
Subject: 2021 Capital Budget

Report to: Budget Review Committee of the Whole

Report date: Thursday, October 15, 2020

Recommendations

1. That the 2021 Capital Budget for the Niagara Regional Departments and Agencies, Boards and Commissions of \$501,505,722 as per **Appendix 1** to CSD 58-2020, **BE APPROVED** pending final by-law approval anticipated to be on January 21, 2021.
2. That an incremental transfer to the Capital Levy Reserve of \$2,046,910 or 1.00% of the departmental share of the levy **BE REFERRED** to the 2021 Operating budget.
3. That \$5,300 for the incremental operating costs of capital projects as per **Appendix 7 BE REFERRED** for consideration as part of the 2021 Operating Budget to be funded from Assessment Growth.
4. That \$5,230,000 for the incremental operating costs of capital projects as per **Appendix 7 BE REFERRED** for consideration as part of the 2021 Rate Budget.
5. That financing in the amount of \$215,130,104 gross and \$182,450,742 net **BE INITIATED** upon approval of the 2021 Capital Budget and **BE ALLOCATED** to the projects as summarized in **Appendix 4** to CSD 58-2020;
6. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration to coincide with the approval of the operating budget.

Key Facts

- The purpose of this report is to recommend the 2021 capital budget of \$501.51 million with 127 projects that have been prioritized through the Corporate Asset Management Resource Allocation (CAMRA) Model. All capital projects were evaluated and ranked with CAMRA based on a risk calculated return on investment (RROI).
- Included in the capital budget is the South Niagara Falls Wastewater Treatment Plant (SNF WWTP) Project which is \$320 million or 64% of the 2021 Capital Budget.

- All recommended capital projects are supported by business cases included in eScribe. 117 projects are to be initiated and 4 projects are to be partially initiated concurrently with the approval of the 2021 Capital Budget (**Appendix 4**). There are 10 capital projects, in the amount of \$286.37 million, that will be brought forward for initiation at a later date once further information is available (**Appendix 4**).
- Capital funding was allocated to projects in alignment with the principles of the Capital Financing Policy inclusive of 1% increase of the departmental share of the levy and rate budgets in accordance with the 2021 budget planning report.

Financial Considerations

The proposed 2021 Capital Budget of \$501.51 million (\$85.76 million Levy Capital Budget and \$415.75 million Rate Capital Budget) is included in **Appendix 1**.

The 2021 Capital Budget being presented is funded as follows:

Table 1: Levy Capital Funding Sources 2020 vs 2021

	2020	2021
Regional Funding:		
Reserves	\$39,822,935	\$39,698,091
Debt for Long Term Care	129,187,000	-
Debt	15,762,650	25,000,000
	184,772,585	63,098,091
External Funding:		
Area Municipalities	2,700,000	3,950,000
Federal Gas Tax	10,348,900	11,000,000
Other External	12,621,546	1,289,862
	25,670,466	16,239,862
Development Charges (DC)	59,956,458	4,819,500
Total	270,399,489	85,757,453

Table 2: Rate Capital Funding Sources 2020 vs 2021

	2020	2021
Regional Funding:		
Reserves	\$83,994,830	\$64,932,000
Debt	-	82,988,565
	83,994,830	147,920,565
External Funding:		
Federal Gas Tax	4,000,000	3,000,000
Unconfirmed Grants (SNF)	-	108,000,000
Other External	800,000	-
	4,800,000	111,000,000
Debt - Development Charges	-	148,207,703
Development Charges	16,330,570	8,620,000
Total	105,125,400	415,748,269

Assumptions for the funding are as follows:

- The Capital Financing Policy has a strategy for establishing adequate levels of funding for capital projects that address sustainment, growth and new strategic investments. This policy was utilized for funding decisions in the 2021 Capital Budget.
- **Reserves** – Reserves were allocated to infrastructure renewal projects
 - A levy increase of 1% (\$2.05 million) was recommend in the 2021 budget planning strategy to support the infrastructure deficit and Capital Financing Strategy. If the increase is not approved, an additional \$2.05 million of levy capital projects will have to be deferred or reduced (**Appendix 3**).
 - At the end of 2021; General Capital Levy and Infrastructure Deficit Reduction Reserves is forecasted to be \$1 million, Water Reserve is forecasted to be \$60 million, Wastewater Reserve is forecasted to be \$2 million, and Waste Management reserve is forecasted to be \$0.5 million. The 9-year forecast of capital reserve balances are in **Appendix 6**.
 - Closures of 53 Capital projects and budget reductions provided \$9.6 million in funding for the 2021 Capital Budget.

