FUNDING THE ROADS CAPITAL ACCELERATION RESERVE

SPECIAL COUNCIL MEETING

Laura Mirabella

Finance Commissioner and Regional Treasurer

April 25, 2019

OVERVIEW OF PRESENTATION

- The 2019 Budget included a 1% tax levy contribution to the newly created Roads Capital Acceleration Reserve
- The reserve has a target of $200 million to finance DC costs associated with the accelerated Roads projects
- The tax levy increase will generate $43 million by the end of 2022, leaving $157 million still to be funded
- Recent developments could help fund part of the gap:
  - One-time doubling of Federal Gas Tax in 2019
  - 2018 surplus allocation
- At the same time, the Provincial budget will have financial and program implications

CAPITAL ACCELERATION RESERVE AS ORIGINALLY ENVISIONED

The tabled 2019 Budget proposed a reserve that would grow to $200 million after four years

RESERVE AS ORIGINALLY ENVISIONED

Annual Contributions - Infrastructure Levy (additional 1% tax levy)

$117.3M

+1%	+1%	+1%	+1%
2019	2020	2021	2022
$10.7M	$22.5M	$35.1M	$49.0M

\+

Transfer from Debt Reduction Reserve in 2022

$82.7M

$200M

Advance capital projects

Repaid by future DC collections

ROADS CAPITAL ACCELERATION RESERVE CREATED IN 2019 BUDGET

The 2019 Budget approval:

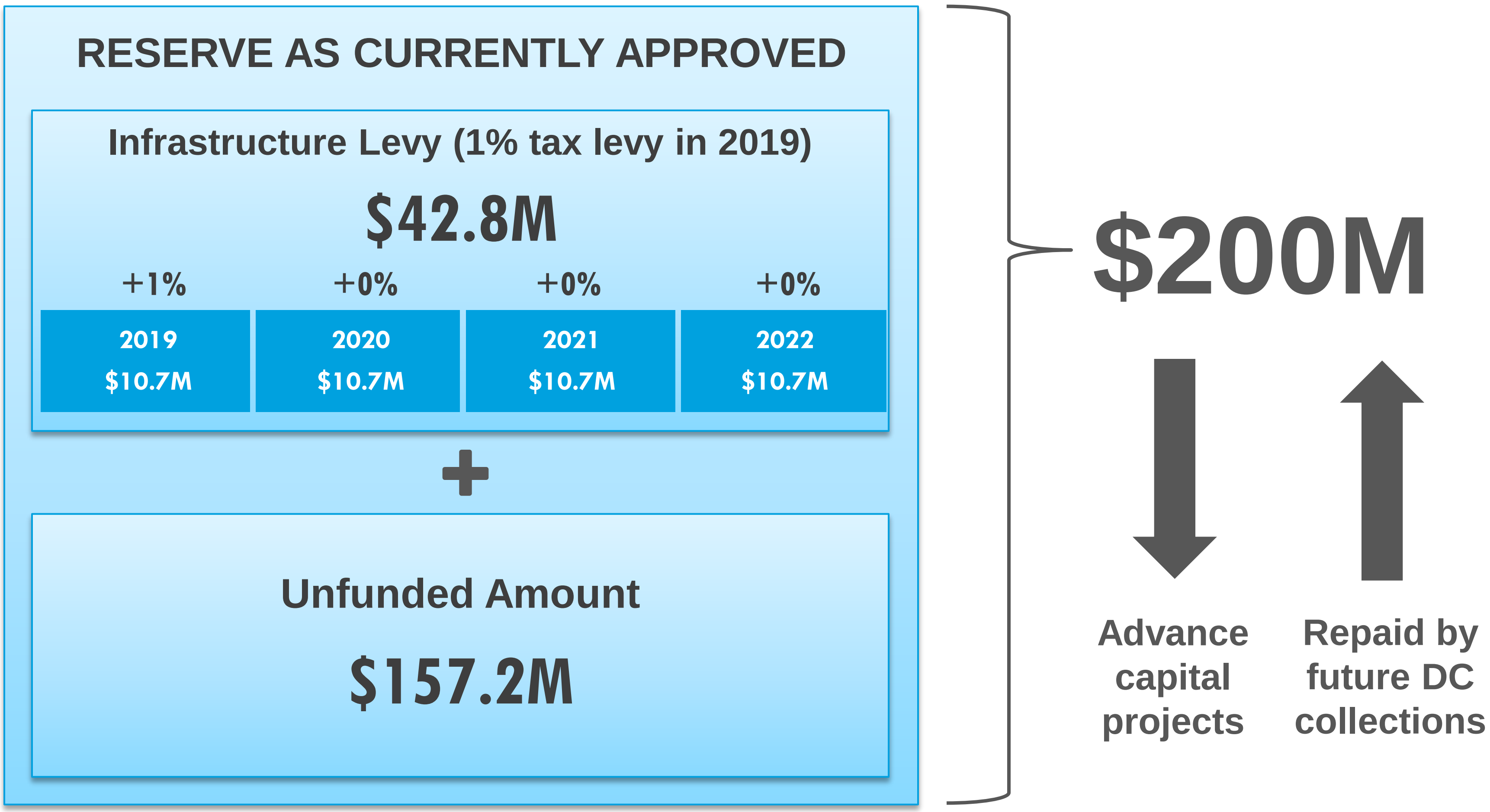
Tax Levy Change	2019	2020	2021	2022
Base	2.96%	2.96% including Roads Capital Acceleration Reserve Contribution		
Roads Capital Acceleration	1.00%			
Total	3.96%			

