

OCT 19 2006

DATE: October 17, 2006
TO: Finance and Intergovernmental Committee
FROM: J. Maitland
Finance Officer
SUBJECT: FUNDING COAST MERIDIAN OVERPASS

RECOMMENDATIONS:

1. That the budget for the Coast Meridian Overpass project be set at \$98.73 million with the following sources of funding :

Major Transportation Capital Reserve	\$1.35	Million
Road Area 1 DCC Reserve	\$7.19	Million
Road Area 2 DCC Reserve	\$17.72	Million
Land Sale Reserve *	\$12.47	Million
Total City Funding	\$38.73	Million
TransLink Grant *	\$60.00	Million

* TransLink Grant will be reduced by legal costs incurred by TransLink in supporting the City's CTA application. Land Sales Reserve contribution will increase by amount that TransLink's contribution is reduced.

2. That an updated cost estimate be obtained prior to issuing the tender document for the project if the project is not tendered in 2006.
3. That approval of current unfunded projects from the Land Sales Reserve¹ be deferred until such time as:
 - The construction contract is awarded and the cost is firm; and
 - Additional land sales take placeand that this limitation on the use of funds from the Land Sales Reserve be modified to permit some of the smaller projects/items to proceed provided that the TransLink agrees to make monthly progress payments.

PURPOSE:

The purpose of this report is to update Council on the financial impacts, and related potential financial concerns/risks, of the Coast Meridian Overpass project.

¹ Also known as Tax Sale Land Reserve

BACKGROUND & COMMENTS:

1. Cost Estimate

The current (September) cost estimate is \$98.73 million, some \$7.78 higher than the previous (February) cost estimate. The budget needs to be amended to reflect the current projected cost, recommendation #1 does this.

The estimate has been provided by a consultant (E. Wolski Consulting) who is very experienced in estimating the costs of projects such as this. He has served as the project estimator on a number of major highway improvement programs including the current Pitt River Bridge project, Okanagan Lake project and the Sea to Sky Program.

As outlined, the consultant providing this estimate is extremely experienced; however it must be noted that the estimate is for a project at concept design stage, not fully designed stage. The City's former Director of Engineering and Operations categorizes this as a class D cost estimate and as such it contains allowances/contingencies for unknowns. The cost estimate includes the following allowances:

- a contingency of \$14.2 million. Contingency allowance is to allow for design refinements from concept plan to final design, additional land or right-of-way allowances, etc.,
- a management reserve of \$4.3 million. Management reserve is to allow for scope of work changes after the award of the contract, for example increases in landscaping, additional street lighting, etc., and
- an allowance for cost escalation of \$9.1 million. Allowance for cost escalation is to allow for future cost increases between the time of the estimate and the time when expenditures actually take place. The consultant's estimate is based upon a mid-2007 start and completion early in 2009.

All of the above allowances are reasonable considering the current status of the project and the current volatile construction environment, and Council should assume that they will be fully spent; in other words the total project cost will likely be very close to the stated \$98.73M estimate.

The City's application to the Canadian Transportation Authority states that "the cost escalation of the Overpass Project carrying forward is approximately 11.5% per year or \$940,000 per month." Thus, it is important that the project proceed on schedule and that actions be taken to minimize the City's exposure to these escalation costs (see item 3. Design Build, below).

2. TransLink Funding

TransLink share of this project is a fixed \$60 million less legal costs incurred in supporting the City's Canadian Transportation Agency application.

The City will pay for the cost of this project and will invoice TransLink for their share of costs on a pro-rata basis.

3. Design Build

It is understood that once the go ahead is given that this project will proceed on a Design-Build basis where the City will know up front, before construction begins, the overall project cost. The Design-Build approach offers the greatest benefit to the City in terms of transferring the risk to the contractor resulting from project delays and/or cost increases (see costs escalation costs implications under item #1 Cost Estimate), minimizing design and construction cost, accelerated project schedule, and opportunities for innovation. Staff strongly support proceeding under the Design-Build method of construction.

