



**Town of Aurora
Special Council Report**

No. FS19-042

Subject: Library Square – Updated Library Square Funding Strategy
Prepared by: Jason Gaertner, Manager, Financial Management
Department: Finance
Date: December 17, 2019

Recommendation

- 1. That Report No. FS19-042 be received; and**
- 2. That the updated funding strategies for Capital Project No. 81019 – Library Square be approved as presented, subject to results of the final class ‘A’ estimate and the Town’s grant application success.**

Executive Summary

As the planned Library Square community hub’s total estimated cost has now reached a Class ‘B’ level of accuracy, its total budget and investment strategy should now be updated. A final Class ‘A’ estimate is expected early in the new year.

- With the receipt of the Library Square’s Class ‘B’ cost estimate and staff’s subsequent value engineering, this project’s requirements now exceed its previous estimate by \$ 2.0 million
- The Town’s Library Square Project’s recommended funding strategy will be heavily influenced by the its potential success in obtaining funding from its outstanding grant applications

Background

Over the past few months Council has continued to refine the Library Square’s design to the point where it has reached a Class ‘B’ cost estimate. The current proposed design for Library Square includes the following key elements:

- Demolition of 52 and 56 Victoria structures
- Church Street School Addition
- Outdoor Square & Parking
- A bridge link
- Multiple library building enhancements

December 17, 2019

Page 2 of 12

Report No. FS19-042

- Previously approved facility capital works

Council has been provided with multiple financial updates over the course of the Library Square's design evolution which has included proposed funding strategies.

Analysis

With the receipt of the Library Square's Class 'B' cost estimate and staff's subsequent value engineering, this project's requirements now exceed its previous estimate by \$ 2.0 million

As outlined in staff report CMS19-031, with the receipt of the Library Square's Class 'B' cost estimate and staff's subsequent value engineering, this project's requirements now exceed its previous cost estimate by \$2.0 million.

A break-down of the Library Square's most current Class 'B' cost estimate before and after the value engineered savings can be found in Attachment #1.

The Library Square's cost estimate is broken down into the following categories in Attachment #1:

- Consultant Fees: Estimated consultant fees that are anticipated over the duration of this project from design through to its conclusion, including fees for project management.
- Construction Costs: Estimated construction costs for all of the Library Square's key elements as outlined above.
- Furniture, Fixtures and Equipment (FF&E): FF&E are movable furniture, fixtures, or other equipment that have no permanent connection to the structure of a building.
- Other: Includes all demolition costs and the project's planned contribution to the Town's public art reserve as per the Town's Strategic Plan.
- Other Previously Approved Capital Works: This includes a consolidation of previously approved repair & replacement scheduled works relating to existing Library Square assets.
- Contingencies: This includes all project contingencies such as those relating to construction and the management reserve.
- Unrecoverable HST: Estimated remaining HST owing after the Town has recovered all eligible rebates.

This attachment reflects the current total project cost of \$51.6 million after all value engineered savings to date for the Library Square.

The Town's Library Square Project's recommended funding strategy will be heavily influenced by its potential success in obtaining funding from its outstanding grant applications

The Town's application requesting \$31.6 million from the Investing in Canada Infrastructure Program (ICIP) will have a significant influence on the final funding strategy deployed by the Town. In recognition of this fact, two alternative funding strategies have been developed;

1. Strategy 1 – Successful Receipt of ICIP Grant Monies
2. Strategy 2 – Unsuccessful in Receipt of ICIP Grant Monies

The strategy implemented by the Town will be dependent upon both the Town's grant success, as well as the final Class 'A' cost estimate.

The key funding components of each proposed strategy does not differ significantly from those presented to Council in earlier reports. Each of the key funding components will be expanded upon.

Facilities Repair & Replacement Reserve

This reserve which is replenished through the Town's cash to capital funding program serves as the primary source of funds for the repair and replacement of the Town's existing facilities. The full planned draw of \$1.7 million has already been previously approved by Council and transferred from this reserve to the associated projects. Consequently, this reserve's present balance of \$1.6 million reflects its position after the completion of these noted draws.

Proceeds from Sale of Municipal Lands

The Town consolidates all net proceeds from the sale of Town owned lands, such as its Leslie Street lands, under a single reserve. The Town has no specific identified purposes established for these funds. The present balance of this reserve is \$9.9 million, of which staff are recommending that \$3.2 million be allocated toward the Library Square project. The remaining balance of this reserve has been earmarked for other projects.

