



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: November 10, 2020

Report Number: SRCFS.20.029

Department: Corporate and Financial Services

Division: Financial Services

Subject: SRCFS.20.029 - 2021 Draft Capital Budget

Purpose:

To provide Council with a 2021 Draft Capital Budget for the City's capital program reflective of corporate priorities.

Recommendation(s):

- a) That the 2021 Draft Capital budget in the amount of \$37,979,600 as identified in Appendix "A" of SRCFS.20.029 be approved;
- b) That the 2021 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.20.029 be approved and funding allocated if grant funding becomes available;
- d) That the draft By-Law No. 133-20, as attached as Appendix "F" to SRCFS.20.029, be referred to the November 25, 2020 Council meeting for adoption.

Contact Person:

Gigi Li, Manager Fiscal Planning and Strategy, Ext. 6435

Ilan Treiger, Financial Management Advisor, Long Range Financial Planning & Policy, Ext. 2415

Michael Lam, Financial Management Advisor, Ext. 6493

Report Approval:

Submitted by: Sherry Adams, Commissioner of Corporate and Financial Services

Approved by: Mary-Anne Dempster, City Manager

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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.

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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 is one of over 5,600 municipalities in Canada and one of over 440 municipalities in Ontario, who owns, manages, and maintains its diverse asset portfolio. These assets are managed on behalf of the City's Council and Citizens and include:

- A state-of-the-art theatre;
- Award-winning community centres, pools, arena, parks, playgrounds and trails;
- Highly valued libraries;
- Critical community connectivity infrastructure such as roads, sidewalks, sanitary and storm sewers and watermains 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 (such as 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.

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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 \$15 million for the 2021 tax supported budget, the 2021 Capital Budget process incorporated a similar risk based capital decision-making process developed by the Corporate Asset Management team last year. The approach is based on utilizing an Asset Management Strategy, where projects were assessed on several criteria including: health and safety, environmental, regulatory, reputational, and operational. The process includes a scoring system, to help inform and prioritize projects for assets across the organization departments based on benefit and risk of deferral. A further review and prioritization by Directors and Commissioners was undertaken to meet the Council directive.

A 10-year capital forecast has not been provided as part of the 2021 Capital Budget, as the City is in the midst of several major initiatives including update to the Official Plan ("OP"), Transportation Master Plan ("TMP"), Urban Master Environmental Servicing Plan ("UMESP"), Parks Plan as well as the Recreation and Culture Plan. Furthermore, a series of Capital Sustainability Committee meetings and consultations assisted in development of a more prudent long range capital sustainability strategy and reaffirmed the capital priorities. Staff will report back during the 2022 capital budget process with an updated 10-year forecast and Financial Plan, incorporating more of the work from the various master plans and asset management strategy.

In June of 2020 during the Capital Sustainability Committee meeting, staff have provided a preliminary 10-year capital forecast. Since June, there have been minimal changes. The forecast is fluid and the completion of these updates, as well as a more mature Corporate Asset Management plan will be based on needs, and the condition of all assets measured against each other for a more comprehensive outlook. The 2022 capital budget process will incorporate all available plans and updates within the 10-year forecast, and Financial Plan will demonstrate the work required to ensure assets do not fall into a state of despair and obsolesce.

The 2021 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.

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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 for typical straight forward projects unless further studies, regulatory approvals or property acquisition are required. The first year is dedicated to the necessary background work including detail 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 Planning and Infrastructure Department, 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.

All divisions provide background and support information on infrastructure condition so that infrastructure, and programs may be maintained. This includes linear assets such as roads and watermains, as well as facility assets within all City buildings. End users such as Recreation & Culture Services, Fire & Emergency Services and the Richmond Hill Public Library Board provide guidance, and direction on building logistics and form. The new Planning and Infrastructure Department provides the framework that will guide assets required to support condition assessment for existing assets as well as growth for linear assets.

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.

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The prioritization of all these assets, and projects are centered on a robust Asset Management Plan (AMP). An Asset Management Plan for Core Infrastructure (Water, Wastewater, Roads, Bridges and Stormwater Assets) must be approved by Council by July 1, 2021 to satisfy the regulatory requirements of Ontario Regulation 588/17 – Asset Management Planning for Municipal Infrastructure.

