



**Town of Aurora
Special Council Report**

No. FS19-012

Subject: Library Square - Financial Strategy

Prepared by: Jason Gaertner, Acting Director Financial Services - Treasurer

Department: Financial Services

Date: March 21, 2019

Recommendation

- 1. That Report No. FS19-012 be received; and**
- 2. That staff be authorized to apply for any eligible capital or operating grants in support of the Library Square project; and**
- 3. That the recommended preliminary capital investment financial strategy for Library Square be approved; and**
- 4. That the recommended preliminary operating plan financial strategy for Library Square be approved.**

Executive Summary

Staff have recently presented to Council, for its consideration, a final Class C cost estimate varying between \$35.6m to \$37.9m, depending upon the options selected by Council, for the construction of the Library Square including the addition to the Church Street School and the outdoor square. The funding relating to the construction of the Library Square parking lot and laneway has been previously approved by Council. As this represents a major investment for the Town, both a capital and operating funding strategy is essential in ensuring the financial success of the Library Square project.

This report will provide:

- A break-down of the Library Square project by its key components,
- A recommended preliminary capital investment funding strategy, and
- A recommended preliminary incremental operating cost funding strategy.

Background

On February 12, 2019 Council was presented with the latest design concepts for the Library Square project. Considerations included:

- Further consultation on the project had taken place to refine the design, cost estimate and project timeline.
- Based on inputs from consultants and cultural partners, revisions have been made to the design of the Church Street School expansion.
- Enhancements to the Outdoor Square include features for year-round attraction.
- Heritage and Accessibility considerations were deemed important in the development of the design.
- Parking study, parking lot, laneway and accessible parking considerations were incorporated in the latest design.
- Acknowledgement that any applications for grants that may offset the capital costs will be explored and submitted.
- A project management model will be used for the Library Square project implementation.

At present a total of \$2.3m has been approved to date for the Library Square project. In addition, a placeholder for a further \$35m for the Library Square project has been recommended to Council by the Budget Committee for conditional approval as part of the 2019 capital budget.

Analysis

A break down of the Library Square project by its key components

The Library Square project can be broken down into the following three key components:

- Demolition of 52 and 56 Victoria Street Structures,
- Addition to Church Street School, and
- Outdoor square and Parking.

A detailed break-down of these noted key components can be found under Attachment #1. This attachment provides a summary of the total estimated budget required in order to complete each noted key component, as well as their total approved budget and expenditures to date. In addition, the total estimated budget for the Library Square project is presented should all of the proposed optional items be approved.

A recommended preliminary capital investment funding strategy

As the total proposed required investment for the Library Square project is significant, a sound funding strategy is essential. In developing its recommendation, staff considered several of the funding options presented in the recent report to Council, FS19-004 Major Capital Investment Funding Strategy. After careful consideration, staff recommend that the following sources of funding form part of this project's funding strategy:

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. Development charges are collected as separate components which can only be used for their specific components. In this instance, staff recommend that library services and park development DC funding be utilized as a partial funding source for this project. At present, the Library DC reserve is in a positive position, while the Parks Development DC reserve is in a negative position. Staff project that all of the town's negative DC balances will return to a balanced position within the next ten years.

Community Benefit Fees

Community Benefit fees have been collected from developers in addition to statutory DC's. These surcharges for development, intended to help fund growth related assets, may be applicable to the subject projects. The Town has no specific identified purposes established for these funds. The current value of available funds as of December 31, 2018 is \$ 2.6m. Staff recommend that this full amount be applied to this project.

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 current value of available funds as of December 31, 2018 is \$7.1m. Staff recommend that this full amount be applied to this project.

Hydro Sale Investment Reserve Fund

The Town sold Aurora Hydro in 2005, and 90% 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 as of December 31, 2018 is \$ 31.0m.

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Because of its significant balance and the Town's ability to invest these funds over a longer term, these funds have become an important contributor to the Town's annual investment income which is utilized to subsidize the Town's operating budget, as well as a further top up of all reserve balances. Consequently, any draw on this reserve is likely to have a material impact on the Town's annual investment income; as well as deteriorate the Town's general reserves health. Keeping this in mind, staff recommend that the utilization of this reserve as a funding source be minimized as much as possible.

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 proportion 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 an effort to effectively manage the town's cash flows, staff recommend that the Town utilize external debt financing, likely in the form of a 20 year debenture. The current 20 year debenture interest rate offered by Infrastructure Ontario is 3.26%. This external debt would subsequently be repaid in a controlled fashion through the above noted DC funding sources and a dedicated one-time tax levy increase of 1% which would be applied wholly to the 2020 levy, or phased in over two fiscal years. Once this noted debt has been paid off, the equivalent dedicated tax levy increase can be removed.

Grant Funding

The Town of Aurora will be applying for any available grants from the various levels of government, seeking funding for the design and construction of the various components of the Library Square project.

A common funding formula for municipal cultural projects, such as the proposed addition to the Church Street School, is one-third from the federal government, one-third from the province and one-third from the community.

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Often the one third from the community is split between the municipality and the community. The community aspect is often shared half and half from the corporate sector, service clubs and foundations and half from individuals in the community.

In support of this much needed new cultural community asset, staff have now submitted the Town's grant application to the federal government's Canada Cultural Spaces Fund for consideration. In this regard, as soon as the addition to the Church Street School project has received final Council approval, a fundraising consultant will be hired to conduct a feasibility study and to provide guidance in setting up a community fundraising plan that will work for the Town of Aurora.

