15, 2023  
**To:** Council  
**From:** City Manager  
**Subject:** Building a Stronger Kelowna: Growing active amenities in Central Kelowna, Glenmore, Mission, and Rutland  
**Department:** Financial Services Division

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## **Recommendation:**

THAT Council receives, for information, Building a Stronger Kelowna: Growing active amenities in Central Kelowna, Glenmore, Mission, and Rutland from the Financial Services Division dated May 15, 2023;

AND THAT Council directs staff to proceed with the funding strategy for the Building a Stronger Kelowna: Growing active amenities in Central Kelowna, Glenmore, Mission, and Rutland projects as outlined in the report from the Financial Services Division dated May 15, 2023;

AND FURTHER THAT Council directs staff to prepare to conduct an Alternative Approval Process (AAP) for the borrowing of \$241.32 million to fund the Building a Stronger Kelowna: Growing active amenities in Central Kelowna, Glenmore, Mission, and Rutland.

## **Purpose:**

To outline the proposed financial strategy for growing active amenities in Kelowna which will enable the design and construction of the redevelopment of PRC, Mission Activity Centre, Glenmore Activity Center, the enhancement of the Rutland Sportsfields and community partnership opportunities.

## **Program Background:**

Kelowna is one of the fastest growing communities in Canada and as such we have a growing need for community recreation and leisure facilities. These facilities play an essential role in bringing people together - they are safe places for people of all ages and backgrounds to stay connected, be active, learn a new skill, and belong.

The redevelopment of Parkinson Recreation Centre (PRC) has been a priority for over a decade. Council endorsed the Functional Program for the redevelopment of PRC on April 17, 2023. As part of the PRC redevelopment discussions, staff have highlighted the City's program delivery model and its

combination of centralized and decentralized amenity provision that provides broad community reach and access to important facilities and programming. Activity Centres become key facilities within this model with a strong neighbourhood focus. During the Council review of the Indoor Recreation Facilities Strategy and 10-year Capital Plan Workshop (Buildings), advancing the planning and delivery of the Glenmore and Mission Activity Centres were identified as priorities. In combination with the existing Activity Centres at Parkinson and Rutland, these two new centres will create a good distribution across the City. Council identified that the delivery of the Glenmore and Mission Activity Centres would include childcare services as a priority and be bundled with the redevelopment of the PRC. Staff are providing Council with a financial strategy of how these three facilities can be funded in the context of the 10-Year Capital Plan.

In addition, the enhancement of sports fields at Rutland Recreation Park is proposed as a priority in the 10-year Capital Plan (Parks) workshop. This project responds to sports field capacity challenges, along with the existing artificial turf field at Mission and proposed artificial fields at Parkinson and Glenmore, dispersing these important all-season amenities across the City.

Just as all people are not the same, the amenities that serve them are not the same. The City plays a key role in providing facilities and services for the health and well-being of residents and growing active amenities in multiple neighbourhoods projects. These projects and the increasing provision of sports fields and courts are part of growing active amenities to build a stronger Kelowna. These projects will serve our varied community members across Kelowna by addressing aging recreation infrastructure, service needs, and equitable distribution of in-demand amenities throughout Kelowna. Bundling these projects builds on services offered by the destination amenities contained in the redevelopment of the PRC by filling in the recreation gaps found in our communities. Community partnership opportunities are continuing to be explored as part of this initiative.

This report outlines a financial strategy of how bundling the growth of active amenities in four of Kelowna’s core neighbourhoods can be funded in the context of the 10-Year Capital Plan.

