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Mulock Park Budget Report Staff Report to Council

Report Number: 2021-30

Department(s): Financial Services

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Meeting Date: April 20, 2021

Recommendations

1. That the report entitled Mulock Park Budget Report dated April 20, 2021 be received; and,
2. That a Capital Spending Authority of \$40,000,000 be established for the development of the Mulock Park; and,
3. That a Project Management Contingency of \$2.7 million be included in the project budget; and,
4. That any application of the Project Management Contingency will require Council's approval; and,
5. That the 2021 Capital Budget be increased by \$2,000,000 to accommodate the 2021 allocation of the project; and,
6. That the two part approach, as outlined in this report, be used for funding the project; and,
7. That future Operating Budgets will phase in the anticipated cost to maintain and operate the Mulock Park; and,
8. That staff provide annual updates on the funding of this project as part of the annual budget process; and,
9. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

The capital project will require a Capital Spending Authority of \$40 million, of which \$2 million will need to be added to the 2021 Capital Budget. The first three years of this five year project can be funded primarily from Development Charges (DCs). Options for the final two years are given in the report.

Operating costs are projected to be in the range of \$850,000 to \$1,250,000 per year. Because these are growth-related expenditures, Town practice allows funding them from assessment growth revenues. This can be done by allocating \$250,000 of growth revenues per year for five years. In addition to removing this as a tax driver, it would provide an additional \$2.5 million to the Mulock Reserve.

A conservative approach has been taken to budgeting.

On this basis, the Mulock Park can be built and operated with no additional tax impact.

Purpose

The purpose of this report is to establish a framework to fund the implementation of the Mulock Park Master Plan. This includes both the required capital expenditures and the estimated operating costs to maintain the Park.

Background

The land was purchased in 2018.

In October 2018, the Town purchased the 11.6-acre Mulock Farm at the north-west corner of Mulock Drive and Yonge Street. A \$26 million 30-year debenture was used to finance the cost, and was funded by a supplementary 2.6% tax increase.

A dedicated reserve has been created

A supplementary budget was adopted by Council on February of 2018 to fund the purchase of the Mulock Estate. An allowance was included for restoration work that might be required on the building and property. The unspent funds, approximately \$1.2 million, have been put into a Mulock Farm Reserve. Any budgetary savings and interest revenue have also been transferred there.

As at December 31, 2020, the Mulock Farm Reserve had a balance of \$2,672,500.

Development Charges are available for development of the park

The current Development Charges (DC) bylaw was adopted by Council on July 8, 2019. The charges were based on the projections and calculations included in the Background Study. It provides for \$49.1 million of DC's to support eligible growth-related Parks and Recreation capital expenditures for the period 2019 to 2023.

Status of Parks and Recreation DC's	2019-23 provision	2019-20 spending	Unspent provision
	In \$ millions		
Mulock Estate Development	\$ 22.5	\$ 0.2	\$ 22.3
Other trails and park development	\$ 15.2	\$ 2.8	\$ 12.4
Debenture payments	\$ 13.2	\$ 2.9	\$ 10.3
Equipment	\$ 1.7	\$ 0.2	\$ 1.5
Total	\$ 52.6	\$ 6.1	\$ 46.5

The provisions are net of the required 10% discount in effect when the Town's DC Bylaw was enacted.

Currently there is \$15.8 million in the Parks and Recreation DC Reserve Fund, and collections for 2019 and 2020 were \$6.2 million, 17% more than projected.

A draft Mulock Park Master Plan has been submitted

The Mulock Property Master Planning project has been undertaken through a comprehensive process, including: extensive community consultation and public information centres, meetings with specific stakeholder groups and presentations to Council and staff working groups. The project began in late 2019 and continued to progress through 2020 with the collaborative development of design principles, themes that included 3 variations, and ultimately the refinement of a finalized design concept. This final design concept is captured in a separate report to Committee of the Whole on April 20, 2021.

Included with that report is a Class D Cost Estimate of \$37.3 million, which is summarized as:

- \$30 million for construction, including contingencies for design and pricing (20%), construction (10%) and escalation (8.3%).
- \$2.6 million for design and contract administration – there is a separate report on this item.
- \$4.7 million for other soft costs such as project management and specialty consultants.

The estimate does not include costs related to the Mulock House or offsite parking.

Discussion

Capital Spending Authority of \$40,000,000 is requested for the development of the Mulock Park

Based on the draft Mulock Park Master Plan, its Class D Cost Estimate, and the proposed 5-year implementation, the following project budget is proposed:

Mulock Park budget	2021	2022	2023	2024	2025	Total
	In \$ millions					
Construction			\$ 10.0	\$ 10.0	\$10.0.	\$ 30.0
Design and contract administration	\$ 0.6	\$ 1.4	\$ 0.2	\$ 0.2	\$ 0.2	\$ 2.6
Other soft costs	\$ 0.9	\$ 1.4	\$ 0.8	\$ 0.8	\$ 0.8	\$ 4.7
	\$ 1.5	\$ 2.8	\$ 11.0	\$ 11.0	\$ 11.0	\$ 37.3
Project management Contingency	\$ 0.5	\$ 0.7	\$ 0.5	\$ 0.5	\$ 0.5	\$ 2.7
Capital Spending Authority	\$ 2.0	\$ 3.5	\$ 11.5	\$ 11.5	\$ 11.5	\$ 40.0

There is flexibility to allow for changes to the construction schedule

The construction costs have been divided equally amongst the three years 2023 to 2025. An even split like that is unlikely to actually happen. It is also possible that construction could start earlier, in 2022.

