
Subject: 2020 Capital Budget

Report to: Budget Review Committee of the Whole

Report date: Thursday, October 10, 2019

Recommendations

1. That the 2020 Capital Budget for the Niagara Regional Departments and Agencies, Boards and Commissions of \$375,524,889 as per **Appendix 1** to CSD 53-2019, **BE APPROVED IN PRINCIPLE** pending final by-law approval anticipated to be on December 12, 2019
2. That a separate levy of \$5,620,496 or 1.54% for the Long Term Care redevelopment **BE APPROVED IN PRINCIPLE** and **REFERRED** to the 2020 Operating budget.
3. That \$1,580,200 for the incremental costs of capital projects as per **Appendix 6 BE REFERRED** for consideration as part of the 2020 Operating Budget to be funded from Assessment Growth.
4. That financing in the amount of \$374,524,889 gross and \$267,767,415 net **BE INITIATED** upon approval of the 2020 Capital Budget and **BE ALLOCATED** to the projects as summarized in **Appendix 2** to CSD 53-2019;
5. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration to coincide with the approval of the operating budget.

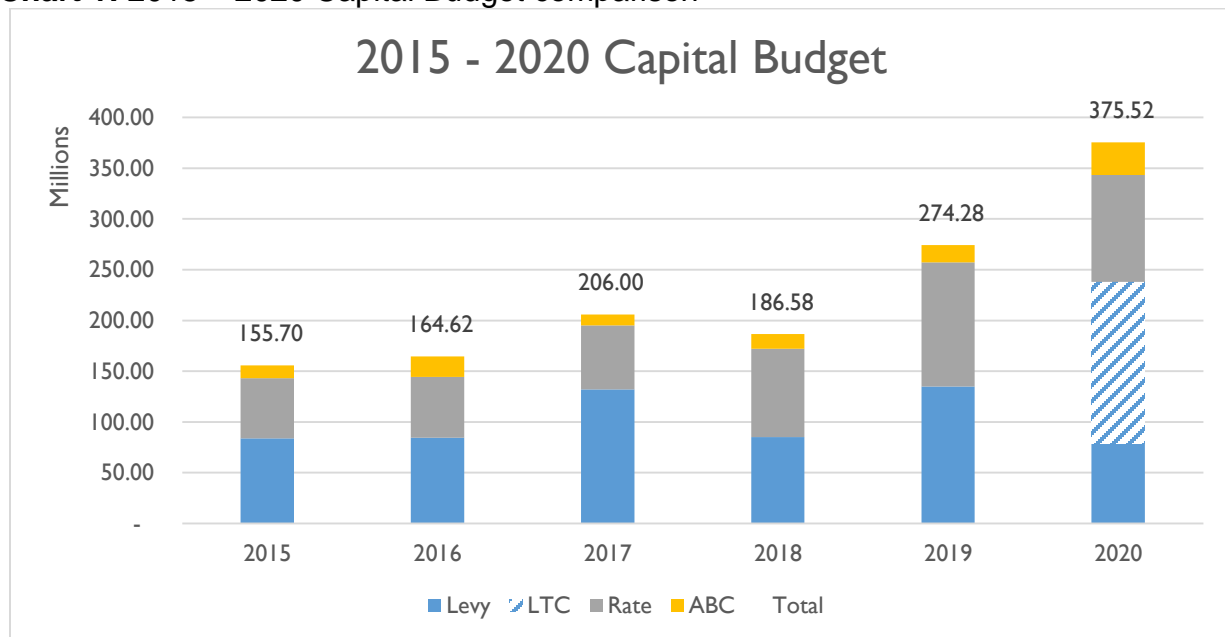
Key Facts

- The capital budget is the Region's plan to build and replace capital assets and infrastructure. It directly impacts the Region's operating budget to finance the capital and to cover operating expenses associated with the asset. These costs are incorporated in the operating budget.
- The capital program is \$375.52 million with 193 projects. Capital projects are supported by data sheets included in eScribe. All but one project is proposed to be initiated concurrently with the approval of the 2020 Capital Budget (**Appendix 2**).
- The 2020 Levy Capital Budget was prepared in accordance with council direction of 2% CPI which required the deferrals of \$71.1 million in Capital projects and a separate levy of 1.54% for LTC redevelopment. The projects and associated risk with the deferrals are included in **Appendix 3**.
- The 2020 Rate Capital budget was prepared in accordance with council direction of 2% CPI which required the deferral of \$80.8 million in Capital projects. The projects and associated risk with the deferrals are included in **Appendix 3**.

