



STAFF REPORT ACTION REQUIRED

8.

2015 - 2024 Capital Budget and Plan Submission

Date:	August 21, 2014
To:	Budget Committee
From:	Acting City Librarian

SUMMARY

The purpose of this report is to respond to Toronto Public Library Board Budget Committee motions from the July 28, 2014 meeting and to request approval of the revised 2015 - 2024 capital budget and plan submission.

Toronto Public Library (TPL) has partially addressed the issue of a growing SOGR backlog through accessing additional non-debt funding for capital projects and by maximizing its draw from development charges (DC) reserves. The revised 2015 - 2024 capital budget and plan submission applies DC funding to the full eligible growth-related shares of capital projects (i.e., 0% discount), compared to the 10% discounted funding that was applied in the previous submission. This results in an additional \$5.7 million in DC funding, which further frees-up debt funding from eligible projects over the 2015 - 2024 time period. This freed-up debt funding is used to reduce the contribution from the operating budget used to fund the Technology Asset Management Program (TAMP), resulting in a \$0.570 million annual relief to the operating budget.

While the 2015 - 2024 capital budget and plan submission meets City debt targets, projections show a growing state of good repair (SOGR) backlog. The impact of higher SOGR needs when combined with reduced debt targets over 2019 - 2024, results in a projected growing SOGR backlog. Based on the current 10-year capital program, the SOGR backlog is expected to grow significantly from \$44.236 million to \$128.663 million by 2024.

RECOMMENDATIONS

The Acting City Librarian recommends that the Budget Committee:

1. recommends that the Toronto Public Library Board approves the 2015 - 2024 capital budget and plan submission, which meets the City debt targets, and requests funding of \$14.450 million debt (\$19.334 million gross) in 2015 and \$153.235 million debt (\$242.367 million gross) over 2015 - 2024.

FINANCIAL IMPACT

The revised capital submission (Appendix 1), which meets City debt targets, requests funding approval of \$14.450 million debt (\$19.334 million gross) in 2015 and \$153.235 million debt (\$242.367 million gross) over 2015 - 2024.

The gross capital plan request is comprised of City debt funding (\$153.235 million or 63%) and non-debt sources of funding (\$89.132 million or 37%) comprised of DC (\$59.186 million or 24%), section 37 funding and other contributions from developers (\$11.914 million or 5%), City reserves (\$0.583 million or 0.6%), other external (\$3.669 million or 2%) and a transfer from the Library operating budget (\$13.780 million or 6%).

A projected 10-year continuity schedule of DC reserves, based on applying DC funding to the full eligible growth-related share (0% discount), shows a projected sufficient balance in the reserve of \$22.853 million by 2024 (see Appendix 2).

For TAMP, which is partially funded by an annual contribution from the operating budget, the contribution has been reduced by \$0.570 million per year over 2015 to 2024, which provides an operating budget relief for those years.

The Director, Finance and Treasurer has reviewed this financial impact statement and is in agreement with it.

DECISION HISTORY

At the meeting on July 28, 2014, the Budget Committee reviewed the draft 2015 - 2024 Capital Budget and Plan Submission (Appendix 3), which included strategic priorities of addressing state of good repair for branches as well as maximizing alternative (non-debt) sources of funding. To make progress on both of these priorities, TPL had increased its draw from DC reserves to fund the capital program, and discounted the allowed draws by 10% instead of the 26% included in the budget guidelines issued by the City. The draft 2015 - 2024 Capital Budget and Plan Submission had the following recommendations:

That the Budget Committee recommends that the Board:

1. *approves the 2015 - 2024 capital budget and plan submission, which meets the City debt targets, and requests funding of \$14.450 million debt (\$19.334 million gross) in 2015 and \$153.235 million debt (\$242.367 million gross) over 2015 – 2024; and*
2. *requests the City to adjust the 2015 operating budget target to recognize the second year impact of \$0.763 million in 2015 for the additional operating costs associated with the operations of the new Fort York and Scarborough Civic Centre branches.*