4. City Funding - Capital

The City's share of this project is expected to be funded from the following reserves:

<u>Funding Summary</u> (millions)	Expended to the		
	Total	end of 2006	Future costs
Major Transportation Capital Reserve	\$1.35	\$1.35	\$0.00
Road Area 1 DCC Reserve	\$7.19	\$0.31	\$6.88
Road Area 2 DCC Reserve	\$17.72	\$0.86	\$16.85
Land Sale Reserve	\$12.47 *	\$1.81	\$10.66 *
Total City Funding	\$38.73	\$4.33	\$34.40
TransLink Grant	\$60.00		

* plus legal costs incurred by TransLink in support of City's CTA application.

5. Land Sales Reserve

In 2002, Council approved a special financing arrangement for the Coast Meridian Overpass that planned for repayment of 50% of the funding provided from the Land Sales Reserve. As indicated in Attachment 1, the balance in the Land Sales Reserve, will remain healthy, provided that projected land sales are completed.

Repayment for the overpass is phased in at \$52,000 per year for 2008, 2009 and 2010 and is calculated as 50% of the amount taken from the reserve for CMOP repaid over 40 years, without interest.

The Land Sales Reserve projection (Attachment 1) does not anticipate funding of any of the \$30.8 million in unfunded capital projects/items listed on Attachment 2 (excerpt from the draft Capital Improvement Program). All of the estimates in Attachment 2 are preliminary estimates, primarily in 2006 dollars, and may fluctuate upwards significantly at detailed design stage. The projection (Attachment 1) also does not include any new projects that will arise out of the currently underway Parks & Recreation Master Plan. While some of the unfunded projects are not large dollar items, staff believes it is necessary to recommend that no further withdrawals from the Land Sales Reserve take place until some of the planned land sales take place. It is also necessary to hold off on additional withdrawals until such time as the tender is awarded and the cost is firm. This recommendation would be re-evaluated, based on the status of the land sales, in January 2007 when the City will be finalizing the 2007 budget.

6. City Funding – DCCs

Attachment 3 shows the estimated balances in the Roads Area 1 (most of the City) and Roads Area 2 (Riverwood/Dominion Triangle) Development Cost Charge Reserves.

The reserves will remain in a healthy state as outlined in Attachment 3 provided that development planned for the Dominion Triangle proceeds and DCCs expected from these developments are received.

7. City Funding – Internal Debt Repayment and Operating Budget

The City's Financial Management Policy calls for repayment of funds withdrawn from the Land Sales Reserve; however in 2002, Council approved a special financing arrangement for the Coast Meridian Overpass that planned for repayment of 50% of the withdrawal from the reserve.

<u>Property tax impact</u>	Annual incremental cost increase			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Engineering & Operations annual budget	\$ -	\$ 120,000	\$ 40,000	\$ 160,000
Repayment to Land Sales Reserve over 40 years no interest with cost phased in over 3 years 2008-2010	\$ 52,000	\$ 52,000	\$ 52,000	\$ 156,000
MRN Funding from TransLink 5.1 lane kms * \$12,000		-\$ 61,200		-\$ 61,200
<u>Total annual incremental cost</u>	<u>\$ 52,000</u>	<u>\$ 110,800</u>	<u>\$ 92,000</u>	<u>\$ 254,800</u>
Property tax impact based on 2006 overall tax levy of \$35.7 million	0.15%	0.31%	0.26%	0.71%
General Tax effect on average home, based on 2006 average general property taxes of \$1,441.29	\$ 2.10	\$ 4.47	\$ 3.71	\$ 10.29

While TransLink staff have advised that they will recommend classification as part of the Major Road Network, this cannot be done until the project is actually complete. If TransLink annual funding is not approved, the City's costs will increase by \$61,200 and the cost per average home would increase to \$13 per home.

9. Borrowing Option

As outlined above, Council has approved funding of this project with the City's non-DCC component coming from the Land Sales Reserve with 50% of the amount withdrawn from the Land Sales Reserve to be repaid without interest. The City's normal policy calls for full repayment without interest.

Another option available is to borrow for the City's non-DCC component. This option would see the City borrowing \$10.66 million (\$12.47 million non-DCC share less \$1.81 already spent) through the Municipal Finance Authority. The annual cost of this option, assuming 30-year repayment (maximum borrowing length under section 179 of the *Community Charter*) would be

\$723,069². The annual cost of this debt servicing would be approximately \$23 on the average home.

