



Memorandum

Finance Services

Date: November 8, 2019
To: Mayor Dan Carter and Members of Council
From: Stephanie Sinnott, Commissioner, Finance Services
Re: 2020 Capital Budget

Capital budgeting is a process used for strategic decision making when evaluating potential expenditures or investments that are significant in amount. It involves the decision to invest funds for addition, disposition, modification or replacement of fixed assets.

Capital investment is an important contributor to economic growth and the service delivery capabilities of the City. The capital budgeting process is an important determinant of the quality of investment projects and their implementation. A number of important results flow from an effective capital plan including an examination of goals and needs capabilities, resource waste avoidance, improves community awareness and it facilitates sound financial management. Investment in capital assets is also required to mitigate future risks of failure and/or liability exposure to the City.

A Capital Budget is prepared annually which outlines all proposed capital projects for the upcoming budget year plus a forecast of capital projects for the following nine years. Not only is a ten-year budget a best practice, the information is also required to satisfy the requirements of Asset Management legislation.

All capital projects proposed for consideration are scored and ranked using the interim prioritization model as approved by Council on October 15, 2013. Funding is then determined based on priority score, tax levy funding envelope and available reserve funds. The prioritization model utilizes a methodology that takes into account alignment with Oshawa Strategic Plan, Operating Budget impact, Risk Assessment, Cost/Benefit, Financing, Community impact and other factors.

All departments and the Corporate Leadership Team worked collaboratively to prepare the 2020 capital budget submission and 2021 – 2029 capital forecast. Operating departments prepared their project submission lists based on identified need. Needs were based on minimum standards as they relate to provincial legislation and to reflect any Council directed service standards.

2020 Proposed Capital Projects

The total gross cost of the 2020 proposed capital budget is \$44,456,000 and is funded as follows:

Funding Source	Amount
Reserve and Development Charge Funds	18,836,000
Federal Gas Tax	8,546,000
Operating Funds	1,813,000
Interfund Notes	3,243,000
I.C.I.P. Grants	11,392,000
Other sources of funding	626,000

The following is a summary of the allocation by category of the proposed 2020 capital budget:

Category	Amount
Building and Equipment	10,003,000
Downtown	523,000
Information Technology	1,695,000
Other Initiatives	1,355,000
Parks, Recreation and Culture	17,425,000
Transportation	13,455,000

In previous years, City Council has approved “time-sensitive projects” as part of the capital budget. These projects were approved in advance of the budget cycle in order to issue purchasing contracts in early January, which could lead to lower prices, greater competition and availability of experienced contractors. Due to the advancement of the budget timetable and approval of the budget prior to year-end, it eliminates the need to seek approval of time sensitive projects.

One capital project received pre-budget approval through report FIN-19-71 for additional funding related to the replacement of the City’s Property tax software, in the amount of \$225,000 (project 30-0084), due to the lengthy implementation period and the risks associated with the City’s current tax system.

The capital budget includes two projects endorsed by Council for submission to the Investing in Canada Infrastructure Program (I.C.I.P.) through report FIN-19-73. These projects are Rotary Park Redevelopment (project 51-0016) and the Splash Pad Redevelopment and Expansion Program (project 51-0122). The capital costs of the projects is \$8.335M (includes the City contribution of \$2.223M) and \$7.20M (includes the City contribution of \$1.920M) respectively. The City contribution towards these projects is proposed to be funded through the issuance of an Interfund Note and Development Charges. Should the applications for grant funding not be successful then the City will need to reconsider the scope, timing and funding model for the delivery of these projects.

The proposed 2020 capital project list is approximately \$17.9 million greater than the capital projects approved in 2019. This is primarily due to the two projects related to the Investing in Canada Infrastructure Program, in the amount of \$14.635 million, as described above.

2021 – 2029 Capital Forecast

Oshawa, similar to other municipalities, has not had the capacity to invest in infrastructure resulting in an infrastructure deficit. The capital forecast helps to identify future financial requirements however the specific projects are likely to change over time as priorities change. The development of the 2021-2029 capital budget identified infrastructure projects of approximately \$530.8 million that are required throughout the forecast period.

