



Corporation of the Township of Brock

Staff Report to the Mayor and Members of Council

From: Joint Report from Michelle Willson and Trena DeBruijn
Position: Chief Administrative Officer & Director of Finance/Treasurer
Title / Subject: Sunderland Arena Renovation and Expansion Project Update
Date of Report: February 7, 2024
Date of Meeting: February 15, 2024
Report No: 2024-PRF-005

1.0 Issue / Origin

This report aims to provide Council with an update on the Sunderland Arena Renovation and Expansion Project and to seek direction from Council on next steps in advancing the project. The intent of the report is to provide an update on the de-scope submission, timelines of the project and the 2024 budget submission.

2.0 Background

In August 2023, Council approved in principle, a budget target of \$9,200,000 to \$10,000,000 for the Sunderland Arena Renovation and Expansion Project. Council also directed staff to proceed with a formal Investing in Canada Infrastructure Program (ICIP) de-scope submission to the Provincial and Federal Governments.

3.0 Analysis

De-Scope Submission

In August 2023, the Township submitted a formal application to de-scope the project to meet budget. On January 12, 2024, the Province approved an amendment to the Township's ICIP agreement as follows:

- Provision for a range of four (4) to six (6) dressing rooms, with a minimum of two being fully accessible;
- Inclusion of a community use room and an ice surfacer room;
- Expand the building to include a storage room, if it can be achieved within budget;
- Expand the ice surface of the arena to a minimum of 75 x 175 feet and maximum of 80 x 200 feet;

- Replace the concrete pad in the arena;
- Update the refrigeration system;
- Reconfigure seating around the rink;
- Renovate the existing lobby, dressing rooms and second floor auditorium.

These are the minimum requirements of the project in order to receive the \$5.5 million ICIP grant.

