

Report

City of Merritt
REGULAR Council Meeting
December 17, 2019

File Number: 1760

To: Scott Hildebrand, Chief Administrative Officer
From: Sheila Thiessen, Director of Finance & IT
Date: December 12, 2019
Subject: MFA Equipment Financing for Loader Purchase

RECOMMENDATION:

THAT Council of the City of Merritt authorize \$205,665 to be borrowed, under section 175 of the *Community Charter*, from the Municipal Finance Authority, for the purpose of purchasing a 2019 Hyundai HL940 Wheel Loader, with attached 3.0 cubic yard bucket; and

THAT the loan be repaid within 5 years, with no rights of renewal.

Background:

In the 2019-2023 Financial Plan the purchase of a new loader to replace the CAT 930 loader was approved to be funded through borrowing. The amount budgeted was \$230,000. The old CAT 930 was used as a trade-in to reduce the cost of the new loader. The net cost after the trade-in was \$205,665. The loader was purchased and is currently in service.

Options / discussion

1. Council authorizes the borrowing of \$205,665 through MFA Equipment Financing for the Commercial Garbage Truck as budgeted.
2. Council may choose not to approve the financing which would require the funding to come from other sources, most likely surpluses and would require an amendment to the Financial Plan.

Financial Implications:

Borrowing the purchase price distributes the cost of acquiring the asset over several years and allows the costs to be included in the annual operating costs of public works. It also allows surplus and reserve funds to be available for other projects that require funds. Often with grant funding the City must provide a portion of the costs, for many projects it is better to use reserves or surpluses to make up that portion than borrowing.

The cost of borrowing will be included in the 2020 – 2024 Financial Plan. The recommended length of the term for borrowing is five years, which is the maximum term for borrowing without receiving electoral approval. A shorter term would result in a lower overall interest cost.

The table below depicts the annual estimated interest cost for different terms of the loan.

Term	3 years	4 years	5 years
Total Interest	\$8,400	\$11,034	\$13,692

The interest rate is currently set at 2.48875% for MFA Equipment Financing, and payments would be made on a monthly basis. The interest rate is a floating rate and therefore, will be adjusted as rates go up or down. The monthly payment costs would stay the same, with an adjustment to the final principal payment at the end of the term.

As the City can pay off the loan at any time, staff is recommending a 5-year term to be reconsidered on an annual basis.

Respectfully submitted,

Sheila Thiessen, CPA, CMA
Director of Finance & IT