- **Debt** – Debt was allocated to growth projects as identified within the DC background study, projects that provided net-new assets to the Region or projects that leveraged external funding sources.
 - No increase in the debt charge budget with the exception of accommodating the SNF WWTP and the Safe Drinking Water Act financial plan. The impacts to the debt metrics and trends are identified in **Appendix 5**. While Niagara is the highest compared to the average of comparable Regions in 7 debt metrics, it is still below the Municipal Act debt threshold of an annual repayment limit of 25% (2021 – 8.30%).
- **Area Municipality** – Contributions from local area municipalities are used for Capital projects in which Niagara Region projects incorporate some element of Local Area Municipality owned infrastructure.
- **Federal Gas Tax** – Annual allocation from the Federal Government of approximately \$14 million is provided to the Niagara Region every year to spend on infrastructure projects and is allocated to projects in accordance with the transfer payment agreement.
- **Unconfirmed Grants SNF** – Unconfirmed \$108 million estimated provincial and federal contribution for the SNF WWTP based on historical grant funding formulas. Confirmation of this grant is required in order for the SNF WWTP projects to proceed to construction phase.
- **Other External** – Confirmed contributions from 3rd parties, provincial and federal governments for capital projects were leveraged where possible.
- **Debt - Development charges** – 70% of the net cost of the SNF WWTP projects are recoverable by DCs. Since the collection of DC receipts from the resulting growth of the project will occur after the project is done, debenture financing will be required with the future annual debt payments funding from DC receipts
- **Development charges** - \$13.4 million have been maximized in accordance with the background study for growth related projects.

Operating impacts with capital

To align with the budget planning by-law, the impacts of operating these capital projects will be recommended to be funded through assessment growth for more transparency into the incremental revenues, expenditures or cost savings. This information is reported on the capital data sheets within the Budget detail on eScribe. A summary of the operating impacts can be seen in **Appendix 7**. Preliminary estimates of net assessment growth amount to \$3.9 million. Assessment growth will be allocated based on the budget planning bylaw's methodology when the operating budget is presented to the Budget Review Committee of the Whole in January. The remaining net assessment

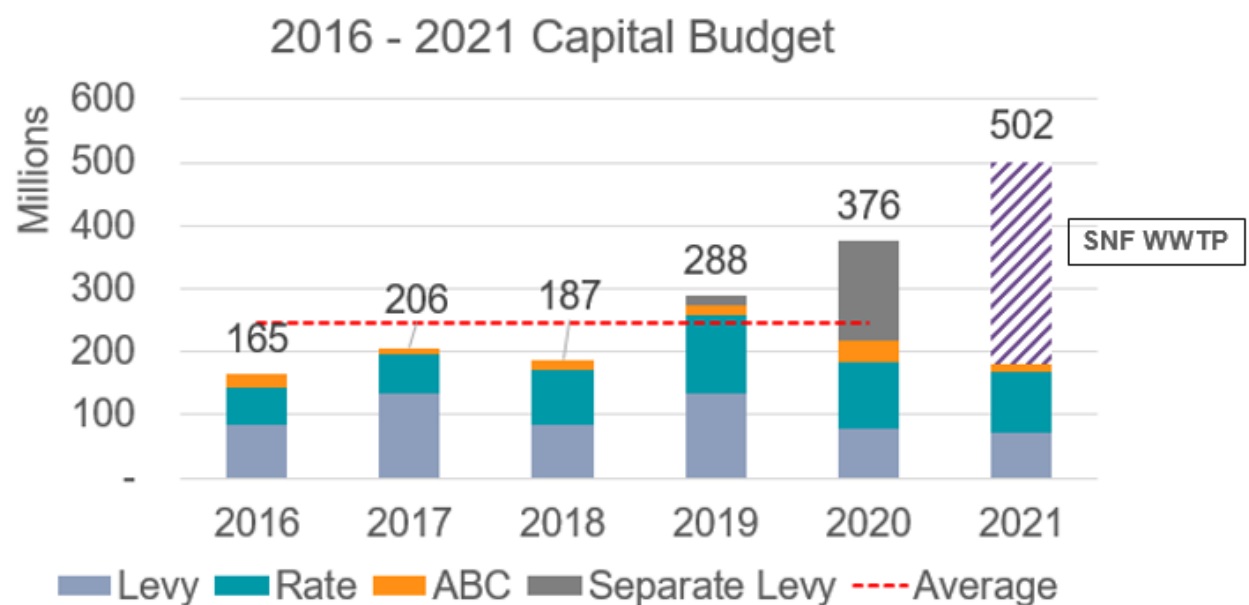
growth may be recommended for the projected levy 2021 operating costs of capital of \$5,300.

