



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: November 12, 2019

Report Number: SRCFS.19.050

Department: Corporate and Financial Services

Division: Financial Services

Subject: **2020 Draft Capital Budget (SRCFS.19.050)**

Purpose:

To provide Council with a 2020 Draft Capital Budget for the City's capital program reflective of corporate priorities.

Recommendation(s):

- a) That the 2020 Draft Capital budget in the amount of \$37,381,600 as identified in Appendix "A" of SRCFS.19.050 be approved;
- b) That the 2020 Draft Capital Budget recommended funding sources identified in Appendix "D" be approved;
- c) That the projects identified in the Projects Contingent on Grant Funding List in Appendix "B" of SRCFS.19.050 be advanced to 2020 if grant funding becomes available;
- d) That the draft By-Law No. 138-19, as attached as Appendix "F" to SRCFS.19.050, be referred to the December 18, 2019 Council meeting for adoption.

Contact Person:

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Page 2

Report Approval:

Submitted by: Mary-Anne Dempster, Commissioner of Corporate and Financial Services

Approved by: Neil Garbe, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner, and City Manager. Details of the reports approval are attached.

Background:

The City's Capital Budget comprises the investment priorities, choices, and decision points that ultimately represent the tangible implementation of the City's Strategic Plan and Official Plan.

The City of Richmond Hill, as one of over 5,600 municipalities in Canada and one of over 440 municipalities in Ontario, owns, manages, and maintains its asset portfolio. The assets which are managed on behalf of the City's Council and Citizens, include a state-of-the-art theatre; award-winning community centres, pools, parks, playgrounds and trails; highly valued libraries and arenas; critical community connectivity infrastructure of roads, sidewalks, sanitary and storm sewers and water-mains; and assets to support service-delivery capacity such as, fleet, emergency vehicles, safety and security facilities (fire-halls), office and operational spaces, furniture, fixtures, equipment, telephony and information technology systems.

The future direction for Richmond Hill is manifested in the Strategic Plan and the Official Plan, the primary documents that set the foundation to shape and guide the future growth, development and aspirations of the City. The Strategic Vision of "**Richmond Hill – where people come together to build our community**" is borne out by a Strategic Plan that is action orientated and sets out specific tactics and activities to be undertaken to achieve that vision. The City's Official Plan provides "direction for growth, balancing change in the City with protection of what is valued from the past, truly blending the old and the new" while we seek to "**Build a new kind of urban**" supported by community asset investments, partnerships, policies and supporting implementation vehicles. These key directions are further supported by and aligned with Council-approved plans and strategies (for example, transportation, pedestrian and cycling infrastructure, parks and recreation, culture, information technology, etc.) as well as departmental plans for ongoing maintenance, repair, and replacement (for example the asphalt overlay program, and life-cycle management for fixed assets).

The various plans and strategies are in place to support the vision of the Strategic Plan and to ensure that our residents are provided with the infrastructure necessary to support their choice to live, work and play in our community.

The development of capital projects is further informed by professional studies, approved programs (such as the road reconstruction priority rating system), development charge commitments, programs of other levels of government (including the Region), and most certainly by emerging Council priorities.

Page 3

This background provides context to the development of the Capital Budget which serves to turn vision into reality through action. The overall capital plan was developed to align with the documents that support the City's vision. It prioritizes new capital to support growth due to development and life-cycle repair and replacement of existing assets to ensure reliability, performance, and system safety.

Capital Budget

In order to meet the Council direction of \$14 million for the 2020 tax supported budget, the 2020 Capital Budget process involved a new capital decision-making process that was developed by the Corporate Asset Management section in EIS, and is based on the future approach from the Asset Management Strategy. Each project was assessed on several criteria including: health and safety, environmental, regulatory, reputational, and operational. This process included a scoring system, to help prioritize projects across departments on the basis of benefit and risk. Further review and prioritization by Directors and Commissioners was completed, which resulted in a recommendation for the 2020 draft capital budget.

A 10-year capital forecast has not been provided as part of the 2020 Capital Budget, as the City is in the midst of a series of Capital Sustainability Committee meetings and consultations to develop a prudent long range capital sustainability strategy. The results of these meetings will inform staff on service levels, and capital priorities continuing into the future. The Committee's review will continue into the new year, and Staff will report back during the 2021 capital budget process with an updated 10-year forecast and Financial Plan. Attached is the 2019 10-year capital forecast for reference (Corporate Summary by Categories and Projects).

The 2020 Capital Budget requests the approval of the most imminent projects. In doing so, this provides a greater degree of certainty on projects that are within the first three to four years. The current process for the delivery of capital projects follows a strict format that looks at feasibility studies; Environmental Assessment studies (EAs), master plans, preliminary design, detailed design, and construction.