***Previous Council Resolutions:***

Resolution	Date
<p>THAT Council receives the report from Parks and Buildings Planning, dated April 17, 2023, for the Redevelopment of Parkinson Recreation Centre Functional Plan;</p> <p>AND THAT Council endorses the attributes of the Functional Program, as generally described in this report, which will form the design of the redevelopment of the Parkinson Recreation Centre;</p> <p>AND THAT Council directs staff to provide a Financial Strategy report based on the Functional Program in preparation for commencing the loan authorization bylaw process;</p> <p>AND THAT Council directs staff to include a triple gym within the Athletics program in the proposed funding strategy to be brought back to Council;</p>	<p>April 17, 2023</p>

<p>AND THAT Council directs staff to include a 10-lane 25m pool within the Aquatics program in the proposed funding strategy to be brought back to Council;</p> <p>AND THAT Council directs staff to include a kitchen for community use, capable of supporting large-scale events within the General program in the proposed funding strategy to be brought back to Council;</p> <p>AND FURTHER THAT Council directs staff to identify an opportunity to deliver demonstration affordable housing units on the Parkinson Recreation Centre site in partnership with other levels of government.</p>	
<p>THAT Council receives, for information, the report from Financial Services dated April 24<sup>th</sup>, 2023, with respect to this year's annual update to the 10-Year Capital Plan with focus on the Buildings Cost Centre;</p> <p>AND THAT Council direct staff to proceed with the approach recommended in Option B for the Buildings Cost Centre for inclusion in this update to the 10-Year Capital Plan;</p> <p>AND FURTHER THAT Staff return to Council with the comprehensive 10-Year Capital Plan that balances all capital cost centres prior to final endorsement.</p>	<p>April 24, 2023</p>

**Growing Active Amenities:**

***Redevelopment of PRC:***

On April 17, 2023, Council endorsed the PRC functional plan as described in the [Redevelopment of PRC Pre-Design Phase – Design Brief](#).

***Glenmore and Mission Activity Centres:***

Multi-age Activity Centres are important program sites that connect a neighbourhood through low-barrier, accessible programs and spaces. The City currently operates two Activity Centres at Parkinson and Rutland Recreation Parks.

Activity Centres can have program spaces for a wide variety of events and activities, depending on their size, location, and the needs and interests of the community they serve. Some examples of events and activities that may be hosted in community activity facilities include:

- |                                       |                                       |
|---------------------------------------|---------------------------------------|
| 1. Sports and fitness programs        | 5. Social events and gatherings       |
| 2. Cultural events and celebrations   | 6. Meetings and conferences           |
| 3. Educational programs and workshops | 7. Childcare                          |
| 4. Arts and crafts programs           | 8. Informal socializing and down time |

The Glenmore and Mission Activity Centres' functional programs will be developed upon project endorsement by Council. Engagement will occur with the surrounding community and stakeholders to establish the needs, and neighbourhood-specific functional programs. Childcare grant applications are being submitted for both these centres, and if successful, childcare services will be provided in both locations.

***Rutland Recreation Park:***

Growing active amenities includes optimizing multi-purpose sports fields at Rutland Recreation Park. This includes the addition of a new grass field, with space for a potential second in the future, and converting the central field to artificial turf with lighting. Through engagement with the community and stakeholders, a strategic plan for Rutland Recreation Park will be created to enhance the park and the community's recreational experiences.

***Partnerships:***

Community partnership opportunities are being explored with a variety of organizations. Letters of Intent were signed with Okanagan College, University of British Columbia Okanagan, and Central Okanagan Public Schools (School District 23) to support collaboration on future projects.

**Funding Active Amenities:**

The active amenities identified are important community assets that will provide much-needed recreational opportunities for residents of the City of Kelowna. However, the creation of these facilities requires significant financial investment, and the City of Kelowna must carefully consider how it will fund their construction and ongoing operations within the context of the overall City's growth priorities.

The financing strategy being recommended to fund this comprehensive project package was developed with the goal to ensure property tax rates remain stable over the term of the project and that the addition of these projects not impact other planned projects. The financing strategy has incorporated all obligations and assumptions included in the 2023-2027 Five-Year Financial Plan, adopted by Council on April 24, 2023, and adjusted for the new project financing while maintaining that no projected year in the next five years will have a total tax rate increase of more than approximately 5%.

The active amenities project package cost is \$287.5 million with construction and financing spread out over several years. Project funding relies heavily on debt financing at \$241.32 million, but also includes capital taxation, reserves, and grants. Debt servicing of this \$241.32 million will be repaid over 30 years using current day MFA long-term lending rates. Borrowing will be aligned with project spending which will naturally diversify the City's interest rate exposure. This could result in debt servicing cost being less than anticipated.