Based on current projections, assuming projected land sales occur as stated, the City has sufficient funds to finance the CMOP project internally. Given the interest costs of external borrowing and the requirement to repay 100% of the borrowed funds over thirty years (vs. the policy decision to pay back only 50% of internally borrowed funds over forty years) and the resulting impact on the tax payer, staff do not recommend that external borrowing be considered at this time.

10. Concerns/Risks

Section 1 below summarizes the key financial concerns/risks respecting the CMOP project. Section 2 below identifies the City's ability to respond to the identified concerns/risks, including the potential impact on other City projects. Section 3 below states staff recommendations meant to minimize any of the identified concerns/risk.

Section 1 – Key Financial Concerns/Risks

A. Capital Cost Overruns

As the City will be tendering the project on a design-build basis once the tender is awarded the risk of cost overruns are to a great extent transferred³ to the contractor. Thus, the risk to the City in this area would result from increases in the total project costs resulting from delays in issuing the proposal call for the project. The current project cost estimate of \$98.73M is based on a project start date of mid 2007 and an end date of early 2009; project escalation costs resulting from delays in starting the project are estimated at \$940,000 per month.

² Note borrowing limits under the *Community Charter* state that the annual cost of servicing debt can not exceed 25% of specified City revenues. For Port Coquitlam the annual servicing cost could not exceed \$15 million which then would mean that the maximum amount the City could borrow is approximately \$188 million. The limit without proceeding through the assent process is 20% of the above, or approximately \$37.5 million (estimate based on 20 year borrowing at 5% interest).

³ The City may be left with some risks on cost increases, for example the contractor is unlikely to assume risks associated with CPR costs, the contractor may also submit a tender tying their costs to the current price of steel in which case the City could face some additional costs should the price of steel increase.

Delayed Availability of Funds

The draft agreement with TransLink calls for quarterly progress payments for TransLink's share of the project. This will result in the City carrying TransLink's share of the costs for a considerable period of time, most likely a minimum of 60 days.⁴ Staff have asked TransLink to change this section of the agreement to make monthly payments; however at this time it is not known as to whether or not the agreement will be amended.

Additionally, there may be temporary funding shortages within either the Land Sale Reserve or the Development Cost Charge Reserves due to:

- delays in the receipt of \$35.1 million in projected land sales (Attachments 1 and 2) over the next four years; and/or
- delays in the receipt of DCCs from expected development within the City, in particular in the Dominion Triangle.

C. Land Sales Are Less than Projected

The current land sale revenue projections are based on projected values and timing of potential sales obtained from Development Services. If the market was to slow down the City may not receive the sales revenue when projected, causing a shortfall in funding.

Section 2 – City's Ability to Respond to the Identified Concerns/Risks Identified in Section 1

A. Project Cost Increases

The question to be answered is: At what point would cost overruns or reduced land sale revenues make the CMOP project unaffordable?

What is affordable is of course up to Council and staff offers the following comments:

- The current projected impact of this project on the annual property taxes is \$10.29 per home per year.
- Council will have an up to date cost estimate at the time the proposal call is issued and will review the affordability of the project prior to proceeding.
- The City currently has no external debt and could borrow up to about \$188 million with the assent of the electors, or about \$37.5 million without the assent of the electors. As stated earlier, the costs of borrowing, \$10.66 million would result in an additional annual cost to the average home of \$23 per year for a term of thirty years.
- The Land Sale Reserve projections suggest that the City has the ability to fund additional costs as the Land Sale Reserve will have a balance of \$36.9 million at the end of 2011.
- Any cost increases funded from the Land Sale Reserve will proportionately reduce the funds available for other desired, but currently unfunded capital projects, estimated to total at least, \$30.8M (see comments under section 5 Land Sales Reserve). Should

⁴ The costs to the City for carrying TransLink's share of the bill, until reimbursement from TransLink is received will be reflected in lost interest revenue. At an interest rate of 4%, assuming that at any point in time the City would be carrying \$5M of TransLink costs, the annual loss in interest revenue would be \$200,000.

Council wish to proceed with such projects, and funding is not available from the Land Sale Reserve, the projects would likley have to be financed with external debt .⁵

- Given that the projected balance of the Land Sale Reserve at the end of 2011 is \$36.9 million and the currently unfunded capital projects total at least \$30.8M, there is little room for CMOP project cost increases beyond the current estimate, without affecting the ability of the City to proceed with all of the currently identified, but unfunded capital projects, without incurring external debt. On the other hand, the City clearly has significant ability to access additional funds, both internally or externally.

