



Staff Report for Capital Sustainability Steering Committee

Date of Meeting: March 19, 2024

Report Number: SRCFS.24.012

Department: Corporate and Financial Services

Division: Financial Services

Subject: 2025 – 2033 Capital Forecast

Purpose:

To provide an overview of the capital forecast funding requirements identified in the 2025 – 2033 Capital Forecast. The information will guide discussions with the Committee regarding investment priorities in the future.

Recommendation:

That SRCFS.24.012 regarding the 2025 – 2033 Capital Forecast be received.

Contact Person:

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

Gigi Li, Director of Financial Services and Treasurer, ext. 6435

Report Approval:

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

Approved by: Darlene Joslin, 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.

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Background:

The City of Richmond Hill engages in a continuous, annual process to plan its capital budget and forecast, encompassing a forward-looking ten-year perspective. The initial year represents the proposed capital budget, while the subsequent nine years serve as a forecast. As is common in budgetary matters, the demand for capital projected in the forecast exceeds anticipated and available capital funding.

The City previously relied on a strategy of reducing annual expenditures and increasing the annual Capital Asset Sustainability Levy to bridge the funding gap for the tax supported capital program. However, various factors have exacerbated this gap. Updates from long-term studies have increased projected capital funding needs, legislative changes are expected to reduce developer funding, and for growth assets, economic challenges in recent years have inflated cost projections.

This report provides background information to assist the Committee in approving strategic decisions to manage the anticipated funding shortfall in the future. These decisions will have implications for the City's future Financial Sustainability Strategy, service levels and the overall Financial Master Plan for 2025. The financial and service level impacts of each long-term study and master plan will be presented to the Committee over the next 18 to 24 months. As the Committee endorses new or growth assets, long-term operating budget pressures will need to be reviewed in tandem with capital budget pressures before presenting recommendations to Council.

2025 – 2033 Capital Forecast Overview

The Capital Forecast is determined based on state of good repair needs arising from the Asset Management Plan and directions arising from growth and services improvements identified in Master Plans. The Strategic Plan and Official Plan assist in providing overall direction and prioritization for the capital forecast and master plans. Due to the long-term nature of capital investments, the Capital Forecast is reviewed annually to re-assess the appropriateness of assumptions.

Capital projects falls under three categories: growth, enhancements, and state of good repair.

Growth projects are planned in anticipation of servicing an increasing population and are funded mainly from development charges. Master Plans, including the Transportation Master Plan, Urban Master Environmental Servicing Plan, Parks Plan, Recreation and Culture Plan, utilize the Official Plan's growth projections to determine needs for the future. The financial implications and timing are then reflected in the Development Charges Background Study.

Enhancement projects are new services or increases to service levels unrelated to growth but guided by the Strategic Plan. An example is adopting green initiatives when constructing and replacing City assets. Typically these projects require funding from non-DC or discretionary sources. Projects under Growth or New add to the existing

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asset inventory and lead to future operating budget pressures to operationalize and eventually replace the asset.

State of Good Repair projects arise when existing assets are due for repairs and renewal due to deterioration or technological obsolescence. The development of state of good repair projects is aligned with asset management practices including condition studies and assessments. Like-for-like replacements are funded mainly from tax or rate supported reserve funds.

As presented during the 2024 Budget process, the 2025 – 2033 Capital Forecast is \$1.678 billion dollars over the nine-year period as described in Table 1.

Table 1: 2025 to 2033 Capital Forecast

Capital Forecast (in \$ millions)	2025	2026	2027	2028	2029-2033 (5 years)	2025-2033 (9 years)
Growth / Enhancements	66.6	91.0	70.8	178.9	400.7	808.0
State of Good Repair	120.4	102.7	109.7	112.7	424.7	870.2
Total Forecast	\$187.0	\$193.6	\$180.5	\$291.6	\$825.4	\$1,678.2

Table 2 illustrates that if all projects were approved per the 2025 to 2033 capital forecast, the City will be unable to fund all the projects over the nine-year period as it will result in a deficit funding balance of \$361.9 million at the end of the forecast period.