The B.C. government mitigates municipal borrowing risk by capping the annual liability servicing costs at 25% of eligible municipal revenue. Using 2021 revenues, the liability servicing limit of the City of Kelowna is \$82.3 million of which, only \$12.6 million of this capacity has been used, roughly 15%. The addition of the debt servicing costs for the active amenities projects, and other borrowing requirements as included in the 10-Year Capital Plan, it is anticipated that the total debt servicing will grow to approximately \$36 million (2028), and use only 33% of the capacity available. The City also adheres to a much more conservative Council policy that has set internal debt limits at 8% of annual tax levy revenue for tax supported debt. Aligning the project's financing with the construction schedule and using new revenues to reduce the impact of servicing costs, will keep the City under this 8% limit with the highest expected level being 6.44% in 2029 (includes all borrowing in the 10-Year Capital Plan).

As part of this strategy, staff are also recommending the use of reserves funds that are renewed each year through taxation, a portion of new revenues generated from the City's legacy funds endowment model, and one-time applications of grant funds to reduce the taxation impact of the servicing costs. This strategy allows the City to use its existing financial resources to reduce the impact of the projects on the City's short-term finances. This strategic use of grant and reserve funds enables the City to

access additional sources of funding, spreading the cost of the projects over a longer period and reducing the impact on taxpayers in any given year.

**Funding Sources:**

This funding strategy uses debt financing for 84% of total project costs, \$241.32 million, and a combination of reserve, grant, and taxation funding to fund the remaining \$46.18 million. To fund the debt servicing costs of the borrowing, the recommended strategy uses reserve, grant, and taxation funding, as well as new revenues expected from the City’s legacy funds as part of the new endowment funding model.

The table below charts out the expected years of delivery along with the recommended funding for the project suite. The grant funds included in the strategy is \$13 million from the \$26 million of Growing Communities Fund grant the City received earlier this year. A portion of these grant funds will be used in the operating program to help soften the taxation impact from the increased debt servicing costs (see below in the debt financing section).

Active Amenities Initiative	2023	2024	2025	2026	2027	Total
<b>Project Spending</b>	3,594,000	86,250,000	71,875,000	76,906,000	48,875,000	287,500,000
<b>Funding:</b>						
<b>Borrowing</b>	-	(73,312,000)	(61,094,000)	(65,370,000)	(41,544,000)	(241,320,000)
<b>Reserves</b>	(3,594,000)	(6,828,000)	(6,531,000)	(6,162,000)	(6,046,000)	(29,161,000)
<b>Grants</b>	-	(2,500,000)	(3,000,000)	(4,124,000)	(35,000)	(9,659,000)
<b>Taxation</b>	-	(3,610,000)	(1,250,000)	(1,250,000)	(1,250,000)	(7,360,000)

**Taxation:**

The highest priority of this financing strategy is to keep tax increases for residents stable, and predictable, with no more than a 5% increase in any year for the total City budget overall. Using the same information used to prepare the 2023-2027 Five-Year Financial Plan, adopted by Council on April 24, 2023, and adjusted for the new project financing strategy, the total City budget taxation increase is expected to remain in the 3.66% -4.83% range over the project construction years **with the active amenities bundle making up 0.16%-1.25%** of those increases after the use of the funding sources discussed above. This forecast includes assumptions including growth and inflation increases, annualization of previously approved budgets, current day MFA long term lending rates, and new construction revenue growth related to population growth.