The delivery of any project may vary depending on its complexity, size, and staff resources. Once a project is adopted through Council's endorsement of the yearly capital plan, it will typically be completed in two years unless further studies are required. The first year is dedicated to the necessary background work including design. The second and subsequent years will be devoted to tender preparation and award, followed by construction, or asset development/purchase.

Resources required to carry out the majority of the City's capital program predominately reside with the department of Environment and Infrastructure Services (EIS), however, other departments provide support. Financial Services is a strong partner in the delivery of capital projects with respect to procurement of supporting services, the development of the corporate budgets and financial controls.

Community Services, Public Works provides background on infrastructure condition so that programs may be maintained. End users such as Recreation & Culture Services, Fire & Emergency Services and the Richmond Hill Public Library Board provide guidance and direction

Page 4

on building logistics and form. Planning and Regulatory Services provides the future-oriented framework that guides assets required to support development.

The annual capital investment we make in the City is important and necessary to continue to provide the services and programs that a growing community needs, now and in the future. Doing so is part of the City's commitment to providing exceptional public service to the community.

Investments such as those in this budget will help achieve the Strategic Plan's vision of "where people come together to build our community". The capital investments made through this budget and in future projected budgets move the City closer to realizing the Plan's four goals of stronger connections, better choices, more vibrant and wise management of resources.

Through the implementation of the Strategic Plan, key City plans have been prepared that have further refined the community's needs: the Official Plan, Transportation Master Plan, Cultural Plan, Recreation Plan, People Plan, Environment Strategy, Parks Plan, Valleyland Restoration Plan and the David Dunlap Observatory Master Plan.

These plans, built on community engagement, justify the need to invest in specific areas and projects to support the Strategic Vision outlined in the Strategic Plan, such as: the parks and trails that provide stronger connections; the bike lanes that provide better choices; the community centres and arenas that contribute to vibrancy; and, the wise management of resources that results from the ongoing maintenance and rehabilitation of our facilities. Capital investments made by the City provide the infrastructure necessary to help plans become a reality and support the facilities and services that the community has identified as priority.

In 2016, the City developed its first overarching Asset Management Plan (AMP) that outlines strategies to maintain City assets in a state of good repair now and into the future. The AMP is currently in its infancy stage and evolving to meet the prescribed Provincial requirements, when fully developed the AMP will inform the capital budget as it relates to funding requirements for growth, renewal and replacement of assets. As with many other municipalities, the City faces an "infrastructure funding gap", where available funding falls short of projected needs to ensure the long-term sustainability of assets. Council has approved a number of strategies to address this gap, such as the Capital Asset Sustainability Strategy discussed in more detail later in the report. The capital budget, with the support of strategies outlined in the AMP aims to fund the infrastructure and services called for in the City's key plans as a step towards implementing the City's vision.

The capital budget approval is just one part of the overall capital process. This process demonstrates how the community, Council and staff are working together to ensure we are building a community that aligns with the future vision.

The capital investment collaboration cycle forms a solid foundation of policies and processes within the City that supports the delivery of capital projects. Development of Plans serves as the initial phase of the capital investment cycle. Grants and other types of funding opportunities are explored to fund the projects. The procurement process on the other hand, ensures a fair and

Page 5

transparent acquisition of services for the design and construction of the projects. Facilities are programmed, and parks and roads are constructed, to meet the community's needs.

Regular maintenance and upgrades to infrastructure and facilities ensures a state of good repair.

Feedback from community stakeholders validates that our community appreciates the infrastructure we provide them. The City is recognized outside of the community as a municipal leader as our projects have been recognized for excellence in design, innovation and service to the environment. To name a few, the Environment and Infrastructure Services Division has received the following awards: Technical Innovation Award for Pioneer Pond (OPWA), Project of the Year Award (Environment Category) for the Elgin Mills Greenway (OPWA), the Parks and Recreation Ontario and Landscape Ontario Awards of Excellence, Living City Energy Efficiency Leadership (Gold) Award and the Tree Canada Public Education Award.

Grant Funded Capital Approach:

Numerous financial grants and funding sources are available to municipalities, creating the opportunity for Richmond Hill to invest in our community while lessening the load on property tax. Through grant funding, Richmond Hill has been able to accelerate infrastructure renewal and finance innovative projects which might not otherwise have been possible due to financial constraints. The ongoing success of Richmond Hill's grant applications is linked to the creation of a grant strategy and the alignment of that strategy with the City's capital plan and other strategic priorities.

