

STAFF REPORT: Financial Services



REPORT TO: Council
MEETING DATE: May 12, 2008
REPORT NO.: FS.08.20
SUBJECT: Town Hall Financial Impacts on Reserves
PREPARED BY: Darcy Chapman, Capital Accountant
Robert Cummings, Director of Finance

A. Recommendations

THAT Council receive Staff Report FS.08.20 "Town Hall Financial Impacts on Reserves" for information purposes.

B. Background

At the April 28 Council meeting, Council raised some questions and concerns regarding the financing aspects of the Town Hall project. These included the following;

1. Does the current capital financing plan address the lost interest revenue associated with the utilization of general reserves?
2. Has there been an analysis of the effects of the lost investment revenues of +/- 3.5% versus long term financing at +/- 5.5%?
3. The current capital sheet does not address fractional withdrawals from the reserves as the project progresses and dollars are spent and being that fractional withdrawals are not illustrated, does this then not fully demonstrate the impact of the project in 2008 and 2009?

These are good questions regarding the long-term effect that this project can have on the overall financial health of the Town.

Firstly, the current capital plan does not address the lost interest revenues. It should be noted that the capital project form provides an overarching illustration of the net benefits and effects of a scheduled capital project. It was determined when the project first came to the forefront in Budget discussions that reserves would be utilized in some fashion to fund the project. The bulk of the reserves earmarked in the 2008 capital project form are from the Working Capital Reserve. A second amount of \$345,000 comes from a long-standing reserve that has been increasing over the years for the Administration Building which to all accounts was established at or before amalgamation. The remaining reserve contributions come from small amounts found in different general administration reserves to which staff feels are warranted for use within this project.

With that being said, the reserves that are being recommended were originally anticipated to be spent on this project or at least administrative functions for the Town. It would always seem reasonable to utilize reserves to fund a planned project instead of incurring long term debt. We would annually be saving the difference between the financing rate and the investment return which, in even the best case scenario, would most likely be a difference of 1.5% to 2%. The real questions that need to be asked if these dollars are not going to be utilized for this project are:

1. Does staff and Council see a more pressing need for these reserves for a project other than the town hall and as such, the funds could be diverted to that, or
2. Are we going to establish a long-term reserve for future building replacements with the existing funds for future expansions or new buildings in the distant future (20 plus years)?

If the answer is **no** to both of these questions, then the net benefit of saving 2% annually on the financing of the project is a real advantage to the long-term financing strategy and as such the reserves should be used for this purpose.

Investment return is always a focus for staff and Council. However, when we can save on financing charges the questions should not be about investment return but focused on cash flow and debt limit capacities. In this regard, the Working Capital Reserve at the end of 2007 remains with a balance of almost \$2.7 million dollars (un-audited). Municipalities use the Working Capital fund to offset borrowing costs during the first three months of each year before the interim tax billing is collected in March. To this end, a fund in excess of \$1 million after this project is completed should be sufficient to handle our long-term needs. Secondary to this, the total General Reserves top \$9 million and can also be utilized penalty-free in time of cash shortages. Although these dollars are mostly earmarked for different projects, the Town will not come close to exhausting all of these funds within any given single year. As well, the debt limit within the Town is still at a healthy and sustainable amount and future projections show that although our debt will be increasing, it is still within manageable limits.

Fractional funding of the project was not established within the 2008 capital project form. As mentioned previously, these sheets are used to show the “big picture” and don’t fully illustrate the details of the project. In all cases, the project will be funded on an annual basis as expenditures are generated for the project. It is recommended that funding will come from reserves until such time, that or if, the reserves previously noted are fully depleted to the budgeted level. At this time, any expenditure not funded will remain unfunded until long-term financing is established. The internal financing rate is identical to the bank’s general interest rate on our operating account (now at 3.5%) and will be applied on any outstanding amounts. The purpose behind the capital sheet was to demonstrate the requirements, not of internal funding from reserves annually, but to highlight

the necessity for the sale of surplus properties to generate \$1 million and the outstanding amount of \$1.875 million in long-term debt. To ensure full funding of the project, council and staff, need to be aware of the demands that this puts on the success of the project and the amount of dollars that will be needed annually to fund the debt created.