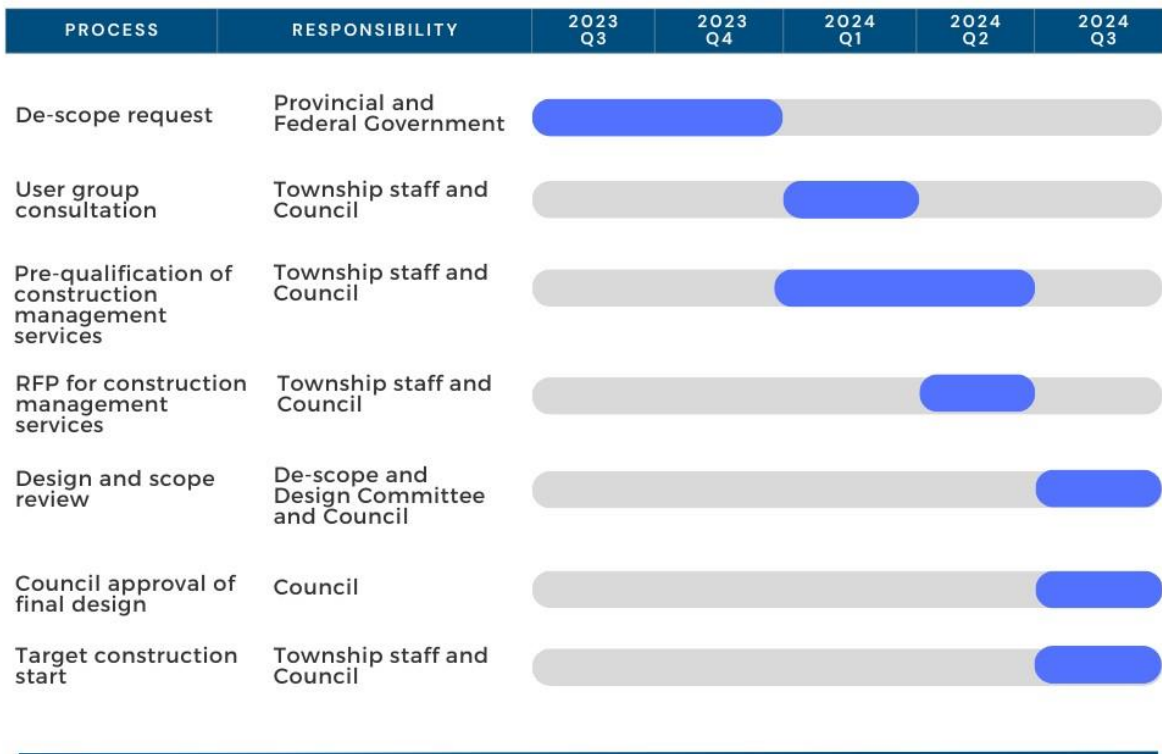
Timelines

The timelines for the Sunderland Arena closure have been updated to reflect delays due to cost escalations and the resulting de-scope of the project to meet budget.

The arena was initially scheduled to close April 8, 2024. With the delay for approval from the Province on the Township’s de-scope application, the anticipated construction start has been pushed back five months to mid-September 2024, following the Sunderland Fall Fair.

The updated project timelines are as follows:

SUNDERLAND ARENA RENOVATION AND EXPANSION PROJECT TIMELINE



4.0 Related Policies / Procedures

N/A

5.0 Financial / Budget Assessment

A letter from the Sunderland Lions Club, dated June 20, 2023, outlines their financial support of up to \$800,000 for the Sunderland Arena based on the following:

- Expansion of the ice surface to incorporate 80 feet x 200 feet (with seating areas provided);
- Construction of four new dressing rooms, including two fully accessible for sledge hockey;
- Storage space to replace existing storage area under the seats;
- Accessibility enhancements to ensure the building is fully accessible, including new double accessible doors between the lobby and the ice pad viewing area, automatic sliding doors at the main building entrance and the installation of viewing windows in the second-floor auditorium.

Since it is not currently known if the budget will allow for the building extension to accommodate the 200 feet in ice surface length, the 2024 budget is set at \$9,200,000. Once detailed costing of the project has taken place, a determination can be made about the possibility of extending the building and increasing the budget to \$10,000,000.

The proposed budget of \$9,200,000 would be all inclusive. This means that soft costs such as project managers, consultants, financing costs, contingency, etc. will be incurred as part of the approved budget. To be clear, the budget of \$9,200,000 will not be used solely for “brick and mortar” items but will also have to fund the soft cost items mentioned above. Staff do not recommend adding any further funding to the proposed budget to cover these soft costs and they must be absorbed within the proposed budget.

The 2024 budget is as follows:

Funding Source	Amount
Investing in Canada Infrastructure Program (ICIP) Grant	\$5,485,084
Development Charges (Township Funding)	\$2,414,695
Arena Reserve Fund Draw (Township Funding)	\$300,000
Additional Township Contribution Required	\$1,000,221
Total Funding	\$9,200,000

This would leave a funding gap of approximately \$1,000,000 that would need to be covered by the Township either through the Tax Rate Stabilization Reserve or borrowing (debenture).

Tax Rate Stabilization

As outlined in the 2024 budget document, the estimated balance in the Tax Rate Stabilization Reserve, before any withdrawals for the Sunderland Arena project is estimated to be approximately \$867,962 as of December 31, 2024.

It is important to note the following for Council consideration:

- (1) 2023 year-end is not complete and it is unknown what the year-end surplus or deficit will be. It is anticipated that year-end will be very close to budget and we may have a budget deficit which will need to be funded, if it occurs, from rate stabilization (prior year surpluses).
- (2) Tax Rate Stabilization is a discretionary reserve, however, Council has an approved minimum target balance of \$350,000 to be kept in this reserve.
- (3) Tax Rate Stabilization reserve is intended for one-off projects (“new initiatives”) that are not built into base operating budget, as a source of funding for emergency situations or for emerging issues that may arise throughout the year, not contemplated during budget. If the reserve is depleted, the only way of building the reserve is either dedicated levy contributions through budget or from subsequent year-end surpluses and surpluses are not guaranteed.