Community Benefit Fees

Community Benefit fees have been collected from developers in addition to statutory DC's. These surcharges for development, are intended to help fund growth related assets. The Town has no specific identified purposes established for these funds. The current value of this reserve is \$ 2.6 million. Staff recommend the full amount be applied to this project.

Grant Funding

The Town currently has a grant application outstanding requesting \$31.6 million in support of the Library Square project from the Investing in Canada Infrastructure Program (ICIP). The Town also hopes to access funding from the Canada Cultural Spaces Fund (CCSF). Both these grant programs have similarly defined eligible expenditure requirements and can be stacked (meaning the Town can receive funding from both programs) subject to a federal funding ceiling. The federal funding of a given eligible expenditure cannot exceed 40 percent of its total value. As the Town's ICIP grant application includes the same eligible requirements as its CCSF application would include, if successful in its ICIP grant application, it will have reached the federal funding ceiling for these requirements and therefore would be unable to receive any further funding from the CCSF grant program for these same project requirements.

In addition, the Town will access available Federal Gas Tax (FGT) revenues in support of the portion of this project's estimated costs that have been deemed ineligible under the ICIP and CCSF grant programs and therefore have not been included in the Town's applications to these programs. In general, funds that have been already spent or committed are ineligible for the ICIP and CCSF grants. For example, the Library Square project's \$4.8 million in estimated consulting fees are ineligible for the CCSF and ICIP grant applications. The Town intends to apply its FGT funding to this project's ineligible requirements which is not subject to the federal funding ceiling.

The ICIP is a federal program is designed to create long-term economic growth, build inclusive, sustainable and resilient communities and support a low-carbon economy. Through the ICIP, the federal government is providing \$11.8 billion dollars in federal infrastructure funding to cost-share projects under the following four streams:

- Public Transit
- Green Infrastructure
- Community, Culture and Recreation
- Rural and Northern Communities

The Province of Ontario is a cost sharing partner in these programs. If the Town is successful in its application, it would receive \$16 million from the federal and \$15.6 million from the provincial government for a total of \$31.6 million in funding. If unsuccessful in its application, it would receive no funds.

The Town also intends to access the Canada Cultural Spaces Fund (CCSF) in support of this new cultural community asset. The CCSF supports the improvement of physical conditions for arts, heritage, culture and creative innovation. The Fund supports renovation and construction projects, the acquisition of specialized equipment and feasibility studies related to cultural spaces. As this program's eligible requirements overlap with those that have been submitted as part of the Town's ICIP grant application, it will be subject to the federal funding ceiling. The Town would only be able to access funds through this program if it is unsuccessful in its ICIP application.

As per the Town's Municipal Funding Agreement for the Transfer of Federal Gas Tax (FGT) Funds, an investment into cultural infrastructure, i.e. infrastructure that supports arts, humanities, and heritage, would be considered an eligible project to which these funds could be applied. Most of the Library Square's proposed development would be considered eligible under this agreement. Of note as well, as part of its 2019/2020 operating budget, the Federal Government has approved a one-time doubling of the gas tax monies to be transferred to the provinces. As it is staff's intent to apply these funds against the square's requirements which have been deemed ineligible under the ICIP and CCSF programs, this funding option is not impacted by the Town's success in obtaining funding from these other programs. Staff recommend that a total of \$3.4 million in available FGT funds be allocated in support of the Library Square project.

Development Charges

Development Charges (DC's) are to be used for funding the creation of new amenities to extend service capacities in order to meet the demands of growth. Staff have reviewed the proposed new development of Library Square and identified a portion of this development that are DC eligible. Generally speaking, all cultural elements of the Library Square project are ineligible to be funded by DCs as per the DC Act which would include the Church Street School new addition and amphitheatre to be located within the outdoor square. The majority of the remaining Library Square development elements that can be deemed not to be a benefit to existing residents are eligible for partial funding by either Library or Outdoor Recreation DCs depending upon the nature of the element.

At present, the Library DC reserve is in a positive position of \$3.6 million, while the Outdoor Recreation DC reserve is in a negative position of \$14.1 million. Because the

Town's present funding strategy includes the use of external funding, it is able to also finance a portion of its required DC revenues for this project thus allowing a longer time horizon over which to collect these noted revenues. Staff project that should the Town proceed with the recommended DC fund contributions to this project, as of 2029, which is end of the Town's present ten year capital planning horizon, the Library DC balance will remain in a positive position and the Outdoor Recreation DC will be approaching a positive position within the next few years. The anticipated positions vary slightly between funding options.