Table 2: 2025 to 2033 Capital Forecast Funding – Required vs. Available



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In light of the funding constraints, now more than ever, the City needs to be certain that proposed capital expenditures address a firmly established need in a fiscally responsible manner. As part of the Financial Sustainability Strategy, the capital forecast will need to be refined to **bridge the funding gap through a combination of revisiting the assumptions, timing and scoping of projects, or increasing funding through tax, water or stormwater rates or other alternative funding sources to put the Plans into reality.**

Capital Expenditure Factors

Considerable planning precedes the identification of projects in the capital forecast; it begins with a comprehensive review of the desired outcomes or deliverables outlined in long-term plans, strategic priorities, and legislative mandates. As each year passes, the project timing, scope, and costs are evaluated and refined based on the availability of new information. Along with considering legislative requirements, this review also considers coordination with partners including York Region, school boards, developers and grant funders.

Master Plans, Strategies and Financial Studies

In recent years, long-term plans listed in Table 3 were updated and presented to Council and informed the capital forecast:

Table 3: Master Plans, Strategies and Financial Studies

2022 and Prior	2023	2024
Environment Strategy Update	State of Infrastructure	2024 - 2027 Strategic Plan
Parkland Dedication	Official Plan Amendments	Development Charges Background Study (pending March approval)
Community Benefits Charge Strategy	Transportation Master Plan	Water and Wastewater Financial Plan (pending June approval)
Parks Plan	Urban Master Environmental Servicing Plan	Stormwater Financial Plan (pending June approval)
Recreation and Culture Plan	Traffic Safety and Operations Strategy	Asset Management (pending June approval)
Official Plan Update’s Key Directions	Age-Friendly Community Strategy	Library facilities Master Plan (pending approval)

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2022 and Prior	2023	2024
Fire Master Plan	Town Park	
RHDDO Master Plan	Mill Pond Master Plan	
Operations Centre Expansion	Richmond Hill Centre Secondary Plan / Yonge Subway Extension /	
	Housing Pledge	

The new 2024 – 2027 Strategic Plan will influence the priority of projects identified in completed master plans and will guide master plans completed in the coming years.

Legislation

The City is subject to a number of regulations with respect to maintaining infrastructure standards. These include but are not limited to:

- Asset Management Planning for Municipal Infrastructure
- Safe Drinking Water Act
- Environmental regulations
- Stormwater Flood Prevention Act and the Low Impact Development Stormwater Management Guidance Manual
- Electrical Safety Code

Partnerships

The timing of capital projects may be advanced or deferred to benefit from efficiencies of scale/scope by coordinating the timing of projects with:

- York Region projects, such as road projects with connections to regional roads
- Developments to upgrade existing infrastructure while development takes place
- Other internal projects to bundle road, watermain, sanitary sewer and stormwater management projects together
- Grant funding opportunities to take advantage of partnership funding of large-scale shovel ready projects
- School board agreements such as the Langstaff Community Centre and Richmond Green Library

Capital Expenditure Forecast

As a municipal service provider, the capital forecast requirements are aligned with the services that are driving the need for the asset to be constructed, acquired or replaced.

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Table 4 provides a clear picture of the long-term costs of providing each type of service to the community and allows Council to make informed decisions about capital priorities.

