2020-2021 Capital Plan

RECOMMENDATION:

That Committee of Council recommend to Council that the following be included in the 2020-2024 Financial Plan Bylaw:

1. Re-allocation of savings of $470,000 in each of 2020 and 2021 for debt servicing costs from the CMO debt, to fund the 2020-2021 capital plan; and
2. Re-allocation of savings of $545,355 in 2020 and $786,000 in 2021 for debt servicing costs from the PCCC debt, to fund the 2020-2021 capital plan; and
3. A one-time transfer of $1,840,000 from the cart reserve to the general capital reserve; and
4. A transfer of $550,000 from the general long term reserve to the general capital reserve; and
5. The projects as listed in the November 5, 2019 staff report, “2020-2021 Capital Plan”

PREVIOUS COUNCIL/COMMITTEE ACTION

At the October 9th, 2018, meeting Council passed the following resolution:

That staff be directed to proceed with award of the 2019 and 2020 capital projects, as per the recommendation of Finance and Budget Committee at its September 17, 2018, meeting.

At the September 17, 2019, meeting Committee of Council passed the following resolution:

That the Committee of Council approve the 2018 cumulative annual LTR contribution amount (approximately $4.45M general, $1.0M water, $754K sanitary) be allocated in 2021 to the respective capital reserves for funding the capital plan, and

That the 2021 capital plan be prepared consistent with the 2017-2020 capital plans utilizing the three project categories of neighborhood rehabilitation, other rehabilitation, and new.

REPORT SUMMARY

This report outlines and recommends approval of the draft capital plan for the 2020-2021 budget. It also recommends approval of additional funding sources to address a funding gap in 2021 as a result of insufficient funds in the general capital reserve.

BACKGROUND

Since 2017, the City has used a two-year budget process. This process has been very successful in achieving competitive pricing for City projects, as well as ensuring projects are delivered on time. The proposed 2020-2021 capital plan continues this strategy.

While the capital plans in the past few years have started to reduce the backlog of infrastructure renewal by undertaking a higher volume of work, this has only been possible through the draw down of reserve balances and the use of the long term reserve funding on top of the base amount of annual capital funding.

DISCUSSION

Infrastructure is one of the City's top priorities which is reflected in the 2020-2021 capital plan. Building on recent plans, the 2020-2021 plan has a continued focus on renewal of our core infrastructure while new expenditures align with "Getting the Basics Right" and address infrastructure gaps with improvements to parks, sidewalks, intersections, streetlights, lanes, pedestrian safety and traffic calming. The plan also includes specific projects which align with the recommendations of the Downtown Action Plan.

Capital projects have been consolidated and sorted into three main categories:

1. **Neighbourhood Infrastructure Rehabilitation** – This category is intended to fund the replacement or renewal of existing civil infrastructure, including roads, water, sewer, storm, and associated pump stations and culverts;

2. **Other Rehabilitation** – This category is intended to fund all other capital renewal and replacement, prioritized corporately (such as facilities, parks, recreation, software etc.); and

3. **New** – This category is for new assets, and in the long term will include the previously unfunded capital projects.

This format is intended to highlight and draw attention to what the City is doing to maintain existing assets and reduce the city's infrastructure backlog (categories 1 and 2), compared to new initiatives (category 3). Prioritization of categories 1 and 2 is consistent with policies in the City's Official Community Plan.

Proposed amendments to the 2020 capital program are further detailed in Attachment 1, but highlights of the amendments include:

- Design fees for 2021 transportation projects to align with the two-year planning and construction cycle
- Construction of a multi-use path on Prairie Ave - Fremont to Burns
- Design of McAllister Ave improvements and Donald Street path (to align with a 2021 proposed construction year)
- Design of Mary Hill Bypass improvements

The full 2021 capital program is detailed in Attachment 1, but the highlights of the draft 2021 capital program are as follows:

- Completion of the Port Coquitlam Community Centre
- Final year of funding for the LED street light conversion program
- Rehabilitation of approximately 5 km of road
- Replacement of approximately 2.8km of water, 480m of sanitary and 1.6km of storm infrastructure
- 1.1km of new sidewalk and 2.0km of multi-use paths
- $1,300,000 for sidewalk and pedestrian safety improvements
- $300,000 for traffic calming
- $200,000 for street lights
- $300,000 for school/park road safety improvements
- $800,000 for park playground improvements
- $250,000 for park and trail rehabilitation
- Lane paving program
- Prairie Avenue streetscape improvements
- McAllister Avenue streetscape improvements
- Donald Street pathway extension
- Hardware and software upgrades to support service delivery

There are a number of projects which were not prioritized and are therefore listed as unfunded and are not recommended as part of the 2020-2021 capital. These projects are detailed in Attachment 1.

FINANCIAL IMPLICATIONS

The 2020 proposed amendments would result in a net $1,342,150 increase to the 2020 capital plan, making the revised total $24.4 million. The total cost of the proposed 2021 capital plan is $28.3 million. Attachment 1 provides a listing of the projects and a breakdown of costs between Neighbourhood rehabilitation, Other rehabilitation, New, and the Community Centre.

