



City of
Peterborough

To: **Members of the Budget Committee**

From: **Sandra Clancy, Director of Corporate Services**

Meeting Date: **November 18, 2015**

Subject: **Report CPFS15-055
Funds Required and Timelines for Key Capital Projects**

Purpose

A report to outline a plan to fund three key capital projects and provide options for timing.

Recommendation

That Council approve the recommendation outlined in Report CPFS15-055 dated November 18, 2015, of the Director of Corporate Services, as follows:

That the report outlining a plan to fund the New Arena Facility, Public Works Relocation Project and the Charlotte Street Renewal and Urban Park, and provide options for timing, be received for information.

Budget and Financial Implications

A 1.5% increase in the Capital component of the All-inclusive tax rate is necessary to fund the City's share to complete the three projects identified in this report. This would be in addition to any enhanced capital financing such as the 0.5% that is proposed in the 2016 Draft Budget.

A 1.5% impact on a median residential home is estimated to be \$55.52. This could be spread out over more than one year.

Council is cautioned that there is considerable risk in these calculations. Numerous assumptions have been made in preparing the above estimates that may or may not be

the same in the future such as interest rates, the availability of capital grants, or other future announcements from senior levels of government could change the outcome considerably.

Background

Council Resolution

On October 13, 2015, during discussion around Report CSD15-021 New Arena Development Strategy, dated October 13, 2015, the following motion was approved:

That staff provide a report forecasting the funds required and time lines for key capital projects.

This motion was the result of concern that the next steps of the Arena Development Strategy, as well as other major capital projects, were being approved without a full discussion or “plan” as to how the major construction portion of the projects could be funded.

This report is in response to that request.

2016 Capital Budget

When staff were preparing the 2016 Guideline Report (CPFS15-036, dated July 21, 2015) and recommendations for the enhanced capital financing program, staff knew that the public and Council wanted some capital relief from the 1% impact on the All-Inclusive tax rate increase that had been implemented for the past three years. The recommendation, therefore, was a 0.5% increase for 2016. The final approved All-inclusive increase, that staff were directed to include in a 2016 Draft Budget, was 2.5% (2% being the portion for Operating.)

The reduced capital funding provision increased the amount of projects being deferred, including key projects that Council had approved in principle and that the public are anxious to see completed. The projects are major new asset projects and are listed on Chart 1.

Chart 1
Major Projects Deferred

Ref	Project Name	Project No.	Total Tax Supported Amount (million)	Amount Included in 2016 and Prior Years (million)	Amount not funded (million)
1	New Arena Facility	6-6.04	\$12.125	\$0.281	\$11.844
2	Public Works Relocation Project	5-8.06	\$15.06	\$5.61	\$9.45
3	Charlotte Street Renewal and Louis Street Urban Park	7-1.07	\$8.60	\$1.60	\$7.00
	Total		\$35.785	\$7.491	\$28.294

Given the deferral of these projects and the motion from October 13, 2015, this report outlines a plan for the funding of these projects and possible timing scenarios.

Accomplishments under the City's Debt Management Policy

In 2012, staff reviewed the City's capital requirements and existing debt policy and recommended a change in the City's Debt Management Policy. For many years there had been insufficient funding to carry out the capital works that staff and Council wished to support. Capital projects were deferred to future years and the costs were indexed by a range of 3% - 6% per year to reflect the inflationary costs of construction.

The resulting new Debt Management Policy was approved by Council through Report CPFS12-011 dated April 4, 2012. The Policy is attached as Appendix A. The key principles of the policy are:

- That the maximum current year annual debt repayment is 15% of the City's consolidated own-purpose revenues and the portion that is tax-supported be limited to 8%;
- That the new maximum debt limit be phased in by limiting the increase in any one year so that the impact on the residential all-inclusive tax increase does not exceed 1%.

The City utilized this Policy change and the 2013, 2014 and 2015 budgets included a 1% increase in the all-inclusive tax increase for additional Capital projects. For 2016, the Draft Budget reflects a 0.5% increase. As a result, an additional \$37.7 million in capital work has been accomplished as shown in Column 7 of Chart 2.

Chart 2**Additional Capital work accomplished in 2013 – 2016**

Budget year	Capital Levy			Tax Supported (TS) Debt		Additional Budget for Capital Works
	Capital Financing	Annual Change as a result of the New Policy	Cummulative Change \$	Incremental Budget Provision for TS Debt P & I	Annual TS Debt Approved as a result of the New Policy	
C1	C2	C3	C4	C5	C6	C7
						(C4 + C6)
2013	\$ 1,300	\$ 496.0	\$ 496.0	\$ 804.0	\$ 7,000.0	\$ 7,496.0
2014	\$ 1,450	\$ 500.0	\$ 996.0	\$ 950.0	\$ 8,200.0	\$ 9,196.0
2015	\$ 1,450	\$ -	\$ 996.0	\$ 1,450.0	\$ 12,500.0	\$ 13,496.0
2016	\$ 750	\$ -	\$ 996.0	\$ 750.0	\$ 6,500.0	\$ 7,496.0
2013-2016	\$ 4,950.0	\$ 996.0	\$ 3,484.0	\$ 3,954.0	\$ 34,200.0	\$ 37,684.0

Note:
1) All dollar values in thousands

It is evident, in the community, that additional work is being accomplished through a whole host of projects such as Ashburnham Road reconstruction, Brealey Drive reconstruction, various road resurfacing projects and the Transit Terminal Upgrade. As well, there are numerous requests for City funds for worthwhile community projects such as Hospice and the Kawartha Trades and Technology Centre that these increases are helping to support.

