

Report to Finance and Corporate Services Committee

TO: FINANCE AND CORPORATE SERVICES COMMITTEE

PREPARED BY AND KEY CONTACT: H. MILLER, SUPERVISOR OF BUDGET AND TREASURY EXTENSION 4923

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SUBMITTED BY: C. MILLAR, DIRECTOR OF FINANCE AND TREASURER *cm*

GENERAL MANAGER APPROVAL: P. ELLIOTT-SPENCER, GENERAL MANAGER OF COMMUNITY & CORPORATE SERVICES *PES*

CHIEF ADMINISTRATIVE OFFICER APPROVAL: C. LADD, CHIEF ADMINISTRATIVE OFFICER *[Signature]*

DATE: JUNE 22, 2016

SUBJECT: FEASIBILITY OF CHANGING FUNDING SOURCES IN THE 2016 CAPITAL PLAN

RECOMMENDED MOTION

1. That the 2016 approved Capital Plan be adjusted as follows:
 - a) That the debenture funding in the amount of \$1,000,000 for 2016 related to the Environmental Centre South Landfill Leachate Collection Gallery, Project #1812, be changed to \$500,000 from the Water Capital Reserve, and \$500,000 from the Wastewater Capital Reserve.

PURPOSE & BACKGROUND

2. On January 25, 2016, City Council adopted motion 16-G-018 regarding the 2016 Business Plan that included a request that staff in the Finance Department report back to the Finance and Corporate Service Committee on the feasibility of removing debt financing, and replacing it with reserve funding, or other sources of funding for the following projects:
 - a) Centennial Park Expansion Project – Project #1224, Intake Form #1187 (page 13 of the 2016 Capital Plan);
 - b) Dunlop and Tiffin/Miller Intersection Improvements – Project #1400, Intake Form #186 (page 16 of the 2016 Capital Plan);
 - c) Mapleview Drive East – Huronia Road to Country Lane – Project #1135, Intake Form #326 (page 39 of the 2016 Capital Plan);
 - d) Environmental Centre South Landfill Leachate Collection Gallery, Project #1812, Intake Form #1185 (page 86 of the 2016 Capital Plan; and
 - e) Tiffin Street Right-of-Way Expansion – Highway 400 Underpass – Project #1606, Intake Form #156 (page 51 of the 2016 Capital Plan) (EMT001-16) (File: F05).

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ANALYSIS

3. During the annual budget development process, staff recommend funding sources that balance affordability thresholds based on the City's Financial Policies Framework. This includes focusing on minimizing debt by relying on reserves when appropriate, and maximizing use of the Dedicated Infrastructure Renewal Fund and the Federal Gas Tax (FGT) Fund.
4. In reviewing Council's motion, Finance staff undertook a review of other possible funding sources that could be replacements for debt financing. This review included consulting with the Engineering and Environmental Services Departments to review eligibility of funding sources and project prioritization. In addition, projected reserve balances have been updated taking into account the approved 2016 capital and operating budget commitments, unspent capital budgets carried forward from previous years, adjustments from the recently approved capital status report, and other financial commitments.

Centennial Park Expansion Project – Project #1224

5. Possible funding sources for the Centennial Park Expansion Project are the Tax Capital Reserve and the Cash-in-Lieu of Parkland Reserve. The projected 2016 year-end balance of the Cash-in-Lieu of Parkland Reserve is \$3.9M. Staff within Engineering, Planning, and in consultation with Finance, are preparing a report for later this year to identify cash-in-lieu needs. At this time concerns exist about the existing reserve balance and future parkland needs. As a result, it is not recommended that cash-in-Lieu be used to fund this project.

Road Related Projects - #1400, #1135, #1606

6. The City's Financial Policies Framework notes that funds required for road construction should not be raised by the issuance of debt. Also, all three projects (Dunlop and Tiffin/Miller, Mapleview Drive East, and Tiffin Street Right-of-Way Expansion) meet the eligibility requirements for use of FGT funding.
7. The total approved debenture funding for the three roads projects is \$4.6M, with \$3.1M in 2016, and \$1.5M in 2017. The 2016 projected uncommitted year-end balance for the FGT Reserve is approximately \$2.7M. It is therefore recommended that no more than approximately \$2.7M of FGT be used to replace approved tax supported debt.
8. The Mapleview Drive East project is the best fit for FGT in terms of eligibility. At General Committee on June 20, 2016, it was recommended in staff report ENG010-16 that the approved tax debt funding be changed to FGT for a total of \$2.4M (\$1.7M in 2016 and \$700K in 2017). This recommendation, if approved, will fully commit the FGT Reserve.
9. The Tax Capital Reserve is another option to fund identified projects instead of issuing debt financing. However, the City's current Capital Plan and other financial commitments have almost fully committed this Reserve over the next few years. Therefore it is recommended that this Reserve not be used to replace existing debt financing.