To this end, the capital project sheet that was presented during the budget process is still a fairly accurate representation of the overall project so long as the budget remains at \$5 million and the Town can generate additional funds through the sale of surplus lands.

C. The Blue Mountains' Strategic Plan (Statement(s) identifying how actions further the goals of the Strategic Plan)

Providing a strong well managed municipal government.

D. Budget Impact (cc: Treasury if required)

All other things being equal / constant, debt repayment commencing in 2010 will represent an appropriate increase to the budget as follows:

- Tax Levy \cong .3%
- Water and Sewer \cong 2 to 2.5%
- Building Inspection \cong 4%

E. Attached (Relevant documentation not personal information about an identifiable person)

1. 2008 Capital Budget Sheet
2. Recommended Reserve Balances

Respectfully submitted,

Robert Cummings, CMA
Director of Finance

Darcy Chapman
Capital Accountant



PROPOSED CAPITAL PROJECT FORM

Department: Financial Services
Proposal: **Town Hall Facility**
Year of Initiation: 2005
Year of Completion: 2011
Submission Date: October 23, 2007
Submitted by: Robert Cummings & David Finbow

A Description

The Long Term Solution presented to Council on November 4, 2004 utilized a construction estimate of \$2.2 - \$2.5 million. This estimate was based on +/- \$750,000 for the renovation of the existing building and \$1,750,000 for a 6,000 square foot addition at +/- \$300/square foot. Given the increase in construction costs over the past year, and taking into consideration the need for costly construction phasing in order to accommodate on-going services, it is projected that the cost for a proposed extensive renovation to the existing building and a 6,000 square foot addition would be in the magnitude of \$3 million. This project budget does not incorporate furniture, fixtures and cabinetry.

Town Staff Report SRB.07.22 respecting Town administrative office space needs for the next 10 to 15 years was considered by Council on June 11, 2007. In this Report, Town Staff identified a need for approximately 18,500 square feet of public, office and meeting space. The 18,500 square feet represents an increase of approximately 55% over that which currently exists.

The Proposed Capital Project Form dated October 23, 2007, and considered during the 2007 Budget Process, reflected a proposed addition to Town Hall at a projected cost in the order of \$3 million. Given the increase in construction costs over the past year, taking into consideration a distant date in 2008 for the commencement of construction; and, to provide flexibility related to how this space and other amenities envisioned during the Community Dialogue Process are delivered, the estimated construction cost has been revised to \$4 million(1). In addition to the estimated construction cost noted, an additional \$450k should be carried for costs such as demolition, site works (paving, retaining walls, walkways, exterior lighting), fine landscaping, furniture, fixtures and equipment.

B Purpose

The Ventin Group Study concluded that an additional 6,000 square feet of office space was necessary to accommodate the 57 projected Staff positions at Town Hall. Considering the nature and types of office spaces allocated, in particular 100 square feet for "Staff" spaces, it is felt that the now projected 62 spaces could be incorporated within an approximate 16,500 square foot Town Hall.

The 2007 Town Administrative Office Space Needs Study concluded that approximately 18,500 square feet of space was need to address the Town's administrative office space needs for the next 15 years.

C Expected Staff Resources/Key Personnel

Town Hall Facility Committee – Councilor/CAO/CBO/Director of Finance
CBO will act as the project manager.

