



**Town of Aurora
Council Report**

No. FIN20-019

Subject: Library Square – Final Capital Investment Funding Strategy
Prepared by: Jason Gaertner, Manager Financial Management
Department: Finance
Date: August 25, 2020

Recommendation

- 1. That Report No. FIN20-019 be received; and**
- 2. That Council approve the proposed adjustments to its previously approved funding strategy for Capital Project No. 81019 – Library Square as presented.**

Executive Summary

The current draft budget for the Library Square project which Council will be asked to consider this evening is \$51,939,500. To date, Council has approved a total budget for this project of \$51,611,700. Now that the Town has received the results of the tender and the status of its major grant application is clear, it is able to make any required final adjustments to its previously approved financial strategy for this project.

- Two final adjustments are proposed to Council's previously approved 'No Grant' funding strategy

Background

On December 17, 2019 Council received a Class 'B' cost estimate for the Library Square whose proposed design for Library Square included 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

At this meeting, Council also approved a total budget for this project of \$51.6 million and two alternative funding strategies that differed based upon the Town's success in obtaining funds from a significant grant application.

**Table 1
Library Square Funding Strategies approved on Dec. 17, 2019**

\$millions	Grant	No Grant
Facility Repair & Replacement Reserve	1.7	1.7
Proceeds from the sale of municipal lands reserve	2.2	3.0
Community benefits reserve	2.6	2.6
Grants	31.6	-
Federal gas tax grant	3.4	3.4
Outdoor Recreation Development Charges	2.9	3.4
Library Development Charges	4.9	4.9
Tax levy funded twenty year debenture	-	7.5
Council Discretionary reserve	0.8	0.8
Hydro investment reserve	1.5	24.3
Total	51.6	51.6

Subsequent to its meeting in December, the Town received the Class 'A' cost estimate for the Library Square project which remained within the total budget approved by Council in December thus allowing staff to proceed with the tender for this project. The Town received the final results from this tender on July 20, 2020 with the lowest compliant bid falling well within Council's acceptable contract value deviation threshold of five percent.

On August 7, 2020 the Town received an official notification from the Province that it had been unsuccessful in its infrastructure grant application totaling \$31.6 million for this project.

Analysis

Two final adjustments are proposed to Council's previously approved 'No Grant' funding strategy

As outlined in CMS20-019, with the receipt of the recent tender results for the construction of the Library Square, a final budget of \$51.9 million is proposed for this project representing a required budget increase of \$0.3M. A break-down of the revised budget can be found in Attachment #1.

With the Town’s confirmation that it was unsuccessful in its major grant application, its previously approved No Grant funding strategy becomes the primary funding strategy for this project. Two final adjustments are proposed to this strategy for Council’s consideration and approval.

1. That the Proceeds from the sale of municipal lands reserve contribution to this project be reduced by \$0.3M
2. That the Outdoor recreation development charges contribution to this project be increased by \$0.5M

A summary of the final proposed funding strategy is presented in Table 2 below.

**Table 2
Final Proposed Library Square Project Funding Strategy**

\$millions	Previously Approved on Dec 17, 2019	Change	Recommended Final	Remaining Reserve Balance (Post Strategy) ³
Facility Repair & Replacement Reserve	(1.7)		(1.7)	(1.45)
Proceeds from the sale of municipal lands reserve	(3.0)	0.3	(2.7)	0.00
Community benefits reserve	(2.6)		(2.6)	0.00
Grants (Specialized Equipment)	-		-	n/a
Federal gas tax grant	(3.4)		(3.4)	1.99
Outdoor Recreation Development Charges	(3.4)	(0.5)	(3.9)	(15.75)
Library Development Charges	(4.9)		(4.9)	3.34
Tax levy funded twenty year debenture ¹	(7.5)		(7.5)	n/a
Council Discretionary reserve ²	(0.8)		(0.8)	0.04
Hydro investment reserve ²	(24.3)		(24.3)	8.10
Total	(51.6)	(0.2)	(51.9)	

- 1) 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 Ontario Infrastructure is 2.66%.
- 2) These identified funding amounts include a total of \$2.3 million in previous draws that were formally approved by Council over the course of 2017 and 2018 in support of the Library Square site preparation, design and parking lot construction.
- 3) All presented reserve balances reflect their values should Council approve the proposed funding strategy with the exception of the development charge reserves as their contributions in support of this project will take place over an extended period after substantial project completion.

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Each of the key components of the final proposed funding strategy for Library Square 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 which have been consolidated under the Library Square project budget. Consequently, this reserve's presented budget is not impacted by this funding strategy.