**Taxation impact summary (\$ thousands):**

	2023	2024	2025	2026	2027	2028	2029
*Taxation requirement	176,624	187,452	197,461	207,763	217,295	228,035	239,522
Active Amenities Projects debt impacts	0	388	2,334	4,863	8,376	9,681	10,227
Taxation demand	176,624	187,840	199,795	212,626	225,671	237,716	249,750
New construction tax revenue	(3,200)	(2,808)	(2,994)	(3,185)	(3,135)	(3,229)	(3,326)
	173,424	185,032	196,801	209,441	222,536	234,487	246,424
<b>Net property owner impact</b>	<b>3.78%</b>	<b>4.76%</b>	<b>4.77%</b>	<b>4.83%</b>	<b>4.66%</b>	<b>3.91%</b>	<b>3.66%</b>
Municipal Impact	2.78%	3.60%	2.98%	2.86%	2.41%	2.48%	2.50%
Public Safety Levy Impact	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Active Amenities Projects Impact	0.00%	0.16%	0.79%	0.97%	1.25%	0.43%	0.17%
<b>Active Amenities Projects \$ impact</b>	<b>-</b>	<b>\$3.77</b>	<b>\$19.61</b>	<b>\$25.16</b>	<b>\$34.14</b>	<b>\$12.19</b>	<b>\$4.97</b>
<b>Net property owner \$ impact</b>	<b>\$86.43</b>	<b>\$112.95</b>	<b>\$118.59</b>	<b>\$125.73</b>	<b>\$127.24</b>	<b>\$111.62</b>	<b>\$108.75</b>

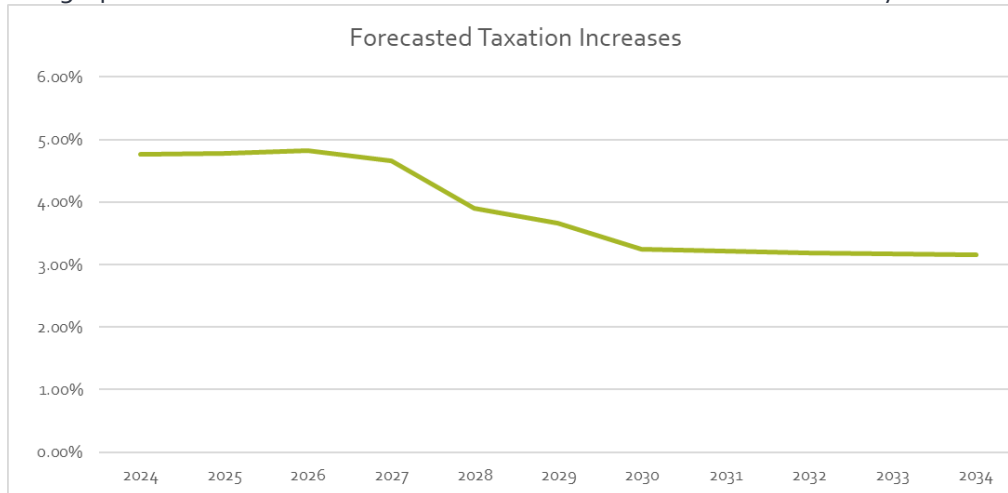
*\*Previous PRC Replacement debt assumptions removed from 5-Year Financial Plan information*

Aligning the borrowing with the construction schedule allows for the debt servicing costs to be added to the budget in a manner that reduces taxation spikes with the full impact being realized in 2029.

Active Amenities Projects	2023	2024	2025	2026	2027	2028	2029
Debt impacts (\$ thousands)	0	388	2,334	4,863	8,376	9,681	10,227
Annual net property owner impact	0.00%	0.16%	0.79%	0.97%	1.25%	0.43%	0.17%
Annual net property owner \$ impact	\$0.00	\$3.77	\$19.61	\$25.16	\$34.14	\$12.19	\$4.97
Compounding net property owner \$ impact		\$3.77	\$23.38	\$48.54	\$82.68	\$94.87	\$99.84

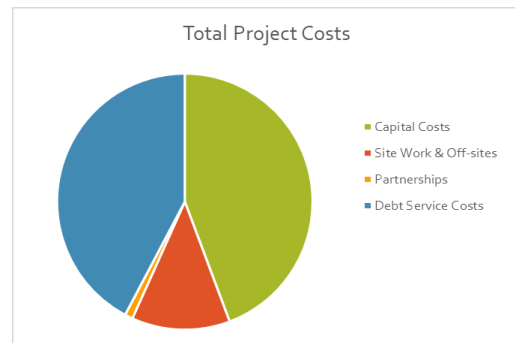
*\*Based on the average single family house value*

The graph below shows the forecasted taxation increases for the next 10 years.



