

**Extract From
Civic Precinct Project Steering Committee Meeting
CP#03-18 held May 30, 2018**

**5. Feasibility of Funding the Options for Central Library Expansion –
(Staff Report SRCFS.18.026)**

Moved by: Regional and Local Councillor Spatafora

Recommendation 2

**That the Civic Precinct Project Steering Committee recommends to
Council:**

- a) That the project for the Central Library Expansion be increased by \$4.77 million to \$15.94 million and that the project management staff report back on the various options available to meet the \$15.94 million amount that maximizes the addition/expansion and renovation spaces.**

Carried



Staff Report for Civic Precinct Project Steering Committee

Date of Meeting: May 30, 2018

Report Number: SRCFS.18.026

Department: Corporate and Financial Services

Division: Financial Services

Subject: Feasibility of Funding the Options for Central Library Expansion

Purpose:

To present to the Civic Precinct Project Steering Committee the feasibility of funding the options for the Central Library Expansion.

Recommendation(s):

- a) That staff report SRCFS.18.026, regarding the feasibility of funding the options for the Central Library Expansion be received;
- b) That the Civic Precinct Project Steering Committee provide direction with respect to the May 17, 2018 recommendation of the Library Board.

Contact Person:

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Submitted by:

"Signed version on file in the Office of the Clerk"

Mary-Anne Dempster
Commissioner of Corporate and Financial Services

Approved by:

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Neil Garbe
Chief Administrative Officer

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Background:

The Civic Precinct Project is comprised of a Civic Building, Central Library Expansion, Underground Parking and associated amenities including Pedestrian Plazas, Skating Rink/Reflecting Pool, Public Square and Amphitheatre. It has been a community engagement and corporate planning initiative designed to fulfill what the community envisions on the Town owned lands at the southwest corner of Yonge Street and Major Mackenzie Drive. The Civic Precinct is an area in Downtown Richmond Hill that has been recognized for its potential to be an important symbolic and functional space in the center of Town.

At a Special Meeting of Council held on September 7, 2016, Council approved that the Civic Precinct Project be approved as a Town capital project, and that the Central Library expansion be included as part of the Civic Precinct Project, recognizing the opportunity to create a significant civic presence for the residents of the Town.

Subsequent to the Council resolution, the Library Board undertook a feasibility study to determine how the Central Library can be expanded and the associated Class D estimate for this work. For the purpose of SRCAO.17.01 (Civic Precinct Project – Timing, Governance Structure, Staffing and Resources Business Case and Financial Plan) presented to the Special Council Meeting on February 22, 2017, the estimated cost for the library expansion was taken from a costing report provided by Altus in November, 2016. The total Class D cost estimate was \$11,168,000 for a 17,000 square feet expansion. For the purposes of this report to make a financial comparison to the proposed Option A and Option B, the 2016 amount of \$11,168,000 increases to \$11,199,900 in 2017 to account for inflation.

At the Richmond Hill Public Library Board's May 17, 2018 meeting, the following Board motion was approved regarding the Central Library Expansion:

- i. That the Library Board's desire is to provide an addition of 31,800 sf to Central Library and that the Town of Richmond Hill plan for 31,800 sf with the first phase not to be less than 17,800 sf for an estimated budget of \$22,800,000.

This report provides the financial analysis based on the options presented to the Library Board.

Feasibility Study for the Expansion of Central Library

At the April 25, 2018 Civic Precinct Project Steering Committee of Council, the Richmond Hill Public Library Board presented its Feasibility Study for the expansion of Central Library through Diamond Schmitt Architects Inc. The presentation provided a snapshot of the Central Library for 2017, as well as expansion option concept plans and Class D estimates. The Civic Precinct Project Steering Committee directed that the Director of Financial Services/Treasurer bring back a report on the feasibility of funding the options presented by the Library Board.

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The two Central Library Expansion options presented are shown in the table below.

Description	Option A (17,800 sqft New Addition & 53,800 sqft renovation)	Option B (31,800 sqft New Addition & 53,800 sqft renovation)
Construction Hard Cost & Post Tender Contingency	\$17,719,000	\$28,377,000
Soft Costs Associated with Additional Renovation	\$3,439,200	\$5,372,800
Total	\$21,158,200	\$33,749,800

Library Services' Capital Forecast and Funding

Development Charges are a funding source for municipalities to recover the capital costs associated with growth from new development.

