The Corporation of the City of Courtenay

Staff Report

To: Council **File No.:** 5335-20

From: City Manager (CAO) **Date:** April 10, 2024

Subject: 6th Street Bridge Grant Approval

PURPOSE:

The purpose of the report is to seek Council approval to sign the Infrastructure Canada's Active Transportation Fund grant agreement for the 6th Street Active Transportation Bridge project, as well as provide information and request a decision on the funding sources for the unfunded portion of the project.

BACKGROUND:

A 6th Street Active Transportation Bridge would provide a dedicated cycling and pedestrian connection between downtown Courtenay and Simms Millennium Park as well as a connection to the future cycling network along 6th Street and Anderton Avenue, the Courtenay Riverway Trail, and the Lewis Park pathway connection to the Lewis Centre.

A 6th Street Active Transportation Bridge is included in the Parks & Recreation Master Plan and referenced in the City's Transportation Master Plan as well as the Downtown Courtenay Playbook. The design and funding as well as the construction of the 6th Street Bridge is a Council strategic priority.
At the March 28, 2022 Council meeting, Council resolved the following:

> THAT based on the March 28, 2022 staff report "6th Street Active Transportation Bridge – Grant Application", Council approve OPTION 1 and direct Staff to:
>
> 1. Submit an application for grant funding for the 6th Street Active Transportation Bridge project through Infrastructure Canada's Active Transportation Fund.

DISCUSSION:

In March of 2022, staff submitted an application for grant funding for the 6th Street Active Transportation Bridge project through the Infrastructure Canada's Active Transportation Fund. Staff have received notification that the grant has been approved and an agreement has been sent to the City for signature. The maximum value of the grant is $2,502,000 and can be used to fund 60% of total construction costs. The agreement requires construction to be complete by January 31, 2026.

If staff are directed to sign the grant agreement, the next steps would be to secure needed funding, and then finalize a tender package and release a construction tender for bid in the second half of 2024 with a contract awarded before the end of 2024.

Although the construction contract would be awarded, on site construction would not begin right away. Construction of a bridge of this magnitude will require a contractor to place orders for materials and begin fabrication on many of the components of the bridge. There are many environmental restrictions that a contractor will have to plan for during this project. Having the contract awarded would allow the contractor to begin to schedule the work around the various environmental work-windows.

FINANCIAL IMPLICATIONS:

The 6th Street project was first included in the 2020-2024 Five-year Financial Plan in the 2022 year with a total project cost of $4,000,000. The project was proposed to be funded 50% by grants and 50% by debt. The project has progressed through the years and has landed in the 2024-2028 Five-year Financial Plan at $6,588,900.

Funding Source Shortfall

During the capital project carry forward budget procedure and 2024 reserve calculations it was noted that the cost escalations from 2023 to 2024 had been updated, however the funding source for cost escalations was linked to reserve withdrawals. This error was a result of past excel formulas carrying forward. The result is the project requires a decision on how to fund the cost escalation as the City does not have an adequate reserve to fund the $702,825 shortfall.

The 6th Street Bridge current budget and funding is shown in the table below

6th Street Budget and Funding		
Budget 2024	$	6,588,900.00
Grant	$	2,502,200
GCF		1,000,000
Reserve		815,275
Debt		1,500,000
RFE		68,600
	$	5,886,075
Shortfall	$	(702,825)

GCF – Growing Communities Fund.
Reserve - New Works Reserve specifically the 3rd Cross fund within the reserve.
RFE – Reserve for future expenditure represents prior years taxation funding not yet spent.

There are three main options to fund the remainder of the project and they include debt, unappropriated surplus, or taxation. The use of alternative reserves is not possible as current reserves and balances do not support the use on this project. A description of each option is listed below.

Debt

The City could increase the planned funding from debt from $1,500,000 up to $2,202,825, an increase of $702,825. The expected annual debt servicing cost of $702,825 at 5% over 20 years would be $59,487. If debt is the chosen method it would be reasonable to increase total debt funding authorized by $1,000,000 to a total of $2,500,000, bringing the total project budget up by an additional $297,175 for a total of $6,886,075. Increasing the total debt authorized would provide additional funding contingency should the project exceed the anticipated construction cost. The expected annual debt servicing cost of the $1,000,000 at 5% over 20 years would be $84,640

If the project is completed underbudget the City would only borrow the required amount of long-term debt, this would be achieved through the use of a temporary borrowing bylaw. If the project exceeds the anticipated budget, the City could rely on unappropriated surplus to fund the shortfall. Further if at the end of the project, the City has alternative sources of funding, these could be used to lower the overall debt used for the project. The Active Transportation Fund grant does allow stacking of additional Provincial grants or other funding sources up to the total cost of the project. Staff will continue to look for grants as the project progresses.

