WASAGA BEACH

CORPORATE REPORT

The Corporation of the Town of Wasaga Beach

Meeting Date: Click or tap to enter a date.

DATE: 7/25/2024

SUBJECT: Beachfront Development-Town Capital Works – Financial Plan

CONTACT: Jocelyn Lee, Chief Financial Officer and Treasurer

REPORT NUMBER: 2024/07/29-10

RECOMMENDATION:

1. **THAT** the report titled: Beachfront Development-Town Capital Works – Financial Plan, to the Special Council meeting of July 29, 2024, be received; and
2. **THAT** Council approve the Financial recommendations outlined in this report to advance the Beachfront Development consisting of;
   a. Selling the property at 425 RRW promptly and allocating $5.5M of proceeds to the funding gap, to be invested in short-term GICs and drawn as required;
   b. Selling properties the Town has identified as surplus to address the remaining $9.2M funding gap, on a multi-year approach aligned with the cashflow needs.

EXECUTIVE SUMMARY:

- **The Beachfront Development is a top priority for this Term of Council**
- **There are capital works that the Town has to complete before the development can occur, and the capital works cost approximately $19M.**
- **A funding gap has been identified in relation to the 10-Year Capital Forecast that needs to be resolved before the Beachfront Development commitments are made.**
- **A solution to the funding gap has been proposed which includes selling Town lands to offset the gap**
- **The financial sustainability of the Town is dependent on a viable financial plan to address the funding gap.**

BACKGROUND:

The Term of Council Priorities (TOCP) for this term of council identifies under Complete Communities, Beachfront Redevelopment. Within this category is item A3 – Redevelop the Beachfront and A6 Rebuild Beach Drive. The capital works identified for this TOCP project to move forward include reconstructing Beach Drive, 3rd Street, Spruce Street and Main St. / Mosley St. roundabout, collectively referred to as Phase 1.

Through several Beachfront Redevelopment reviews with various potential developers, the first step in moving the project forward is completion of Phase 1. Preliminary estimates based on expected design elements of this phase reflect a cost of approximately $19M to complete the works, with about $18M of the costs being incurred in the years 2025 to 2027.

Current timelines are projecting the works to begin in the Spring of 2025.

DISCUSSION:

Funding Gap:
As part of the regular budgeting process, each year the Town's ten (10) year capital forecast is updated to capture the planned expenditures for each of the years and identify the funding that will be required to complete the forecast – this is known as the 10-Year Capital Forecast.

Through several internal meetings and discussions, staff have reviewed the 10-Year Capital Forecast, specifically with the view of how to achieve funding the Phase 1 capital works priority project. The review has resulted in changes to the forecast that impact other capital projects that were originally placed earlier in the forecast, as some of the other projects have been pushed out to other years. However, before addressing the details on the other capital projects, a review of the DC deferred revenue reserve account is warranted.

In 2021, the Development Charge (DC) Deferred Revenue Reserves were at $19.9M, and other obligatory reserves for Parkland and Provincial and Federal grants were at $4.2M. At the end of 2023, the DC reserves were down to $13.2M while the other obligatory reserves had increased to $8.5M. The projection for these reserve accounts at the end of 2024 based on the current year's approved capital budget is that the DC reserves will be down to $2.3M. This projection assumes the Town will receive new development charge revenues of $5.4M, which is typically what the Town receives in new DCs each year during years when growth is running between 1.95% and 2.3%. However, as of the end of June, the DC collections to date are only at $1.1M. This downward trend of the building industry is occurring in most areas of Ontario due to current economic conditions. It is highly probable that the targeted new DC collections for 2024 of $5.4M will not be reached. A shortfall of about $1M to $2.5M can be expected.

Table 1 shows a summary of the capital reserve balances at multiple time periods, some actual amounts and other projected or forecasted amounts.

Table 1 – Capital Reserve Balances

Capital Reserve Balances	2021	2023	2024	2025
($ in millions)	Actual	Actual	Projected	Forecast
Development Charge Reserves	19.9	13.2	-0.2	-1.5
Other Capital Obligatory Reserves	4.2	8.5	7.8	2.9
Total Reserves Available	24.1	21.7	7.6	1.4

Clearly, the above reserve balances are concerning, particularly if the development market downturn is prolonged into 2025.

The current forecast for the Phase 1 project draws on DCs and other capital obligatory reserves, however, these funds do not provide sufficient funding resources to cover the full project. In addition, because a Mosley project had to be pushed out to future years to accommodate the Phase 1 works, some additional interim costs for Mosley Street had to be added. The project also will require several road allowance acquisitions. Together these three project related costs reflect a portion of the funding gap that is the main discussion of this report.

Table 2 provides a summary of the project related revenues and costs and the resulting funding gap associated with the project.