At the meeting, the Budget Committee adopted recommendation 2. In considering recommendation 1, the Budget Committee adopted a number of motions, including:

1. *recommends that the Toronto Public Library Board takes the position that there should be no “discount rate” for development charges due to the projected large*

development charge surplus even with the discount rate applied (notwithstanding the conservative assumptions of the background study);

2. *requests staff to report back to the Budget Committee on a cost estimate to obtain a very simple opinion by Hemson (author of the development charges background study), or another reputable firm to support the position that the 10% discount rate is unnecessary;*
3. *requests staff to report back to the Budget Committee on the feasibility of reallocating from one capital budget line item to another (possibly through TAMP) to offset operating budget pressures;*
4. *recommends that the Toronto Public Library Board takes the position that no further debt funding over and above what has already been committed be made available for the First Parliament Site without explicit Board approval, and this be communicated to the City of Toronto.*

This report presents a revised 2015 - 2024 Capital Budget and Plan Submission, which responds to the above motions.

COMMENTS

Development Charges Funding – Discount

FS-FP-011 of the 2015 capital budget guidelines provides that DC funding should be used to the extent possible in the 2015 capital budget and plan. It also provides policy allocations for the DC funding for TPL at a 74% recovery rate, the equivalent of a 26% discount, which was used for the approved 2014 capital budget. The guidelines also state that exceptions may be made to the recovery rate and this depends on various factors, including available DC reserve fund balances and City corporate funding strategies.

In preparing the draft 2015 - 2024 Capital Budget and Plan Submission, presented to Budget Committee on July 28, 2014, the DC reserve fund analysis showed that sufficient DC funding was available, based on forecast expenditures and revenues, to fund 90% of the full eligible growth-related share of capital projects (representing a 10% discount).

In response to the Budget Committee motion, the DC funding has been further increased to the full eligible growth-related share and the discount has been eliminated (0%). The revised DC reserve continuity statement, shown on Appendix 2, indicates that based on forecast expenditures and revenues, sufficient DC funds are available to support the revised submission with a project balance of \$22.853 million by 2024.

Maximizing the DC funding by reducing the discount rate from 10% to 0% has generated an additional \$5.7 million of DC funding, which frees up debt funding from the eligible projects over 2015 - 2024. The freed-up debt room of up to \$5.7 million could be reinvested in additional SOGR spending on buildings to address the growing backlog. Another option to utilize the freed-up debt is discussed below.

Technology Asset Management Program Funding

The Budget Committee motion from the July 28, 2014 meeting requested staff to report on whether funding can be reallocated from one project to another project, to offset pressures in the operating budget. The Technology Asset Management Program (TAMP) is funded from three sources: (1) debt; (2) a contribution from the operating budget; and (3) DC. TAMP is the only capital project that receives funding from the operating budget, amounting to \$1.948 million annually; therefore, additional funding would need to be directed towards TAMP in order to seek relief for the operating budget.

In last year's approved 2014 - 2023 Capital Budget and Plan, a similar strategy was used when \$1 million of additional DC for TAMP, which resulted from the new DC by-law, was used to reduce the contribution from the operating budget funding source, resulting in a \$0.100 million annual relief to the operating budget.

As noted above, reducing the discount rate on DC draws from 10% to 0% has freed-up additional debt room of up to \$5.7 million. Another option for using the freed-up funding is to replace \$5.7 million of the contribution from the operating budget used to fund TAMP over 2015 - 2024, comprised of additional TAMP DC of \$0.193 million and reallocated debt of \$5.507 million. This would result in a relief to the operating budget of \$0.570 million annually, and is fully sustainable over the 10 years. If the freed-up funds are used to offset the contribution from the operating budget for TAMP, the gross capital funding is unchanged, but the funding sources for TAMP is adjusted as show below:

TAMP FUNDING

10% Discount on Development Charges Draw	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TOTAL
Gross Expenditures	4,500	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	41,400
Funding Sources:											
Debt	2,404	1,817	2,011	2,011	2,011	2,011	2,011	2,011	2,011	2,008	20,306
Development Charges	148	335	141	141	141	141	141	141	141	144	1,614
Contribution from Operating Budget	1,948	1,948	1,948	1,948	1,948	1,948	1,948	1,948	1,948	1,948	19,480
	4,500	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	41,400