B. Delays in The Availability of Funds

Cash flow delays would be addressed in the following manner:

(i) Internal Short-Term Borrowing

The City's total reserve balance is currently about \$60 million dollars including the \$35.4 million to be spent on this project. Under section 189 of the *Community Charter* the City could temporarily borrow funds in these reserves to finance the cash flow needs of the CMOP project. If this is done, the *Community Charter* will require interest to be paid on the borrowings, with the exception of those from reserves that could actually be re-directed to the CMOP project (currently this would be about \$22 million, being the balance of the Capital Reserve).

It is anticipated that expected internal borrowing will not impact or delay any projects identified as funded within the draft Capital Improvement Program but may, depending upon the length and amount of the temporary funding shortage, necessitate a delay in proceeding with a project that is currently unfunded (would require funding from the Land Sales Reserve).

(ii) External Short-Term Borrowing

If available internal short-term borrowing is not sufficient the City would look to obtaining short-term funds externally.

The options to obtaining external temporary funding are as follows:

- Pass a loan authorization bylaw under section 179 of the *Community Charter* and another bylaw enabling temporary borrowing under the loan authorization bylaw. It would take approximately two months to obtain funds under this option given the required steps to be taken.

⁵Legally, Council does have the ability to re-direct existing monies currently sitting in the City's Capital Reserve (current balance of about \$22 million), but this is strongly not recommended, as these funds are in place to fund a variety of known future capital projects (portions of those shown as funded in the current draft Capital Plan), with the need for these works (with the exception of some works in the water and sewer component of the capital reserve) to occur in the next few years. In addition, there is likely some limited ability to finance (ie borrow from the capital reserve on a longer-term basis), dependant on the cash flow requirements for the use of the monies in the capital reserve, and the rate at which the internal loan would be paid back.

- Pass a Short Term Capital borrowing bylaw under section 178 of the *Community Charter*. This would enable the temporary borrowing of \$2.8 million (\$50 per capita) and would not involve an elector approval process although approval of the Inspector of Municipalities is required. It would take approximately one month to obtain funds under this option given the required steps to be taken.
- Pass a Revenue Anticipation bylaw under section 177 of the *Community Charter*. This section was designed to permit municipalities to temporarily borrow in advance of the receipt of property taxes. The maximum permissible borrowing under this section is limited to the amount of taxes unpaid which could be as low as \$1.5 million. It would take less than one week to obtain funds under this option given the required steps to be taken.

At this time, provided that land sales occur roughly as planned and that development paying DCCs continues to occur, staff does not anticipate the need to temporarily borrow for this project externally.

Section 3 - Staff Recommendations Meant to Minimize any of the Identified Concerns/Risks

Two steps that would reduce the risks identified above are recommended:

1. That consideration be given to obtaining an updated project cost estimate if the tender issuance is delayed into early 2007 or beyond. This will allow the City to re-assess the "affordability" of the project prior to incurring costs associated with the tender process.
2. That approval of current unfunded projects from the Land Sales Reserve be deferred until:
 - a. The costs are as firm as they are going to get i.e. a contract is awarded; and
 - b. Such time as additional land sales take place. This will prioritize the use of the Land Sale Reserve Funds for the project until such time as it is clear that they will not be required to fund the project. It is further recommended that this restriction would be modified, to permit the approval of small projects or items costing less than a few \$100,000 should TransLink agree to make monthly payments.

10. Other Comments

Other Funding Sources

The City is pursuing funding from other sources for this project. Any funding received from other sources will reduce the City's projected contribution (prorata reduction in reserve funding).

Public Sector Accounting Board – Fixed Asset

The Public Sector Accounting Board's new rules for accounting for Fixed Assets come into effect in 2009. Under the new rules the City as sole owner of CMOP will be required to record depreciation expense on the total cost of CMOP. The annual depreciation expense to be recorded by the City on the CMOP based on a 50-year life is \$1.975 million.