Environmental Centre South Landfill Leachate Collection Gallery

10. The key purpose of the redesign and reconstruction of the Environmental Centre South Landfill Leachate Collection Gallery, is to prevent leachate-impacted groundwater from bypassing the gallery and reaching Dymont's Creek, and to divert clean water from entering the gallery, which would reduce the volume of discharge to the Wastewater Treatment Facility. Ultimately, the project is to protect the quality of the City's groundwater, and as a result will also reduce treatment of clean water that is infiltrating the current gallery.

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11. Funding this project equally from the Water and Wastewater Capital Reserves instead of debt financing, is a feasible option based on the current commitments of these Reserves.

ENVIRONMENTAL MATTERS

12. There are no environmental matters related to the recommendation.

ALTERNATIVES

13. There are two alternatives available for consideration by Finance and Corporate Services Committee:

Alternative #1 Finance and Corporate Services Committee could maintain the existing debt financing for the roads capital projects.

This alternative is not recommended as the further analysis performed by staff has provided alternative funding sources that are aligned with the City's Financial Policies Framework.

Alternative #2 Finance and Corporate Services could change the proposed funding recommendations by staff.

This alternative is not recommended as there are a limited number of reserves available to fund capital, and staff's recommendation has taken into account the eligibility criteria for these reserves.

FINANCIAL

14. Appendix A provides a summary of the recommended funding changes for the five capital projects included in this report.
15. Some of the factors to consider when determining whether or not to borrow for infrastructure includes: Borrowing Policy, Provincial Legislation (i.e. Annual Repayment Limit), current and anticipated interest rate environment, existing and anticipated financial commitments, current and anticipated health of reserves.
16. The funding plan for the Mapleview Drive East project should be amended to fully utilize the FGT Reserve. If the funding change recommended in staff report ENG010-10 is approved by Council, this will result in a \$2.1M reduction in approved tax supported debt. However, currently, this change will fully commit the City's FGT Reserve.
17. While it would be ideal to align with the City's Financial Policies Framework, and not fund roads projects with debt, current commitments against the Tax Capital Reserve prevent this goal from being achieved. As a result of this review, it is being recommended that the approved tax support debt funding for the following projects be maintained:
 - a) Dunlop and Tiffin/Miller Intersection Improvements – project #1400, approved tax supported debt funding of \$1.0M in 2016; and,
 - b) Tiffin Street Right-of-Way Expansion – Highway 400 Underpass - project #1606, approved tax supported debt funding of \$525K in 2016, and \$945K in 2017.

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18. The funding plan for the Leachate Collection Gallery should be amended to water and wastewater funding to reflect the key purpose of the project which is to protect the quality of the City's groundwater and reduce infiltration. This will result in a \$1M reduction to planned borrowing. It will increase the burden on the Water and Wastewater Rate Reserves by \$500K each.
19. The funding source for the Centennial Park Expansion project is not recommended to be changed at this time. Staff are currently reviewing the Cash-in-Lieu for Parkland Policy as well as the balance in the reserve versus future needs. The balance in the Tax Capital Reserve is not adequate to cover the full cost of this project.

LINKAGE TO 2014-2018 STRATEGIC PLAN

20. The recommendation included in this Report support the following goal identified in the 2014-2018 Strategic Plan:
 - Responsible Spending

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Appendix A

Capital Project Funding Proposed Changes

Project			Debenture Funding 2016	Debenture Funding 2017	Proposed Funding			
#	Description	Type			Federal Gas Tax	Water Rate	Wastewater Rate	Debt
1224	Centennial Park Expansion	Parks	\$1,248,548	\$1,232,617				\$2,481,165
1400	Dunlop & Tiffin/Miller Intersection Improvements	Road	\$1,049,716					\$1,049,716
1135	Mapleview Dr E - Huronia to Country Lane (Note 1)	Road	\$1,571,127	\$513,285	\$ 2,084,412			
1185	Environmental Centre South Leachate Collection Gallery	Environmental	\$1,000,000			\$ 500,000	\$ 500,000	
1606	Tiffin St. ROW Expansion	Road	\$525,000	\$945,000				\$1,470,000
TOTAL			\$5,394,391	\$2,690,902	\$ 2,084,412	\$ 500,000	\$ 500,000	\$5,000,881

Note 1 - At General Committee on June 20, 2016, it was recommended in staff report ENG010-16 that the approved tax debt funding be changed to FGT for a total of \$2.4M. ENG010-16 further amends the overall budget for this project. The table above reflects the pre-amendment budget for this project.