Table 2 – Project Related Funding Gap

Project Related - Funding Gap Portion	2025	2026	2027	2028	Totals
($ in millions)					
Development Charge Draws - Phase 1	1.5	3.5	2.7		7.7
Other Obligatory Reserves - Phase 1	1.5	2.0	1.0	1.0	5.5
Taxation		0.2			0.2
Total Funding drawn for Phase 1 ->	3.0	5.7	3.7	1.0	13.4
Total Phase 1 Required Funds	-3.0	-7.4	-7.6	-1.0	-19.0
Phase 1 Project Funding Gap ->	0.0	-1.7	-3.9	0.0	-5.6
Add: Gap for other associated project costs	-1.3		-2.5		-3.8
Total Funding Gap Project Related ->	-1.3	-1.7	-6.4	0.0	-9.4

There are other capital projects that do not have the required funding either, and this adds to the $9.4M gap noted above, an additional $5.3M. The total funding gap in the forecast for the years 2025 to 2028 is about $14.7M. This does not include any shortfall for the 2024 DC target of new contributions.

Beachfront Development:

The Beachfront Development project includes negotiations with two developers and the Letter of Intent (LOI) agreement for the Beachfront Hotel will be discussed in closed session at the July 29, 2024 meeting. Both of the developer plans require that the Phase 1 capital works be completed by the Town before their development can proceed.

With the LOI being considered, the Town must finalize its financial plan with regards to the Phase 1 capital works. A commitment to how the funding gap will be managed is necessary.

The LOI's have been structured to maximize financial cashflows to the Town, however, those cashflows will follow in the years beyond the current financial gap period.

Financial Plan:

Closing the funding gap on the 10-Year Capital Forecast has been top of mind of the Senior Management Team for the past year. Staff have already moved specific capital projects out to later years to ensure the priority project can be completed in the years required for the development. Even with the re-phasing of capital projects, the gap as noted earlier in this report still exists.

To develop a viable financial plan other solutions had to be considered. Some of the other solutions considered included:

- Borrowing on a temporary basis from the County to bridge the years of the funding gap. This options would include an interest charge that would have to be funded through taxation. At the time of writing further discussions would be necessary with the County to determine what the interest rate would be. Interest costs could range upwards of $500 to $600k per year, depending on the amount borrowed and the interest rate charged.
- Borrowing from Infrastructure Ontario (I/O) using construction financing, which permits the temporary credit line/loan to exist for up to five years, at which point the balance must be either paid off or debentured. The current construction financing interest rate is 5.42%. The interest cost to carry the temporary loan would be paid through taxation and may cost $500 to $600k per year, depending on the amount borrowed and the interest rate at that time. The interest rate is variable and fluctuates based on the Bank of Canada rate.
- Sell surplus lands and use the proceeds to fund the gap.
- Sell the old arena lands (425 RRW) and use the proceeds to fund the gap.
- Push more capital project works out to later years.
- Ask the Province to come to the table financially to assist with the project.

After reviewing many scenarios, considering current economic conditions and the impact the slowdown in the market will have, which is over and above the gap identified, staff have determined the option that is most viable is the selling of lands. This option does not incur on-going costs or require more capital investment, and the timeline is within reason able to accommodate the funding gap situation.

The first and most effective solution is the selling of the old arena property as soon as is practical, which should be with in the next 60 to 90 days, or sooner if feasible. Once the property is sold, there will need to be some of the proceeds set aside to address the replacement of the sports courts on the property, which are currently in high demand. There is an expectation that $5.5M of the proceeds would be available to fund the gap. These funds would be invested in GICs timed to mature in relation to cashflow requirements. Any interest earned would help to offset other possible additional costs that haven't yet been factored into the forecast, as the interest has also not been factored in.

The second requirement is to sell some of the other Town surplus lands. These are needed as well to cover the full $14.7M gap.

In the interim, staff can still approach the Province to partner with the Town and help advance the long-term project that will spur economic development throughout the Town and surrounding regions.

Given that the Town is ready to commit to the Beachfront Development in agreements, it must be ready to commit to the financial plan to meet obligations associated with those agreements.

CORPORATE IMPLICATIONS:

Financial Implications:

The nature of this report has been to discuss the financial plan of the Beachfront Development and details have been provided.

Noteworthy within this section is the importance of the financial plan commitment given the significance of the funding gap on the Town's sustainable financial position.

Term of Council Priorities:

This report aligns with TOCP Complete Living, Beachfront Redevelopment and specifically Actions 3 and 6. Additionally, under Well-Run Pillar, Financial Sustainability, Action items 74 and 76.

CONCLUSION:

It is extremely important to the sustainable financial performance of the Town that a solution be identified in a financial plan for meeting the commitments associated with the development of the Beachfront.

Current forecasting and economic conditions have identified a funding gap. Solutions to resolving the gap have been identified that will lead to a successful financial outcome if the solutions are implemented promptly and reserves are built back up to accommodate multi-year capital costs and temporary low cashflow years.

A viable financial plan will be prepared using the 10-Year Capital Forecast through the budget process, if Council approves the recommendations of this report.

Authored by:

Jocelyn Lee,
Chief Financial Officer and Treasurer

Appendices:

Appendix A: None