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 now \$2.7 million, of which staff are recommending that this full remaining balance be allocated in support of the Library Square project. Staff recommend that the previously approved contribution from this reserve be decreased by \$0.3M. This change is attributable to other earmarked project draws being higher than originally projected.

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.

Grant Funding

Unfortunately, the Town has now learned that it was unsuccessful in its grant application requesting a total of \$31.6 million from the Investing in Canada Infrastructure Program (ICIP) in support of Library Square infrastructure. However, the Town will submit shortly an application requesting \$1.9 million in support of the Library Square's specialized equipment from the Canada Cultural Spaces Fund (CCSF). The Canada Cultural Spaces Fund (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. It had previously held off on the submission of its CCSF

application in an effort to avoid exceeding its federal funding ceiling should its ICIP application have been successful. Should the Town be successful in this application, an equivalent amount will be returned to the Hydro Investment Reserve.

The Library Square project's funding strategy includes the use of Federal Gas Tax (FGT) Funds. 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 approved a one-time doubling of the gas tax monies that was transferred to the provinces. The province of Ontario passed these one-time payments onto its municipalities. A total of \$3.4 million in available FGT funds has been allocated in support of the Library Square project. This contribution consists of both the Town's regular and one-time 2019 FGT grant receipts.

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 \$3.3 million, while the Outdoor Recreation DC reserve is in a negative position of \$15.8 million. Because the Town's financing strategy (to be presented as a separate report to Council this evening) includes the use of external funding, it is able to 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, that the Library DC balance will remain in a positive position and the Outdoor Recreation DC balance will be on an upward trend to reaching

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a balanced position. Staff recommend that the total planned outdoor recreation development charges contribution to this project be increased by \$0.5M.

Both of these noted reserve's projected future positions will be heavily influenced by the degree of previously unplanned work that arises and the actual rate at which new DCs are collected over this period.

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 need to be covered by the intended funding source. The total interest costs incurred over the life of the project's financing period will be heavily dependent upon the total principal requiring financing, interest rates, and the duration of the financing period.

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 1.85%.

It is acknowledged that COVID-19 will negatively affect the rate of return that the Town is able to earn on its long term investments; however, it is anticipated that macroeconomic fiscal policy will subject the cost of borrowing to further downward pressure in effort to stimulate a recessionary economy.

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. Staff will present to Council for its approval a detailed financing strategy for the Library Square project as a separate report, FIN20-001 Library Square – Final Capital Investment Financing Strategy, this evening. However, in summary it is recommended that the Town use a contractor's line of credit (CLOC) while the Library Square is under construction. Upon substantial completion, any balance remaining in the Town's CLOC would be carried over into a floating rate capital loan for up to a maximum of five years.

Within five years of the project's substantial completion, the Town would convert any remaining floating rate capital loan balance into a twenty year debenture. The current 20 year debenture interest rate offered by Ontario Infrastructure 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. Once this noted debt has been paid off, the equivalent dedicated tax levy increase can be removed or re-allocated.

Hydro Investment Reserve

The Town sold Aurora Hydro in 2005, and 90 percent of these 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 \$32.4 million.

Over time the funds in this reserve have become an important contributor to the Town's overall annual investment income. It is important to note, that per Council direction, investment income generated from this fund is contributed back to this reserve and does not subsidize the Town's operating budget. That being said, any draws on this reserve will reduce the Town's overall annual investment income. Staff recommend using this reserve as no other funding source is available for a project of this size and the only other option would be to issue more debt.

To date, Council has approved and formally transferred a total of \$1.5 million from the Hydro Investment reserve to the Library Square project. This reserve's balance of \$32.4 million is after the transfer of these funds to the project. Council approved a further draw from this reserve of \$22.8M as part of the No Grant funding strategy approved in December, 2019. No further changes to this draw are recommended.

Council Discretionary Reserve

The remaining 10 percent of the original proceeds obtained through the sale of Aurora Hydro 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 and transferred to this project by Council in 2018. The present value of this reserve of \$0.04 million reflects its position after the transfer of these noted approved funds. No changes are recommended.

Advisory Committee Review

Not applicable.

Legal Considerations

Not applicable.

Financial Implications

With the recent receipt of the results for the Library Square construction tender, a final budget of \$51.9 million has been proposed for Council's consideration under report CMS20-019, representing an increase of 0.3 million from the budget that Council approved on December 17, 2019.

