



Administrative Report

To: Warden MacDonald and Members of Essex County Council

From: Melissa Ryan, CPA
Director, Financial Services/Treasurer

Date: Wednesday, September 4, 2024

Subject: Roadway Expansion Plan Funding Model

Report #: 2024-0904-FIN-R19-MR

Purpose

The purpose of this report is to provide information to County Council about the proposed funding model for the 20-year Roadway Expansion Program.

Background

The Director of Infrastructure and Planning Services (IPS) is responsible for developing and implementing the County's Roadway Expansion Program. This comprehensive 20-year plan is informed by the Essex County Transportation Master Plan and the County Official Plan and also aligning with the milestones outlined in the County's Strategic Plan.

The plan is regularly updated to reflect new data and emerging needs and, as of today, the projected annual expenditure over the 20-year period is approximately \$40 million annually. Currently, the County levy contributes \$17,879,640 annually towards roadway expansion. This leaves a funding gap in anticipated annual spending.

As the region continues to grow, it is essential to prevent stagnation in infrastructure development. Without secured provincial and federal funding, the County must develop a long-term financial strategy to support the necessary expansion of our road network. While the County has historically maintained low or no debt, it will be important to incorporate diverse funding sources to ensure our road network expands in step with our community's growth.

Discussion

The funding model developed to support the County's Roadway Expansion Program (Appendix A) is a strategic approach designed to address the significant financial gap identified between the projected annual expenditure and current funding levels. Recognizing the limitations of relying solely on the County levy, this model incorporates a mix of debt financing and reserve funds to ensure that the necessary infrastructure investments can be made in a timely manner.

Debt Financing: The use of debt in the funding model allows the County to spread the cost of roadway expansion over multiple years, aligning the financial burden to the long-term benefits that these infrastructure improvements will provide. This approach enables the County to accelerate critical projects that are necessary to support current and future growth, without placing an unsustainable strain on annual budgets. By taking advantage of interest rates that are on the decline, the County can finance a portion of the expansion at a relatively low cost, thereby maximizing the efficiency of its capital investments.

Reserve Funds: In addition to debt financing, the funding model leverages reserve funds that have been set aside specifically for expansion related infrastructure projects. These reserves provide a flexible and reliable source of funding that can be drawn upon to cover unforeseen costs or to bridge short-term gaps in the financial plan. The strategic use of reserves ensures that the County can maintain momentum on key projects even in the face of economic uncertainties or delays in external funding. Although the proposed plan does deplete the reserves for a period of time, the 20-year plan does include the reimbursement of funds over the period to build the reserve balance back up to an acceptable level.

Potential Development Charge Revenue: The County is currently working on a DC Background Study that, if approved, would strengthen reserve sources and further reduce the pressure on the tax rate and debt. Expansion projects are often rooted in addressing growth related pressures. Historically, the County has funded growth through the levy. Going forward, the intention is to partially fund growth through the application and collection of development charges. Given the infancy of the DC Background Study, this analysis does not include the impact of potential DC sources.

This blended approach of utilizing both debt and reserves in addition to the levy funded portion creates a balanced and sustainable funding model that

mitigates the risks associated with over-reliance on a single funding source. It also allows the County to maintain a level of fiscal prudence by not overextending its debt capacity while ensuring that reserves are used effectively to support long-term infrastructure needs.

To further strengthen the financial sustainability of the program, the model is designed to be flexible, allowing for adjustments as economic conditions evolve and new funding opportunities arise. The County will continue to explore avenues for securing additional provincial and federal funding, as well as considering alternative financing mechanisms, such as county-specific development charges, as noted earlier.

This report is intended to present the information to Council, however, Administration recommends proceeding with the plan outlined in Appendix A, which includes a proposed annual increase of \$1.5 million from levy funds to address the anticipated spending gap. This recommendation will be formally presented to Council during Budget deliberations. The plan in Appendix A will be updated annually to account for actual projects undertaken, incurred costs, and any new funding developments. The current version is based on the budgeted 2024 reserve balance and the expected completion of projects over the next 20 years, with additional support potentially available through development charges or external funding sources.

Financial Implications

The proposed 20-year Roadway Expansion Plan, as detailed in Appendix A, outlines a total program cost of \$641,200,000 (priced in 2024 dollars). This comprehensive funding strategy utilizes a combination of levy dollars, debt, and reserve funds to ensure the County can meet its growing infrastructure demands while maintaining financial stability.

Levy-Funded Contributions

The plan includes an annual levy-funded contribution of \$17,879,640, with an increase of \$1.5 million each year until the total annual contribution just exceeds \$40 million in 2040. This increase is necessary to bridge the gap between current funding levels and the anticipated annual expenditure required for the roadway expansion. The gradual increase in levy contributions will help ensure that the County can fund its share of the \$641.2 million total cost.

Debt Financing

To complement levy funding, the plan incorporates debt financing at strategic intervals to spread the cost over multiple years. The debt financing model includes the following loans:

- **Loan 1:** \$20 million in 2027
- **Loan 2:** \$80 million in 2030
- **Loan 3:** \$60 million in 2032
- **Loan 4:** \$20 million in 2037

These loans total \$180 million, ensuring that the County remains well within its annual debt repayment limit, which currently exceeds \$300 million. This approach enables the County to effectively manage cash flow while ensuring the timely completion of essential infrastructure projects.

Reserve Funds

The model assumes stable investment returns of 3% on reserve funds when a balance is held in the reserves. It also includes a built-in strategy to rebuild reserve funds starting in 2038, which will provide a financial cushion for future infrastructure needs. Alternatively, the County may consider using reserve funds to pay down debt earlier, reducing borrowing costs and improving long-term financial flexibility. This decision will be reassessed as the plan progresses and the County's financial position evolves.

The total cost of the 20-year Roadway Expansion Program is \$641,200,000. The proposed funding model is designed to be both simple and effective, allowing the County to meet its infrastructure needs while maintaining financial responsibility. By gradually increasing levy contributions, strategically utilizing debt, and rebuilding reserve funds, the County can support the necessary roadway expansions without exceeding its borrowing capacity. The model's flexibility allows for adjustments based on future financial conditions and priorities, ensuring the long-term sustainability of the County's infrastructure investments.

Consultations

Hoa Du, Financial Analyst

Allan Botham-Director, Infrastructure and Planning Services

Strategic Plan Alignment

Working as Team Essex County	Growing as Leaders in Public Service Excellence	Building a Regional Powerhouse
<ul style="list-style-type: none"> <input type="checkbox"/> Scaling Sustainable Services through Innovation <input checked="" type="checkbox"/> Focusing “Team Essex County” for Results <input type="checkbox"/> Advocating for Essex County’s Fair Share 	<ul style="list-style-type: none"> <input type="checkbox"/> Being an Employer with Impact <input checked="" type="checkbox"/> A Government Working for the People <input checked="" type="checkbox"/> Promoting Transparency and Awareness 	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Providing Reliable Infrastructure for Partners <input checked="" type="checkbox"/> Supporting Dynamic and Thriving Communities Across the County <input type="checkbox"/> Harmonizing Action for Growth <input type="checkbox"/> Advancing Truth and Reconciliation

Recommendation

That Essex County Council receive report number 2024-0904-FIN-R18-MR, Roadway Expansion Plan Funding Model as information.

Approvals

Respectfully Submitted,

Melissa Ryan

Melissa Ryan, CPA, Director, Financial Services/Treasurer

Concurred With,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Chief Administrative Officer

Appendix	Title
A	Proposed Roadway Expansion Funding Model