

Langford cries foul on loan financing

By Edward Hill - Goldstream News Gazette - March 19, 2008

City still shopping for interchange cash after spat with municipal lending authority

Langford Mayor Stew Young is accusing the chair of the Municipal Finance Authority of playing politics with financing for the Spencer Road Interchange.

The MFA, which loans municipalities money at generally lower interest rates than banks, recommended Langford back a \$25-million loan with a \$5-million letter of credit.

Young said the letter of credit condition is extremely unusual and made the ultimate cost of borrowing more expensive than from a bank. A group of Langford developers paying for the interchange declared they could get better rates from other financial institutions, Young said.

The MFA board of trustees, chaired by Saanich Mayor Frank Leonard, labeled Langford's loan request as "non-traditional" due to the arrangement between Langford and the developers, and due to the City being within \$10 million of its credit ceiling.

Young said the ruling is tantamount to saying there is an unwritten two-tiered credit limit.

"I'm not sure why Frank Leonard has singled out Langford," Young said. "He's making it political. We are not being treated equally. It's absolutely wrong."

Leonard said there's nothing political about it — the MFA is deeply risk-averse and Langford's loan request is unusual enough to warrant extra security.

Leonard said red flags came up with five developers backing the loan instead of the public. Further, a \$25 million loan would put Langford closer to its limit — within about 23 per cent — than almost all other municipalities in B.C.

"Most members are nowhere near their limit. Most have debts of five to 10 per cent of their limit," Leonard said. "We don't have a triple-A credit rating without being extremely conservative. We are not treating Langford any differently than any of our 174 members."

The MFA has a number of financial tools to buffer loans that are deemed riskier, a letter of credit being one. Municipalities have been given additional requirements to back loans in the past, Leonard said, although not letters of credit.

Leonard said in his eight years as MFA trustee chair, never has a municipality spoken publicly about its discussions with the authority. Usually mayors and city staff will amend their plans to meet MFA concerns, he said.

"For some reason the mayor of Langford has started a public discussion on this," he said.

The MFA makes loan recommendations, but the office of the B.C. inspector of municipalities within the Ministry of Community Services makes the final decision.

Langford administrator Rob Buchan said the ministry hasn't indicated it has any problems with the proposed borrowing bylaw. A loan up to \$25 million would have been backed by \$135 million in developer property.

"They want a letter of credit as a backup to the security of land," Buchan said. "I think this is the first time they've ever done this."

Langford is now looking to borrow \$9.75 million, Young said, while the developers finance the same amount independently of the city. The deal doesn't change, he stressed —□ developers will be paying back Langford's portion, freeing taxpayers from footing the bill.

Young admits they don't have a signed deal with the five developers. "We've got to get it in writing," he said. "We have an agreement that they will pay Langford's portion, and they will pay their portion and any cost overruns."

The total interchange price tag has been refined down to about \$19.5 million, plus \$5 million granted by the province and about \$2.5 million from development cost charges.

Langford is still shopping around for the best deal to borrow its share, Young said. They are also looking at federal government funding, he added.

Interchange project manager Tim Stevens said borrowing \$25 million was based on the worst case scenario established three years ago.

He said grading and blasting at the work site will happen in upcoming months. The bridge over the highway and basic shape of the interchange should be in place by August, he said.