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CAPITAL BUDGET FUNDING ADJUSTMENTS

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated September 25, 2009, from the Commissioner of Finance.

1. RECOMMENDATIONS

It is recommended that:

1. Staff be authorized to adjust the 2008 and 2009 funding sources for transit projects as outlined in Tables 1 and 2 of this report.
2. Staff be authorized to obtain additional debt financing for conventional bus replacements in the amount of \$6,822,000 as detailed in Table 1.

2. PURPOSE

The purpose of this report is to seek Council approval to adjust the approved 2008 and 2009 York Region Transit Capital budget to reflect i) the terms and conditions set out in the 2008 Letter of Agreement for Ontario Bus Replacement Program (OBRP) and ii) the maximization of application of development charges (DC) revenue.

3. BACKGROUND

2009 Regional Capital Budget passed December 2008

On December 18, 2008, Regional Council approved a \$1,041.9 million Capital Plan as part of The Regional Municipality of York's 2009 Business Plan and Budget. This Capital plan included the Transit Capital Budget of \$63.0 million. The Transit Capital Budget was financed by Development charges, Current tax levy reserve, Federal Gas Tax Reserve, Capital Asset Replacement Reserve and Debentures.

Change in timing of receiving 2008 OBRP funding – approved funding to be received over 12 years

The OBRP introduced in 2007 is a multi-year capital funding program to support the replacement of aging municipal transit buses. This program replaced the former Ontario Transit Vehicle Program (OTVB), which the province ended in the 2006 Provincial Budget.

According to the OBRP Guidelines and Requirements, prior to any OBRP funding being provided to the municipality, the municipality will have to enter a letter of agreement with the Minister. The funding amount will be limited to the municipality's allocation amount. The Region received a total of \$2.0 million from the 2007 OBRP funding to contribute to the replacement of transit buses delivered in 2007.

In accordance with the terms and conditions set out in the 2008 Letter of Agreement, the Ministry agreed to provide OBRP funding to the Region up to a maximum amount of \$4,632,030 plus applicable interest towards the replacement of transit buses. This amount of funding applies to the replacement of transit buses delivered in 2008. The Ministry will provide OBRP funding to the Region for the replacement of conventional buses over a period of twelve (12) years (starting in 2008 and ending in 2020). Payments for OBRP funding will be provided annually and equal to one-twelfth (1/12) of the OBRP funding allocated to conventional transit buses.

4. ANALYSIS AND OPTIONS

Debentures to be issued for conventional bus replacement and paid back by OBRP funding over 12 years

In accordance with the terms and conditions set out in the 2008 Letter of Agreement, the Ministry will provide OBRP funding to the Region for the replacement of conventional transit buses that were delivered in 2008 over a period of twelve (12) years. As the Region will no longer receive the 2008 OBRP funding in a lump sum amount, the replacement of 2008 conventional transit buses that was originally funded by OBRP will now be funded by debentures. The receipt of the annual 1/12 share of the OBRP funds will be used to repay the debt in future Transit Operating Budgets reducing tax levy pressure. Therefore, debenture funding will need to be increased by \$3.8 million and \$3.0 million relative to the 2008 and 2009 Transit Capital Budgets respectively.

Table 1 summarizes the 2008 and 2009 recommended funding changes for conventional bus replacement projects.

Table 1
Conventional Bus Replacement Projects
\$(000's)

Year	Project	OBRP Funding	Additional Debenture Funding
2008	84608	(3,775)	3,775
2009	84609	(3,047)	3,047

Funding changes are required for selected 2009 Transit capital projects to maximize the application of Development Charge (DC) revenues

In order to maximize the application of DC revenues and to consistently apply funding for specific projects to the 2009 Transit Capital plan, adjustments are required for those projects that are both eligible for DC revenues and are expected to receive Federal gas tax. These changes will provide a redirection in debenture funding by \$2.4 million offset by the same amount in DC funding. There will be no impact to current tax levy reserves and gas tax reserves.

Table 2 summarizes the 2009 approved funding for the Transit capital projects that funding changes are required.

Table 2
2009 Recommended Funding Changes
for Select Transit Capital Projects
\$(000's)

Project		DC Eligible	DC Reserves	Gas Tax Reserves	Debenture	Tax Levy Reserves
81580	Transit Vehicle Garage	6%	1,320	(1,320)		
84509	Conventional Buses Expansion	6%	954	(954)		
84309	Mobility Plus Buses Expansion	6%	52	(52)		
82150	Bus Terminals, Loops & Stops-Expansion	5%	41	1,227	(361)	(907)
83980	Security Equipment	0%		1,099		(1,099)
86100	Facility Security	0%			(2,006)	2,006
Total			2,367	0	2,367	0

It is proposed that the approved 2009 Capital budget funding be adjusted to reflect these changes.

5. FINANCIAL IMPLICATIONS

Overall impact will increase debenture and DC funding

As a result of the change in timing of receiving OBRP funding and maximization of DC funding, an increase debenture funding of \$3.8 million and \$3.0 million will be required for 2008 and 2009 respectively. The Ontario Bus Replacement program will provide the Region with annual funds plus interest to repay these debentures. This will contribute to the repayment of the debt in the operating budget.

Maximization of DC revenues will reduce debenture funding

In order to maximize the allocation of DC funding to the selected Transit capital projects, debenture funding the 2009 approved Capital plan for these projects will be decreased by \$2.4 million offset by the same amount in DC funding. There is no impact on Federal gas tax reserve and current tax levy reserve funding.

6. LOCAL MUNICIPAL IMPACT

There is no direct local municipal impact from the change in funding in the 2008 and 2009 Transit capital budgets.

7. CONCLUSION

As a result of the change in timing of receiving the OBRP funding as set out in the 2008 OBRP Letter of Agreement, the OBRP funding will be used to reduce debt repayments in future Transit Operating Budget. Additional debentures will be required to fund the 2008 and 2009 conventional bus replacement projects.

In order to maximize the application of DC revenues and to consistently apply funding for specific projects to the 2009 Transit Capital plan, adjustments are required for those projects that are both eligible for DC revenues and are expected to receive Federal gas tax. This will result in a reduction in debenture funding and offset by an increase in DC funding for the selected projects.

For more information on this report, please contact Beth Kodama, Manager, Capital & Development Financing at Ext. 1699 or Kelly Strueby, Director of Business Planning & Budgets at Ext. 1611.

The Senior Management Group has reviewed this report.