Expansions to existing Library facilities and new Library branches are primarily funded by Development Charges (~80%) with Federal Gas Tax funds and Tax-Supported Reserve Funds funding the remaining ~20%. The Service Standard measure provides a ceiling on the level of the charge which can be imposed. The Development Charges Act, 1997 provides that the ceiling is based on "the average of the past 10 years" and that the planning horizon for future library capital needs be limited to 10 years.

Based on the existing service standards of Library facility space per capita (i.e. 0.59 sqft - 10 year average), the estimated Development Charge (DC) revenues to 2028 is \$12.7 million and from 2029 to 2038, \$14.3 million. This gives a total 20 year DC revenue estimate of \$27.1 million (see following table). In addition to the DC funding envelope, 20% is added from non-DC sources, to provide a 20 year total estimated available funding of \$33.9 million for new and expanded Library facilities (including Central Library).

Total Funding Envelope (Estimate)	2019 to 2028	2029 to 2038	20 Year Total
Development Charges	\$12,748,600	\$14,334,600	\$27,083,200
Other Sources (Federal Gas Tax and Tax Supported Reserve Funds)	\$3,187,200	\$3,583,700	\$6,770,800
Total	\$15,935,800	\$17,918,300	\$33,854,000

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The following table shows the costs of all growth related facilities identified in the Library’s current 10-Year Capital Forecast, along with the costs under each option of the Central Library Expansion. As the cost for the Central Library Expansion in the capital forecast was based on the 2016 Altus Report and assumptions that are not reflective of current and future needs identified in the feasibility study, it has been excluded from this analysis. Diamond Schmitt Architects Inc. presented the construction hard cost and post tendering contingency for the Central Library Expansion options, related soft costs which were part of the original Altus Report that formed part of the Civic Precinct Project are added for more accurate comparison.

Total Growth Related Facilities	Option A	Option B
Central Library Expansion (+ Pro-rated soft costs presented in the Altus report)	\$22,787,400	\$35,379,000
New Richmond Hill Centre Library	\$13,300,900	\$13,300,900
Richmond Green Library Expansion	\$6,750,000	\$6,750,000
Total	\$42,838,300	\$55,429,900

Considering the magnitude of the Library’s existing capital forecast and the proposed options to service future growth until 2041, there needs to be an expanded funding view beyond 2028. The following table highlights the 10 year and 20 year funding deficit of the Library’s current capital forecast, and under each option for the Central Library Expansion.

	10 Year Funding Deficit		20 Year Funding Deficit	
	<u>Option A</u>	<u>Option B</u>	<u>Option A</u>	<u>Option B</u>
Estimated Total Funding	\$15,935,800		\$33,854,000	
Costs	\$42,838,300	\$55,429,900	\$42,838,300	\$55,429,900
Deficit	\$(26,902,500)	\$(39,494,100)	\$(8,984,300)	\$(21,575,900)

As identified in the table, estimated DC revenues are not sufficient to cover the cost of the two proposed options based on the existing forecast, with a projected deficit of \$26.9 million and \$39.5 million within the 10 year period. Also shown in the table is the 20 year funding envelope. The 20 year funding envelope will not be sufficient to cover

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the forecast of Option A or B, with an anticipated deficit of \$9.0 million for Option A, and a \$21.6 million deficit for Option B.

To fund the deficit in excess of the available DC revenues will require another funding source. Further, due to the timing of expenditures and DC collection, debt financing would be required to pay for projects in advance of development charge revenues. Future DCs collected would be used to pay off the debt incurred. Interest on growth related debt is also recoverable by development charges. Debt repayment from development charge revenues will be included in future financial analysis.

It should also be noted that the cost estimates for the projects above are a Class D cost estimate. A Class D cost estimate is a high level order of magnitude cost estimate and is used for early stage project identification/development and to determine feasibility. As such, it can vary by +/- 25%.

Both Option A and Option B for the Central Library Expansion reflect the importance of providing public space to a growing community and considering this the following analysis just focuses only on the two options (excluding other library branch projects) and the available funding envelope for the next twenty years. In light of the financial pressures, consideration to other options for the Central Library Expansion or deferral of the other library facility projects to beyond the 20 year horizon until development charge funding becomes available would be financially prudent. Opportunities to expand the Central Library via shared spaces with the Civic Centre building should also be explored.

The following table shows the impact of funding either Option A or Option B within the 20 year funding envelope.