Table 4: 2025 to 2033 Capital Forecast by Service

Capital Forecast (in \$ millions)	2025	2026	2027	2028	2029-2033 (5 years)	2025-2033 (9 years)
Transportation	\$48.4	\$36.0	\$35.9	\$68.4	\$189.1	\$377.8
Roadway System	41.0	34.1	32.9	63.6	167.9	339.6
Active Transportation	7.4	2.0	3.0	4.8	21.2	38.2
Environmental	\$65.9	\$72.1	\$52.0	\$41.4	\$128.6	\$360.0
Water Distribution	25.0	30.0	25.0	22.4	68.2	170.6
Wastewater Collection	14.2	5.6	5.5	5.5	16.5	47.3
Stormwater Management	26.7	36.5	21.4	13.6	43.9	142.1
Recreation and Culture	\$36.1	\$48.7	\$57.9	\$126.0	\$343.0	\$611.7
Parks and Outdoor Recreation	22.6	22.9	36.2	40.7	140.0	262.5
Recreation Facilities	5.0	17.1	13.1	76.2	153.4	264.7
Cultural Services	5.0	5.0	5.0	5.0	25.3	45.3
Libraries	3.5	3.7	3.7	4.0	24.3	39.2
Protection	\$4.2	\$10.1	\$7.3	\$14.3	\$20.4	\$56.3
Fire Services	4.2	10.1	7.3	14.3	20.4	56.3
Administration	\$11.3	\$5.6	\$5.3	\$18.7	\$32.1	\$73.1
Municipal Services	11.3	5.6	5.3	18.7	32.1	73.1
Other	\$21.1	\$21.0	\$22.2	\$22.8	\$112.1	\$199.2
Other	21.1	21.0	22.2	22.8	112.1	199.2
Total Forecast	\$187.0	\$193.6	\$180.5	\$291.6	\$825.4	\$1,678.2

2025 – 2033 Capital Funding Factors

The City’s Capital Forecast is funded by taxation, utility rates, discretionary reserve funds, development related revenues, grants, and interest on long-term investments. In 2020, Council also endorsed the use of debt, however, the City remains debt-free. These funding sources are influenced by the state of the economy, legislation and the pace of development.

Economy

The economic climate impacts funding availability. Through inflation, the purchasing power is reduced, and higher interest rates impact potential debt payments. Conversely, higher interest rates enhance reserve fund balances as the funds are invested in interest earning securities.

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Legislation

The City is subject to various legislation that limit the ability to raise capital funds:

- Municipal Act
- Development Charges Act
- Planning Act
- Bill 108, More Homes, More Choice Act
- Bill 23, More Homes Built Faster Act
- Bill 97, Helping Homebuyers, Protecting Tenants Act
- Ontario Land Tribunal Act

Growth and Development

A combination of the economy, legislation and socio-political factors impact the pace of the City's population growth. Development Charges, Parkland Dedication and Community Benefit Charges are dependent on development applications. Changes in expected collections from developments will also impact the capital forecast by accelerating or deferring the timing of projects to meet the demands from growth.

Capital Funding Forecast

Table 5 shows that the 2025 – 2033 Capital Forecast requires funding of \$1.678 billion dollars over the nine-year period. The reserve fund balance is a surplus of \$385.2 million at the beginning of 2025, and if all projects are funded per the capital forecast, the balance will be in a deficit of \$361.9 million at the end of 2033.

Table 5: 2025 – 2033 Capital Funding Requirement

Capital Funding (in \$ millions)	2025	2026	2027	2028	2029-2033 (5 years)	2025-2033 (9 years)
A. Tax Supported	63.4	62.7	56.1	72.0	298.0	552.2
B. Rate Supported	59.4	52.3	48.5	39.8	119.8	319.8
C. Development Charges	43.4	61.9	46.3	156.7	325.3	633.6
D. Cash in Lieu of Parkland	8.8	7.0	17.0	11.3	33.0	77.0
E. Canada Community Building Fund	6.7	6.4	6.7	7.8	32.3	59.9
F. Other Reserves and Reserve Funds	4.3	3.0	5.8	3.8	15.5	32.3
G. Grants and Recoveries	1.0	0.3	0.3	0.3	1.5	3.4
Funding Requirement	\$187.0	\$193.6	\$180.5	\$291.6	\$825.4	\$1,678.2

Reserves and Reserve Funds are a key component of the City's finances and provide a strong indicator of the City's financial health. They are established and approved through by-laws or Provincial legislation to allow for funding flexibility, risk mitigation, and operational uncertainty stabilization, to assist in providing long-term financial stability of the City. Funding sources for the City's Capital Budget are:

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- A. **Tax supported** reserve and reserve funds including:
 - 1. Repair and Replacement Reserve Funds and
 - 2. Cash to Capital Reserve Fund
- B. **Rate supported** reserve funds that provide funding for water, wastewater and stormwater related infrastructure
- C. City-wide and Area Specific **Development Charges** collected during the development agreement process and the building permit issuance stages
- D. **Cash-in-Lieu of Parkland** funds collected specifically for parkland and recreation related capital
- E. **Canada Community Building Fund** (formerly Federal Gas Tax), an annual allocation to municipalities from the Federal government based on a per capita formula
- F. **Other** internal funding sources including reserves and Hydro reserve funds
- G. **Grants and Recoveries** funding sources including third party recoveries

A. Tax Supported Reserve Funds

Tax Supported Reserve Funds are utilized to fund state of good repair projects. The funding forecast for 2025 to 2033 is \$552.2 million (33%).

These reserve funds are funded from tax by transfers from the Operating Budget and the Capital Sustainability Asset Levy. The Capital Asset Sustainability (CAS) Fee was approved in 2016 and was expected to increase annually by 1% tax rate equivalent until 2025. By managing spending and increasing contributions, it was anticipated to extend the life of the reserve funds from 2021 to 2026. As fund balances depleted faster than anticipated, in June 2023 Council approved to increase the CAS Levy to 1.5% tax rate equivalent and to extend it beyond 2025. The balance at the beginning of 2025 is \$52.0 million and is still expected to be in a deficit in 2026, in the amount of \$26.2 million.

The Committee's mandate includes approving the financing strategy for the City's regulated 2025 Asset Management Plan update as per *Ontario Regulation 588/17: Asset Management Planning for Municipal Infrastructure*. This regulation mandates municipalities to outline future proposed levels of service with respect to assets, the requisite activities to maintain these levels, and a funding strategy to support these activities. This will be due by July 2025.

B. Rate Supported Reserve Funds

The Rate Supported Reserve Funds consist of: Water Quality Protection, Watermain repair and replacement, Watermeter repair and replacement and Sanitary Sewer repair and replacement.

Rate Supported Reserve Funds are utilized to fund the repair, maintenance and replacement of water, wastewater and stormwater management infrastructure. The funding forecast for 2025 to 2033 is \$319.8 million (19%).

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Provincial legislation requires the Water and Wastewater reserve funds to be self-sufficient, and an update to the Water and Wastewater Financial plan will be presented to Council in June 2024 to ensure rates are set appropriately. The reserve funds balance at the beginning of 2025 is \$46.5 million and is expected to be in a \$12.8 million deficit at the end of 2027.

The Water Quality Protection Reserve Fund is utilized to fund stormwater management initiatives (i.e. sediment removal, stormwater management facilities rehabilitations, as well as, valleyland restoration) to protect properties and City infrastructure.

As discussed during the 2024 Budget, a Stormwater Management Financial Plan will also be presented to Council in June 2024 to ensure rates are set appropriately. Current rates are not financially sustainable and only recover operating expenses. The reserve fund balance at the beginning of 2025 is \$432,000 compared to the projected \$24.8 million required for 2025. Staff will be presenting alternative funding source recommendations at the June meeting of the CSSC?.

C. Development Charges Reserve Funds

Development Charges are a major funding source of the City's capital projects, provided for through the development process and used to fund eligible growth-related infrastructure. The funding forecast for 2025 to 2033 is \$633.6 million (38%). The reserve funds balance at the beginning of 2025 is \$128.4 million and is projected to be in a \$13.5 million deficit at the end of 2028.

The City anticipates experiencing \$190 million reduction in Development Charges revenues as a result of Bill 23 and the loss is reflected in the analysis. The reduction has been updated from the original \$87.7 million as presented to Council in [SRPI.23.018 - Request for Comments - Bill 23, The More Homes Built Faster Act, 2022](#) as it reflects the updated 2024 Development Charge rates. The City will need to identify alternate funding sources, decrease service levels or increase tax levy support.

