



Staff Report for Committee of the Whole Meeting

Date of Meeting: June 7, 2023

Report Number: SRCFS.23.027

Department: Corporate and Financial Services
Division: Financial Services

Subject: **SRCFS.23.027 – Reinstatement of the Capital Sustainability Steering Committee**

Purpose:

To reinstate the Capital Sustainability Steering Committee, a sub-committee of Budget Committee of the Whole.

Recommendation(s):

- a) That a Capital Sustainability Steering Committee be reinstated;
- b) That the following members be appointed to the Capital Sustainability Steering Committee for this term of Council:
 - i. Mayor, Chair of the Capital Sustainability Steering Committee
 - ii. Budget Chair
 - iii. Deputy Mayor
 - iv. Ward 1 and Ward 5 Local Councillors
- c) That the Capital Sustainability Steering Committee Draft Terms of Reference attached as Appendix "B" be approved;

That the first meeting of the Capital Sustainability Steering Committee be scheduled upon Council's approval of the Capital Sustainability Steering Committee's Draft Terms of Reference.

Contact Person:

Lisa Chen, Manager, Fiscal Planning and Strategy, ext. 6311

Report Approval:

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

Approved by: Darlene Joslin, City Manager

Page 2

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:

In 2019, Council established a Capital Sustainability Steering Committee (CSSC) to develop strategies to manage capital funding and ensure the city's long-term financial sustainability with a focus on tax supported and stormwater management rate supported assets.

The 2019 CSSC was anticipated to be in place for two years with a mandate to approve a Financial Sustainability Strategy that recognized the connection between short term fiscal priorities and long term asset management

The Committee's objectives were to:

- Inform Council and the public about the City's Asset Management framework to understand the connection to fiscal sustainability
- Review and provide recommendations to Council on the financial impacts of the City's various Master Plans and Financial Studies
- Evaluate opportunities to deliver long-term capital investments that are in line that meets community expectations and fiscal prudence
- Establish sustainable long-term capital investment strategies and funding framework for tax supported and stormwater management rate supported assets
- Update the Ten Year Capital Forecast
- Adopt a Financial Sustainability Strategy and fiscal framework that will inform future Capital and Operating budgets

There had been six CSSC meetings throughout 2019 and early 2020 and the Committee reviewed financial impacts on capital-related Master Plans and Strategies, including the following:

- Fire Master Plan
- I.T. Strategic Plan
- Parks and Trails, the David Dunlap Observatory Master Plan
- Roads (together with leveraging asset management to determine road reconstruction needs), Water and Wastewater infrastructure
- Operations Centre Plan
- Recreation Plan

From these Committee meetings/reviews several recommendations were approved and implemented such as establishing a target of annual tax supported capital funding for the revitalization and repair/replacement of parks assets; exploring the use of Cash-in-lieu of parkland funds for the revitalization and repair/replacement of parks; extending the timeframe for implementation of the DDO early priorities, prioritizing the road reconstruction program based on conditional assessment, all of which served to

Page 3

alleviate the pressures on the tax supported reserve funds until a Financial Sustainability Strategy is adopted.

The CSSC accomplished its mandate to adopt a Financial Sustainability Strategy in October 2020, through *SRCFS.20.026 Financial Sustainability Strategy*, approved for implementation starting in the 2022 Capital Budget and the Committee was dissolved.

The 2020 Financial Sustainability Strategy recommended the Capital Asset Sustainability Levy be increased from 1% to 1.5% and consideration of debt financing as part of the financial tool kit. Advancements in Asset Management, legislative changes from Bill 23, as well as other factors (i.e., historic high inflation) impacting the capital budget, necessitate the reinstatement of the Capital Sustainability Steering Committee.

Key Financial Sustainability Strategy recommendations comprised of an increase of the Capital Asset Sustainability Levy from 1% to 1.5% and consideration of debt financing as part of the financial tool kit starting in 2022. However, the recommendations were put on hold pending the completion of key master plans, and until a complete picture of all City owned assets (core and non-core) can be obtained in order to update the Financial Sustainability Strategy.

In addition to the objectives identified in 2019, the scope will be expanded to establish sustainable long-term capital investment and funding strategies for all City assets: tax supported, rate supported as well as growth related in light of the legislative changes.

The CSSC will inform the financing strategy for the City's regulated Asset Management Plan that requires municipalities to identify future proposed levels of service, the activities that will be required to meet the proposed levels of service, and a strategy to fund these activities.

The City's Asset Management Plan is ahead of schedule and will continue to evolve. The Committee will provide financial direction on the Asset Management Plan financing strategy, due to the Province by July 2025. Based on the 2021 Asset Management Plan report:

- The City's assets have an estimated replacement value of \$9.2 billion.
- There is a backlog of infrastructure renewal needs and as asset inventories grow and infrastructure continue to age, there will be a need for increased funding to maintain their condition.
- The backlog of immediate infrastructure investment needs is approximately \$120 million. This backlog of immediate needs, along with upcoming asset renewal needs, could be phased over time and would require an additional average annual financing need of \$15 million per year over existing funding levels.
- Impact is being compounded by the recent rising inflationary cost pressures, the growth in new assets the City has to maintain and deferring immediate renewal needs results in more costly treatments at later stages of the asset's life cycle.

