
To: Council in Committee of the Whole

From: Stephanie Sinnott, Executive Director, Finance Services/Treasurer,
Office of the City Manager

Memo Date: December 9, 2016

Date of Meeting: December 12, 2016

Subject: 2017 Capital Budget

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Annually a Capital Budget is prepared which outlines all proposed Capital projects for the upcoming budget year plus a forecast of capital projects for the following nine years.

Council approval is required for the 2017 capital budget expenditures. It is recommended that the 2017 capital budget and nine year forecast be considered during the January 2017 budget deliberations.

All departments and the Corporate Leadership Team worked collaboratively to prepare the 2017 capital budget and 2018 – 2026 capital forecast. Operating departments were asked to prepare their projects lists based on need. Needs were based on minimum standards as they relate to provincial legislation including Health and Safety. Needs also reflect any Council directed service standard.

2017 PROPOSED CAPITAL PROJECTS

Corporate capital items are generally comprised of expenditures for major assets or projects that benefit the City as a whole and are normally greater than \$20,000. All capital projects are scored and ranked using the interim prioritization model approved by Council on October 15, 2013. Funding is then determined based on priority score, tax levy funding envelopes and available reserve funds.

The Total Gross Expenditures for the 2017 capital budget equal \$34,677,000. Sources of funding for the 2017 capital budget are proposed as follows:

Reserve & Development Charge Funds	\$21,745,000
Federal Gas Tax	\$6,210,000
Operating Funds	\$2,722,000
Other (Interfund Note)	\$4,000,000

The following is a summary of the allocation of the proposed 2017 capital budget:

Buildings and Equipment	5,325,000
Vehicles and Equipment	5,498,000
Information Technology	1,940,000
Other Initiatives	185,000
Parks / Recreation / Culture	3,504,000
Airport	6,000,000
Bridges	749,000
Municipal Parking	1,383,000
Development Related Roads	5,437,000
Roads	3,516,000
Sidewalks	509,000
Street Lighting	209,000
Traffic Signals	422,000
TOTAL	\$34,677,000

The proposed capital program includes \$7,815,000 of time sensitive projects which are further detailed in report CM-16-39.

The proposed 2017 capital project list is approximately \$11 million higher than the capital projects proposed in 2016. This is due in part to a number of the City's assets reaching a stage where rehabilitation or replacement needs have reached a critical stage, such as the runway rehabilitation at the Oshawa Executive Airport. Investment in these assets is required to mitigate future risks of failure and/or liability exposure to the City.

Based on the mixed application of funding toward the capital project list, the tax levy impact is approximately 0.44%.

2017 DEFERRED CAPITAL PROJECTS

Due to a limited amount of funding, a number of capital projects submitted for 2017 had to be deferred as they were considered unaffordable. These projects total \$9,514,000 and are summarized as follows:

Buildings and Equipment	2,000,000
Information Technology	700,000
Parks / Recreation / Culture	1,175,000
Municipal Parking	1,589,000
Roads	2,851,000
Street Lighting	1,134,000
Traffic Signals	65,000
TOTAL	\$9,514,000

The complexity and urgency of various capital projects along with limited funding has created significant challenges in the annual prioritization of projects. The capital budget team reviews the projects and must defer projects known to be in need of attention.

2018 – 2026 CAPITAL FORECAST

Oshawa, similar to other municipalities, has not had the capacity to invest in infrastructure resulting in an infrastructure deficit. The development of the 2017 the capital budget and forecast identified infrastructure projects of approximately \$464 million that are required throughout the forecast period.

ASSET MANAGEMENT PLAN

On December 9th, 2016 Council approved the City's first consolidated asset management plan. The adoption of an asset management plan is not only a recognized best practice but is also fulfills the Provincial legislative/regulatory requirement for all Ontario municipalities to have an asset management plan in place by year-end 2016 in order to remain eligible for Federal Gas Tax funding.

Asset management is closely linked to the City's Financial Strategy and the annual budgeting process. A key component of an asset management plan is the identification of sustainable financing strategies. More robust asset management practices developed through the plan will provide better data over time that will support Council in making decisions on the capital budget.

CAPITAL FUNDING OPPORTUNITIES

The Federal and Provincial budgets tabled in 2016 include significant initiatives related to infrastructure financing programs. Such programs provide municipalities with the opportunity to leverage grant funding to advance their capital plans.