The projected rate 2021 operating cost of capital is \$5,230,000. The entire amount is related to the SNF WWTP. This operating cost will be accommodated within 2% budget planning on the rate budget. Additional breakdown into the rate operating impacts of capital can be found in PW 39-2020 South Niagara Falls Wastewater Treatment Plant Update.

South Niagara Falls Wastewater Projects and Development Charge Debt

As seen in Chart 1, The South Niagara Falls Wastewater Treatment Project comprises 64% of the 2021 Capital Budget. As identified in PW 39-2020, the SNF WWTP projects are being included in 2021 so that the project can begin the environmental assessment, planning and land acquisition. Due to the size of request, DC Debt will be used as a new method of financing in the 2021 Capital Budget.

Chart 1: 2016 – 2021 Capital Budget Trend



It is common that the infrastructure must be build first in order to open up the opportunity area for development which will in turn generate future development charges. As a result the Region will issue DC debt that will be funded with future DC

receipts (which is a practice adopted by municipalities). This required \$212 million of debt of which \$148 million will be recovered through future DC receipts.

Table 3: Funding Breakdown of South Niagara Falls Wastewater Projects

	Amount (in millions)
Gross Cost	\$320.20
Unconfirmed Grants	\$108.00
Debt - Development Charges	\$148.20
Debt - Rates	\$64.00
Total Funding	\$320.20

9 Year Forecast Financing Strategy

The 10-year capital program is \$3.03 billion with an estimated funding deficit of \$0.82 billion (\$763 million levy, \$60 million rate) (**Appendix 8**). This amount changes every year due to the timing of projects and new funding assumptions. Changes from the prior year forecast funding deficit of \$1.2 billion are primarily due to the following:

- The 10-year forecast is \$30M greater than the prior year
- The 10-year Water and Wastewater financial plan has been revised to reflect a recommended increase of 2% for 2021 and 5.15% for the 9 year forecast as per the Safe Drinking Water Act Financial plan. These projected increases to capital contributions will decrease the funding gap by \$400 million.

Analysis

Corporate Prioritization Process

In 2019, Council approved the Asset Management Office. Their mandate is to manage capital assets through a co-ordinated approach to ensure the desired level of service in the Asset Management Plan is achieved against the potential risk of failure due to deferrals from a lack of funding.

The Asset Management Office piloted for the 2021 capital budget a corporate capital project prioritization process. The new process known as Corporate Asset Management Resource Allocation (CAMRA) is a methodology to prioritize all capital projects submitted for the 2021 Capital Budget based on risk calculated return on investment which assigns a score based on the following:

- Environmental, social and economic risk assessment
- Alignment to council priorities
- Impact on the funding strategy

In co-ordination with the principles of the Capital Financing Policy, the model optimized the allocation of available funding to projects with the highest RROI.

Incorporated within CAMRA's environmental and social risk assessment is consideration of health, safety and wellbeing. This is aligned with steps from the Health Equity Informed Planning (HEIP) project, part of the Council Strategic Priority, fostering a healthy and vibrant community. This project involves incorporating Health Impact Assessments into planning processes at the Region. One of the objectives of this assessment is to identify health and health equity impacts within projects in order to maximize positive impacts and reduce negative impacts on health, leading to safer, more inclusive, affordable and accessible human services.