Bill 23 and similar legislation impacts the City's ability to fund growth-related capital expenditures through development charge exemptions, discounts and phasing-in rates. The 2024 DC Background Study and By-Law pending March 27 Council approval falls under the new legislation. In addition, the Province of Ontario introduced Bill 108 and 138 in 2019 which allows developers to lock in development charge rates for two years and pay development charges in installments over a longer period of time.

In addition, municipalities are required to have official plans that conform to the growth targets set out by the Provincial Growth Plan. Richmond Hill's infrastructure master plans must include infrastructure needed to meet the population growth in its official plan. However, if the growth does not materialize as expected, municipalities face two financial challenges. First, they may be in a situation where infrastructure capacity is built and financed in advance of growth and the development revenues that would be collected to offset these costs. Second, once in service, these assets begin to incur

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operating, maintenance and rehabilitation costs, which are then appropriately funded by tax levy and user rates. To mitigate this risk, it requires ongoing re-evaluation of the timing of planned growth-related projects in the Capital Forecast.

D. Cash in Lieu of Parkland

Cash in Lieu of Parkland is utilized to fund the purchase and development of new parkland, park amenities, and the revitalization of existing parks. The funding forecast for 2025 to 2033 is \$77.0 million (5%). The reserve fund balance at the beginning of 2025 is \$57.7 million.

The City may also experience a reduction in Parkland dedication revenues as a result of new legislation, anticipated at \$238 million loss as presented to Council in [SRPI.23.018 - Request for Comments - Bill 23, The More Homes Built Faster Act, 2022](#). This will result in the City's need to identify alternate funding sources, decrease service levels or an increase tax levy support.

E. Canada Community Building Fund

The Canada Community Building fund is a grant allocated to the city on a per capita basis to support infrastructure priorities. Richmond Hill strategically assesses capital projects against the eligibility criteria and prioritizes state of good repair projects that would otherwise be funded from Tax Supported Reserve Funds, and growth portions of projects that are not eligible for funding from Development Charges. Eligible categories prioritized by the City include local roads and bridges, community energy system, recreational and cultural infrastructure and capacity building.

The funding forecast for 2025 to 2033 is \$59.9 million (4%). The reserve fund balance at the beginning of 2025 is \$2.4 million and is expected to remain relatively stable.

F. Other Reserves and Reserve Funds

The City has reserve and reserve funds set aside for specific purposes. These relatively smaller reserves are collected from specific sources and fund infrastructure such as street signs, water meters, David Dunlap Observatory woodlot management and terrestrial natural area restoration.

G. Grants and Recoveries

The City applies for grants from funders when our projects and programs meet the goals of the fund to support investment in the community, while reducing the property tax support requirement and the reliance on the City's reserve funds.

Staff forecast and monitor grant funding opportunities based on a review of priorities and activities of other levels of government and other funders. Current trends suggest that there are and will continue to be opportunities for alignment with funder priorities such as climate change adaptation and mitigation, housing and complete communities, accessibility and active recreation.

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Staff monitor grant intakes and identify eligible projects within the budget or forecast years.

The **Housing Accelerator Fund** provides the City with \$31 million from the federal government to encourage municipal policies that allows homeowners and builders to create affordable homes. Funding will be used to provide incentives rather than funding for municipal capital funding.

The **Building Faster Fund** will provide \$400 million in new annual funding for three years to municipalities that are on target to meet provincial housing targets by 2031. Municipalities that reach 80 per cent of their annual target each year will become eligible for funding based on their share of the overall goal of 1.5 million homes. Municipalities that exceed their target will receive a bonus on top of their allocation. Funding from the Building Faster Fund can be directed toward housing-enabling infrastructure and other related costs that support community growth.

The **Housing-Enabling Water Systems Fund** provides \$200 million funding over three years for municipalities to repair, rehabilitate and expand drinking water, wastewater and stormwater infrastructure. The fund is open for intake with applications due April 19, 2024. Staff will be tabling a report for Council's consideration before the due date.