**Debt Financing:**

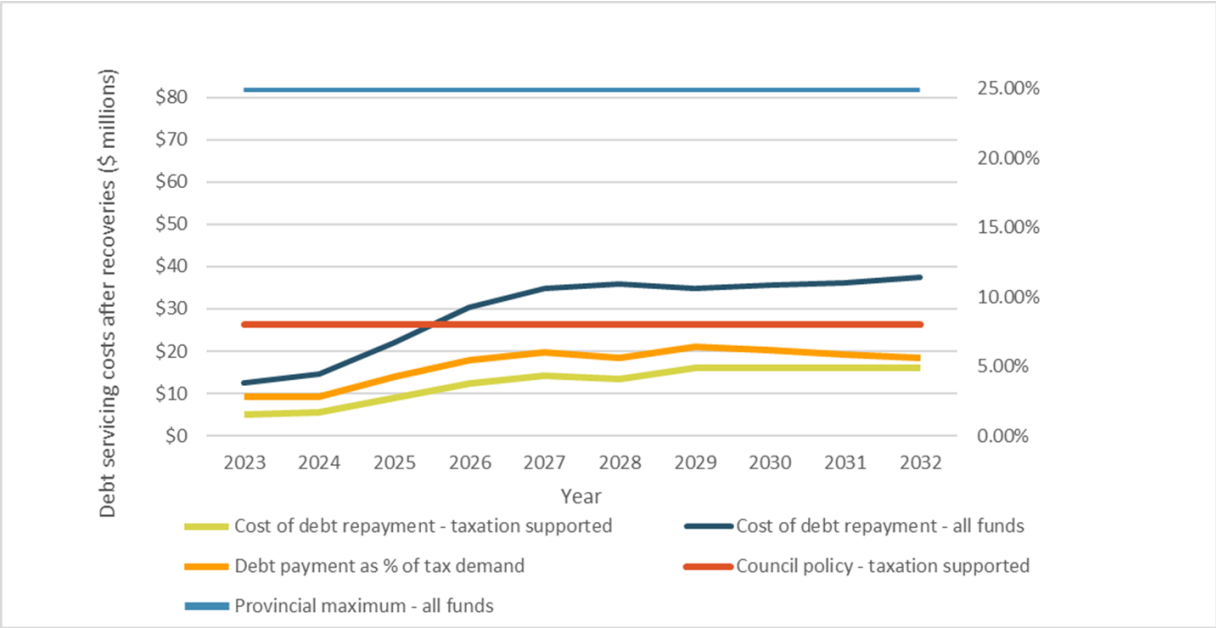
Debt financing is considered a prudent, equitable, and efficient funding source it spreads payment, and the associated tax impacts, for a community amenity over the generations that will benefit from the amenity, not just requiring funding from current residents to either save or front the cost of amenities at the time of replacement (intergenerational equity). Debt servicing costs for this total project are expected to be at 42% of the full project costs.



The strategy assumes 30-year term MFA spring borrowing in each of the years 2024 to 2027. The first principal payment is due annually on the anniversary of receiving the debt funds. The debt servicing schedule and funding strategy is presented in the table below. This forecast has been developed using current day MFA long-term lending rates. Borrowing is structured to be aligned with project spending which will naturally diversify the City’s interest rate exposure, potentially resulting in lower debt servicing costs than presented.

Debt Servicing	2023	2024	2025	2026	2027	2028	2029 ongoing
<b>Borrowing Repayment</b>	-	1,605,544	5,911,746	9,816,896	13,373,393	15,055,401	15,055,401
<b>Funding:</b>							
Legacy fund revenue	-	(777,544)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)
Reserves	-	(828,000)	(828,000)	(828,000)	(828,000)	(828,000)	(828,000)
Grants	-	-	-	(1,376,000)	(1,419,000)	(546,000)	-
<b>Taxation</b>	-	-	(1,083,746)	(3,612,896)	(7,126,393)	(9,681,401)	(10,227,401)

This strategy keeps the City’s internal municipal debt limit under the internal policy rate of 8%, and the Provincial maximum of 25%, without impacting other capital projects included in the Council endorsed 10-year capital plan, 2022-2031, with planned debt funding. The following chart illustrates the annual debt repayment and the per cent of taxation for the next 10 years.