D Expected Capital Resource Requirements

| YEAR | Financing Costs | Land Acquisition | Engineering | Construction | Moving/PM Consulting Costs | Furniture, Fixtures & Equip. | Demo. & Landscape Site Work |
|------|-----------------|------------------|-------------|--------------|----------------------------|------------------------------|-----------------------------|
| 2008 | | \$300,000 | \$40,000 | | \$40,000 | | |
| 2009 | | | \$5,000 | \$3,850,000 | \$45,000 | | \$100,000 |
| 2010 | | | \$5,000 | \$250,000 | \$40,000 | \$125,000 | \$175,000 |
| 2011 | \$186,875 | | | | | | |
| 2012 | \$179,150 | | | | | | |

E Estimated Project Costing Economic Driver

18,500 square foot building at \$225/square foot (\$50,000 engineering, \$4,100,000 construction).

In addition to the estimated construction costs noted above, an additional \$300,000 should be carried for costs related to land acquisition. Moving, temporary office space, consulting, Project Management and other related expenditures are estimated at \$125,000.

In addition to the estimated construction costs noted above, an additional \$400,000 should be carried for costs such as demolition, site works (paving, retaining walls, walkways, exterior lighting), fine landscaping, furniture, fixtures and equipment.

F Expected Project Timeline

Design Development - November/December 2007
Community Dialogue & Council Consideration – January to April 2008
Contract Documents – May to August 2008
Tender & Award of Contract – August/September 2008
Construction – October 2008 to December 2009

G Expected Operational Resource Requirements

H Proposed Source of Financing & Funding, (in conjunction with Treasury)

| YEAR | Grants, Donations, Developer Cont. | Taxation | User Fees(Bldg) | Water User Fees | Wastewater User Fees | Capital Reserves (specify below) | Other (Sale of Surplus Land) | Debt |
|------|---|----------|--------------------|-----------------------|-------------------------|---|---------------------------------------|-----------|
| 2008 | | | | | | | | |
| 2009 | | | | | | 2,100,000 | 1,000,000 | 1,875,000 |
| 2010 | | 31,900 | 42,500 | 63,800 | 63,800 | | | |
| 2011 | | 31,900 | 42,500 | 63,800 | 63,800 | | | |
| 2012 | | 31,900 | 42,500 | 63,800 | 63,800 | | | |

Notes to Table:

- Annual taxation and fees are calculated as the debentured piece (over 15 years) of the funding from the respective work groups after reserve use has been added in.
- Allocation of the project costs after sale of land, are based on 60% attributable to tax levy (\$2.4M – \$2.1M reserves, \$300k debt), 30% to annual water and wastewater user rates (as adjusted occupancy cost) and 10% attributable to Building.
- Allocation Rates are based on adjusted occupancy requirements. For example, physical space required for water and wastewater personnel plus space requirements for tax supported staff performing water and wastewater work.
- The use of Reserves for the funding of this project may require a By-law or Resolution to change the intended use of the Reserve.

I Anticipated Cost Savings or Additional Revenues

- Any proceeds from the sale of surplus Town assets will be considered to assist with the funding of this project if the funds are deemed eligible for this use.

J Location Map, as applicable

K Attachments, as applicable

Respectfully submitted by,

Department Head Signature

Approved for Submission to Council or Committee by,

CAO or Director of Finance Signature

Note: the needs of the community are to be verified through appropriate studies; proposals may be revised and substituted to meet the needs of the community, subject to appropriate approvals; some proposals will require feasibility studies, analyses, evaluation of alternatives, and justification reports prior to proceeding; proposals will require approval through the annual budget process

Town Of The Blue Mountains
 Reserve Account Balances
 2007 Actual

| Account | Description | Opening Balance | Transfer From Revenue/Capital | Transfer To Revenue/Capital | Balance Dec-07 |
|------------------|------------------------------------|--------------------|----------------------------------|--------------------------------|-------------------|
| 1-124-0000-30900 | Town Working Capital | \$ 3,171,888.78 | \$ - | \$ 478,499.29 | \$ 2,693,389.49 |
| 1-124-0000-31001 | Reserves - General | \$ 151,123.27 | \$ 54,500.00 | \$ 6,674.97 | \$ 198,948.30 |
| 1-124-0000-31005 | Reserves - Administration Building | \$ 345,780.08 | \$ - | \$ - | \$ 345,780.08 |