A

0% Discount on Development Charges Draw	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TOTAL
Gross Expenditures	4,500	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	41,400
Funding Sources:											
Debt	2,837	2,516	2,565	2,534	2,693	2,408	2,311	2,722	2,565	2,662	25,813
Development Charges	285	206	157	188	29	314	411	-	157	60	1,807
Contribution from Operating Budget	1,378	1,378	1,378	1,378	1,378	1,378	1,378	1,378	1,378	1,378	13,780
	4,500	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	41,400

B

Full Impact on TAMP from Eliminating Discount (10% to 0%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TOTAL
Gross Expenditures	-	-	-	-	-	-	-	-	-	-	-
Funding Sources:											
Debt	433	699	554	523	682	397	300	711	554	654	5,507
Development Charges	137	(129)	16	47	(112)	173	270	(141)	16	(84)	193
Contribution from Operating Budget	(570)	(570)	(570)	(570)	(570)	(570)	(570)	(570)	(570)	(570)	(5,700)
	-	-	-	-	-	-	-	-	-	-	-

B - A

The revised 2015 - 2024 Capital Budget and Plan Submission summary spreadsheet, Appendix 1, reflects the adjusted funding for TAMP, and is being recommended for approval.

Consultant

The Budget Committee requested staff to obtain an estimate of the cost for hiring a consultant to support TPL's position that no discount should be applied to DC draws from the reserves. We have been advised by City Finance staff that, in accordance with the budget guidelines, DC funding can be applied up to the full eligible growth-related shares of capital projects, provided that sufficient DC funds are available, based on a DC reserve fund continuity analysis, and subject to City corporate funding strategies. As such, the services of the consultant for a similar opinion are unnecessary.

Discussions are continuing with City Finance staff regarding TPL applying a 0% discount on DC draws for the capital submission.

2015 - 2024 Capital Submission Request - Revised

Reducing the discount rate on DC draws from 10% to 0% did not change the gross budget request, which remained at \$19.334 million for 2015 and \$242.367 million over 2015 - 2024, but non-debt funding sources have been revised by increasing DC funding by \$5.7 million and decreasing the contribution from the operating budget by \$5.7 million. The debt funding request for the 2015 - 2024 Capital Budget Submission remained unchanged at \$153.235 million, which consists of \$124.821 million for building projects and \$28.414 million for technology-related projects, which include TAMP, Virtual Branch Services and the Automated Sorter Replacement Program.

A summary of the Library's revised 2015 - 2024 capital submission, including funding sources and the impact on the operating budget are summarized as follows:

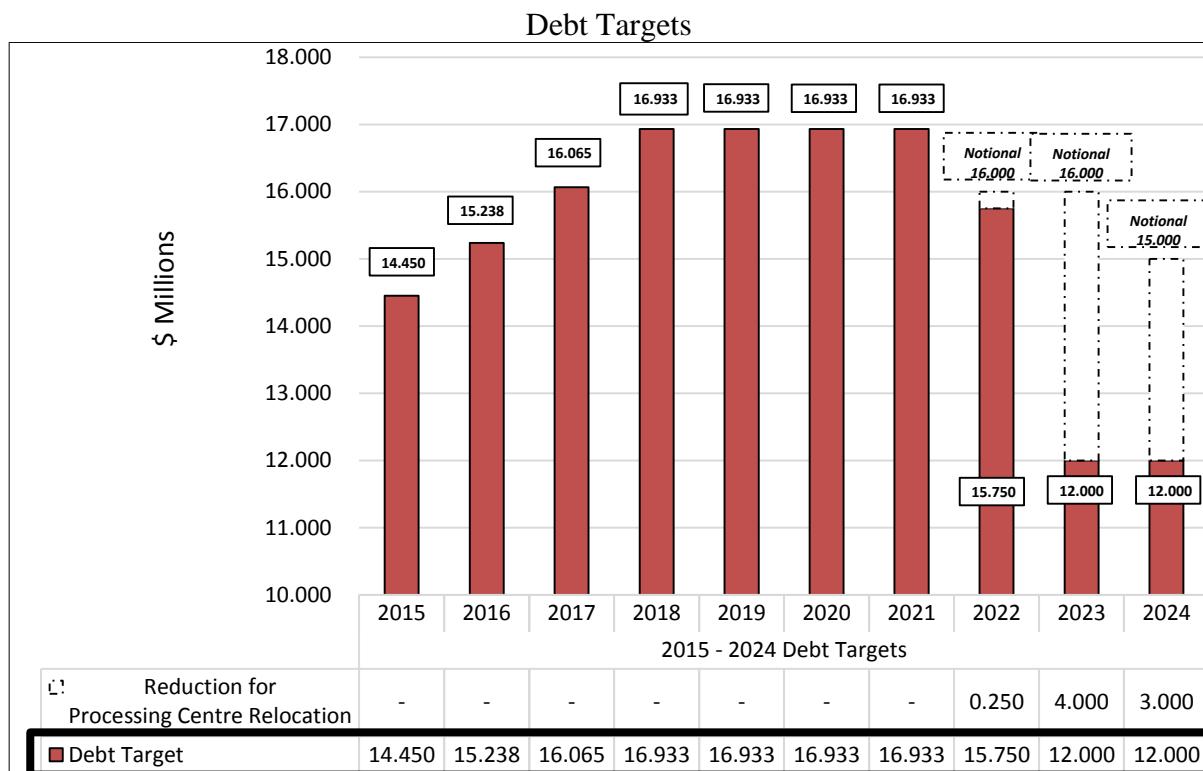
2015 - 2024 Capital Submission Summary (\$000's)													
	2015	2016	2017	2018	2019	Total 2015-2019	2020	2021	2022	2023	2024	Total 2020-2024	Total 2015-2024
Buildings - Gross	13,084	21,691	27,736	26,763	18,729	108,003	14,886	18,518	19,359	15,895	9,746	78,404	186,407 77%
IT - Gross	6,250	5,600	5,100	5,100	5,350	27,400	5,350	5,350	5,350	6,150	6,360	28,560	55,960 23%
Total Gross Request	19,334	27,291	32,836	31,863	24,079	135,403	20,236	23,868	24,709	22,045	16,106	106,964	242,367 100%
Non-Debt Sources of Funding													
- Development Charges	(236)	8,450	13,312	11,912	5,768	39,206	1,925	4,950	5,165	5,212	2,728	19,980	59,186 24%
- Library operating budget	1,378	1,378	1,378	1,378	1,378	6,890	1,378	1,378	1,378	1,378	1,378	6,890	13,780 6%
- Other external	-	-	-	841	-	841	-	359	1,024	1,445	-	2,828	3,669 2%
- Section 37 and Dev. Contrib.	3,739	2,225	1,501	799	-	8,264	-	248	1,392	2,010	-	3,650	11,914 5%
- City Reserves	3	-	580	-	-	583	-	-	-	-	-	-	583 0%
Total Non-Debt Funding	4,884	12,053	16,771	14,930	7,146	55,784	3,303	6,935	8,959	10,045	4,106	33,348	89,132 37%
City Debt - MeetsTarget	14,450	15,238	16,065	16,933	16,933	79,619	16,933	16,933	15,750	12,000	12,000	73,616	153,235 63%
Incremental Operating Impacts	767	83	99	969	915	2,833	18	48	112	82	21	281	3,114
<i>FTEs</i>	-	2.7	-	15.0	-	17.7	-	-	0.5	-	0.5	-	18.2

The complete 10-year capital submission summary with gross and debt funding for capital projects is included in Appendix 1.