Based on previous funding commitments by both the Federal and Provincial governments, Richmond Hill can expect to see grant funding opportunities in three main program areas:

- 1) Stormwater management
- 2) Buildings
- 3) Parks and trails

Grant announcements were made in late 2019. Staff are currently assessing and submitting grant applications with all eligible payees.

Given Council's direction to manage the annual tax supported capital repair & replacement program and projects contingent on grant funding that are designed in advance of the current year's program suitable would be for grant funding opportunities. This requires flexibility in the types of projects identified on the contingency list to be able to respond to the specific conditions of different grants, which are usually not known in advance. The list of contingency projects is evaluated annually as part of the process to ensure that projects most likely to attract grant funding are being proposed.

Page 6

If the projects contingent on grant funding are able to attract grant funding in the year in which they are proposed then they will be added to the capital program and commence. If the projects contingent on grants do not receive grant funding in the year in which they are proposed they will remain in the regular repair & replacement capital program based on the timing in the Capital Forecast. As a result of meeting the capital budget strategy and direction to cap at \$14 million, a number of construction ready projects were deferred, these projects have been added to the Project Contingent on Grant Funding list, if grants become available in 2020 they will be advanced to construction.

Financial/Staffing/Other Implications:

This staff report summarizes the detailed information provided in the 2020 Draft Capital Budget, distributed on October 30, 2019. The information is also available electronically on the City's website.

Funding Sources

Reserves and Reserve Funds play a very important role in the City's finances and provide a strong indicator of the City's overall financial health. They are established and approved by by-laws or through Provincial legislation to provide funding flexibility, mitigate risk, operations uncertainty, and to ensure long term financial stability of the City.

The general funding sources for the City's Capital Budget are: tax supported reserve funds, rate supported reserve funds, development charges, cash in lieu of parkland, federal gas tax, other internal funding sources and external funding sources. Through taxation, the primary tax supported funding sources are Repair & Replacement Reserve Funds and the Cash to Capital Reserve Fund. Rate supported reserve funds provide funding for water, wastewater and stormwater related infrastructure. From the development process, both City-wide and Area Specific Development Charges are collected during the agreement and building permit issuance stages. Cash-in-Lieu of Parkland funds are collected specifically for parkland and recreation related capital. Federal Gas Tax is an annual allocation available to municipalities including Richmond Hill based on a per capita formula. Other internal funding sources include reserves and Hydro reserve funds. While the external funding sources include 3rd party recoveries and local improvements.

2020 Capital Budget

The 2020 capital budget request for the City is a total of \$37,381,600 (\$35,232,300 capital projects and \$2,149,300 of salary and overhead costs related to capital project delivery).

Projects Contingent on Grant Funding are outlined in Appendix "B", and significant projects are outlined in Appendix "C", and the recommended funding sources are in Appendix "D".

The 2020 Capital Budget consists of projects that the departments plan to study, design, build, or tender within the next 12 months or a longer construction period depending on the complexity of the project. The completion of the 2020 capital program will result in net new additions to the City's capital infrastructure, and will have future operating budget impacts to maintain them. Included are long-term operating budget pressures as a result of ongoing maintenance and

