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Supplementary Budget
Staff Report

Report Number: 2018-04

Department(s): Joint Office of the CAO/Commissioners/Financial Services

Author(s): Mike Mayes, Director of Financial Services, Treasurer

Meeting Date: February 26, 2018

Recommendations

1. That the report entitled Joint Office of the CAO/Commissioners/Financial Services regarding Supplementary Budget dated February 26, 2018 be received; and,

2. That the 2018 Capital Budget be amended to include an additional $28,850,000 in expenditures with funding as detailed in this report, for a revised total of $54,783,120; and,

3. That Council provide direction on which financing option to use and amend the 2018 Operating budget accordingly, being either:

    i. An additional $1,810,000 in expenditures; or

    ii. An additional $950,000 in expenditures with further increases required in subsequent years.

Purpose

This report has the following purposes:

1. To amend the 2018 Capital and Operating Budgets to include a strategic land purchase, Mulock Farm, and the equipment and costs to maintain the land as it currently exists prior to any development.
2. To seek direction of which financing option to use – a single tax increase in 2018 or to phase-in tax increase over 5 years and to adjust the 2018 tax-supported operating budget accordingly.

Background

The Town will be closing on the purchase of a strategic property, the Mulock Farm/Estate (north-west corner of Mulock Drive and Yonge Street) in October 2018. Council had previously provided staff with direction to negotiate and to complete the said purchase. The 11.6-acre property is at a key location within the Town's Urban Centres Secondary Plan (Yonge Street and Davis Drive) and will provide much needed recreation and activity space in a part of Town that will be the second most densely developed area once it is fully built.

Discussion

The purchase price of the property is $24 million, exclusive of applicable taxes plus any required restoration. To maintain the property in its current condition there will be on going operational and equipment costs. The Town will adjust its 2018 budgets accordingly and employ responsible debt financing as appropriate.

The 2018 capital budget will be amended to include an additional $28,850,000 in expenditures

On December 4, 2017, Council approved a capital budget for 2018 with $25,933,120 in new expenditures. Three new projects, the purchase of the Mulock Farm Property, an allowance for potential restoration, and the acquisition of equipment to maintain the property, will add an additional $28,850,000. The breakdown of these costs is as follows:

	Strategic Land	Restoration	Maintenance equipment
Land costs	$ 24,000,000		
Equipment (truck, mowing tractor etc.)			$ 150,000
Land Transfer Tax	585,000		
Legal and other closing costs	40,000		
Due diligence	100,000		
Allowance for restoration	1,275,000	2,700,000	
Total costs	**$ 26,000,000**	**$ 2,700,000**	**$ 150,000**

Some restoration of the building will be undertaken immediately after purchase. The estimated cost of $1,275,000 has been included with the total Strategic Land costs accordingly. Further, work on the building and grounds, to the extent required, would be coordinated with future development. The budget for these works is difficult to forecast at this time and may be offset by economies of scale in doing this work as part of the vision for development of the site. At this time, a conservative allowance of $2.7 million has been included. This will be funded from reserves and reserve funds to allow for flexibility in realizing potential savings on the allowance.

The recommended funding for the three projects is as follows:

	Strategic Land	Restoration	Maintenance equipment
Transfer from the Environmental Land Reserve Fund		$ 1,200,000	
Transfers from other General Capital and Growth Reserves / Reserve Funds		1,500,000	15,000
Development charges			135,000
Long-term debt	26,000,000		
Total funding	**$ 26,000.000**	**$ 2,700,000**	**$ 150,000**

Funding for this project has made the maximum appropriate use of reserves and reserve funds with the balance of funding from long-term debt. The annual debt servicing (principal and interest) will require funding from the tax-supported budget.

Long-term debt is appropriate for land purchases because:

1. Land has an infinite life – the Town will always have an asset worth more than its applicable debt.
2. It more closely allocates the costs to the beneficiaries.
3. It significantly lowers the annual costs and pressure on current taxpayers.

Council to provide direction on which financing option to use

It is necessary for Council to choose between two options to fund the annual debt servicing:

1. A single tax increase in 2018 - $47 to the average household, or
2. Phased in increase - $10 annually for five-years to the average household beginning in 2018.

Option 1: Single tax increase of $47

A 30-year debenture at 3.75% would have annual principal and interest payments of $1,460,000. Public Works Services has estimated that the annual maintenance of the property would require $350,000 in incremental costs. Total additional expenditures would be $1,810,000.

It would be appropriate to apply assessment growth, as is our current budget practice, to these operating costs, and to apply parkland contributions (payments-in-lieu) to the debt payments. When combined, $350,000 is achievable.

The net additional tax levy requirement of $1,460,000 is a 2.60% increase, which equates to $47 for the average residence.