In addition, staff are investigating another grant opportunity (Building Communities through Arts and Heritage - Legacy Fund) that could potentially be utilized as a funding source in support of the construction of the outdoor square.

Staff have already, or intend to, approach Provincial and Federal representatives in an effort to explore further potential funding sources for all components of the Library Square project. Depending upon the outcome of fund raising efforts, the Town will adjust its funding plan accordingly in order to ensure sufficient funding is available.

The below table outlines, in detail, staff's recommended capital investment funding strategy for this project, based upon current projections. This strategy is applicable to varying levels of required investment. For illustrative purposes, a total required additional capital investment in the Library Square project of \$35.6m has been utilized in the presented table.

Library Square Consolidated Capital Investment Funding Strategy (\$millions)

Total estimated required investment	35.6
Proceeds from the sale of municipal lands reserve	(7.1)
Community benefits reserve	(2.6)
Grants	(14.1)
Outdoor recreation & Library Development Charges	(1.6)
Tax levy funded twenty year debenture*	(6.7)
Hydro investment reserve	(3.5)

* Assume 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 3.26%.

It is important to note that the grant funding that has been included in the above table is subject to change as the Town has not yet received a formal decision from either of these grant providers. Should a lower than anticipated grant value be ultimately awarded, any related funding short-falls could be drawn from the Hydro Investment reserve, or adjustments to the debt portion of the recommended funding strategy could be made.

A recommended preliminary incremental operating cost funding strategy

In addition to a funding strategy for the Town's initial investment in the Library Square project, a financial strategy for the resultant ongoing incremental operating costs for the Library Square is important as well. As indicated in Report Number CMS19-009, the total incremental operating costs for the library square's key components are estimated to be \$720,000 per year which must be borne by the Town's tax levy.

Staff recommend that this estimated incremental tax levy impact be phased onto the tax levy in gradual controlled fashion over the next three years commencing in 2019. This would represent an incremental tax levy increase of \$240,000 or 0.5% per year. See below table:

**Incremental Net Operating Costs for Library Square
(\$000's)**

Fiscal Year	Phased in Amount
2019	240.0
2020	240.0
2021	240.0
Total	720.0

Advisory Committee Review

None

Legal Considerations

Not applicable.

Financial Implications

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The total additional required investment for the Library Square Project relating to an increase in the design and consultation costs, as well as the inclusion of the estimated construction costs for the addition to the Church Street School and the outdoor square and parking, is estimated to be between \$35.6m to \$37.9m, depending upon the options selected by Council. The above presented funding strategy offers a financially viable solution that the Town can deploy in order to successfully fund this large required investment.

In addition, it is estimated that the Library Square, upon becoming operational net of all expected new revenues, will produce an annual incremental operating budget impact of \$0.7m (\$720K). The proposed controlled phase in of this operating budget impact over a three year period commencing in 2019 will ensure that this expense is fully funded by the tax levy in time for the complete Library Square becoming fully operational in the spring of 2022, while smoothing the impact to tax payers.

Communications Considerations

This report will be posted to the website to keep residents informed of plans, and any future direction from Council will be shared via Council Highlights, Town website and social media.

Link to Strategic Plan

Reporting to Council and the public on capital investment and an incremental operational cost funding strategy supports the Strategic Plan principles of transparency and accountability.

Alternative(s) to the Recommendation

1. Council may provide further direction.

Conclusions

As previously discussed, the required capital investment and the on-going net incremental operating costs are expected to be material for the Library Square project. It is recommended that the preliminary funding strategies as set out above be adopted in an effort to ensure that this project is a financial success in addition to the many other benefits that this project will bring to the Town.

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Attachments

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

Previous Reports

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

Pre-submission Review

None

Departmental Approval



**Jason Gaertner, CPA, CMA
A/Director of Financial Services
- Treasurer**

Approved for Agenda



**Doug Nadorozny
Chief Administrative Officer**

Library Square Project Break-down by Key Component

	Costs	Approved Budget	Balance
Demolition of 52 and 56 Victoria Street Structures	\$128,500	\$130,000	\$1,500
Addition to Church Street School (Excludes Options)		\$977,500	
<u>Preparation for Construction</u>			
Spent to Date	255,500		
Outstanding	1,991,100	2,246,600	
<u>Construction</u>			
Total construction estimate	24,952,400		
Project Management	324,800		
Unrecoverable HST	\$386,700		
Public Art Contribution	\$256,600	25,920,500	
	\$28,167,100	\$977,500	(\$27,189,600)
Outdoor Square & Parking (Excludes Options)		\$1,232,600	
<u>Preparation for Construction</u>			
Spent to Date	195,500		
Outstanding	151,700	347,200	
<u>Construction</u>			
Total construction estimate	9,018,900		
Project Management	112,700		
Unrecoverable HST	\$134,300	\$9,265,900	
	\$9,613,100	\$1,232,600	(\$8,380,500)
Total - Before Options	\$37,908,700	\$2,340,100	(\$35,568,600)
Options:			
Additional Parking in Laneway	145,700		
Perpendicular Parking on Victoria	87,900		
Parallell on Church Street	185,400		
Link Option #1 - Enclosed	1,936,000		
Total - After Options	\$40,263,700	\$2,340,100	(\$37,923,600)