The expected annual debt servicing cost of $1,500,000 at 5% over 20 years is $126,961

The expected annual debt servicing cost of $2,202,825 at 5% over 20 years is $186,449

The expected annual debt servicing cost of $2,500,000 at 5% over 20 years is $211,601

Unappropriated Surplus

The City could rely on prior year surplus to fund the cost escalations. As of December 31, 2022, the City has $13,399,070 of unappropriated surplus on hand. This figure is expected to grow once the 2023-year end is complete. Due to the timing of the anticipated work, these funds would not need to be accessed until likely 2025 as all other funding sources (grant, Growing Communities Fund) would be utilized before surplus. These funds would be earmarked in the 2024-2028 Financial plan to be used for the 6th Street Bridge. If the project exceeds the anticipated budget the City would rely on surplus to fund this shortfall, this creates a double reliance on surplus.

Taxation

The City could increase taxation to fund the current year cost escalations, $702,825 represents about a 2% tax increase. Due to anticipated timing of construction for this project (2024-2025), the taxation increase could be deferred to 2025, however this would require the capital project to be spread out into 2025 and would add a layer of administrative complexity and the possibility of internal reserve borrowing to bridge the timing gap between property tax collection and project spending.

Recommendation

Increasing the planned long-term debt to be used on the 6th Street Bridge project is the preferred method as it provides the City with the most flexibility going forward if the project is above or below the anticipated construction costs. Furthermore, by authorizing a total of $2,500,000 in debt it provides an additional layer of available contingency funding for the project if required. Since the project is expected to be in service for many years it is reasonable to use long term debt to pay off the project over many years. Finally, the total portion of the project funded by debt is reasonable at 38% of expected cost.

Long Term Debt

Currently the 6th Street project is set to be funded partially by debt and therefore the City will have to adopt a loan authorization bylaw. Section 180 of the Community Charter requires elector approval of a loan authorization bylaw before it can be adopted. The two options available to gain elector approval are

through referendum or the alternative approval process. However, the City also has the option to use the approval-free zone that does not require electoral approval per Part 2 Section 7 of the Municipal Liabilities Regulation. The approval-free zone is for municipalities with annual debt servicing costs below 5% of the annual calculation revenue.

Alternative Approval Process (AAP)

The alternative approval process was formerly known as counter-petition. The alternative approval process requires that 10 percent or more of the eligible electors must sign and submit response forms in opposition to the proposed initiative to require the City to obtain assent of the electors in order to proceed. When this happens the issue is considered significant and the City has two choices. They may proceed to assent voting within 80 days, or they may put the matter on hold and consider alternatives to the proposed action. The complexity, cost and timeline of holding an AAP is lower than a referendum. A typical AAP process can normally be completed within 2 months.

Referendum (Assent Voting)

Assent voting (or referendum) allows electors to vote on whether a proposal would move forward or not. Assent of the electors is obtained if a majority of the votes counted are in favour of the bylaw or question. Assent voting is conducted under the rules that generally apply to local elections. A referendum is substantially more complex, costly and time consuming compared to an AAP. Estimated costs of a referendum would be in the range of $60,000-$80,000 and the timeframe would likely be 6 months or longer depending on staff capacity and legislative requirements.

Approval-Free Zone

The City is within the approval-free zone and would stay within the legislated thresholds at either $1,500,000 or $2,500,000 in borrowing and does not require elector approval to borrow these amounts.

Operating Costs and Replacement

Operating Costs

Operating cost estimates for typical items associated with the 6th Street bridge are shown in the image below. These maintenance costs are estimated over an assumed service life of 75 years, without consideration for escalation. Cost will be highly dependent on exposure, use, regular maintenance and upkeep over the lifetime of the bridge. Insurance costs are not shown in the image below but through preliminary research with the City's insurers, the costs are estimated at $16,000 per year. Expected annual operating expense would be $33,500 based on insurance estimate and operating costs found below.