Debt Financing

Debt financing, either internal or external, could be used to finance the capital investment costs of a project, to allow time for the intended source of financing to be realized, such as revenues from development charges or the tax levy. Any such financing would incur interest costs, which would be covered by the intended funding source.

Internally financing this scope of resource requirement would tie up a material portion of the Town's available resources for up to twenty years. It is anticipated that the Town will require access to the majority of its currently available reserve funds within this twenty year time horizon. Should these reserves be tied up through internal financing, the Town would risk requiring external financing for these other purposes instead. In addition, the Town has historically averaged an annual return on its longer term investment portfolio holdings of 3 to 3.5 percent on average which is greater than what it could otherwise earn through internally lending these same dollars to the Library Square project at an equivalent rate to a debenture of 2.66%.

In an effort to effectively manage the town's cash flows, and the relatively low carrying costs of debt, staff recommend that the Town use external debt financing. The Town could begin with the use of a contractor's line of credit (CLOC) from Infrastructure Ontario over the course of the Library Square's construction period. This will allow the Town to firstly use its available cash rather than long term debt, as well as borrow funding through its CLOC as required rather than all at once with a debenture. This strategy will reduce the total debt interest paid over the course of the construction period.

At the conclusion of the Square's construction, the Town can convert any remaining LOC balances to a twenty year debenture. The current 20 year debenture interest rate offered by Infrastructure Ontario is 2.66%. This external debt would be repaid through DC funding and a recent Council approved dedicated one-time tax levy increase of 1% phased onto the tax levy in two equal tax increases of 0.5 percent in 2020 and 2021.

December 17, 2019

Page 7 of 12

Report No. FS19-042

Once this noted debt has been paid off, the equivalent dedicated tax levy increase can be removed or re-allocated.

Staff will formally request Council's approval to proceed with the debt funding in the first quarter of 2020.

Hydro Investment Reserve Fund

The Town sold Aurora Hydro in 2005, and 90 percent of the proceeds were established in a reserve fund. Interest has accumulated since that time, however, some of this income has been spent from time to time. No specific purpose has ever been formally approved for these funds. The current value of available funds is \$ 31.0 million.

The funds in this reserve have become an important contributor to the Town's annual investment income which is used to subsidize the Town's operating budget, as well as a further top up of all reserve balances. Any draws on this reserve will impact the Town's annual investment income; as well as decrease the Town's general reserves. Keeping this in mind, staff recommend that this reserve be used as a funding source only in instances where no other viable funding is available.

To date, Council has formally approved and transferred a total \$1.5 million from the Hydro Investment reserve to the Library Square project. This reserve's present value of \$31.0 million is subsequent to the transfer of \$1.5 million to this project.

The remaining 10 percent of these proceeds were used to establish the Council Discretionary reserve. A total of \$0.8 million in funding from this reserve in support of the Library Square was approved by Council in 2018. The present value of this reserve of \$0.04 million reflects its position after the transfer of these approved funds. No further draws from this reserve are recommended.

Strategy 1 – Successful Receipt of Grant Monies

Figure 1 presents the recommended funding strategy should the Town be successful in its Investing in Canada Infrastructure Program (ICIP) grant application. Under this scenario the Town's total anticipated grant monies would increase to \$31.6 million. With this grant receipt, the Town would reach its prescribed maximum federal funding ceiling of 40 percent of all eligible requirements; because the Town's CCSF eligible requirements mirror what has been submitted under its ICIP application, it would consequently be unable to access any funding from the CCSF program. However, it would be able to continue to use FGT funding in support of any library square expenditures that were deemed ineligible under the ICIP program and therefore, not included in its application.

A grant receipt of this magnitude would allow the Town to reduce its planned draw from the Hydro Investment reserve back to just what has been formally approved and transferred to the project to date by Council and eliminate this project's requirement for external funding that is funded from the tax levy.

The other changes to this funding strategy from what was presented in previous reports to Council relate to the consolidation of previously approved facility repair & replacement capital works under this project in an effort to gain contract efficiencies as well as some subsequent adjustments to the planned development charge contributions.

Figure 1 also presents what each contributing reserve's health is estimated to be subsequent to the deployment of this recommended funding strategy.