This can be managed by reallocating the Capital Spending Authority to the appropriate years. These adjustments can be made during the annual budgeting process or with the quarterly financial updates. Council approval would be required.

It should be noted that there could potentially be \$5 million in DC's set aside for this project and unspent at the end of 2023, which could support an earlier start date.

A Project Management Contingency of \$2.7 million is recommended.

Within the construction estimate, there are the following contingencies:

1. \$4.2 million for design and pricing – this is a 20% allowance for design and pricing unknowns that will be refined as the design progresses and more definition and detail become available. It does not cover significant additional program space or quality modifications.
2. \$2.1 million for construction – this is a 10% allowance for change orders during the construction, after the design is complete. It excludes major program or scope changes.
3. \$2.7 million for escalation – this is to cover inflation.

These contingencies are reasonable. A Class D estimate has a potential variance of 30%, and the design, pricing, and construction contingencies combine to provide for this. The

escalation covers the impact of inflation on the construction costs and is not really an allowance that can be managed.

However, the cost estimate introduces the possibility of having a Project Management Contingency (a “reserve”) to provide for “any major program or scope requests.” The prudent approach of including this in the budget is recommended. The magnitude of the project increases the probability that there may be opportunities to expand the scope of the project, or that there may be unforeseen circumstances – something that has historically challenged some of the Town’s major projects.

Having a Project Management Contingency ensures sufficient funding is available *if and when needed*, and not diverted to other projects.

Application of the Project Management Contingency would require Council approval

Past practice has been to have a budget control task force to monitor project expenditures and to approve the use of the design, pricing, and construction contingencies. This approach has a proven track record and should also be applied to the Mulock Park. However, the Project Management Contingency is a step beyond that.

Because the Mulock Park Master Plan will have had Council approval, any substantial modifications to the scope of the project should also require Council approval. Likewise, Council should be made aware of any significant unforeseen circumstances before deploying additional funding.

Council oversight of the Project Management Contingency adds another level of assurance for responsible cost controls.

The 2021 Capital Budget is to be increased by \$2 million to accommodate the project

As noted above, the 2021 portion of the project has an allocation of \$2 million. This includes \$1.5 million for soft costs, of which \$600,000 is for design and contact administration, and \$500,000 for the Project Management Contingency.

The current capital budget framework puts an emphasis on capacity – funding and operational. The latter is to ensure delivery of the capital program. Some projects are considered “major” as they have dedicated resources and do not impair our ability to deliver on the rest of the program. This project would fit into that category as it will be managed by a combination of seconded and/or contracted staff.

The 2021 Capital Budget of \$37.9 million was approved by Council on December 14, 2020. This needs to be increased by \$2 million to \$39.9 million.

The Capital Spending Authority and its allocations to the years 2022 to 2025 will also need to be adjusted to include this project. This will be addressed in the upcoming quarterly Financial Updates.

A two part approach will be used for funding the project

As stated in the Town's 2014 Asset management Plans:

The general rule in applying funding sources is to start with more specific, dedicated, non-resident funding in preference to more general funding and funding which directly impacts the community.

For growth-related capital, the order of priority is: grants, DC's, dedicated revenues, internal cost savings, dedicated reserves/reserve funds, general reserves/reserve funds, and if all else fails, property taxes and utility rates.

Applying this guideline makes 2023 a good dividing point for funding of the project. There will be sufficient DC's in our current study to take us to that point. Design of the project will be completed and construction underway: costing should be firm by then.

There are major planning studies that will inform the funding for part 2 of the project. The next DC bylaw and background study will begin in 2023, and will probably be paired with a Community Benefits Charge (CBC) Study. Asset Management Plans will be in place for core assets (2021) and other assets (2023). We will have had implemented more of the Fiscal Strategy by then, possibly even have done a refresh. It would be preferable to have a general funding plan for now and then to finalize it after these analyses are completed.

Part 1 – 2021 to 2023

For the first three years, \$17 million in capital expenditures is to be funded from DC's. As noted in the Background, there is \$22 million allocated. The 10% discount is no longer a requirement, so no additional funding is required. (A minor exception may be for ineligible expenditures such as public art, but there are sufficient reserves for them.)

Part 2 – 2024-2025

For the last two years, \$23 million in expenditures can be funded from a variety of sources.