***Table 3:** Estimated maintenance costs for shortlisted options.*

		Cost per Occurrence	
Item	**Frequency**	**Network Arch**	**Cable-Stayed**
Annual Maintenance (snow clearing, washing, etc.)	1 year	$3000	$3000
Visual Inspections	2 years	$4000	$4000
Detailed Inspections	5 years	$8000	$8000
Bridge Re-Coating	25-30 years	$50,000	$40,000
Bearing Replacement	25-30 years	$75,000	$25,000
Deck Joint Repairs	15-25 years	$25,000	$20,000
Miscellaneous Structural Repairs	25-50 years	$150,000	$150,000
Annualized cost (assuming higher frequency)		**$19,300/year**	**$17,500/year**

Asset Replacement

Since this bridge is a net new asset the City should consider saving for its replacement at the expected end of life in 75 years which is 2099. Due to the expected long life of the asset forecasting the appropriate amount to contribute to reserve can be challenging, however if we use certain assumptions we can determine a reasonable annual contribution for future replacement. If we assume the following assumptions that the project is completed right on budget at $6,588,900 and the life of the bridge is 75 years and we have an inflation rate of 3%. The table below outlines a minimum, maximum and middle replacement contribution amounts presented in todays dollars.

Annual Replacement Contributions

	Minimum	Maximum	Middle
Annual Payment	$ 87,852	$ 215,734	$ 107,687
Future Value	$ 24,669,701	$ 60,479,023	$ 30,239,512
% of FV Cost	41%	100%	50%

The expected replacement cost of the bridge in the year 2099 will be $60,479,023.

If the City contributes the minimum amount annually the expected future value of these annual contributions will be $24,669,701 which represents 41% of the future replacement cost. The minimum contribution is determined by simply taking the current value and dividing it by the expected life span, this value is equal to the annual amortization cost of the bridge. $6,588,900 / 75 years = $87,582.

If the City contributes $215,735 annually the future value of these contributions will equal 100% of the expected future replacement cost of the bridge. The maximum contribution is determined by matching the annual payments to equal the expected replacement cost of the bridge.

If the City contributes $107,687 annually the future value of these contributions will equal 50% of the expected future replacement cost of the bridge. The middle contribution is determined by matching annual contributions to equal 50% of the expected replacement cost of the bridge.

Saving today for the replacement of an asset in 75 years can be challenging to justify as the majority of people alive today will not see or benefit from the replacement of the asset, that being said the next generation will not be saddled with all the cost of replacing the asset. Staff are not currently making a recommendation on annual contribution amounts for future replacement as the City does not have policy on the subject. Information is being provided as it is not very often that the City considers the addition of such a visually present net new asset.

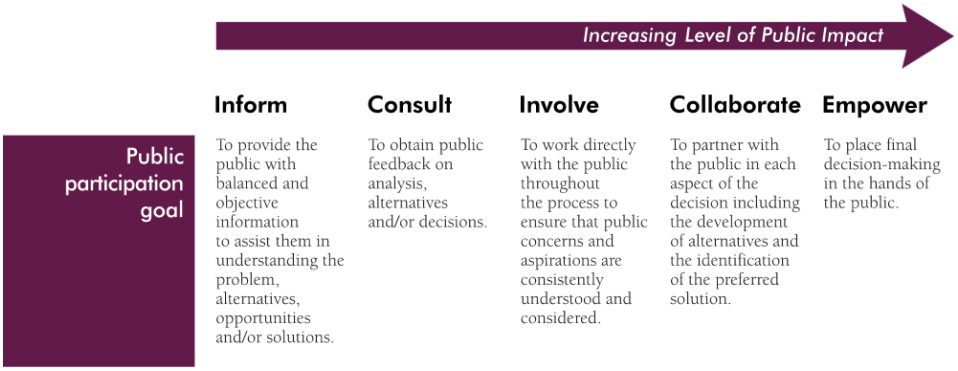
ADMINISTRATIVE IMPLICATIONS:
The 6th St Active Transportation Bridge Project will be led by Engineering Services, with support from most other City Departments. Consultants with technical knowledge specific to this work will be utilized to develop and implement detailed designs and processes

STRATEGIC PRIORITIES REFERENCE:
The 6th Street Bridge project addresses the following strategic priorities:

- Streets and Transportation - 6th Street Bridge design and funding
- Streets and Transportation - 6th Street Bridge construction

PUBLIC ENGAGEMENT:

Staff would inform the public based on the IAP2 Spectrum of Public Participation:



OPTIONS:

1. THAT Council direct staff to sign the Infrastructure Canada's Active Transportation Fund grant and proceed with the project,
2. THAT Council direct staff to increase the 6th Street Bridge project to $6,886,075 and increase the long term borrowing authorized to $2,500,000.
3. THAT Council direct staff to prepare a loan authorization bylaw using the Approval-Free Liability Zone granted by the Municipal Liabilities Regulation section 7.

ATTACHMENTS:

1. SR DES 2022-03-28 6th St Active Transportation Bridge Grant

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