Part of the reason for switching in 2015 to allocating the full increase to debt and not using a portion for capital levy, was due to the low interest rates and the opportunity to apply the funds to the debt payment amount and accomplish that much more work.

Why these specific projects?

The 2016 Capital Budget includes many projects that have already started and require multiple years of funding. Despite the need to fully fund the three projects identified in this report, there was not sufficient funding available to do so. The following provides some information on each project and why they have been specifically identified:

New Arena Facility – Capital Budget Reference 6-6.04

This project replaces the Northcrest Arena, which is in its last few years of life, and provides an additional ice pad required due to increased demand and other amenities. The updated capital costs were included in Report CSD15-021 New Arena Development Strategy dated October 13, 2015. This project has been shifted out by one year. Although the Schematic Design can continue in 2016 using 2015 funding, the detailed design has been deferred to 2017 due to lack of funding.

With the deferral of the 2016 funding, the project phases are defined as follows:

Year	Value	Description
2015	\$500,000	Phase I – Feasibility Study, Schematic Design, and Costing Study
2017	\$1,500,000	Phase II – Detailed Design and Tendering
2018	\$11,000,000	Phase III - Construction and Contract Administration
2019	\$20,500,000	Phase III (cont'd) - Construction, Contract Administration, and Commissioning

This is still predicated on the assumption that Community Sponsors will be able to contribute \$1 million towards the New Arena, and capital grants from senior levels of government would also be able to contribute towards the project in the amount of \$6 million. These are critical assumptions that significantly influence the funding requirement.

Public Works Relocation Project – Capital Budget Reference 5-8.06

Rather than build a \$45 million new Public Works facility, an existing site was purchased. However, changes to the existing buildings plus additional buildings, including winter material storage, are required to develop the site into a full service Public Works Operations facility. The costs are estimated at \$16.8 million. An amount of \$3.5 million has been included in the 2016 Budget. Now the site is purchased and a design developed, there is a need to do the work in a timely fashion to eliminate the issues that exist at the current site. It is anticipated that, when fully developed, this site will support the Public Works operation for the next 20-25 years.

Charlotte Street Renewal and Louis Street Urban Park – Capital Budget Reference 7-1.07

The renewal of Charlotte Street and the creation of a downtown urban park are key strategies of the approved Central Area Master Plan. The Louis Street site was selected as the preferred site for the creation of an urban park to complement the planned reconstruction of Charlotte Street and to stimulate renewal in the Downtown Core and the Charlotte Street West Business District.

Proposed Funding Plan

Without another plan of action, it will be difficult to fund these projects in a timely manner, and yet staff have heard from Council and the public about the need to see them completed.

The impact on the All-Inclusive tax rate increase, to fund the remaining \$28.3 million for these three projects would be 1.5%. This assumes the current interest rates and a mix of 10 year and 20 year term debentures. If this occurred in one year, it would require an exception to the 1% phase-in limit approved in the Debt Management Policy and a 1.5%

impact on a median residential home, which is estimated to be \$55.52. However it could be spread out over several years.

Options for Timing

Council might consider adding an additional 0.5% financing component to the 2016 Budget especially since the 2016 budget only included 0.5% for enhanced capital. Any amount of the 1.5% could be added to 2016 and reduce the future impact. That would ensure, for instance, that the Detailed Design and Tendering phase for the New Arena takes place in 2016 and would provide funds for Phase I of the Urban Park.

If Council wished to do this, the following motion would be appropriate:

That, to fund additional portions of the New Arena Project, the Urban Park and the Public Works Relocation a further increase of 0.5% be added to the 0.5% 2016 capital component of the All-inclusive tax increase for a total 2016 All-inclusive increase of 3%; and that the 2017 Draft Capital Budget be prepared to include a further 1.0% all-inclusive tax rate increase for these specific projects.

Council also might wish to consider splitting the 1.5% up over 2016 and 2017 or 0.75% each year.

If Council wished to do this, the following motion would be appropriate:

That, to fund additional portions of the New Arena Project, the Urban Park and the Public Works Relocation, a further increase of 0.75% be added to the 0.5% 2016 capital component of the All-inclusive tax increase for an increase of 1.25% and a total All-inclusive tax increase of 3.25%; and that the 2017 Draft Capital Budget be prepared to include a further 0.75% all-inclusive tax rate increase for these specific projects.

There are any number of variations that could occur in the next three years to fund this 1.5%.

Overall Affect on the Budget

For 2017, this report does not suggest any specific recommendations for additional requirements for Operating expenditures. Those recommendations would be part of a 2017 Guideline Report when more information is known about potential operating budget impacts. Any portion of the recommended 1.5% would be in addition to a percentage increase for operating impacts and the up to 1% increase for other enhanced capital projects. Therefore, using historical figures, if the operating impact were 2%, 0.75% for the Arena, Urban Park and PW relocation and 1% for regular capital, the percentage increase could be 3.75%. Chart 3 provides what the estimated impact is at various percentages.

Chart 3**Dollar Impact to Residential All-Inclusive Tax Rate Increase at Various Percentages**

All-inclusive % Change	Estimated Impact to Median Res Home
0.5%	\$ 18.51
1.0%	\$ 37.01
1.5%	\$ 55.52
2.0%	\$ 74.02
2.5%	\$ 92.53
3.0%	\$ 111.03
3.75%	\$ 138.79
4.0%	\$ 148.04
4.5%	\$ 166.55

Summary

This report identifies the funding required to complete three key projects in the community that, for various reasons, need to be completed in a timely manner, and proposes some timing options for Council to consider.

Submitted by,

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