Council adopted an additional recommendation that:

> "The reserve be funded by a 1% tax levy contribution in 2019, and future tax levy contributions of up to 1% per year between 2020-2022, conditional on the overall tax levy increase not exceeding 2.96% in any given year, and the transfer of $82.7 million from the Debt Reduction Reserve in 2022."

2019 APPROVAL WILL GENERATE $43 MILLION OVER 4 YEARS

The approved 1% incremental levy in 2019 ($10.7 million) becomes part of the tax base for future years



SAVINGS CAN BE GENERATED IN SEVERAL WAYS

Category 1: Efficiencies

- These will be reviewed and incorporated in the annual budget process

Category 2: Service Level Adjustments

- Potential service level adjustments will be presented to Council in June

Category 3: Increased Risk Tolerance

- These would be brought forward as part of the budget, and could include changes to risk provisions, budgeting assumptions or forecasting assumptions

NEW FEDERAL GAS TAX MONEY COULD FREE UP ADDITIONAL FUNDS

- The 2019 federal budget announced a one-time doubling of the federal gas tax, providing the Region with $32.9 million
- Federal gas tax can be allocated to:

Productivity and Economic Growth	Clean Environment	Strong Cities and Communities
• Local roads and bridges	• Drinking water	• Sport and recreation
• Highways	• Wastewater	• Cultural and tourism
• Short-sea shipping	• Solid waste	• Disaster mitigation
• Short-line rail	• Community energy systems	• Capacity building
• Regional and local airports	• Brownfield redevelopment	
• Broadband connectivity		
• Public transit		

- New Federal Gas Tax money could free up funds that could be allocated to the reserves

PART OF THE 2018 SURPLUS COULD BE ALLOCATED TO THE RESERVE

- The Region's surplus policy sets out how year-end surpluses are allocated to reserves
- The 2018 surplus of $35.5 million could be allocated as follows:

	Order of Allocation	Current Status	Amount Allocated ($M)
1	Social Housing Development Reserve		$1.3
2	Working Capital Reserves	At target levels	-
3	Contingent Liability Reserves	Top up funding	$20.9
4	General Capital Reserves	At target levels	-
5	Fuel Cost Stabilization Reserves	At target levels	-
6	Remaining to Debt Reduction Reserve which could be redirected to…	Cannabis Contingency Reserve	$3.3
		Roads Capital Acceleration Reserve	$10.1

A LOWER UNFUNDED PORTION

Applying the tax levy funds freed up by the federal gas tax funding and a portion of the 2018 surplus to RCAR could reduce the unfunded portion to $109.3 million

Infrastructure Levy (1% tax levy in 2019)