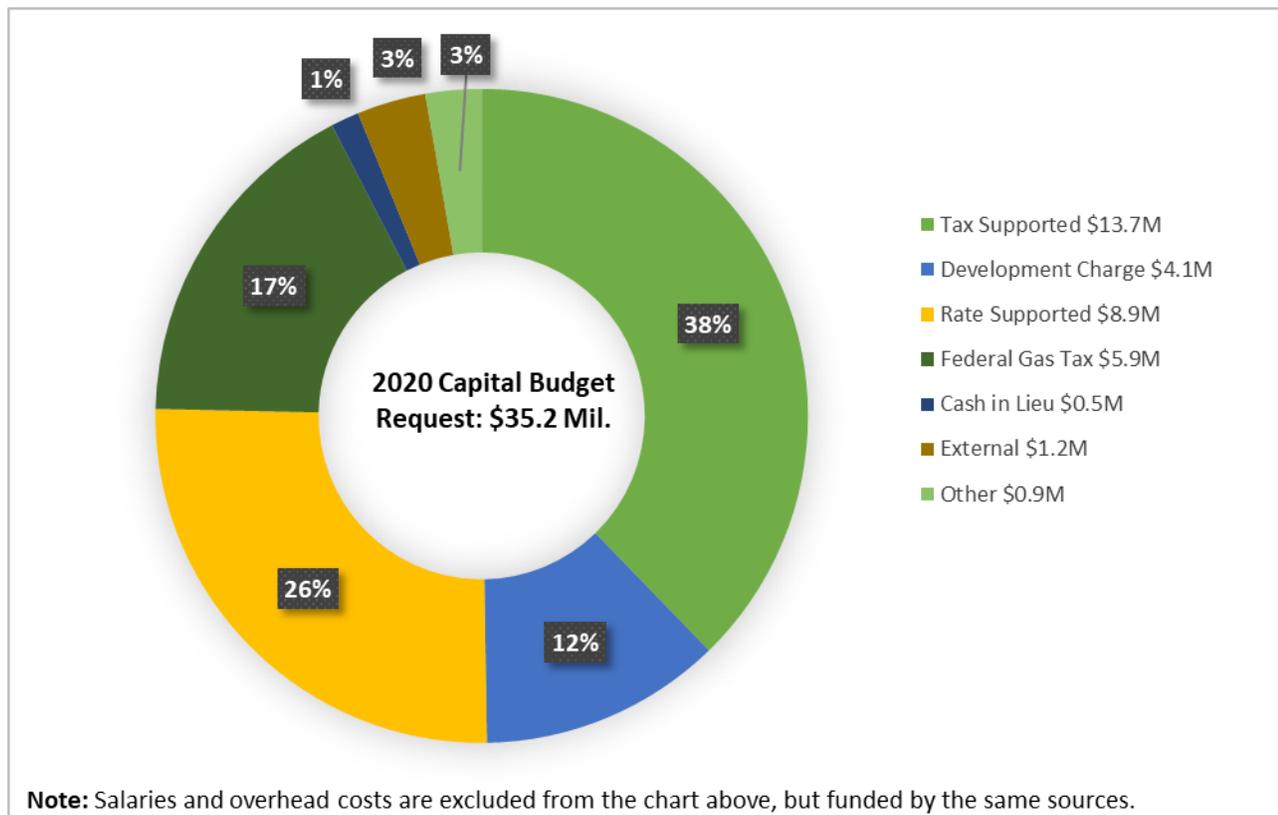
Page 7

operating costs associated with the new infrastructure to be constructed or acquired by the municipality.

The list below identifies amounts of added infrastructure from the 2020 Capital Budget:

1. Roads (340 metres)
2. Sidewalk (1,080 metres)
3. Streetlights/Illumination (1,861 metres of road)
4. Watermain (340 metres)
5. Lennox Local Park (0.90 ha) & Rockwell Parkette (0.44 ha)
6. Lake to Lake Multi Use Path – Intersections
7. IT Project - Business Application Evolution Project

Funding sources for the 2020 Capital Budget Request are shown in the graph below. Impact the capital reserve funds are highlighted in the following section.



Page 8

Tax Supported Capital Reserve Funds

Council adopted the Capital Asset Sustainability Strategy (SRCFS.15.051), which was intended to gradually move the City towards a “Pay As You Go” capital approach. This approach would have allowed for the accumulation of revenues to support the repair and replacement of capital assets based on prioritized needs as outlined in the City’s Asset Management Plan. The optimal contribution target would be equal to the anticipated cost of the repair and replacement program. It also provides for a source of revenue contributing into the reserve funds and preserving them to achieve fiscal sustainability as part of the Long Term Financial Plan.

Since then, new capital needs have been identified and the notional capping of tax supported capital expenditures of \$18 million is unrealistic and unattainable based on the City’s current service levels. The Capital Asset Sustainability Strategy must be achieve financial sustainability. Although the average annual expenditures in the Capital Forecast are in excess of the available annual funding, the continuation of the CAS Fee contribution extends the life of these reserve funds.

The strategy for effectively managing the funding of tax supported assets includes an increase in contribution, coupled with an ongoing review of the annual capital plan by prioritizing projects. As such, a funding envelope approach was established in the 2020 Capital Budget, capping the tax supported capital expenditures at approximately \$14 million in fiscal 2020.

Development Charges Reserve Funds

Development Charges is the second largest funding source for the City’s capital projects, provided for through the development process and used to fund the growth-related capital cost of infrastructure to accommodate new development within the City. The 2020 Capital Budget identified \$4.1 million or 12% of Development Charges will fund capital project, including Bethesda Road Reconstruction – Leslie Street to Hwy 404, Highway 404 Flyover north of 16th St., and Rockwell Parkette Construction.

Federal Gas Tax Reserve Fund

Federal Gas Tax provides funding for infrastructure that achieves positive environmental results. Eligible projects are infrastructure projects that contribute to clean water, cleaner air, reduce gas emission. Recent changes have expanded eligible projects to all municipal infrastructure, an opportunity for greater funding of the City’s strategic capital projects. The 2020 Capital Budget anticipates that these funds will be used mainly to finance the implementation of the Pedestrian and Cycling Master Plan including illumination and other projects, sidewalks and trails, in addition to lifecycle renewal of City facilities and roads reconstruction projects in light of the financial pressures in the tax supported reserve funds.