CHALLENGES AND ISSUES

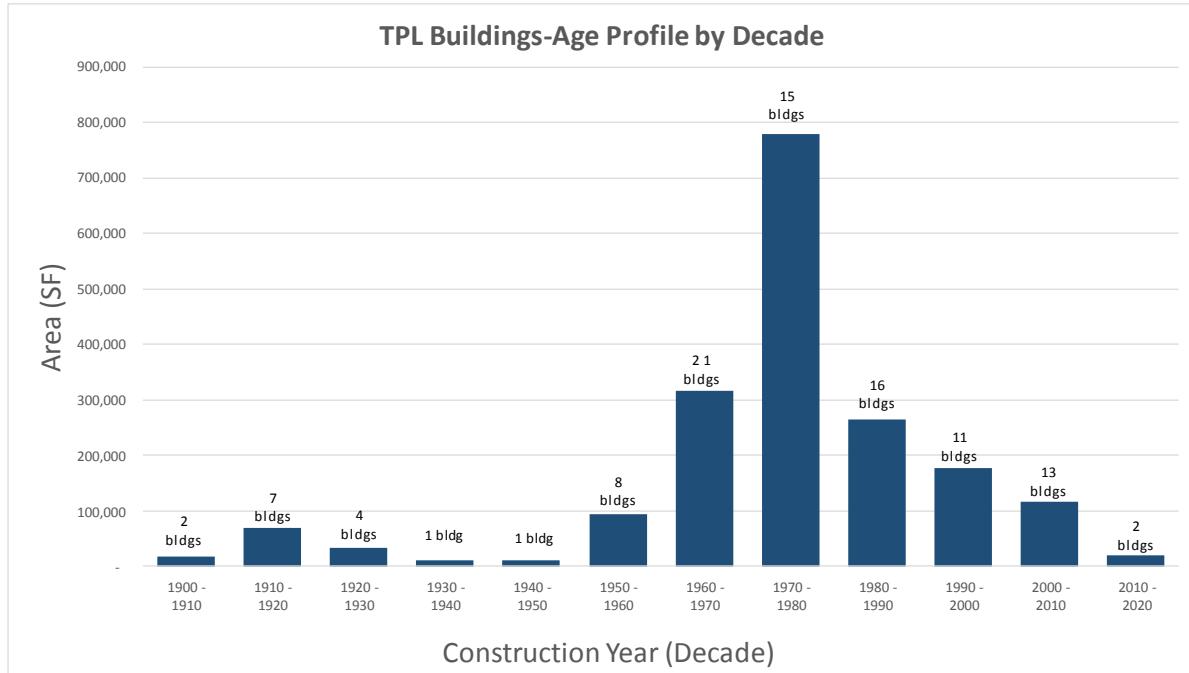
Debt Target

The City's assigned 2015 - 2024 debt targets, as shown below, are inadequate to meet TPL's capital funding needs for building SOGR. Debt targets after 2018 are not adjusted for inflation and actually decreased after 2021, which puts significant pressures on the capital program, especially in the second five years of the 10-year plan, and will negatively impact TPL's ability to address SOGR issues.