Financial/Staffing/Other Implications:

As outlined in this report, the 2025 – 2033 Capital Forecast requires funding of \$1.678 billion dollars over the nine-year period while the analysis indicates there will be insufficient funds to support the forecast. The reserve fund balance is \$385.2 million surplus at the beginning of 2025, and if all projects are funded, the balance will be in a \$361.9 million deficit at the end of 2033.

The Capital Forecast will need to be updated to reflect the financial reality, the updated growth assumptions and the evolving state of good repair asset management needs depending on the desired level of service. Staff will be presenting further details and assumptions of the various master plans that are competing with the limited capital related reserve funds. There will be two objectives: to formulate a 2025 Capital Budget Strategy (June 2024) and to update the Financially Sustainability Strategy (June 2025).

The 2024 Capital Budget funding of \$102 million will not be sustainable for the 2025 Budget. As part of the 2025 Capital Budget Strategy, staff will recommend a lower amount.

Considerations to mitigate the funding gap will include service level changes, de-scoping plans, extending the timeframe, seeking alternative funding sources and potentially increasing tax and rates to increase capital reserve fund contributions.

The agenda for the upcoming Committee meetings are outlined in Table 6.

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Table 6: 2024 Capital Sustainability Steering Committee Meeting

April 16

- Park Master Plans
- Town, Unity, Passive, Mill Pond Parks
- DC, CIL of Parkland Funding and Bill 23

May 7

- Recreation and Culture Plans
- Library Facilities Master Plan (pending April receipt by the Board)
- Fire Master Plan (and Implementation Plan)
- Development Charges and Community Benefits Funding

June 4

- 2024 Asset Management Plan
 - Tax Supported Capital
 - Rate Supported Capital
- Developer Funding Legislated Updates (if any)
- 2025 Budget Strategy funding guidelines)

September 17

- Environment Strategy
- Facilities Master Plan
- Operations Centre Expansion

October 8

- 2025 Capital Budget and 2027 to 2034 Forecast

Financial Sustainability Strategy

Achieving fiscal sustainability may require a three-pronged approach of managing the City's capital program and service levels, maintaining sufficient balances in the capital related reserve funds, and utilizing debt as part of a long-term financial sustainability strategy.

Financial sustainability requires long term planning in a responsible manner that realizes the City's Strategic Plan priorities, while mitigating both short- and long-term

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financial risks. 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 taxation.

Relationship to Council’s Strategic Priorities 2020-2022:

The capital forecast discussion reflects the City’s Official Plan, strategies, and programs, which represents the tangible implementation of investments through the action of “Balancing Growth and Green” and “Fiscal Responsibility”.

Conclusion:

The City of Richmond Hill’s Capital Program provides for new infrastructure that is reflective of a growing population, while balancing the state of good repair of existing assets. The 2025 – 2033 Capital Forecast is \$1.678 billion dollars. If all projects were approved the City will be unable to fund all the projects over the nine-year period as it will result in a deficit funding balance of \$361.9 million at the end of the forecast period.

In light of the funding constraints, now more than ever, the City needs to be certain that proposed capital expenditures address a firmly established need in a fiscally responsible manner. As part of the Financial Sustainability Strategy, the Capital Forecast will need to be refined to bridge the funding gap through a combination of revisiting the assumptions, timing and scoping of projects, or increasing funding through tax, water or stormwater rates or other alternative funding sources to put the Plans into reality.

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Report Approval Details

Document Title:	SRCFS.24.012 2025 - 2033 Capital Forecast.docx
Attachments:	
Final Approval Date:	Mar 13, 2024

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

Task assigned to Gigi Li was completed by delegate Lisa Chen

Lisa Chen on behalf of Gigi Li - Mar 12, 2024 - 4:32 PM

Sherry Adams - Mar 12, 2024 - 4:52 PM

Task assigned to Darlene Joslin was completed by delegate Tracey Steele

Tracey Steele on behalf of Darlene Joslin - Mar 13, 2024 - 10:11 AM