Page 4

The key deliverable of the Committee will be to provide direction on meeting the July 1, 2024 and 2025 milestones under *Ontario Regulation 588/17, Asset Management Planning for Municipal Infrastructure*, that requires municipalities to have an approved Asset Management Plan for all municipal infrastructure assets that includes an identification of proposed levels of service, the activities that will be required to meet the proposed levels of service, and a strategy to fund these activities.

Bill 23 impacts the City's ability to fund growth-related capital expenditures through development charge exemptions, discounts and phasing-in rates. The Committee will approve strategic direction on managing the projected \$330M funding shortfall over the next ten-years, impacting the updated Financial Sustainability Strategy, and future financial decisions.

The changes provided through Bill 23 negatively impact the City's ability to collect development charges to fund growth-related capital expenditures through development charge exemptions, discounts and phasing-in rates. At the January 30, 2023 Special Council Meeting, staff presented [SRPI.23.018, Request for Comments – Bill 23, The More Homes Built Faster Act, 2022](#), identifying a number of financial impacts from the recent legislative updates:

Estimated Bill 23 Revenue Loss over 10 Years

Revenue Tool	Overall Revenue Loss (millions)	Reduction in Forecasted Revenues (%)
Development Charges	\$87.7	32%
Community Benefits Charge	\$3.9	25%
Parkland Dedication	\$238.2	61%
Total	\$329.8	49%

The 2023 Development Charges By-law Update, currently underway will further inform the overall estimated financial impact of Bill 23 to the City. The Committee will approve strategic direction on managing the funding shortfalls over the long term, and will impact the updated Financial Sustainability Strategy, and financial decisions into future years.

CSSC outcomes will have long-term financial implications to the City through the approval of an updated Financial Sustainability Strategy, current and future Asset Management Plans, and Financing Strategy and Bill 23 impact on development charge revenues.

Achieving fiscal sustainability is a three-prong approach. It requires managing the City's capital program and service levels, as well as maintaining sufficient balances in the capital related reserve funds to provide funding to sustain the infrastructure while utilizing debt as part of a long-term Financial Sustainability Strategy. The long-term impacts will be reflected in the annual budget cycle, through taxation, debt payment and user rates.

Page 5

Under the framework described above and outlined in Appendix A, the Committee will be comprised of five Council members: Mayor, Budget Chair, Deputy Chair and 2 Local Councillors. The proposed Draft Terms of Reference is attached as Appendix B.

Financial/Staffing/Other Implications:

There are no financial implications to reinstate the Committee, however the outcome from the Committee will have long-term financial implications through the approval of an updated Fiscal Sustainability Strategy, the Asset Management Plan Financing Strategy and Bill 23 impact on development charge revenues.

Relationship to Council's Strategic Priorities 2020-2022:

The reinstatement of the Capital Sustainability Steering Committee demonstrates Fiscal Responsibility and wise management of resources in Richmond Hill.

As City's population increases and development intensifies, the City is responsible for the provision of community services (water, sanitary and storm), roads, recreational facilities, libraries, parks, and other amenities and programs that make our communities healthy and sustainable and improve our citizen's quality of life.

Climate Change Considerations:

The committee provides oversight for asset management funding strategy that may provide mitigating impacts on climate change.

Conclusion:

The reinstatement of the Capital Sustainability Steering Committee provides a channel for ongoing reviews and updates of the Financial Sustainability Strategy. In light of funding constraints, now more than ever, the City needs to establish a fiscally prudent approach to protect public funds.

Richmond Hill will be in a fiscally sustainable position when it can offer a level of service that can accommodate the long term needs of growth while maintaining infrastructure in a state of good repair. The cost of providing this service must also be balanced with property taxation, user fees and developer funding.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. All attachments have been reviewed and made accessible. If you require an alternative format please call the contact person listed in this document.

- Appendix "A" – Capital Sustainability Steering Committee Framework
- Appendix "B" – Draft Terms of Reference for the Capital Sustainability Steering Committee (2023)

Page 6

Report Approval Details

Document Title:	SRCFS.23.027 Reinstatement of the Capital Sustainability Steering Committee.docx
Attachments:	- SRCFS.23.027 Appendix A - CSSC Framework.pdf - SRCFS.23.027 Appendix B - CSSC Terms of Reference.docx
Final Approval Date:	May 31, 2023

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

Gigi Li - May 31, 2023 - 11:04 AM

Sherry Adams - May 31, 2023 - 11:12 AM

Darlene Joslin - May 31, 2023 - 12:29 PM