**Legacy Fund Endowment Strategy:**

Staff are proposing to use the City’s Legacy Fund as an endowment going forward, separated into three streams, a distributable, stabilization, and capital fund. This approach aims to ensure that the fund continues to grow into perpetuity while using a portion of revenues earned each year to support ongoing annual budgets.

The distributable fund, which is expected to be a minimum annual amount of \$4 million, will provide a flexible annual income stream for City use. It is proposed that these returns be utilized to soften the tax impact of the financing strategy discussed above.

The stabilization fund will be utilized to cushion the impact of market fluctuations on the fund's value. It will act as a reserve that will enable the City to smooth out fluctuations in the fund's income stream and minimize volatility of the distributable portion of the fund.

Lastly, the capital fund will aim to generate long-term growth for the Legacy Fund. This growth will help the fund maintain its value over time and continue to support the City's initiatives in the future. The

capital fund will focus on investments that align with the guiding principles of the Legacy Fund and meet the defined performance objectives.

This strategy aligns with the Legacy Fund's objective to incrementally increase its overall investment's monetary value on an annual basis and maintain its value over time. By creating an endowment with a distributable, stabilization, and capital fund, the City of Kelowna can ensure that the Legacy Fund will continue to support the community's priorities for generations to come.

### **Next Steps:**

The proposed funding strategy provides a balanced approach to financing the projects included in the growing active amenities initiative. By combining taxation funding, reserve applications, grant funding, the new endowment model for the legacy funds, and debt, the City of Kelowna can ensure the financial sustainability of the project while also providing much-needed recreational opportunities for residents. Staff recommend Council direct staff to proceed with this funding strategy and conduct an alternative approval process (AAP) for electoral approval for the borrowing of \$241.32 million to grow active and cultural amenities across Kelowna. Upon provincial approval, staff will return to Council to formally initiate the AAP.

### **Internal Circulation:**

Partnerships & Investments  
Active Living & Culture  
Infrastructure  
Communications  
Legislative Services

### **Considerations applicable to this report:**

#### ***Financial/Budgetary Considerations:***

Individual projects included in the Building a Stronger Kelowna: Growing active amenities in Glenmore, Mission, and Rutland neighbourhoods and through the redevelopment of PRC project suite include:

- Parkinson Recreation Centre redevelopment: \$180,000,000
- Parkinson Recreation Park site work and off-sites: \$62,000,000
- Community activity centres: \$36,000,000
- Rutland Recreation Park: \$4,500,000
- Partnership with UBCO and OC: \$5,000,000

Grant funds included in the financing strategy include:

- \$13 million from the Growing Communities Fund grant the City received earlier this year

Grant funds not included in the financial strategy include:

- \$19.9 million pending grant funds from the Green and Inclusive Grant
- \$9.1 million pending grant from the Childcare BC New Spaces Fund for a childcare space as part of the PRC redevelopment
- Additional childcare grants (not yet applied for) to build further childcare spaces as part of the community activity centres



**Existing Policy:**

Indoor Recreation Facilities Strategy identified the redevelopment of the PRC as the next step to meet the health, wellness and recreational needs of our growing community.

Imagine Kelowna called to create great public spaces and opportunities for people of all ages, abilities, and identities, grow vibrant urban centres and limit sprawl, build healthy neighbourhoods for all, nurture entrepreneurship and collaboration, support innovation, and take action in the face of climate change.

2040 OCP sets a strategic course for the next 20 years as to how our city should grow.

The Kelowna Community Sport Plan provides a framework for the local sport system that will guide decision making and provide direction for strategic leadership.

Council policy 377 - debt policy ensures that debt financing is used strategically to maintain the City's financial strength and stability.

**Considerations not applicable to this report:**

**Legal/Statutory Authority:**

**Legal/Statutory Procedural Requirements:**

**External Agency/Public Comments:**

**Communications Comments:**

Submitted by:

J. Sass, Divisional Director, Financial Services

**Approved for inclusion:**



J. Sass, Divisional Director, Financial Services