Figure 1 – Successful Receipt of ICIP Grant Funding (\$millions)

	Previous (As of July 16, 2019)	Change	New	Remaining Reserve Balance
Total estimated required investment	47.9	3.7	51.6	
Facility Repair & Replacement Reserve	-	(1.7)	(1.7)	1.07
Proceeds from the sale of municipal lands reserve	(3.2)	1.0	(2.2)	7.74
Community benefits reserve	(2.6)	-	(2.6)	-
Grants	(14.1)	(17.5)	(31.6)	n/a
Federal gas tax grant	(3.4)	-	(3.4)	1.83
Outdoor Recreation Development Charges ¹	(1.6)	(1.3)	(2.9)	(2.46)
Library Development Charges ¹	(5.4)	0.5	(4.9)	0.96
Tax levy funded twenty year debenture ²	(6.7)	6.7	-	n/a
Council Discretionary reserve ³	(0.8)	-	(0.8)	0.04
Hydro investment reserve ³	(10.1)	8.6	(1.5)	29.49

Note(s):

- 1) The presented remaining development charge reserve balance reflects its balance as of the end 2029, representing the extent to which the Town's capital requirements have been identified.
- 2) Assumed a 20 year debenture with an annual carrying cost equivalent to a one-time 1% tax levy increase. The currently available 20 year debenture interest through Infrastructure Ontario is 2.66%.
- 3) This identified funding draw was formally approved by Council over the course of 2017 and 2018 in support of the Library Square site preparation, design and parking lot construction.

Strategy 2 – Unsuccessful in Receipt of Grant Monies

Figure 2 reflects the recommended funding strategy should the Town be unsuccessful in its Investing in Canada Infrastructure Program (ICIP) grant application. In this scenario, the Town would be left with significant room under the federal funding maximum ceiling the Library Square’s eligible requirements, thus allowing it access any approved funds from the CCSF grant program. At this time, the Town is unsure as to the value in grant funding that it might receive from this program.

In addition, the Town’s cost of borrowing has declined from an interest rate of 3.26 to 2.66 percent in the past month, consequently it is able to debenture a further \$0.8 million while maintaining its required annual debt costs at an equivalent tax rate impact of one percent. The full eligible Outdoor Recreation DCs would be drawn, with the remaining funding short-fall to be drawn from the Town’s Hydro Investment reserve.

Similar to the first strategy, the other changes made to this funding strategy from what was presented in previous reports to Council relate to the consolidation of previously approved facility repair & replacement capital works under this project in effort to gain contract efficiencies as well as some subsequent adjustments to the planned development charge contributions to this project.

Figure 2 also presents what each contributing reserve’s health is estimated to be subsequent to the deployment of this recommended funding strategy.

**Figure 2 – Unsuccessful Receipt of ICIP Grant Funding
(\$ millions)**

	Previous (As of July 16, 2019)	Change	New	Remaining Reserve Balance
Total estimated required investment	47.9	3.8	51.6	
Facility Repair & Replacement Reserve	-	(1.7)	(1.7)	1.07
Proceeds from the sale of municipal lands reserve	(3.2)	-	(3.2)	7.74
Community benefits reserve	(2.6)	-	(2.6)	-
Grants	(14.1)	14.1	-	n/a
Federal gas tax grant	(3.4)	-	(3.4)	(1.56)
Outdoor Recreation Development Charges ¹	(1.6)	(1.8)	(3.4)	(2.80)
Library Development Charges ¹	(5.4)	0.5	(4.9)	0.96
Tax levy funded twenty year debenture ²	(6.7)	(0.8)	(7.5)	n/a
Council Discretionary reserve ³	(0.8)	-	(0.8)	0.04
Hydro investment reserve ³	(10.1)	(14.1)	(24.3)	6.66

December 17, 2019

Page 10 of 12

Report No. FS19-042

Note(s):

- 1) The presented remaining development charge reserve balance reflects its balance as of the end 2029, representing the extent to which the Town's capital requirements have been identified.
- 2) Assumed a 20 year debenture with an annual carrying cost equivalent to a one-time 1% tax levy increase. The currently available 20 year debenture interest through Infrastructure Ontario is 2.66%.
- 3) This identified funding draw was formally approved by Council over the course of 2017 and 2018 in support of the Library Square site preparation, design and parking lot construction.

Advisory Committee Review

The Agenda Management Team's review was facilitated by email on December 11, 2019.

Legal Considerations

Not applicable.