Option 2: Phased in with 5 annual increases of $10

Phasing in the increase is possible. In doing so, it would introduce additional factors:

1. In the first year, operating budget requirements would be lower:
   a. Maintenance costs would only be for a portion of the year.
   b. Depending upon when the debenture is issued during the year, debt servicing will be less than the ongoing annual cost.
2. A short-term temporary reserve fund loan will be required to stabilize the annual increases. This will generate additional interest costs.
3. Parkland contributions are projected to grow over this time.

Year	**2018**	**2019**	**2020**	**2021**	**2022**
Debt servicing	$ 850,000	$ 1,460,000	$ 1,460,000	$ 1,460,000	$ 1,460,000
Property maintenance	100,000	350,000	350,000	350,000	350,000
Reserve loan interest	5,000	17,000	28,000	31,000	25,000
Revenue applied	(175,000)	(450,000)	(550,000)	(650,000)	(750,000)
	$ 780,000	**$ 1,377,000**	**$ 1,288,000**	**$ 1,191,000**	**$ 1,085,000**
Reserve loan pay/(borrow)	(470,000)	(755,000)	(355,000)	55,000	475,000
Net annual cost	**$ 310,000**	**$ 622,000**	**$ 933,000**	**$ 1,246,000**	**$ 1,560,000**
Annual increase	**$ 310,000**	**$ 312,000**	**$ 311,000**	**$ 313,000**	**$ 314,000**

The annual tax increase stabilizes at an annual increase in the $310,000 to $314,000 range – equivalent to approximately an annual increase of $10 for an average residential property.

A short-term reserve fund loan is used to stabilize the annual increases. It peaks at $1.6 million in 2020. The tax base includes payments of this loan, which would be fully repaid in 2024.

The foundation will be set for future development of the property

These additions to the 2018 budget create a base for further capital projects. It ensures creation of a passive park to which future recreation features can be added.

Basic maintenance would be provided. The house would not be initially programmable by the Recreation Department with safety and immediate preservation needs addressed followed by major restoration work as part of proposed use.

In addition, both financing options create future budgetary room.

- The one-time tax increase option is not able to factor in anticipated future increases in parkland dedication. Starting in 2019, this is projected to be $100,000 per year. In addition, the first year costs will be lower as this is only a partial year for operational purposes.

- The phase-in option builds short-term reserve fund loan payments into the tax base. This will provide an additional $150,000 in 2024 and $590,000 thereafter.

These additional funds would be available for future development of the park, mitigation of tax increases, or other projects deemed appropriate by Council.

Development of the property can access funding sources which should prevent the need for an additional tax increase

Public consultation in creating the vision for property and building will commence in 2018. The vision includes creating programmable use for the building, and construction of facilities including an outdoor rink and ice skating trails. The capital costs could be in the $20 million range.

There would be many appropriate sources of funding:

- growth related revenues - development charges (DC's), assessment growth, and parkland contributions;
- grants, sponsorships and donations

No further tax increases should be required to fund future development.

Conclusion

Subject to Council approval and direction, the 2018 Capital and Operating Budgets would be amended. Financial Services Staff Report 2018-06 seeks Council authorization to obtain debenture financing and enact the related by-law.

Business Plan and Strategic Plan Linkages

This report supports and aligns with Council's Strategic Priority themes of:

- Economic Development/Jobs – creating a strategy for vibrant and liveable corridors along Davis Drive & Yonge Street
- Enhanced Recreational Opportunities – enhancing our recreational and community facilities
- Efficiency/Financial Management

Consultation

The Treasury staff at the Region of York have provided information on the process for issuing debentures.

The Engineering, Legal and Public Works Services Departments have provided cost estimates and equipment requirements.

The Strategic Leadership Team (SLT) has provided strategic direction, vetted the cost estimates and reviewed how this initiative interacts with others.

Information about this report will have been posted in the Town Page on February 8, 15 and 22, 2018 providing the public with over 14 days' notice prior to the report and recommendations being considered at the February 26, 2018 Committee of the Whole meeting.

Human Resource Considerations

Additional staff resources may be required to maintain the property. Any new full-time positons would be funded through the operating budget provision and/or would be part of future submissions for Council approval.

Budget Impact

Capital Budget (Current and Future)

The proposed 2018 Supplementary Capital Budget includes $28,850,000 in new expenditures. Funding will come from debentures ($26,000,000), reserves and reserve funds ($2,715,000) and Development Charges ($135,000). The revised 2018 Capital Budget would include expenditures of $54,783,120.

Operating Budget (Current and Future)

The impact on the Operating Budget will depend on the option selected.

- A single tax increase would require adding $1,460,000 to the 2018 tax levy. This 2.60% tax increase would be equivalent to $47 for the average residential property.

- A phased-in tax increase would require adding $310,000 to the 2018 tax levy. This 0.56% tax increase would be equivalent to $10 for the average residential property. There would then be additional $10 increases in each of the years 2019 to 2022.

Attachments

None

Approval

Mike Mayes, CPA, CGA, DPA

Director of Financial Services/Treasurer

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