Taking into consideration the changes to the overall required budget for this project and its unsuccessful major grant application, the Town's previously approved No Grant funding strategy becomes its primary funding strategy for this project with two recommended changes. This funding strategy represents the most financially feasible option available to the Town at this time. This strategy strives to maintain sufficient cash liquidity in consideration of all the Town's known short to longer term financial obligations/requirements.

It is projected that the Town will need to finance approximately \$12.7 million through a floating rate capital loan at the time of substantial project completion in 2022 for a period up to a maximum of five years. Furthermore, the Town will require long term financing for up to a maximum of 20 years. Should the Town wait the full five years after substantial project completion to access this long term financing, the principal at this time is estimated to be approximately \$9.5 million as illustrated in Table 3. If this long term financing is accessed earlier, the principal will be higher, up to a maximum of \$12.9 million.

**Table 3
Estimated Library Square Project Long Term Debt Financing Requirement**

\$millions	Final Recommended Funding	Funding Available by Substantial Completion	Estimated Required Capital Loan (2022)	Estimated Required Long Term Financing (2027)
Facility Repair & Replacement Reserve	(1.7)	1.7	-	-
Proceeds from the sale of municipal lands reserve	(2.7)	2.7	-	-
Community benefits reserve	(2.6)	2.6	-	-
Grants (Specialized Equipment)	-	-	-	-
Federal gas tax grant	(3.4)	3.4	-	-
Outdoor Recreation Development Charges	(3.9)	-	(3.9)	(2.7)
Library Development Charges	(4.9)	3.0	(1.9)	(1.2)
Tax levy funded twenty year debenture	(7.5)	0.6	(6.9)	(5.6)
Council Discretionary reserve	(0.8)	0.8	-	
Hydro investment reserve	(24.3)	24.3	-	
Total	(51.9)	39.2	(12.7)	(9.5)

This long term financing would be repaid through future tax levy and development charge collections.

Communications Considerations

The Town of Aurora will use ‘Inform’ as the level of engagement for this project. There are five different levels of community engagement to consider, with each level providing the community more involvement in the decision making process. These levels are: Inform, Consult, Involve, Collaborate and Empower. Examples of each can be found in the Community Engagement Policy. These options are based on the International Association of Public Participation (IAP2) Spectrum and assist in establishing guidelines for clearly communicating with our public and managing community engagement. In order to inform, this report will be posted to the Town’s website, the Library Square dedicated web page and will be included in the special council highlights.

Link to Strategic Plan

Reporting to Council and the public on the Library Square capital project's planned expenditures and the Town's funding strategy for this project supports the Strategic Plan principles of transparency and accountability.

Alternative(s) to the Recommendation

1. Council may provide further direction.

Conclusions

As the Library Square project's total estimated cost is now solidified and the status of its major grant application known, staff have undertaken a final review of Council's previously approved funding strategies for this project. Based upon this review staff recommend that Council approve two final adjustments to this project's no grant funding strategy.

Staff's recommended financing strategy for this project will be presented to Council for its consideration as part of a separate report, FIN20-001 Library Square - Final Capital Investment Financing Strategy, this evening.

Attachments

Attachment #1 - Library Square Project Final Budget 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

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FS19-025 Library Square – Financial Update
CMS19-031 Library Square - Project Update and Tender issuance
FS19-042 Library Square – Updated Library Square Funding Strategy
FIN20-001 Library Square - Final Capital Investment Financing Strategy

Pre-submission Review

Agenda Management Team review via e-mail on August 12, 2020

Departmental Approval



Digitally signed by Rachel
Wainwright-van Kessel, CPA, CMA
Date: 2020.08.14 10:22:38 -04'00'

Approved for Agenda



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

Doug Nadorozny
Chief Administrative Officer

**Library Square Project Final Budget Break-down by Key
Category**

	Final Recommended Budget	
Consultant Fees		
Project Management Services	582,800	
Prime Consulting Services	3,948,400	
Other Consultants	200,000	
Permits	25,000	4,756,200
Construction Costs		
Church Street School Addition	24,770,200	
Outdoor Square & Parking	6,675,800	
Bridge Link	3,350,900	
Library Building Enhancements	4,629,900	
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	
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	1,583,100
		41,009,900
Furniture, Fixtures & Equipment (FF&E)		800,000
Other		
Demolition	150,000	
Electronic Messaging Signage	49,100	
Public Art Contribution	256,600	
Marketing & Advertising	20,000	
Other Minor	5,000	480,700
Contingencies		
Construction contingency	3,000,000	
Management reserve	1,000,000	4,000,000
Unrecoverable HST (1.76 percent)		892,700
Total Project Requirement		\$51,939,500