A compliant Asset Management Plan will inform infrastructure investment decision-making, and support rationale for future Gas Tax and grant funding applications. The Asset Management Plan will report on the State of Infrastructure and operational and financial strategies to meet required service levels.

Presently, work to develop the Asset Management Plan is on track and the City has met previously mandated Provincial requirements and is on track to meet the July, 2021 deadline to 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.



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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 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 City 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 made available to municipalities, creating the opportunity for Richmond Hill to invest in our community while lessening the load on property tax. Given the COVID-19 pressures on municipal finances, there is a likelihood of senior levels of government introducing infrastructure investment opportunities. A new intake of the Investing in Canada Infrastructure Program (ICIP) will open shortly, and staff are preparing to apply where we have capital projects that fit within the program guidelines.

Based on previous funding commitments by both the Federal and Provincial governments and an environmental scan of the field, grant funding opportunities are expected to be in three main program areas, with a focus on climate adaptation and mitigation, energy efficiency and active recreation:

1. Stormwater management facilities
2. Building facilities
3. Parks and trails

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The City is well prepared for opportunities as they arise. Staff continually monitor for grant intakes for projects within the current Council-approved budget to decrease direct costs to the City. To respond quickly to, and enable flexibility for, grant application intakes, staff also maintain an ongoing list of projects that are 'shovel' (construction) ready, but are not allocated funds through the current capital budgets. This list of 'grant contingent' projects (Appendix B) are those that are ready for construction and can be advanced should grant funding be received that would cover a substantial amount of the project cost. The list is evaluated annually as part of the process to ensure that projects most likely to attract grant funding are identified. In this capital budget, in order to meet the capital budget strategy and direction to cap at \$15 million, a number of construction-ready projects were deferred. These deferred projects have been added to the Project Contingent on the Grant Funding list, and if grant funding is secured for any of these projects in 2021, they will be approved for construction and appropriate City funding allocated. If grants do not become available, they will be delivered in their originally intended year of construction as part of the 10-year capital program.

Financial/Staffing/Other Implications:

This staff report summarizes the detailed information provided in the 2021 Draft Capital Budget, distributed on October 28, 2020. 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.

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2021 Capital Budget

The 2021 capital budget request for the City is a total of \$37,979,600 (\$36,271,800 capital projects and \$1,707,800 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”.

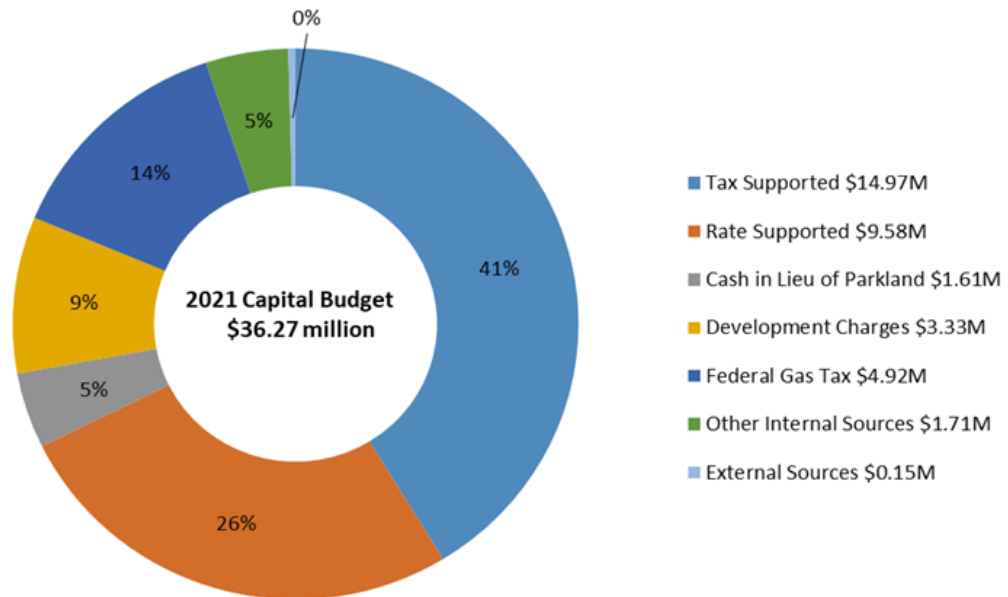
The 2021 Capital Budget consists of projects that the departments plan to study, design, build, or tender within the next 12 months or a longer construction period depending on the complexity of the project. The completion of the 2021 capital program will result in net new additions to the City’s capital 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 operating costs associated with the new infrastructure to be constructed or acquired by the municipality.