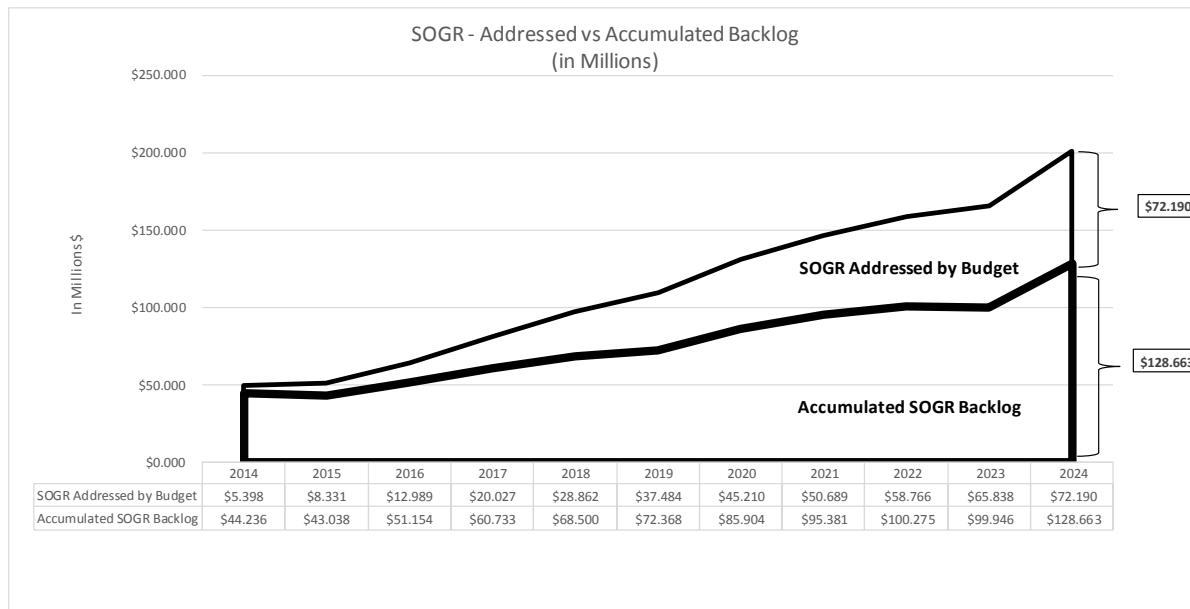


Building State of Good Repair and Accessibility Requirements

A comprehensive Property Condition Assessment (PCA) done in 2014 indicates more SOGR funding requirements than previously identified over the next 10 years to address an aging facilities infrastructure, which is largely 40 - 50 years old as shown below:



The PCA identified an accumulated SOGR backlog of \$44.236 million at the end of 2014. Over the 10-year period, additional SOGR requirements total \$156.617 million, which will be partially offset by TPL's 2015 - 2024 capital program, which addresses \$72.190 million of SOGR spending through the Multi-Branch Renovation Program (SOGR) and major renovations. This will result in the 10-year accumulated SOGR backlog growing to \$128.663 million by 2024.



The results of the PCA support the priorities for the 2015 - 2024 capital plan. The PCA results will be reviewed for priorities, to address critical items within the available budget.

In conjunction with the PCA, TPL undertook a compliance audit under AODA. Where feasible, AODA upgrades will be combined with other SOGR upgrades to minimize costs.

Growth in Population and Service Demand

As community cornerstones, branches are vital to local neighbourhoods. The demand for new and expanded branches continues to be shaped by ongoing needs to provide 21st century library services, high demand for library use and resources, growing communities, and improving access to branch facilities and resources. In addition to its existing projects, TPL continues to evaluate and prioritize future renovation and expansion projects for all of its locations.

Demand for Virtual Branch e-services and Technology

The Virtual Branch project is designed to deliver more content and features for a user-focused website, while accommodating rapid changes in mobile access requirements. The demand for this service continues to grow each year. Technology needs also continue to grow, including self-service, automated sorters, wireless and internet access. The technology infrastructure needs to be maintained, replaced and enhanced to meet demand, which requires capital funding.

Operating impact

For TAMP, which is partially funded by an annual contribution from the operating budget, the additional DC generated from reducing the discount rate on DC draws from 10% to 0% has allowed the contribution from the operating budget to be reduced by \$0.570 million per year over 2015 to 2024, providing operating budget relief for those years.

Operating Budget impacts over the 2015-2024 period total \$3.114 million and 18.2 FTEs resulting mainly from the second year impact of \$0.763 million for the cost of operations of the two new branches, Scarborough Civic Centre Branch (\$0.744 million) and Fort York Branch (\$0.019 million), and the planned relocation and expansion of the St. Lawrence Branch (\$1.598 million).

CONTACT

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SIGNATURE

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ATTACHMENTS

- Appendix 1: 2015 - 2024 Capital Budget and Plan Submission – Gross and Debt Funding Summary
- Appendix 2: Development Charges Continuity
- Appendix 3: Report to July 28, 2014 Budget Committee, 2015 – 2024 Capital Budget and Plan Submission