Financial Implications

With the recent Class 'B' cost estimates in hand for the Town's planned Library Square development and subsequent to staff and their consultant's value engineering of the most current square's design and this estimate, the current identified project requirements of \$51.6 million now exceed the previous estimate by \$2.0 million. Staff are recommending that Council approve the updated funding strategies as presented in this report. The financial impact of each presented funding strategy are highlighted above.

Should the pending Class 'A' estimate result in any further requirement changes for this project, staff will re-visit the presented funding strategies accordingly and come back to Council.

Communications Considerations

Throughout the Library Square Project, the Town has demonstrated a high-level of communications and community engagement consistent with the International Association of Public Participation (IAP2) Involve stage of consultation. For the purposes of this specific report, Corporate Communications will inform the public by

posting the report to the Town website and update project communications to reflect the information contained within this report.

Link to Strategic Plan

Reporting to Council and the public on capital investment expenditures to date and its funding strategy supports the Strategic Plan principles of transparency and accountability.

Alternative(s) to the Recommendation

1. Council may provide further direction.

Conclusions

This report strives to provide Council with a financial update for the Library Square project whose most current cost estimate sits at \$51.6 million. It is recommended that the updated library square funding strategies be approved by Council at this time subject to the results of the pending Class 'A' cost estimate for this project as well as the outcome of the Town's grant applications.

Attachments

Attachment #1 - Library Square Project Break-down by Key Category

Previous Reports

PBS17-032 Library Square – Conceptual Plans
PBS17-066 Award of Contract for Library Square Site Plan
PDS18-076 Library Square
CMS19-008 Library Square – Outdoor Square
CMS19-007 Library Square – Addition to Church Street School
CMS19-009 Library Square – Proposed Operating Plan
PDS19-018 Library Square – Parking
CMS19-005 Library Square Project - Update
FS19-004 Major Capital Investment Funding Strategy
FS19-024 Library Square Total Budget Funding Sources
FS19-025 Library Square – Financial Update
CMS19-031 Library Square - Project Update and Tender issuance

December 17, 2019

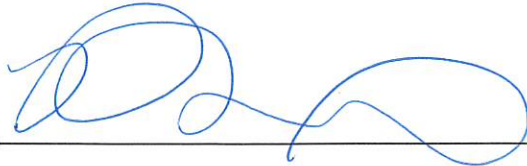
Page 12 of 12

Report No. FS19-042

Pre-submission Review

None

Departmental Approval



**Rachel Wainwright-van Kessel, CPA, CMA
Director, Finance
-Treasurer**

Approved for Agenda



**Doug Nadorozny
Chief Administrative Officer**

Library Square Project Break-down by Key Category

	Current Estimated Cost	Value Engineered Savings	Revised Project Requirements
Consultant Fees			
Project Management Services	582,800		
Prime Consulting Services	4,000,000		
Other Consultants	200,000		
Permits	50,000	4,832,800	-
			4,832,800
Construction Costs			
Church Street School Addition	24,917,300	(316,000)	
Outdoor Square & Parking	7,040,300	(585,000)	
Bridge Link	4,234,100	(906,000)	
Library Building Enhancements	6,073,300	42,265,000	(1,475,000)
			38,983,000
Furniture, Fixtures & Equipment (FF&E)			
		1,000,000	-
			1,000,000
Other			
Demolition	150,000		
Public Art Contribution	256,600	406,600	-
			406,600
Other Previously Approved Capital Works			
Existing Library HVAC Unit Replacement	835,300		
Existing Library Roof Replacement	432,400		
22 Church St Exterior Door	89,200		
Electronic Messaging Signage	49,100		
22 Church St LED Light Retrofit	49,100		
22 Church St Repaint of Interior walls	35,200		
Existing Library Exterior Lighting LED Retrofit	30,900		
22 Church St Brick Repairs	30,200		
Library Replacement of Perimeter Window Sealant	25,600		
22 Church St Repair Wood Flooring	24,600		
Existing Library Fire Alarm Panel Replacement	20,600		
Existing Library Repair to Elevator Doors	10,000	1,632,200	-
			1,632,200
Contingencies			
Construction contingency	3,000,000		
Management reserve	900,000	3,900,000	-
			3,900,000
Unrecoverable HST (1.76 percent)			
		857,100	-
			857,100
Total Project Requirement	\$54,893,700	(\$3,282,000)	\$51,611,700
Previous Identified Total Funding Requirement	49,554,900	-	49,554,900
Additional Funding Requirements	(5,338,800)	3,282,000	(2,056,800)