The 2020-2021 Capital Plan continues to draw down reserve balances. While this has allowed the City to undertake a larger volume of work, the plan has largely depleted most of the capital reserve balances, meaning that at current funding levels, there is a gap of $4.66 million. One option available if Committee is not comfortable increasing the capital funding available or if Committee does not support all of the recommended projects, would be to reduce the scope of the capital plan by eliminating/amending projects.

To the extent that there is a funding gap, there are several options available to address this gap without having to increase the capital contribution through taxes. These options are as follows:

1) Repurpose debt savings, transfer excess cart reserve, use some LTR (recommended)

2) Fund the entire gap through LTR
3) Fund the gap through a combination of 1) and 2)

Use of other reserves, and/or accumulated surplus was not considered viable to address the gap based on their low balances.

Option 1 – Fund the entire gap through LTR

The primary intent behind the LTR was to set aside funds for future infrastructure replacement needs as the City`s infrastructure starts to reach its end of life and require replacement. Long term capital plans are currently underway and it is anticipated that by the end of 2020, staff will have a clearer picture of what needs to be replaced, when it needs to be replaced, and how much it will cost. At that point, a review of the City's LTR practices and policy would be undertaken.

Primary intent notwithstanding, in 2021 the General LTR is anticipated to have a balance of $8.29 million, so there would be sufficient funds to address the entire $4.4 million funding gap. It is relevant to note that $11.9 million of LTR reserve funding was already used to fund the PCCC and a further $17.81 million has already been used or approved to be used to fund the capital program from 2017 to 2021.

The full amount of the debt savings would translate to a tax decrease of 3.4% in 2020 if not repurposed for some other need. Although this may be a desirable outcome for 2020, considering the record low interest rates in 2019, there is a stronger probability rates and the time of the next refinancing in 2024 and 2029 will be higher as opposed to lower, resulting in a tax increase.

Option 2 – Repurpose Debt Savings, Transfer Excess Cart Reserve, and Use a bit of LTR (recommended)

This option is made up of a number of components:

- Repurposing interest savings on re-financing of Coast Meridian Overpass (CMO) debt: The debt for the CMO reached its 10-year mark and was re-financed in accordance with the terms of borrowing. The initial debt was issued at a rate of 4.13%, whereas the new debt was issued at a rate of 2.25%. The difference in interest rate has resulted in a reduction of annual interest payments from $1,032,500 to $562,500 resulting in savings of $470,000. It is proposed that these savings be temporarily repurposed to cover the capital funding gap in 2020-2021. A decision on how to apply this savings in subsequent years could be made as part of the 2021-2022 budget cycle.

- Repurposing debt servicing savings on issuance of Port Coquitlam Community Centre (PCCC) debt: The budget for the PCCC was approved in 2015 and included borrowing of $52 million at an estimated rate of 3.75% which was the prevailing interest rate at the time the budget was set. The actual rate in effect at the time of borrowing (fall of 2019) was 2.24%, resulting in a reduction in the annual debt servicing payments from the initial budget of $3,043,000 to $2,257,000, a savings of $786,000. It is proposed that these savings be temporarily repurposed to cover the funding gap in 2020-2021 in order to accomplish the significant capital work in the plan. A decision on how to apply this savings in subsequent years could be made as part of the 2021-2022 budget cycle

- Transfer of part of the cart reserve balance to general capital: as part of a periodic review of reserve balances, staff have determined that the balance in the cart reserve exceeds what is required for the foreseeable future. Whereas initial estimates suggested carts would only last 7-10 years, it has been determined that the lifespan is likely closer to 14 years. Due to the extended life of the carts, it is proposed that the cart reserve be reduced from $3,160,115 to $1,320,115 by transferring $1,840,000 from the cart reserve to the general capital reserve. It is further proposed that annual contributions to the cart reserve also be reduced from $203,600 to $120,000, and this proposal will be included in the draft 2020 operating budget.

- Transfer $550,000 from the LTR to the general capital reserve: Given the low balances in the other reserves and accumulated surplus, the use of LTR funding would be the most viable source to bridge the remaining $550,000 gap.

The budget binders provided earlier only spoke to repurposing debt savings and transferring excess cart reserve. As part of staff's review process and in preparation for this report, it was noted that the funding gap was $550,000 higher than the amount indicated in the binder thereby necessitating additional sources of funding to bridge the gap.

Option 3 – Fund the gap through a combination of options 1 and 2

This option is a hybrid of the first two options whereby a portion of debt savings could be and the remaining difference would be made up through use of the LTR and transfer of the excess cart reserve balance.

2020-2021 Capital Plan

OPTIONS (✓= Staff Recommendation)

	#	Description
	1	Approve the proposed plan, funding the gap through LTR
✓	2	Approved the proposed plan, fund the gap through repurposing debt savings, transferring excess Cart Reserve, and making up the difference by using the LTR
	3	Adjust the proposed plan (funding sources and/or projects, accordingly)

ATTACHMENTS

Att#1: 2020-2021 Capital Plan Project Listing

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