As mentioned above, the Township does not make dedicated contributions annually to the tax rate stabilization reserve. It is important to be cognizant that any draws from tax rate stabilization may have an impact on future years business plans, budgets, and levy if there are insufficient funds available to support one-off project requests or to meet emergency needs.

History of Reserve Draws

The Township has been fortunate the past couple of years to have experienced year-end surpluses, which, as of current time, does not appear to be the case for 2023 (note – year-end is not yet complete nor has it been audited). Prior year surpluses and land sale revenue has permitted the Township to increase Rate Stabilization reserve, however, staff feel that it is important to exercise caution around the use of this reserve as it is not easily replenished.

In prior years, the Township has budgeted or used funds from Rate Stabilization reserve as follows:

Year	Amount	Purposes
2022	\$100,000	CAO Recruitment, Staff Training, Streetlight Replacement, Brock Health Centre Donation
2022	\$37,749	Treasurer Overlap
2022	\$1,080,000	Transfer to Roads Capital Reserve
2023	\$222,400	Ash Tree Study, Street Calming, Gravel Rehabilitation, Planning Technician, Fire Certification Training, COVID, Recruitment, Asset Retirement Obligations, New Council Training
2024	\$374,400	Building Fees Borrowing, CAO Transition, COVID, Appraisal Services, Special Integrity Investigator, Fire Certification Training, Cloud Permitting, Catch Basin Mapping, Sand Dome Inspections, Emerald Ash Borer, CN Track Warning System, Traffic Calming, Asset Retirement Obligations and

Debenture

If the Township is unable to fund the additional contribution required from Tax Rate Stabilization, the money will need to be borrowed (debenture) to cover the cost. As a lower tier Municipality, the Region of Durham must approve and arrange all debentures.

The Region issues a debenture call each year and the call will combine all the lower tier requests. Depending upon the timing, it may not be possible to debenture one off requirements, especially for low dollar value debentures. The Region likes to issue the call and go to debenture for larger dollar amounts to obtain the lowest interest rates possible. Stand alone debentures are typically smaller and much more expensive to float as they do not generate the same interest as a larger debenture.

Another issue for consideration with debt and debt issuance through the Region is the actual time frame for the debt repayment. The Region is changing its debenture process and moving to what is called “bullet/sinking funds”, which can eliminate the Township’s flexibility for maturity timeframes. For example, a particular debenture being issued may be “bucketed” into time frames such as 5, 10, 20 or 30 year increments and other maturity periods will be eliminated. This means that the Township may be forced into a maturity date longer than they may otherwise have been interested in and this will affect both the cost of borrowing and how long our borrowing capacity is “tied up”.

It is also important to keep in mind that the Township has an approved Annual Repayment Limit which establishes maximum amounts of borrowing the Township is permitted to enter into. As the Township is still working on its Asset Management Plan and Long-Term Financing Plan, it may be prudent to keep borrowing to a minimum, especially as we work to determine, what, if any, requirements will be needed in the future to address our long-term asset replacement needs.

Borrowing comes at a cost and while the repayment can be spread over several years, there will be interest charges to be considered. Both the interest and principal repayments will need to be added to the budget and, in most cases, funded by levy, which does limit plans that the Township may have for future years if levy increases are impacted by debenture repayments.

Many municipalities have policies around borrowing which limit it to large capital projects whose benefits span across multiple years (and in which the repayment can be spread across multiple years) and who investment will improve the community. In fact, many municipalities will consider borrowing for projects when there are other sources of revenue to assist with the project (such as grant funding) and will build the cost of borrowing into the project.

Borrowing is a way to finance capital projects and to maintain major infrastructure over the longer term and should not be used for financing day-to-day operations. Most of the dedicated reserves the Township holds is for specific purposes and should not be used for emergency or unexpected events. This is one of the main reasons for holding adequate funds within the Rate Stabilization Reserve.