Financial Considerations

The proposed 2020 Capital Budget of \$375.52 million (\$270.40 million Levy Capital Budget and \$105.12 million Rate Capital Budget) is included in **Appendix 1**.

Chart 1: 2015 – 2020 Capital Budget comparison



The 2020 Capital Budget being presented is funded as follows:

Table 1: 2020 vs 2019 Levy Capital Funding Sources

	2020	2019
Regional Funding:		
Reserves	36,145,679	\$46,126,066
Infrastructure Deficit Reserves	3,677,256	3,708,000
Debenture for LTC (Separate levy)	129,187,000	-
Debentures	15,762,650	27,774,804
	<u>184,772,585</u>	<u>77,609,470</u>
External Funding:		
Area Municipalities	2,700,000	3,025,000
Federal Gas Tax	10,348,900	10,300,000
Other External	12,621,546	2,511,396
	<u>25,670,466</u>	<u>15,836,396</u>
Development Charges	59,956,458	37,313,600
Total	<u>270,399,489</u>	<u>130,759,466</u>

Table 2: 2020 vs 2019 Rate Capital Funding Sources

	2020	2019
Regional Funding:		
Reserves	83,994,830	\$84,052,400
Debentures	-	33,110,000
	83,994,830	117,162,400
External Funding:		
Area Municipalities	-	-
Federal Gas Tax	4,000,000	3,000,000
Other External	800,000	4,800,000
	4,800,000	7,800,000
Development Charges	16,330,570	18,562,100
Total	105,125,400	143,524,500

Assumptions for the funding are as follows:

- No increase in the debt charge budget with the exception of the LTC project (\$5.6 million). The impacts to the debt metrics are identified in **Appendix 4**. Niagara remains below the average of comparable Regions in 4 of the 6 debt metrics.
- A separate levy of 1.54% (\$5.6 million) required to support LTC debt servicing costs as identified in COM 32-2019, "Long Term Care Home Redevelopment Project Update".
- LTC debt provides for one time funding of \$5.6 million in 2020 due to the timing of the debenture issuance. If the separate levy is not approved, an additional \$5.6 million of levy capital projects will have to be deferred or reduced (**Appendix 5**).
- General Capital Levy and Infrastructure Deficit Reserve are fully utilized.
- Closure of 70 Capital projects in 2019 provided \$15 million in funding for the 2020 Capital Budget.
- Development charges of \$76.3 million have been maximized in accordance with the background study for growth related projects.
- Due to the fact that 2020 funding sources were inadequate for the preliminary request; \$151.95 million of Gross capital requests across 45 projects were deferred/reduced (**Appendix 3**).

Operating impacts with capital

To align with the budget planning by-law, the operating impacts of capital will be presented for consideration to be funded through assessment growth. This allows for more transparency into the incremental revenues, expenditures or cost savings to the operating budget. This information is collected and displayed on the capital data sheets within Escribe. A summary of the operating impacts can be seen in **Appendix 6**.

Preliminary estimates of net assessment growth is \$3.4 million with a development charge rebate shortfall of \$2.4 million. The assessment growth will be allocated based on the budget planning bylaw's methodology. The remaining net assessment growth may be recommended for the projected 2020 operating costs of capital of \$1,580,200.

9 Year Forecast Financing Strategy

The 10-year capital program is \$3.0 billion with an estimated funding deficit of \$1.2 billion (\$744 million levy, \$442 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 \$480 million are summarized as follows:

- \$300 million of capital projects rolling into the 10-year forecast
- The 10-year Water and Wastewater financial plan has been revised to reflect an annual increase at CPI of 2% from the previously approved 5.15% from the Safe Drinking Water Act Financial plan. This increases the funding gap by \$372 million.
- No additional increase in capital financing in the multi-year. Additional debt will only be financed through existing budget room from principal repayments.
- Capital reserves are fully committed as shown in the forecast of capital reserve balances in **Appendix 7**.

Analysis

Capital Financing Sustainability and Asset Management Plan

The detailed information available in the 2017 comprehensive Asset Management Plan was utilized in the 2020 budget cycle to validate all proposed capital projects identified for the replacement of existing assets. In the current year, 55% (2019 – 60%) of the projects are directly attributable to the AMP.

In 2017, council approved the creation of an Infrastructure Deficit Reduction (IDR) 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 \$13.7M of Capital projects which are identified in **Appendix 9**.