$42.8M

+1%	+0%	+0%	+0%
2019	2020	2021	2022
$10.7M	$10.7M	$10.7M	$10.7M

+

Money Freed up by 2019 Federal Gas Tax & 2018 Surplus Allocation

$43.0M

+

Interest Earned on Reserve Balances

$4.9M

+

Unfunded Portion

$109.3M

$200M

Advance capital projects

Repaid by future DC collections

OPTIONS FOR ADDRESSING THE $109.3M UNFUNDED PORTION

1

Increase borrowing from external markets

2

Reduce future planned contributions *or* inter-reserve loans from the tax-funded asset management reserves

3

Reduce the Development Charge Reserves minimum balance policy

4

Transfer from the Debt Reduction Reserve to balance cash flow needs

OPTION 1: INCREASE BORROWING FROM EXTERNAL MARKETS

Infrastructure Levy (1% tax levy in 2019)

$42.8M

+1%	+0%	+0%	+0%
2019 $10.7M	2020 $10.7M	2021 $10.7M	2022 $10.7M

+

Money Freed up by 2019 Federal Gas Tax & 2018 Surplus Allocation

$43.0M

+

Interest Earned on Reserve Balances

$4.9M

+

Additional External Debt

$109.3M

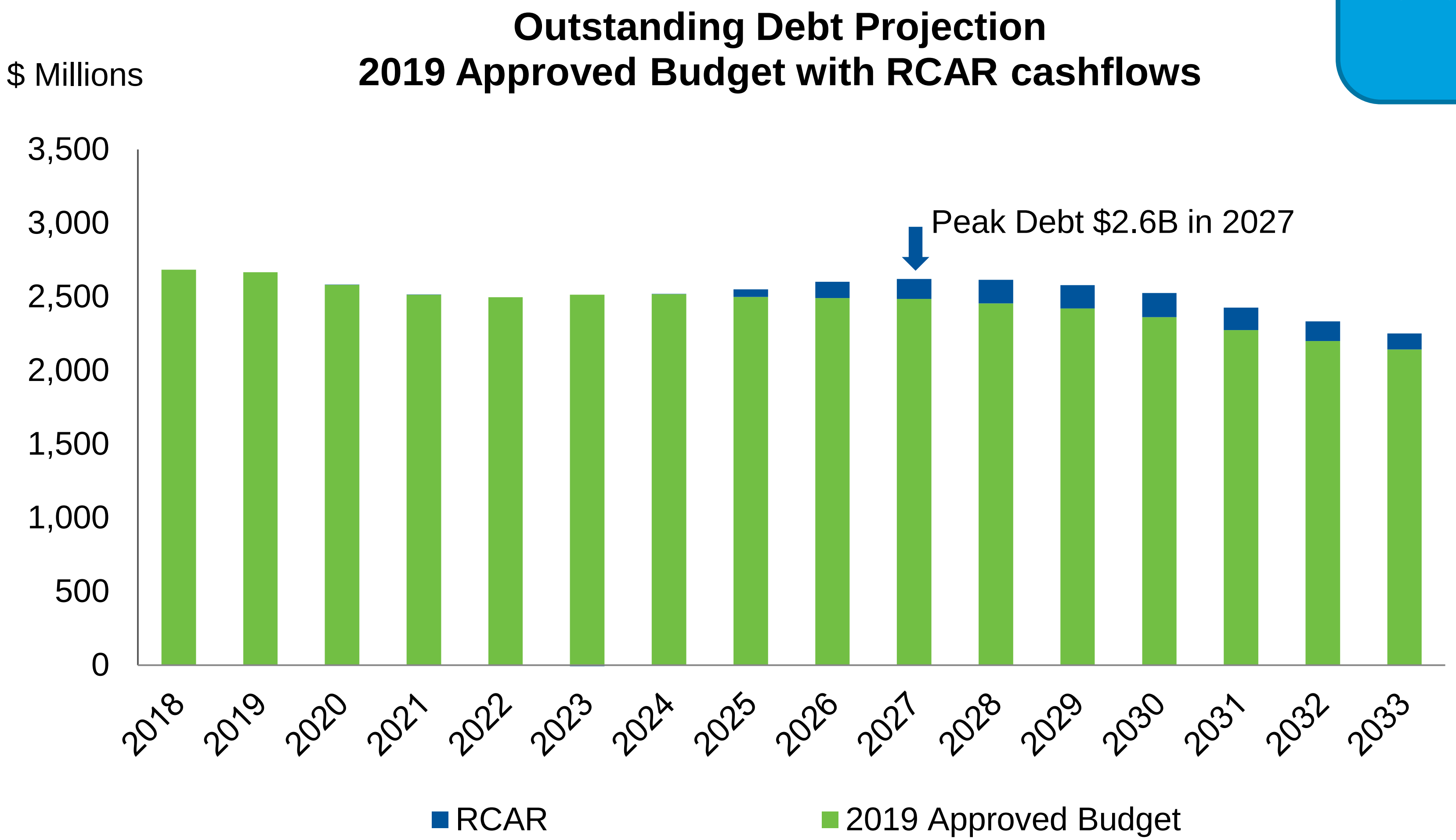
$200M

Advance capital projects

Repaid by future DC collections

OPTION 1: INCREASE BORROWING FROM EXTERNAL MARKETS

Increase Borrowing from External Markets



DEVELOPMENT CHARGE COLLECTIONS IMPACT RISK LEVEL

DC collections are the source of funding for all growth projects whether financed through external debt or borrowed from other reserves

($ Millions)	1. Forecast	2. If DC Collections < forecast	
DC Collections / year	$380	For example: $350	
Debt Repayment / year	$290*	$290	
		Defer a portion of capital plan	Maintain existing capital plan
Funding for new infrastructure / year	$90	$60	$90
Unfunded pressure	$0	$0	$30

Note: All figures approximate

* Representative of a minimum average of 6,200 housing starts and the associated 3.2 million square feet in non-residential development

OPTION 1: CONSIDERATIONS

	Option 1	Option 2	Option 3	Option 4
Tax levy increases beyond current approvals	No			
Increase in external debt	Yes			
Increase in principal and interest payable by DC collections	Yes			
Impact on other reserves	No			
Risk level	**High**			

Other considerations:

- Would result in a new level of peak debt
- Could have adverse effects on the Region's credit rating, which could increase the cost of borrowing for the Region and local municipalities

Increase Borrowing from External Markets

OPTION 2: FINANCING FROM TAX LEVY RESERVES

Infrastructure Levy (1% tax levy in 2019)

