

# STAFF REPORT TO COUNCIL

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**DATE:** March 18, 2022

**TO:** MAYOR AND COUNCIL

**NAME AND TITLE:** KRIS DALIO, DIRECTOR OF FINANCE

**SUBJECT:** Fortis Lease-In-Lease-Out (LILO) Agreement Termination

**ATTACHMENT(S):** None

## RECOMMENDATION(S):

1. That Council APPROVES Option 1 as outlined in the report dated March 18, 2022 from the Director of Finance titled "Fortis Lease-In-Lease-Out (LILO) Agreement Termination".

## PURPOSE:

To obtain Council's direction on the use of the net proceeds from the termination of the Fortis LILO agreement.

## POLICY/REGULATORY ANALYSIS:

Sustainable Finance Guideline 11.0 states "Maximization of long-term benefits to City residents will be Council's guiding principle in making decisions concerning the use of the FortisBC LILO Agreement's revenues.

Also, following a July 7<sup>th</sup>, 2014 Council meeting report from the City Manager on Administration's Review of the Prince George Regional Performing Arts Centre Society's Proposed Regional Performing Arts Centre, the following resolution from Council was passed:

"That Council SUPPORTS IN PRINCIPLE using a portion of the 2021 Legacy funding from the Terasen Gas Lease In Lease Out Agreement towards the City's thirty percent share of the capital costs for a new performing arts centre, and DIRECTS administration to provide recommendations back to Council on committing those funds at such time as the other external funding from the Federal and Provincial governments and the private sector has been committed."

The July 2014 report was hopeful that grant funding would become available in the next few years for arts facilities, but those grant opportunities never materialized.

## BACKGROUND:

Following a successful referendum to borrow the necessary funds, the City and FortisBC entered into a LILO agreement on November 1, 2004, concerning the natural gas distribution system in the City. The City financed the capital lease through long-term debt. Fortis BC operated the natural gas distribution system and pays semi-annual lease payments to the City. The City, in turn has applied the lease payments to the

debt and placed net revenues in a reserve fund. The final debt payment was made in 2021, which is also when FortisBC had the option of purchasing the asset at its unamortized value, or renewing the capital lease. Fortis BC elected to exercise their option to purchase the asset.

#### **FINANCIAL CONSIDERATIONS:**

The termination payment is \$29,374,000. From this balance, there are associated expenses with the agreement (financial, accounting, legal, referendum, etc.) and previously allocated funds in 2005-2008 towards capital projects (predominantly road rehabilitation) offset by the reserve's investment revenue over the duration of the lease. The net proceeds of the payment were \$28,285,863 and those funds were deposited into the Fortis Reserve.

#### **OPTIONS**

Administration has prepared some options for Council to consider in regards to the use of the net proceeds. These options can be selected individually or as a mix of multiple options.

##### **Option 1 – Keep the funds in the Fortis Reserve Fund**

This reserve fund was established in 2005. The source of funds was revenue generated from the operating lease and any interest earned thereon. The authorized use of funds is for general capital projects. By selecting this option, Council keeps the funds in this reserve and may use it as a funding source for any general capital project(s) in the future they feel is appropriate. A further advantage to this option is that the money is easily identified and trackable here (as opposed to partially making up the balance of a larger reserve in Option 2).

##### **Option 2 – Transfer the funds into the Endowment Reserve Fund**

The City operates the Endowment Reserve as a “revolving fund”. Appropriations from this reserve are referred to as “internal debt” and the monies borrowed are repaid with interest from the General Operating Fund. Should Council select this option, the money can be held there for future capital project needs and the decision as to which project to fund can be delayed until the right project comes along. As mentioned earlier, the funds in this reserve are repaid from the general operating fund, so the real consideration in this option is whether or not Council wants to have these funds spent as a one-time legacy (like in Option 1) or added to a balance that we borrow from and repay through the tax levy.

##### **Option 3 – Use the funds to reduce the issuing of new debt**

The City funds large capital projects through debt, such as the Aquatic Centre Building Envelope. Council could pass a resolution changing the funding source of current and future debt-funded projects to the Fortis LILLO proceeds and reduce the debt that the City takes on in the future. When the City takes on debt for general capital projects, the repayment of that debt is made from the General Operating Fund. As the City budgets for those repayments, this has an effect on the tax levy. The removal of \$25M of debt would have an approximate impact to future tax levies of 1.53%.

##### **Option 4 – Commit the funds to a specific future project(s)**

This option decides the exact capital project(s) that this will fund right now. It also recognizes the 2014 resolution from Council mentioned earlier in this report. Large capital needs on the short term horizon include the possible replacement of the Prince George Playhouse and the Rolling Mix Concrete Arena. There is also an estimated \$40M of asset reinvestment in the next 10 years to other recreation facilities such as CN Centre, Civic Centre, Elksentre and the Kins.

**Option 5 – Use the funds as one-time sources of operating funds to help mitigate tax levy challenges**

There are no technical restrictions to these funds being used for operating purposes. However, using the funds in this way would be a temporary funding solution that would not meet Council's Sustainable Finance Policy of "long term benefits to City residents". Administration has listed this as a potential option but does not recommend that Council pursue it.

**SUMMARY AND CONCLUSION:**

This report has been prepared with options for Council's consideration on the use of the legacy funds from the Fortis LILLO agreement. Administration is recommending Option 1 in this report.

**RESPECTFULLY SUBMITTED:**

Kris Dalio, Director of Finance

**APPROVED:**

Walter Babicz, City Manager

Meeting Date: [2022/03/28]