Per CSD 40-2019, 2020 Budget Planning, a preliminary estimate of a requirement of an annual increase of 2% for the next ten years to reduce the infrastructure deficit was identified. The proposed capital program only relies on 1.54% (Long Term Care funding) of that amount. However, Council can still consider up to 2% increase for 2020 to support asset management.

Table 3: Tax Levy Impact: Budget Planning vs Capital Budget proposed

	Dollars Required	% of levy
LTC Redevelopment Debt Charge	8,786,935	
MOHLTC Per Diem	(2,683,018)	
Debt Charge/Net Cost	6,103,917	
Budgeted in 2016 for previously approved debt of \$15 million	(483,421)	
Net requirement for LTC	5,620,496	1.54%
Requirement for Asset Management		0.46%
Total		2.00%

To accommodate the available funding, \$151.9M of projects were deferred into the multi-year. The risks of deferral was identified and their related risks can be seen in **Appendix 3**.

Last year council approved the Asset Management Office. Their mandate is to manage assets through a co-ordinated approach to ensure the desired level of service is managed against the potential risk of failure due to deferrals from a lack of funding.

Supporting Growth

In the 2020 Capital Budget, \$70.5M or 19% of the gross request is growth related, eligible to be financed through development charges. This is an increase of \$13M from the 2019 Capital budget and is reflective of the continued investment in growth.

On May 2, 2019, Ministry of Municipal Affairs and Housing announced it's Housing Supply Action Plan and concurrently introduced *Bill 108 More Homes, More Choice Act, 2019*. Bill 108 proposes a restructuring of the collection and use of soft-service DCs through amendments to the *Development Charges Act, 1997* and *Planning Act, 1990*. The Region currently collects soft service development charges for the following categories which includes \$38.8 million in the 2020 Capital Budget:

- General Government
- Emergency Medical Services
- Long Term Care
- Provincial Offences Act
- Health
- Social Housing

In the future, soft service charges will be collected through Community Benefit Charges instead of development charges. Community Benefit Charges are a different funding mechanism which will likely require a separate study and by-law. The changes pose risks to funding the projects listed in **Appendix 10**.

Opportunities in the Future

Some opportunities at the Region for managing capital projects that staff are undertaking are as follows:

- Asset Management Office is working on a risk based strategy for prioritization of state of good repair and renewal capital requests which will assist with the alignment to funding available.
- Financial Management and Planning are enhancing the Regions quarterly report with additional metrics that gives more transparency to work in progress and forecasted expenditure.
- On July 1, 2018, *Bill 142 Construction Lien Amendment Act, 2017* was introduced to ensure “prompt payment” of construction projects. The Project Management Office is reviewing the Region’s processes to ensure alignment.
- Strategies for reporting on health equity are in progress and will be incorporated in future budgets.
- The capital financing policy will establish strategies for establishing adequate level of funding for capital projects that address sustainment, growth and new strategic investments.

Alternatives Reviewed

Staff are currently working on a capital financing strategy that establishes criteria to ensure the appropriate source of financing is applied on a project specific basis.

Relationship to Council Strategic Priorities

The 2020 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:

- 66%, Responsible growth and infrastructure planning - Sustainable investments in transportation, transit and infrastructure.
- 27%, Healthy and Vibrant Community - Foster a high quality of life through safe, healthy and inclusive neighbourhoods through the delivery of quality, affordable and accessible human services.
- 7%, Businesses and Economic Growth and Sustainable and Engaging environment - A coordinated approach to fostering economic growth in Niagara and a commitment to high quality, efficient, fiscally sustainable and coordinated core services through enhanced communication, partnerships and collaborations with the community.

Other Pertinent Reports

COM 32 – 2019 Long Term Care Redevelopment Project Update

CSD 21 – 2017	Asset Management Plan
CSD 40 – 2019	2020 Budget Planning
CSD 41 – 2019	Capital Financing Policy
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
TSC-C 3 – 2017	Niagara Region Transportation Master Plan

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Appendices

Appendix 1	2020 Capital Budget Summary by Department with Funding
Appendix 2	2020 Capital Projects Initiation Status
Appendix 3	Deferred Projects
Appendix 4	Debt Metrics and Forecasted Debt outstanding
Appendix 5	Projects Allocated LTC Placeholder
Appendix 6	Operating Impacts of Capital
Appendix 7	Forecasted Capital Reserve Balances
Appendix 8	2020 – 2029s Capital Budget and Nine Year Forecast
Appendix 9	Projects Allocated 1% Infrastructure Deficit Reduction Funding
Appendix 10	2020 and Historical Soft Service Capital projects
Appendix 11	Treasurer's Certificate