$42.8M

+1%	+0%	+0%	+0%
2019 $10.7M	2020 $10.7M	2021 $10.7M	2022 $10.7M

+

Money Freed up by 2019 Federal Gas Tax & 2018 Surplus Allocation

$43.0M

+

Interest Earned on Reserve Balances

$4.9M

+

Financing from Tax Levy Reserves

$109.3M

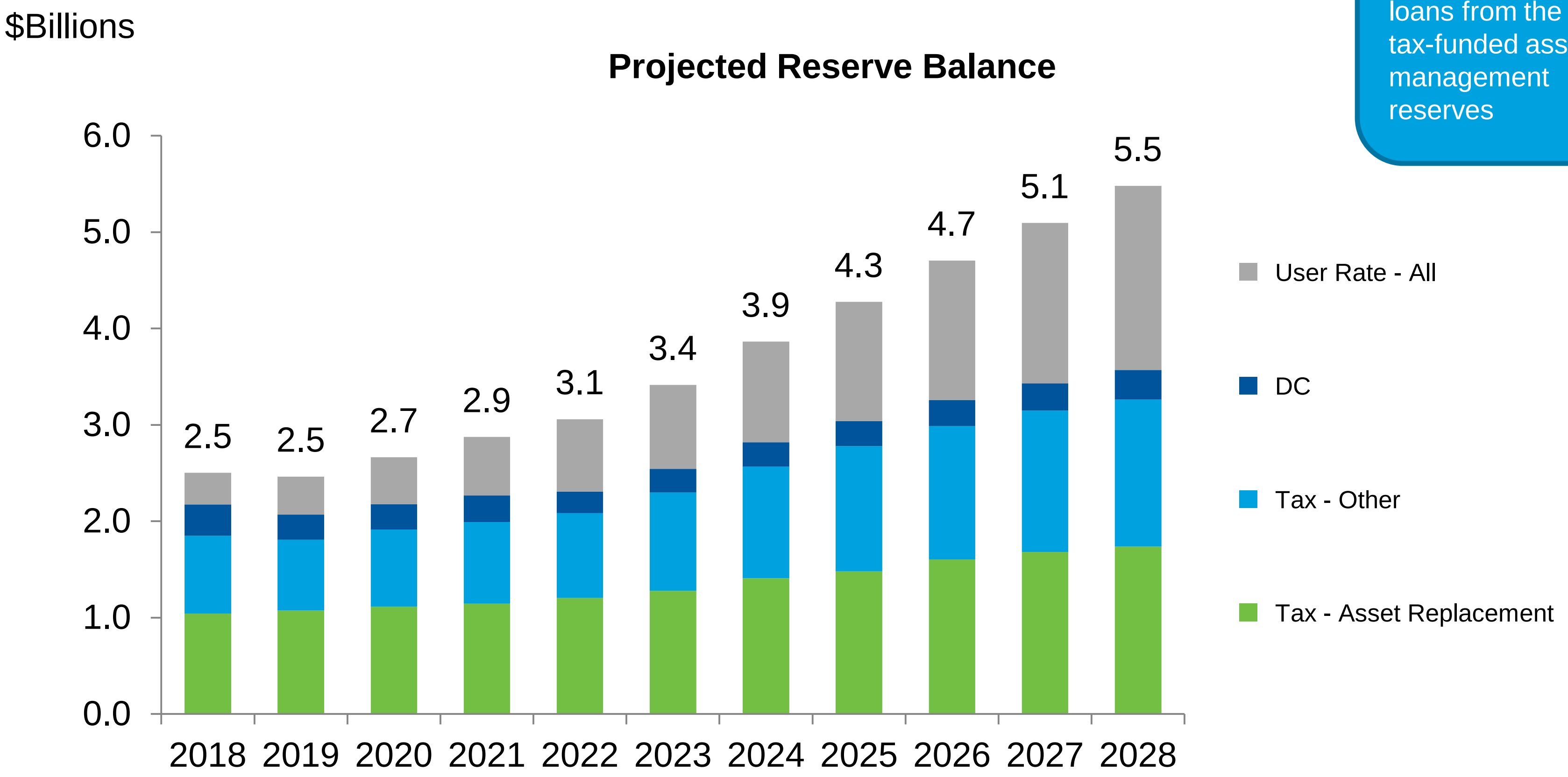
$200M

Advance capital projects

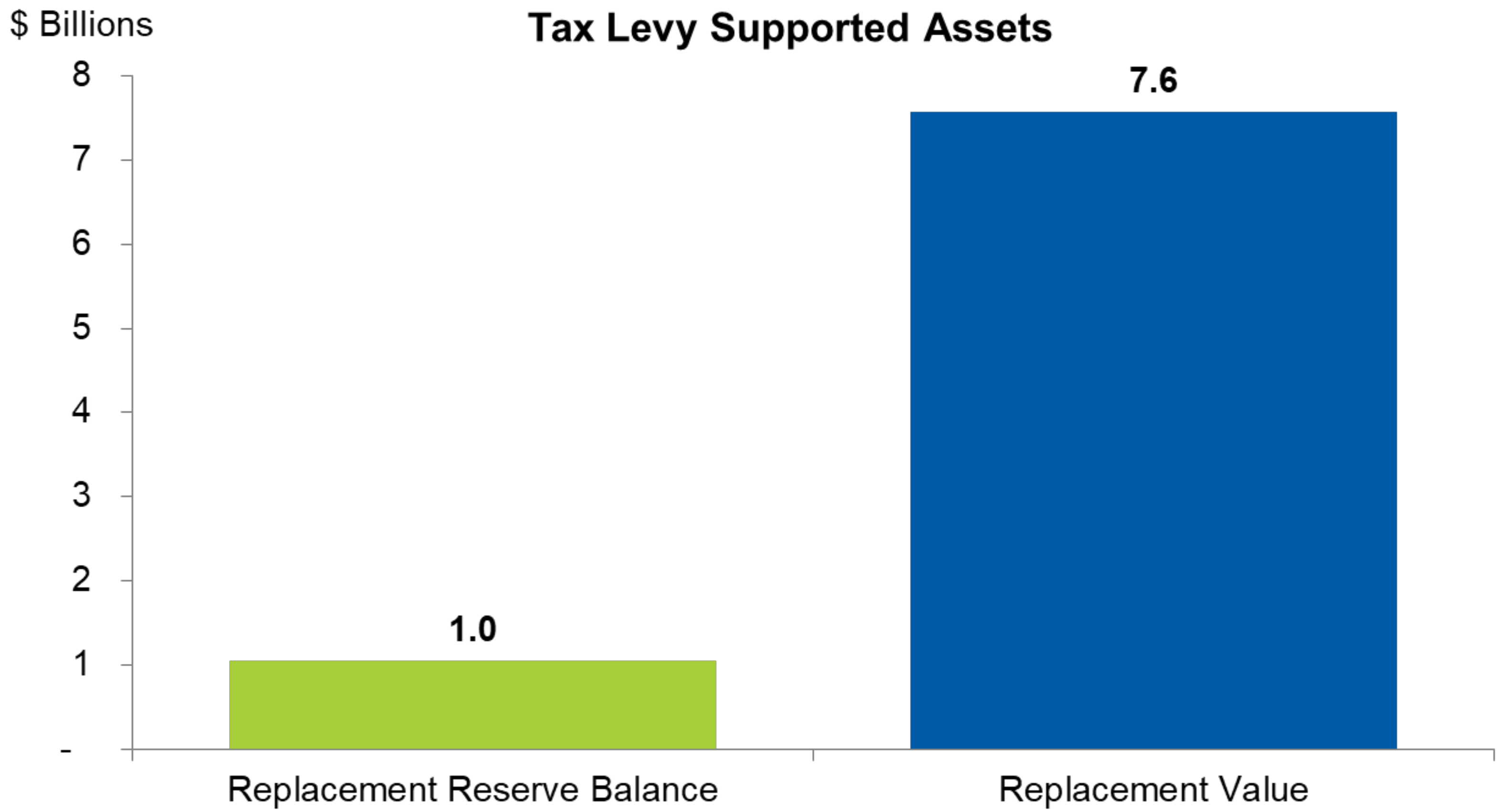
Repaid by future DC collections

OPTION 2: FINANCING FROM TAX LEVY RESERVES

Reduce future contributions *or* inter-reserve loans from the tax-funded asset management reserves



RESERVE CONTRIBUTIONS MUST GROW TO MEET FULL NEEDS



Avg. useful life: **24 years**	Implied annual contribution to replace existing assets : **$313M**
Avg. annual contribution to asset replacement reserves in 2019-2022 Budget: **$178M**	

OPTION 2: CONSIDERATIONS

	Option 1	Option 2	Option 3	Option 4
Tax levy increases beyond current approvals	No	No		
Increase in external debt	Yes	No		
Increase in principal and interest payable by DC collections	Yes	Yes		
Impact on other reserves	No	Yes		
Risk level	**High**	**Moderate**		

Other considerations:

- These reserves may not have a sufficient balance when it comes time to pay for projects as they were planned (e.g., asset management)
- Increased risk of higher tax rates in the future and / or tax levy funded debt

Financing from tax levy reserves

OPTION 3: REDUCE THE DC RESERVES MINIMUM BALANCE POLICY

Infrastructure Levy (1% tax levy in 2019)