Water Quality Protection Reserve Fund

The Water Quality Protection Reserve Fund is primarily used for the funding of stormwater management initiatives (i.e. sediment removal, stormwater management facilities rehabilitations as well as valleyland restoration) to protect City infrastructure.

Page 9

Since the implementation of the Stormwater Management Rate in 2013, several assumptions have changed. A collaborative review of the stormwater management fee structure and expenditures related to stormwater activities is currently underway. Staff will be reporting back to Council in early 2020 to ensure future infrastructure needs and long term financial requirement are being met.

Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long-term financial plan as it strengthens its long-term financial sustainability, helps to minimize fluctuations in the tax rate and provides funding to sustain infrastructure. The current Long Term Funding Plan is designed to keep the City financially stable and sustainable, while allowing the flexibility to consider the prudent issuance of debt as an alternate use of available funding sources for major infrastructure capital projects. The City is in the midst of a series of Capital Sustainability Committee meetings and consultations to develop a prudent long range capital sustainability strategy. The results of these meetings will inform staff on service levels, and capital priorities continuing into the future. The Committee's review will continue into the new year, and Staff will report back during the 2021 capital budget process with an updated 10-year forecast and Financial Plan.

Staff will continue to explore other possible funding opportunities besides reserves and reserve funds including third party funding recovery, partnership opportunities and grants and develop a Long Term Financial Plan.

Operating Budget Impact:

Capital projects being approved will have cumulative and additional pressures on the upcoming 2020 Operating Budget. Costs will include personnel expenditures and operating and maintenance of new infrastructure. A three year Operating Impact as requested by Council can be found under the "Overview" tab in the 2020 Draft Capital Budget Binder.

Relationship to the Strategic Plan:

The City of Richmond Hill's vision of the future, "*Richmond Hill, where people come together to build our community*" also refers to the importance of good capital infrastructure planning and management, and supported by all facets of the four goals:

1. Stronger Connections in Richmond Hill – bringing the community together through the Pedestrian Cycling Master Plan implementation which facilitates, connecting sidewalks, trails, parks, and roads.
2. Better Choice in Richmond Hill – offering a wide range of services available to the community such as online program registration and payments, theme parks, and well maintained community centres.
3. A More Vibrant Richmond Hill – availability of cultural facilities such as the theatre, libraries, and venues for hosting outdoor events.

Page 10

Wise Management of Resources in Richmond Hill – through promoting the use of sustainable materials and ecologically sound methods, and constructing new facilities built to LEED silver standards

Conclusion:

The City of Richmond Hill's Capital Program provides for new infrastructure that is reflective of a growing population and balancing the rehabilitation and replacement of existing assets. In recognizing these challenges and being responsive, a 2020 Draft Capital Budget is presented for review and approval.

The City's infrastructure assets are in good condition relative to many other Ontario and Canadian municipalities. The condition of our assets and the ability to provide new services is a result of responsible capital asset management programs that are supported by Council and the community.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format please call contact person listed in this document.

Appendix A: 2020 Draft Capital Budget

Appendix B: Projects Contingent on Grant Funding

Appendix C: 2020 Significant Projects

Appendix D: 2020 Draft Capital Budget Funding Sources

Appendix E: 2020 Federal Gas Tax Reserve Fund Capital Projects

Appendix F: By-Law No. 138-19 to Adopt the 2020 Capital Budget

Page 11

Report Approval Details

Document Title:	SRCFS.19.050 2020 Draft Capital Budget.docx
Attachments:	<ul style="list-style-type: none">- SRCFS.19.050 Appendix A - 2020 Request.pdf- SRCFS.19.050 Appendix B - Projects Contingent on Grant Funding.pdf- SRCFS.19.050 Appendix C - 2020 Significant Projects.pdf- SRCFS.19.050 Appendix D - 2020 Funding sources.pdf- SRCFS.19.050 Appendix E - 2020 Fed Gas Tax Projects.pdf- SRCFS.19.050 Appendix F Draft By-law 138-19.pdf
Final Approval Date:	Nov 5, 2019

This report and all of its attachments were approved and signed as outlined below:

David Dexter - Nov 4, 2019 - 3:52 PM

MaryAnne Dempster - Nov 4, 2019 - 4:25 PM

Task assigned to Neil Garbe was completed by delegate Italo Brutto

Italo Brutto on behalf of Neil Garbe - Nov 5, 2019 - 2:42 PM