A team led by the Diversity, Equity and Inclusion Program Manager is piloting a Health Impact Assessment process in relation to capital projects over the next few months.

Capital Financing Sustainability and Asset Management Plan

The 2017 comprehensive Asset Management Plan was utilized in the 2021 budget cycle to identify existing assets for replacements. In the 2021 Capital Budget, 44% (2020 – 55%) of the projects are directly attributable to the AMP.

In 2017, Council approved the creation of the Infrastructure Deficit Reduction reserve through a 1% increase on the levy. The establishment of the reserve was the first step in a long-term capital financing strategy to reduce the infrastructure funding gap. Since the creation of this reserve, it has funded \$17.1 million of Capital projects which are identified in **Appendix 2**.

Per CSD 41-2019 Capital Financing Policy, it was identified that an estimated 2.16% annually for the next ten years was required to eliminate the infrastructure deficit. Recognizing the impact of COVID-19, the budget planning strategy proposed a 1% increase for capital. The 1% of departmental share of the levy (excluding agencies boards and commissions) equates to a 0.52% of the consolidated levy increase. Inclusive of the incremental 0.52% (\$2 million) of the levy budget, the annual contributions to general capital levy capital reserves will be \$19.9 million. The target based on the 2017 Asset Management Plan's annual asset renewal investment is \$66 million.

Table 3: Tax Levy Impact: Capital Funding Strategy vs Capital Budget proposed

	Amount (in millions)	% of Tax levy
Requirement for Asset Management identified in Capital Funding Strategy	\$8.48	2.16%
1% of Departmental Share of Levy	<u>\$2.05</u>	0.52%
Difference	\$6.43	1.64%

Supporting Growth

In the 2021 Capital Budget, \$161.6 million or 32% (2020 - 20%) of the gross request is growth related, therefore eligible to be financed through DCs. This is an increase of \$85.4 million from the 2020 Capital budget and is reflective of the continued investment in growth.

Alternatives Reviewed

No alternatives were reviewed. Information will continue to be developed, analysed and summarized for the Rate, ABC and Operating Budget Review Committee to facilitate decision making. Council will have the opportunity to consider all options throughout the budget process.

Relationship to Council Strategic Priorities

The 2021 Capital Budget aligns with the approved Niagara Region's 2019 – 2022 Council Strategic Plan. The following is the percentage of gross capital expenditures aligned to each strategic priority:

- 51.5%, Responsible growth and infrastructure planning and Sustainable and Engagement Government - Sustainable investments in transportation, transit and infrastructure and a commitment to high quality, efficient, fiscally sustainable and coordinated core services through enhanced communication, partnerships and collaborations with the community.
- 48.5%, Businesses and Economic Growth and Healthy and Vibrant Community - A coordinated approach to fostering economic growth in Niagara and foster a high quality of life through safe, healthy and inclusive neighbourhoods through the delivery of quality, affordable and accessible human services.

Other Pertinent Reports

CSD 21 – 2017	Asset Management Plan
CSD 51 – 2019	Capital Financing Policy
CSD 41 – 2020	2021 Budget Planning
CSD 63 – 2017	Regional Development Charges and Proposed By-law
CSD 65 – 2019	Budget Planning By-law
PDS 37 – 2016	Niagara 2041 Growth Strategy - Local Municipal Growth Allocations
PW 22 – 2017	2016 Water & Wastewater Master Servicing Plan Update
PW 39 – 2020	South Niagara Falls Update
TSC-C 3 – 2017	Niagara Region Transportation Master Plan

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Appendices

Appendix 1	2021 Capital Budget Summary by Department with Funding
Appendix 2	Projects Allocated Infrastructure Deficit Reduction Funding
Appendix 3	Projects Allocated 1% Levy increase
Appendix 4	2021 Capital Projects Initiation Status
Appendix 5	Debt Information
Appendix 6	Capital Reserve Balances
Appendix 7	Operating Impacts of Capital

Appendix 8	2021 – 2030s Capital Budget and Nine Year Forecast
Appendix 9	Treasurer's Certificate