$42.8M

+1%	+0%	+0%	+0%
2019 $10.7M	2020 $10.7M	2021 $10.7M	2022 $10.7M

+

Money Freed up by 2019 Federal Gas Tax & 2018 Surplus Allocation

$43.0M

+

Interest Earned on Reserve Balances

$4.9M

+

Funding from Existing DC Reserves

$109.3M

$200M

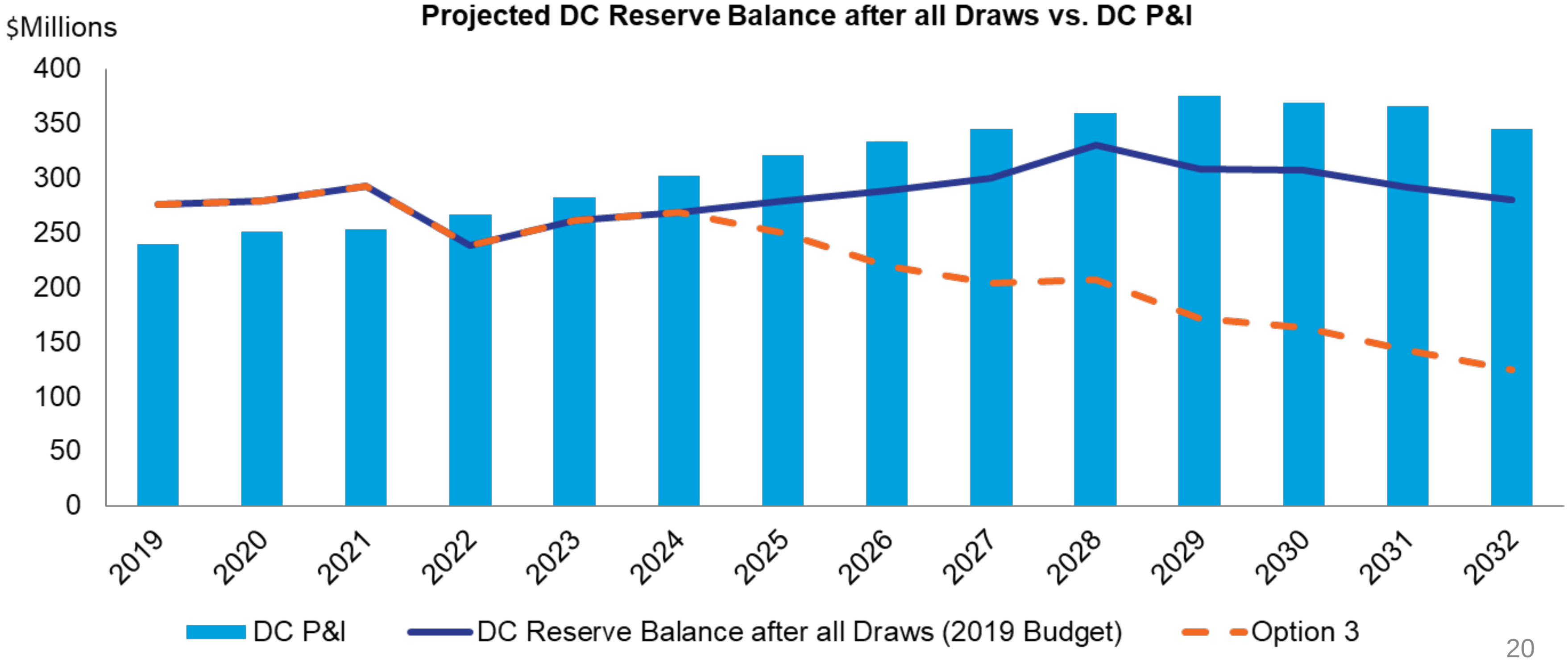
Advance capital projects

Repaid by future DC collections

OPTION 3: REDUCE THE DC RESERVES MINIMUM BALANCE POLICY

- The Region keeps $250 - $300 million in the Development Charge Reserves, which is about 75% of 1-year's principal and interest
- The balance could be reduced to help fund the gap for the Roads Capital Acceleration Reserve

Reduce the DC reserves minimum balance policy



OPTION 3: CONSIDERATIONS

	Option 1	Option 2	Option 3	Option 4
Tax levy increases beyond current approvals	No	No	No	
Increase in external debt	Yes	No	Maybe	
Increase in principal and interest payable by DC collections	Yes	Yes	Yes	
Impact on other reserves	No	Yes	No	
Risk level	**High**	**Moderate**	Moderate	

Other considerations:

- In years where actual DC collections are higher than forecast, the reserves could be replenished