The list below identifies newly added or replaced infrastructure from the 2021 Capital Budget:

1. Roads (752 metres)
2. New Traffic Signal (1)
3. Watermain (2,400 metres)
4. Petrolia Park (0.23 ha) and Playground (3)
5. Sportsfield Artificial Turf Replacement (2)
6. Facilities Roof Projects (3) and HVAC Replacement Projects (5)

Funding sources for the 2021 Capital Budget Request are shown in the graph below. Impact to the capital reserve funds are highlighted in the following section.

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Note: Salaries and overhead costs are excluded from the chart above, but funded by the same sources.

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Tax Supported Capital Reserve Funds

The Tax Supported Capital Reserve Funds are established to provide for repairs and replacement of existing capital facilities, and structures in full service and safe operating condition. These reserve funds represent the bulk of the funding for the 2021 draft capital budget.

Over the past several years, the funding gap of the Tax Supported Reserve Funds have been a concern, as these reserves are declining and are estimated to expire by the year 2025 without a financial strategy to expand funding sources. Council and staff previously deemed that this issue could be managed through a “Pay as You Go” strategy involving lower annual expenditures, and annual increases to the Capital Levy. Unfortunately, this strategy has become unattainable as the City learns more about its assets and future placement needs, leading to growing annual capital expenditure requirements. Therefore, in 2019, Council identified the need to establish a Capital Sustainability Steering Committee.

The mandate of the Committee was to review and recommend a sustainable long term capital investment strategy that included all areas of the tax supported capital program, which would then inform the Comprehensive Asset Management Plan, the Financial Sustainability Strategy, future Development Charge updates, and future Capital Budgets & Forecasts. Over six meetings in 2019 and early 2020, the Committee reviewed the majority of asset categories and provided Council with recommendations for future capital planning on each category. The culmination of the Capital Sustainability Steering Committee efforts was the review of options for a Financial Sustainability Strategy for the Tax Supported Capital program, which staff presented on June 22nd. The draft strategy had the following principles:

- Maintain a base balance of \$40 million in Tax Supported Reserve Funds
- Continue the annual contribution to Tax Supported Reserve Funds in the operating budget and the increase in Capital Asset Sustainability (CAS) Levy each year
- Consider use of debt as part of the financial tool kit
- Use the interest earned from the base balance in these reserve funds to pay a portion of the debt servicing costs

Staff presented the Committee recommended Financial Sustainability Strategy (SRCFS.20.026) at the October 6th Budget Committee of the Whole meeting, which was subsequently approved by Council. Staff recommended consideration of debt financing for eligible capital projects which would commence from 2021 into the future years, smoothing out the financial impact to residents. A higher annual CAS Levy increase of 1.5%, and corresponding debt levy increases at 1% from 2022 to 2024, decreases to 0.5% from 2025 to 2028, and flattens out with no new debt issuance in 2029 and 2030 based on the current level of the Ten Year Capital Forecast.

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This strategy would enable the City to maintain the Tax Supported Reserve Funds at \$40 million, and interest from the reserve funds would be used to partially offset debt charges.

Given the direction that the 2021 Capital Budget be capped at \$15 million until the Comprehensive Asset Management Plan is in place, the Financial Sustainability Strategy for the Tax Supported Capital Program as recommended in SRCFS.20.026 would be implemented for the 2022 Capital Budget process.

Rate Supported Reserve Funds

The rate supported reserve funds consists of: the Water Quality Protection Reserve Fund, and the Watermain, Watermeter & Sanitary Sewer repair and replacement reserve funds. The rate supported reserve funds are the second largest funding source for the City's capital projects with \$9.58 million or 26% of the 2021 capital budget.