In 2016, the City applied for grants under the Canada 150 Community Infrastructure Program funding – Intake Two. Specific projects included in the application were related to Glen Stewart Park, Oshawa Harbour pedestrian bridge, Simcoe Street North enhanced gateway, and modernization of the decorative streetlight hardware in downtown Oshawa. Follow up with FedDev Ontario in early December 2016 revealed that they are still reviewing applications and there was no indication of the timing in which funding announcements are expected.

The City continues to regularly monitor announcements for new funding opportunities. Maximizing the amount of external funding the City can obtain for capital needs will reduce reliance on tax levy.

DEDICATED LEVY FOR INFRASTRUCTURE

As a mechanism to infuse much needed capital dollars into annual budgets, a number of municipalities have implemented a practice of adding a 1% dedicated infrastructure levy to annual budgets.

In the 2015 budget process through report CM-14-32 Council directed the report recommendation of "that beginning with 2016 Budget, an amount equal to 1% of the previous year's tax levy, be applied to increase the overall Capital Budget funding each year and that this amount be used to increase the Capital envelopes and / or Contribution to Capital Reserves each year as determined by the Corporate Leadership Team" be

included in the City of Oshawa's Financial Strategy document to be presented to Council during 2015.

Council endorsed the City's Financial Strategy 2016 – 2019 in November 2015 which contained a recommended strategy that proposed the City reactivate the Infrastructure Renewal/Replacement Reserve to accumulate funds for capital projects as approved by Council. The strategy further stated that the multi-year budget should be adjusted to reflect a contribution to this reserve commencing in 2016 that is approximately 0.25% of the total tax levy and grow the contribution in future budget years until the annual percentage reaches 1% of total tax levy. Due to other financial pressures and challenges for the 2016 budget, this recommendation was not implemented.

Based on the total anticipated tax revenue for 2016, a 1% levy for 2017 would amount to approximately \$1.275M. It is recommended that, if implemented, the funds from the dedicated infrastructure levy be contributed to a reserve for use as a tool in the 2018 capital planning process and be available should the City require matching funds to meet the eligibility requirements of any grant opportunities that may arise during the year.

A dedicated infrastructure levy of 1% will significantly improve the City's ability to renew and replace aging infrastructure and contribute to sound long-term financial planning.

MULTI-YEAR CONTRACTS

Multi-year contracts can serve as an instrument to provide budget stability by hedging against Inflation and market forces that can cause the costs of products and construction materials to increase each year. A multi-year contract can also make the City processes more efficient by removing the requirement to seek new vendors every year or annually reviewing current vendors' contracts.

This approach could be utilized by the City to budget more effectively by locking in a price with the added benefit of freeing up time and resources.

The projects that can benefit substantially from a multi-year contract are typically repetitive year-over-year, similar in nature and relatively straight forward. The use of a multi-year contract would not be appropriate for multi-faceted or complex projects.

There are a number of City projects that could benefit from a multi-year contract, such as crack sealing, surface treatment, annual overlay contracts, sidewalks and others. Currently the City has some multi-year maintenance contracts in place.

It is recommended that the City undertake a pilot project in 2017 to implement the use of a multi-year contract related to crack sealing. The 2017 proposed capital project for crack sealing is budgeted for \$100,000 and is considered as a time-sensitive project.

Upon the completion of the pilot project the City will evaluate the value-for-money elements derived from the multi-year contract. If the project proves to deliver financial benefit to the City then additional project work may be proposed to utilize multi-year contracts in future capital budgets.

FINANCIAL IMPLICATIONS

The 2017 Capital Budget is proposing \$34,677,000 in capital projects. These capital projects will require \$2,722,000 of tax levy funding, an increase of 26% over the 2016 tax levy requirements (\$2,167,000). This amount represents an increase to the operating budget of 0.44%.

A number of capital projects submitted for 2017 had to be deferred as a result of limited funding; the total 2017 deferred capital projects are estimated at \$9,514,000.

The 2018 – 2026 Capital Forecast has revealed a significant number of infrastructure projects amounting to approximately \$464 million, for which funding strategies will need to be developed and updated over time.

Complete details for the 2017 projects and 2018 – 2026 forecasts are contained within the Capital Budget binder.

There are no financial implications associated with referral of the 2017 Capital Budget and nine year forecast to the budget deliberations occurring in January 2017.



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