Reduce the DC reserve minimum balance policy

OPTION 4: TRANSFER FROM THE DEBT REDUCTION RESERVE

Infrastructure Levy
(1% tax levy in 2019)
$42.8M from 2019-2022

+1%	+0%	+0%	+0%
2019 $10.7M	2020 $10.7M	2021 $10.7M	2022 $10.7M

+

Infrastructure Levy
(1% tax levy in 2019)
$64.2M from 2023-2028

+0%	....	+0%
2023 $10.7M	....	2028 $10.7M

+

Money Freed up by 2019 Federal Gas Tax & 2018 Surplus Allocation
$43.0M

+

Interest Earned on Reserve Balances
$8.1M

+

Transfer from the Debt Reduction Reserve
$42.0M

$200M

Advance capital projects

Repaid by future DC collections

OPTION 4 HAS THE LEAST AMOUNT OF ASSOCIATED RISK

Transfers from the Debt Reduction Reserve (DRR) would be used in 2026 through 2028

RCAR ($M)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Opening Balance	0	21.0	32.5	44.4	56.8	49.3	31.8	11.4	0.1	0.0
Approved 1%	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Federal Gas Tax	0	3.0	5.8	18.8	5.3	-	-	-	-	-
2018 Surplus	10.1	-	-	-	-	-	-	-	-	-
Transfer from DRR	-	-	-	-	-	-	-	15.2	14.2	12.6
Spending on RCAR (DC portion)	0	(3.0)	(5.8)	(18.8)	(25.3)	(29.6)	(31.8)	(37.4)	(25.0)	(23.1)
Interest Earned	0.2	0.8	1.2	1.7	1.8	1.4	0.7	0.2	0.0	0.0
Reserve Balance	21.0	32.5	44.4	56.8	49.3	31.8	11.4	0.1	0.0	0.1

OPTION 4: TRANSFER FROM THE DEBT REDUCTION RESERVE

Transfer from the Debt Reduction Reserve

- This option would transfer funds from the Debt Reduction Reserve to RCAR when needed to address the unfunded portion
- This funding could be allocated to the cash-flow requirements of the accelerated projects over the next 10 years
- Transfers from the Debt Reduction Reserve to RCAR would be used to finance any gaps (up to $42 million over 2026-2028)

OPTION 4: CONSIDERATIONS

	Option 1	Option 2	Option 3	Option 4
Tax levy increases beyond current approvals	No	No	No	No
Increase in external debt	Yes	No	Maybe	No
Increase in principal and interest payable by DC collections	Yes	Yes	Yes	Yes
Impact on other reserves	No	Yes	No	No
Risk level	**High**	Moderate	Moderate	**Low**

Other considerations:

- Assumes that $10.7 million is built into the base and continues to be used to accelerate projects, and assumes transfers from the Debt Reduction Reserve
- If tax levy savings are identified through the 2020 budget process, the unfunded gap could be further reduced

Transfer from the Debt Reduction Reserve

SUMMARY AND RECOMMENDATION

SUMMARY

	Option 1	Option 2	Option 3	Option 4
Tax levy increases beyond current approvals	No	No	No	No
Increase in external debt	Yes	No	Maybe	No
Increase in principal and interest payable by DC collections	Yes	Yes	Yes	Yes
Impact on other reserves	No	Yes	No	No
Risk level	**High**	Moderate	Moderate	**Low**

OPTION 4 HAS THE LEAST AMOUNT OF ASSOCIATED RISK

Transfers from the Debt Reduction Reserve (DRR) would be used in 2026 through 2028

RCAR ($M)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Opening Balance	0	21.0	32.5	44.4	56.8	49.3	31.8	11.4	0.1	0.0
Approved 1%	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Federal Gas Tax	0	3.0	5.8	18.8	5.3	-	-	-	-	-
2018 Surplus	10.1	-	-	-	-	-	-	-	-	-
Transfer from DRR	-	-	-	-	-	-	-	15.2	14.2	12.6
Spending on RCAR (DC portion)	0	(3.0)	(5.8)	(18.8)	(25.3)	(29.6)	(31.8)	(37.4)	(25.0)	(23.1)
Interest Earned	0.2	0.8	1.2	1.7	1.8	1.4	0.7	0.2	0.0	0.0
Reserve Balance	21.0	32.5	44.4	56.8	49.3	31.8	11.4	0.1	0.0	0.1

RECOMMENDATION

- That option 4 be brought forward in June for Council's further consideration coincident with information on potential service level adjustments that could yield operating savings

END OF PRESENTATION

For more information please contact
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