While the City will be required to book the expense on the financial statements, at this time it is expected that the City will not be required to budget or tax for depreciation. The effect of the (not funding) is that an unfunded liability will be shown in the City's financial statements, growing at the rate of \$1.975 million per year.

Project Timing

There may be some opportunity for savings as the new Pitt River Bridge and Fremont/Mary Hill Bypass/Lougheed Highway interchange is expected to start early in 2007 also under the design build method of construction. The timing of this project is ideally occurring prior to the City's expected proposal call for the CMOP such that the City will likely benefit from the economy of scale should the successful proponent for the Gateway project submit a bid for the CMOP.

Impact on Finance Staff

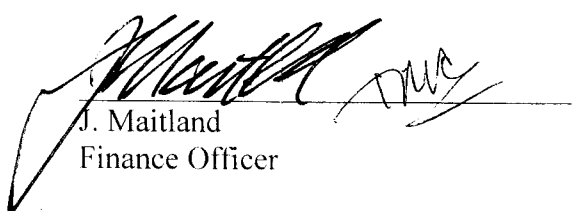
The project will require a considerable amount of administrative overhead to:

- monitor and forecast cash flows for this project and each of the affected City reserves;
- promptly invoice TransLink; and
- record interest payments to various reserves for temporary borrowings, as required.

SUMMARY:

There are no significant financial concerns regarding this project at this time. The City has requested that TransLink agree to make monthly payments rather than quarterly payments. This change certainly would benefit the City; however the City can manage this project without this improvement if necessary. As stated in the body of the report, the timely occurrence of planned land sales, the issuance of the tender on a design-build basis and in time to allow a project start date in mid 2007, are required in order to minimize the risks associated with this project.

At this time the estimated property tax impact on the average home for this project is \$10.29 per year. This is needed for the on-going operation and maintenance for the overpass and for partial replenishment of the Land Sales Reserve as outlined in this report.


J. Maitland
Finance Officer

Attachments:

1. Land Sales Reserve Projection
2. Unfunded Capital
3. Roads Development Cost Charge Reserve Projections

Land Sales Reserve**Land Sales Reserve**

		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Balance forward		\$8,143,071	\$7,213,965	\$14,795,265	\$12,089,065	\$18,163,865	\$34,812,665
Plus :							
Interest on start balance	3.0%	\$244,000	\$216,000	\$444,000	\$363,000	\$545,000	\$1,044,000
Internal loan repayments	Note 1	\$780,800	\$867,800	\$979,800	\$1,041,800	\$1,103,800	\$1,103,800
Anticipated land sales	Note 2	\$3,145,993	\$12,615,000	\$1,200,000	\$6,270,000	\$15,000,000	\$0
Less :							
Committed / approved expenditures							
Arts & Cultural facility		\$3,319,899					
Ferry Fox Library		\$520,000					
Gates Park		\$400,000					
City Hall		\$550,000					
Coast M Overpass		\$310,000	\$3,730,000	\$5,330,000	\$1,600,000		
Broadway			\$2,387,500				
Reserve Balance at end of year		\$7,213,965	\$14,795,265	\$12,089,065	\$18,163,865	\$34,812,665	\$36,960,465

Notes:

1 Internal loan repayment cost increases relate to:

City Hall/Annex	\$	37,000				
Arts Village (additional funding)	\$	50,000	\$	50,000		
Coast Meridian Overpass			\$	62,000	\$	62,000

2 Projected land sales are listed on Attachment 2

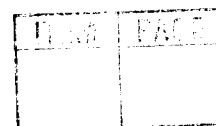
Unfunded Projects

The projects presented in the following section are not included in this CIP. Although the departments would like to include these projects in their respective plans, no specific funding has been determined.