	<u>Option A</u>	<u>Option B</u>
20 Year Funding Envelope	\$33,854,000	
Central Library Expansion Costs	\$22,787,400	\$35,379,000
20 Year Funding Remaining	\$11,066,600	\$(1,525,000)

Under Option A, the 20 year funding available is sufficient to cover the costs of the option, with approximately \$11.1 million remaining for the Library Board to allocate to other new library branches and/or expansions to accommodate future growth. Under Option B, the 20 year funding available falls short of the costs required, hence debt will be required to fund the excess costs above DC revenues, from the tax rate. This option also commits the Library Board to the Central Library Expansion only for the next twenty years.

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Temporary debt financing will be required to pay for projects within the funding envelope in advance of development charge revenues. Future development charges collected would be used to pay off the debt along with the interest incurred.

The estimated debt requirement and annual principal and interest repayment are shown in the table.

	<u>Option A</u>	<u>Option B</u>
Central Library Expansion Costs	\$22,787,400	\$35,379,000
Estimated Funding Available (2019 to 2023)	\$8,273,400	
Debt Financing Required	\$14,514,000	\$27,105,600
Annual Principal & Interest Payment	\$1,291,800	\$2,412,400
Average Annual DC revenues + interest recovery	\$2,029,600	\$2,310,700
Estimated Annual Surplus (Deficit)	\$737,800	\$(101,700)

Temporary debt financing will be required for both Options A and B after 2024 when the significant expenditures are forecasted to be incurred. A 15 year debt estimates principal and interest payment of \$1.3 million for Option A, with an annual surplus of \$0.7 million to be allocated to other growth related library facilities. Conversely, under Option B, a 15 year debt estimates principal and interest payment of \$2.4 million, greater than the projected annual DC revenues indicating an alternate funding source will be required to fund the excess. Interest on growth related debt is recoverable by development charges and is calculated outside of the funding envelope.

Debt Financing - Opportunities and Potential Risks

Most municipalities are experiencing the financial pressures caused by growing community and limited revenue sources therefore turning to debt financing to fund capital infrastructure.

Debt financing of the Central Library Expansion and other library facilities allows for distribution of costs over the life of these assets and for intergenerational equity. It also accelerates the timing of DC funded growth infrastructure in advance of development.

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The annual development charges collected may be used to repay the debt (DC related debt is entirely recoverable through DC revenues).

However debt financing poses borrowing risk if credit conditions change. Development charge revenues may fluctuate from year to year. In years where DC revenues fall short of the annual debt repayment amount, a temporary funding source may be needed to bridge the debt payments. Further, if the growth forecast is not realized then there will be a need for additional debt issuance, likely to be funded from property tax supported sources. Considering the existing Capital Forecast, both Option A and Option B require funding beyond the estimated development charges funding envelope. There is minimal flexibility to adjust for risks associated with the interest rate environment and/or DC revenue deviation from the forecast.

It is important to find an optimal level and have a prudent fiscal strategy for the funding of Library facilities.

Financial/Staffing/Other Implications:

There is no direct financial implication from this report. Should the Civic Precinct Project Steering Committee proceed with the Library's Board's recommendation for the Central Library Expansion, it will require debt financing to facilitate the timing difference between when development charges are collected and when the project funding is required. The adjustment of cost estimates related to the Central library expansion from \$11.2 million to \$22.8 million will increase the total project cost by \$11.6 million un-escalated for future inflation. This will increase the total Civic Precinct estimated project cost to \$212.25 million.

For a project of this magnitude and complexity, it is critical that the appropriate approach and resources are in place to support its successful completion on time and on budget.

Relationship to the Strategic Plan:

Presentation of the funding options available for the Central Library Expansion demonstrates the importance of good capital infrastructure planning and wise management of resources in Richmond Hill.

Conclusion:

With the direction from the Civic Precinct Project Steering Committee at its April 25, 2018 meeting, this report reports back on the feasibility of funding the options for the Central Library Expansion.

Should the Civic Precinct Steering Committee support the recommendation of the Library Board to proceed with a 17,800sf expansion in the scope of the civic precinct project, the following recommendation could be considered:

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1. That the Civic Precinct Project Steering Committee recommends to Council that the scope of the Civic Precinct Project include a 17,800sf expansion (Option A) in the scope of the project;
2. That the project budget for the Central Library expansion be increased by \$11.6 million to \$22.8 million; and
3. That the method to fund the increase be as outlined in Staff Report SRCFS.18.026.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format please call contact person listed in this document.