- Development Charges (DC's)
 - From the current study, \$5 million allocated is to the Mulock Estate and is projected to be unused
 - Also in the current study, up to \$12.4 million from other trail and park development, and \$1.5 from equipment are currently unspent and could possibly be re-purposed
 - Debenture payments include \$1.8 million for the Operations Center which is no longer required as the debt has been cleared.
 - New funding available from a potential 2021/2022 revision of our current DC's – eliminating the 10% discount and increasing fees.
 - New funding available from the next DC update in 2024
- Community Benefit Charges (CBC's)
 - Timing and amount to be determined

- Payments in Lieu of Conveyance of Land for Park Purposes (aka Parkland contributions)
- Reserves as appropriate – Mulock Farm, Trail Contributions, Public Art

Debt financing is not currently considered to be needed. If it was an option, it would be for resolving a cash-flow issue and would require one of the above-noted funding sources for debt servicing.

The specific funding for Part 2 can be determined in 2023.

Grant and sponsorship opportunities will be investigated

The Mulock Farm may have opportunities for grants and sponsorships. This type of project tends to be the target of government grant programs. The high profile should attract possible sponsorships.

Staff will pursue both options.

This funding could be applicable to either or both steps of the funding approach and would reduce the requirement for the notes funding sources.

The estimate does not include costs related to the Mulock House, offsite parking or an outdoor rink.

Determining the Part 2 funding must take into consideration other growth projects, including the Mulock House, an outdoor rink and possible offsite parking for the Mulock Park.

Depending upon its intended use, the House may not be eligible for DC funding but may be able to attract grants or sponsorships. It may actually be better positioned than the Park for grants and sponsorships.

The outdoor rink has attracted \$400,000 in donations and can access The Parks and Recreation DC's for other trail and park development - \$12 million.

Offsite parking can utilize both the parking reserve funds (\$800,000) and Parking DC's (\$2 million).

In addition, there is also the opportunity to access supplementary Gas Tax payments. The Town will have received an additional \$5 million in Federal Gas Tax "top up" contributions - \$2.5 million in 2019 and another \$2.5 million has been announced for 2021. These funds have not yet been allocated to projects.

The Operating Budget will phase in the anticipated cost to maintain and operate the Mulock Park

The annual operating cost for the Mulock Park is estimated to be in the \$850,000 to \$1,250,000 range. This is addition to the current 2021 budget of \$200,000 (net of reserve transfer), which also includes the building. The projection is based on the experience of

maintaining and operating the Town's current parks and facilities. As some of the amenities proposed for the Park are unprecedented, a range has been given. This cost does not include any costs or revenues associated with programming.

Assuming that the Park does not become fully operational until 2026, \$250,000 could be added to the budget starting in 2022 to offset some additional operating costs as they come on. This would result in an accumulated budget of \$1,250,000 by 2026. Until the funds are required, they can be added to the Mulock Farm Reserve.

In the past, the Town has on occasion dealt with large cost increases by drawing on reserves *after* the fact to defer the impact. With proper planning, the cost increase can be prepared for *in advance* and reserves can be built up.

As this is a growth project, it would be appropriate to fund the operating costs from growth revenues, in this case from property tax assessment growth. \$250,000 per year is equivalent to about 25-37.5% of our anticipated annual increased revenue from growth. It would be reasonable to make this commitment.

This approach would ensure that there is no impact on tax rates.

Conclusion

For a project of this magnitude, it is important that staff provide annual updates on the funding of this project as part of the annual budget process. Flexibility has been built into the funding for the final years to allow for alignment with other financial initiatives.

Next Steps

1. Update the 2021 Capital Budget
2. Amend the Capital Spending Authority. This will be reported in the first quarterly Financial Update for 2021.
3. Factor this plan into the draft 2022 Operating and Capital Budgets and any other financial plans.

Business Plan and Strategic Plan Linkages

This Mulock Park Budget furthers Council's Strategic Priorities of Extraordinary Places and Spaces by supporting the completion of the design, planning and construction for the Mulock Park, and Long-Term Financial Sustainability by working towards multi-year operating and capital budgets.

Consultation

Members of the Strategic Leadership Team have reviewed this report. Cost forecasts have been made in consultation with Development and Infrastructure Services staff.

The Mulock Park Master Plan has undergone an extensive internal and public review process, which is covered in a separate report.

Human Resource Considerations

Project Management resources will be required to oversee the project. Although utilizing consulting services is an option, preference is to retain a Project Manager either as a secondment of existing staff or to hire new staff on a multi-year contract. This is yet to be determined.

The operating costs include a provision for additional staff to maintain the Park. It is yet to be determined how many FTE's (full time equivalents) will be required, and how much of the composition will be full-time or part-time.

Future budget requests will be made, out of the funding allowance, as a staffing model is developed.

Budget Impact

Operating Budget

The Mulock Park can be built and operated with no additional tax impact. These growth-related operating costs for maintenance can be funded from an allocation of assessment growth. \$250,000 will be required annually for the five years from 2022 to 2026.

This does not include programming costs. These costs may be offset by user fees and assessment growth as well. These would be dealt with in future budgets.

Capital Costs

The Mulock Park project will require an increase in Capital Spending Authority of \$40 million, \$2 million of which applies to 2021.

For the first three years of the project, funding of \$17 million be from previously allocated Development Charges.

The \$23 million required for the final two years can be funded from numerous sources for which options were provided. As the project and financial plans develop, the specific funding can be determined.

Attachments

None.

Approval

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