The 2021 Capital Budget includes \$6.9 million of capital projects, most notably the construction of 2,400 meters along the Major Mackenzie Drive, which are funded by the Water/Wastewater Rate Supported reserve funds.

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.

A collaborative review of the stormwater management fee structure and expenditures related to stormwater activities was approved by Council in 2020. A new Stormwater Management Rate structure will be developed and implemented in 2022 to address the funding gap recognized by Council and provides the most equitable opportunity to move towards long term financial sustainability for stormwater infrastructure.

Federal Gas Tax Reserve Fund

Federal Gas Tax provides funding for infrastructure that achieves positive environmental results. Previously, eligible projects were for infrastructure that contributed to clean water, cleaner air, and reduced gas emission. Recent changes have expanded eligible projects to all municipal infrastructure, an opportunity for greater funding of the City's strategic capital projects, and is currently being utilized to help alleviate the financial pressures on the Tax Supported Funds. The 2021 capital budget anticipates that these funds will be used mainly to finance lifecycle renewal of City facilities and roads reconstruction projects in light of the financial pressures in the tax supported reserve funds including: Mechanical and HVAC systems at several of the City's community centres and arenas.

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Development Charges Reserve Funds

Development Charges are used to fund growth-related capital cost of infrastructure to accommodate new development within the City. The 2021 Capital Budget identified \$3.33 million or 4% of the 2021 capital budget. Projects include: Bethesda Road Reconstruction – Leslie Street to Hwy 404, Garden Avenue Environmental Assessment (Yonge to Bayview), New Comprehensive Zoning By-Law, and Petrolia Court Park.

Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long-term financial sustainability plan which 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.

Operating Budget Impact:

Capital projects being approved will have cumulative and additional pressures on the upcoming 2021 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 2021 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.

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

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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 2021 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 core 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 the contact person listed in this document.

Appendix A: 2021 Draft Capital Budget

Appendix B: Projects Contingent on Grant Funding

Appendix C: 2021 Significant Projects

Appendix D: 2021 Draft Capital Budget Funding Sources

Appendix E: 2021 Federal Gas Tax Reserve Fund Capital Projects

Appendix F: By-Law No. 133-20 to Adopt the 2021 Capital Budget

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Report Approval Details

Document Title:	SRCFS.20.029 2021 Draft Capital Budget .docx
Attachments:	<ul style="list-style-type: none">- SRCFS.20.029 Appendix A - 2021 Request.pdf- SRCFS.20.029 Appendix B - Projects Contingent on Grant Funding.pdf- SRCFS.20.029 Appendix C - 2021 Significant Projects.pdf- SRCFS.20.029 Appendix D - 2021 Funding Sources.pdf- SRCFS.20.029 Appendix E - 2021 Fed Gas Tax Projects.pdf- SRCFS.20.029 Appendix F - 2021 Draft By-law No.133-20.pdf
Final Approval Date:	Oct 29, 2020

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

David Dexter - Oct 28, 2020 - 10:55 AM

Sherry Adams - Oct 28, 2020 - 2:03 PM

MaryAnne Dempster - Oct 29, 2020 - 12:03 PM

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Report Approval Details

Document Title:	SRCFS.20.029 2021 Draft Capital Budget.docx
Attachments:	<ul style="list-style-type: none">- SRCFS.20.029 Appendix A - 2021 Request.pdf- SRCFS.20.029 Appendix B - Projects Contingent on Grant Funding.pdf- SRCFS.20.029 Appendix C - 2021 Significant Projects.pdf- SRCFS.20.029 Appendix D - 2021 Funding Sources.pdf- SRCFS.20.029 Appendix E - 2021 Fed Gas Tax Projects.pdf- SRCFS.20.029 Appendix F - 2021 Draft By-law No.133-20.pdf
Final Approval Date:	Oct 30, 2020

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

David Dexter - Oct 30, 2020 - 2:12 PM

Sherry Adams - Oct 30, 2020 - 3:08 PM

MaryAnne Dempster - Oct 30, 2020 - 4:34 PM