For illustration purposes, borrowing \$1,100,000, for a 10-year period, at an interest rate of 6%, would result in total repayment obligations of \$1,506,452, which includes interest of \$406,452. The total annual payment would be approximately \$150,645 (principal and interest) which is equivalent to an approximate net levy increase of 1.5%.

Period	Beginning Balance	Interest	Principal	Ending Balance
1	\$1,100,000	\$67,846	\$82,799	\$1,017,201
2	\$1,017,201	\$62,739	\$87,906	\$929,295
3	\$929,295	\$57,317	\$93,328	\$835,967
4	\$835,967	\$51,561	\$99,085	\$736,882
5	\$736,882	\$45,449	\$105,196	\$631,686
6	\$631,686	\$38,961	\$111,684	\$520,002
7	\$520,002	\$32,073	\$118,572	\$401,430
8	\$401,430	\$24,759	\$125,886	\$275,544
9	\$275,544	\$16,995	\$133,650	\$141,894
10	\$141,894	\$8,752	\$144,894	\$-

Extending borrowing of \$1,100,000, over a repayment term of 20 years (which interest at 6%), would result in total repayment obligations of \$1,944,268, which includes interest of \$844,268. The total annual payment would be approximately \$97,213 which is equivalent to a net tax levy increase of 0.96%.

Should the Township need to debenture for the Sunderland Arena Renovation and Expansion Project, it would be in the Township's best financial interest to include the borrowing costs (interest) into the project budget. This would eliminate the need to levy for future interest repayments and it would better reflect the true cost of the project, however, it will reduce the total funding that is available for the actual renovation and expansion work.

Funding from the Township's development charge contribution could be set aside in a dedicated reserve, used to fund the annual interest portion of the payments.

Cash Flow Management

Per the Transfer Payment Agreement with the Province of Ontario, signed November 9, 2021, the Township is permitted to submit a request for payment for Eligible Expenditures once per year. However, the agreement does indicate that "With prior written consent of the Province, which shall be at the Province's sole and absolute discretion, the Recipient may request, in writing, the submission of a request for payment on a more frequent basis. Notwithstanding anything to the contrary, such request shall in no circumstance be more frequent than once per quarter".

The Township does have an operating line of credit of \$1,000,000 which has not historically been used. Borrowing for 1 year and under, while grant reimbursements are pending, can be financed internally without Region of Durham involvement as long as there is a formal Township of Brock report and resolutions approving the entire process. The Region would require copies of all reports and resolutions.

As this is a large project for the Township, it is recommended that the Township consider increasing its operating line of credit to approximately \$3 million, which will assist with financing the cost outlays, while the Township waits to submit for reimbursement from the Province. The costs associated with borrowing on the line of credit would form part of the cost of the project and would be considered a "soft cost" mentioned in Section 5.0 of this report.

Further it is recommended that the Township seek consent of the Province to submit requests for payment for Eligible Expenditures on a quarterly basis.

In any case, the operating line of credit will only be used if required but managing the cash flows for the project will be a significant risk factor that will need to be continually monitored.

5.1 Asset Management

As the Sunderland Arena is a long term asset, the eventual replacement of the facility will need to be taken into consideration as part of the long term asset management financing strategy.

6.0 Climate Change Impacts

N/A

7.0 Communications

Regular updates along with photos will be shared on the dedicated section of the Township's website that is specific to this project.

8.0 Conclusion

This report provides Council with an update on the Sunderland Arena Renovation and Expansion Project and to seek direction from Council on next steps in advancing the project.

It is anticipated that the process of formal updates to Council on the Sunderland Project will be frequent as the project progresses.

9.0 Recommendation

BE IT RESOLVED THAT Report PRF-005, February 15, 2024, titled "Sunderland Arena Renovation and Expansion Project Update, be received; and

THAT Council provide staff with direction to proceed with increasing the operating line of credit to \$3 million to be used only if required; and

THAT Council provide staff with direction to proceed with the required procurement documents to implement the Sunderland Arena Renovation and Expansion Project.