

# Ad-Hoc Committee Update #1

May 23, 2023



# What are we discussing today?

- Overview of Ad-hoc Committee Meeting
  - General conversation
  - Recommendation on 2 projects as per April presentation
    - Feedback from senior levels of government on delay and grants
    - Prioritizing criteria for future capital projects
- Next Steps
  - Meetings to discuss long-term borrowing/debt limits forthcoming in June



# First meeting

- Attendance – all members of council on committee
  - Easton, Russell, Reimer, Murre
  - Senior staff – CAO, Directors of Planning, PW, Finance and Ec. Dev and Communication
  - Spent first little bit establishing some ground rules, discussing history, and what others are doing
  - Business Cases for 2024 budget
  - Principles for decision making
  - Sharing of information
  - Looking at projects potentially differently
  - Transparency
  - Language – perspectives maybe different



# Considerations when looking at long-term plan/projects

Long-term capital planning is complex and there are many factors to consider. Currently on staff workplan is:

- The asset management plan (phase 3, to include all infrastructure assets, must be completed by July 2024)
- Reserve balances to be maintained within approved thresholds
- Development charge background study (pending)
- Water and wastewater rate study to be updated after the DC background study (as per Watson and Associates presentation on January 25, 2023)
- Project start dates for developments shovel ready (2023 / 2024)
  - Prepayment negotiations
  - Front-end agreement negotiations

\*These will impact the forecast, and updated growth estimates will impact the calculation of what the tax levy or rate increases will be.



# Review of Previous Council direction on financial management and policy development

## Financial Policy Framework – underway since 2018

- Updated Operating & Capital Budget Policies
- Updated Reserves and Reserve Fund Policies
- In progress - Debt and Capital Financing Policies
- Updated Delegated Authorities & Financial Accountabilities
- Updated Financial Policy Approval and Administrative Policies



# Debt and Long-term financial flexibility

## General principles already embedded in Town process and reinforced:

- The capital financing program will be managed in a manner consistent with other long-term planning, financial, and management objectives
- Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding.
- To the extent practicable, replacement assets as well as regular or ongoing capital expenditures (for example, annual replacement of firefighter protective gear) will be recovered on a “pay as you go” basis through rates, tax levy, user fees, or reserves and reserve funds.
- It is recognized that reserves must be invested in, and targets set to work towards as part of the Town’s Reserve and Reserve Fund Policy, for all capital assets



# Long-term borrowing/debt considerations

Municipalities may wish to consider the urgency of the proposed project.

☐ For example, if public health and safety is a concern, there may not be time to set needed funds aside in reserves. Borrowing can be an effective tool when there is an urgent need for financing.

- Interest rates (Are they increasing or decreasing? Is it a good time to lock in?)
- Inflation rates (Are they increasing or decreasing? Are they higher or lower than interest rates?)
- Urgency of the project (Are there health and safety considerations?)
- Council priorities (Is it a strategic priority of Council?)
- Financial sustainability (Are our contributions to capital able to provide for and maintain our infrastructure and services?)
- Financial flexibility (Can we react to an unexpected situation?)



# Relying on long-term borrowing as a tool and general capital spending and savings

## Lincoln is in a growth phase therefore

- Significant capital investments has occurred over the last 4 years and also will moving forward
- Overall, our spending and debt is more DC funded than anything else – nearly half
- Factors increasing long-term borrowing/debt for all municipalities:
  - Rising costs due to inflation – need to watch if it comes down
  - Growth related projects, funded by development charges – new leg., New DC study
  - Increased interest rates have raised the cost of borrowing – these appear to be stabilizing and coming down
- Important, as per policy, capital levy goes up by the construction price index (CPI) – on average up until the last few years this has been 1.5% - more recently we not meeting CPI.
  - **Moving forward, maybe we want to consider investing more in capital levy – in other words, maybe we put more into our ‘savings accounts’**





# Recommendations

Two projects remain not tendered yet – we are not cancelling these projects, but we can **delay construction** commencement of two 2023 capital projects until spring 2024:

1. Lincoln Avenue – \$10.5M (\$1.7M in grants from senior levels of gov't)
  - continued progression this year with resident consultation
2. Durham Road – \$3.43M

## **Total Approximate debt to be Issued:**

Lincoln Ave	\$8.745M
Durham Rd	\$2.612M
Total	\$11.357M

Estimated annual principal and interest on those amounts \$705k

Estimated principal and interest as a percentage of own source revenues 2.1%

**\*\*Confirmed with Senior Govt staff – no impact to grants**



# Also discussed were two additional projects – updates

- **Ontario St sewer upgrade and Greenlane Phase 1 - we are not incurring or entering into long-term borrowing this year and such not claiming the related debt in 2023**
- Ontario St sewer upgrade project - we are partnering with the Region & they are leading the tendering and contract, the actual invoicing won't be until the project is completed later next year, maybe even into **2025**
  - This project is still planned to start construction this year though
- For Greenlane Phase 1 this project was previously deferred/delayed to allow construction staging around the larger Regional King St project (Lincoln Ave to Durham Rd) and other development timing (communicated already in PW Q1 report)
  - At this point we are recommending that most of the Greenlane Phase 1 construction phase and budget would be deferred until 2025 with only the utility relocation component (hydro pole relocations) to occur either later this year (2023) or early next year in 2024.
  - However, the majority of the project budget will not incurred until **2025**



# DRAFT project prioritization – still to be finalized

How projects 2024 and beyond in the forecast, should be prioritized in order to update the capital plan was discussed:

- I. Health & Safety**
  - II. Legislated/mandated/legal obligations**
  - III.** growth funded – development charges thought DC Bylaw & Background study
  - IV.** healthy communities' lens
  - V.** council priorities
  - VI.** grant opportunities / partnerships
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- i. Staff also coming back with sample business cases so ad-hoc committee can find one that is best to use
  - ii. Need to separate projects and communicate why certain ones are different – i.e. WLMH hospital and Prudhommes infrastructure



# Next meeting

## Next few meetings we will be getting into:

- What is limit ? What is appropriate ?
- Development charge debt limit versus rate debt charges, versus tax levy supported capital debt – how do we explain this better – more communications helps build trust and confidence
- User rates - should we adjust not only to be competitive but also adjust to meet debt forecast
- Total value of all debt limits
- Reserve balance targets and debt targets
- New long-term borrowing/debt each year shall not exceed available debt threshold in current or future years – a principle to adhere too
- Annual report to be provided to council on debt projections, reserve balances and trending with respect to capital works



**Questions?**  
**Comments?**  
**Clarity?**