Unfunded Capital Projects

Reference	2007	2008	2009	2010	2011
Information Systems Unfunded Projects					
CC-I-N-02 Financial Reporting & Budget System Improvements	40,000	40,000	40,000		
CC-I-N-04 Wide Area Fibre Optic Network		30,000	30,000	30,000	30,000
CC-I-N-05 Handheld Computing Devices	30,000	5,000	5,000		
CC-I-N-06 Capital Asset Management System	100,000	50,000			
CC-I-N-07 Document Management System		64,000	37,000		
CC-I-N-10 Performance Management System		40,000			
CC-I-N-11 Payroll - Remote Timesheet Entry	10,000				
CC-I-N-12 Tempest - Prospero System - Engineering & Operations Tracking	50,000				
Unfunded Information Systems Capital Projects	\$230,000	\$229,000	\$112,000	\$30,000	\$30,000
Engineering & Operations Unfunded Projects					
CE-R-R-04 Coquitlam River Dam Flood Routing Capability Improvements	100,000	100,000	100,000	100,000	100,000
CE-R-R-05 Loughheed Highway - Coquitlam River Bridges		90,000	135,200		
CE-R-R-07 Traffic Safety Improvement Program				282,500	81,500
CE-R-N-16 Westwood Street Road Widening Construction		550,000			
CE-R-N-18 Storm Sewer - 3400 Block St Anne Street	285,600				
CE-R-N-19 Gravel Sidewalk, 1600 & 1700 Block Greenmount Avenue	100,000				
CE-R-N-20 Shaughnessy Pedestrian Overpass			100,000	2,000,000	
CE-R-N-21 Northeast LRT Eastward Extension Study	50,000				
CE-R-N-24 Donald Street Revitalization	250,000				
Unfunded Engineering & Operations Capital Projects	\$785,600	\$740,000	\$335,200	\$2,382,500	\$181,500
Parks & Recreation Unfunded Projects					
CP-A-N-14 Annual Infrastructure Funding Envelope	\$74,000	\$74,000	\$74,000	\$74,000	\$74,000
CP-A-N-15 Parks and Recreation Department Major Capital Program		1,909,500	1,430,000	2,440,000	3,550,000
CP-A-N-16 Port Coquitlam Recreation Complex	11,738,000				
CP-A-N-17 Security Equipment	145,000				
Unfunded Parks & Recreation Capital Projects	\$11,957,000	\$1,983,500	\$1,504,000	\$2,514,000	\$3,624,000
Police Services Unfunded Projects					
CR-P-N-03 Public Safety Building			\$100,000	\$2,700,000	\$1,400,000
Unfunded Police Services Capital Projects	\$0	\$0	\$100,000	\$2,700,000	\$1,400,000

While these projects currently remain unfunded, there is still a breakdown by year to in order to give a better overview of when staff expects the capital need to arise.



Roads DCC Projections

Roads DCC Area 1

		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Balance forward		\$8,581,294	\$9,222,792	\$9,420,504	\$12,781,764	\$14,830,244	\$17,703,024
Plus :							
Interest on start balance	3.0%	\$257,000	\$277,000	\$283,000	\$383,000	\$445,000	\$531,000
Contribution from development	Note 1	\$670,898	\$3,617,812	\$6,552,760	\$2,765,480	\$2,765,480	\$2,765,480
Less :							
Expenditures							
Project Admin		\$86,400	\$34,500	\$34,500	\$34,500	\$34,500	\$34,500
Broadway			\$1,252,600				
Traffic signals					\$35,500		\$35,500
Pitt River Road						\$303,200	\$225,650
Coast Meridian Overpass		\$200,000	\$2,410,000	\$3,440,000	\$1,030,000		
Reserve Balance at end of year		\$9,222,792	\$9,420,504	\$12,781,764	\$14,830,244	\$17,703,024	\$20,703,854

Roads DCC Area 2

		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Balance forward		\$19,050,852	\$20,689,309	\$12,278,004	\$6,891,076	\$6,283,737	\$7,929,287
Plus :							
Interest on start balance	3.0%	\$572,000	\$621,000	\$368,000	\$207,000	\$189,000	\$238,000
Contribution from development	Note 1	\$1,642,857	\$3,181,735	\$2,709,572	\$1,750,161	\$1,491,050	\$1,491,050
Less :							
Committed / approved expenditures							
Project Admin		\$86,400	\$34,500	\$34,500	\$34,500	\$34,500	\$34,500
Broadway			\$459,000				
Dominion			\$5,820,540				
Coast Meridian Overpass		\$490,000	\$5,900,000	\$8,430,000	\$2,530,000		
Reserve Balance at end of year		\$20,689,309	\$12,278,004	\$6,891,076	\$6,283,737	\$7,929,287	\$9,623,837

Note

1 Contribution from development is estimated by Finance in conjunction with growth estimates provided by Development Services