There are projects in the capital forecast that will require Council to adopt a funding and implementation strategy. There may be multiple projects related to a facility that could be more efficiently implemented if they were bundled into a larger project. For example, Childrens Arena has a number of projects in the capital project for roof replacement (\$750,000), replacement of a rooftop unit (\$150,000), installation of an exterior washroom (\$200,000) and parking lot reconstruction (\$600,000). Future reports will be delivered to Council for consideration of a delivery strategy for these types of projects.

Development Charges

In June 2019, the City updated the Development Charge Background Study and adopted a new Development Charge By-law. Development Charges collected assist the City in funding new capital projects related to growth of the community.

Also in June 2019, the Province of Ontario introduced Bill 108, the More Homes, More Choice Act, 2019. The Bill included a number of legislative changes to the Development Charges Act including new Community Benefits Charges.

The Community Benefits Charges is a new charge that would be used to fund a range of capital infrastructure for community benefit services needed for new development such as Libraries, Parks and other soft services. The regulations for the Community Benefits Charge have not been released therefore the full financial impact is not quantifiable at this time.

With the introduction of the new legislation and the Community Benefits Charges, the City will also need to amend the Development Charges By-law in 2020.

The 2020 budget includes two capital projects to retain a consultant to assist in the Development Charges amendment (project 40-0058 for \$25,000) and the Community Benefits Charges Strategy (project 40-0059 for \$20,000).

Asset Management Plan Update

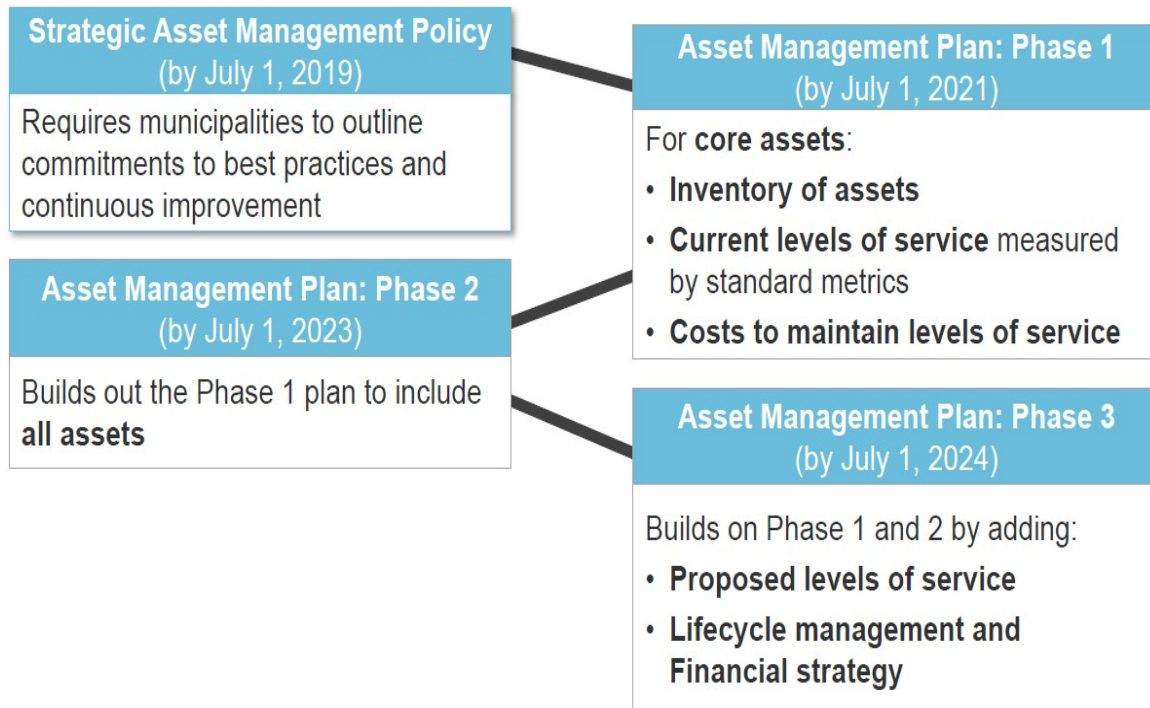
The adoption of an asset management plan is not only a recognized best practice but is also fulfills the Provincial requirement for all Ontario municipalities to have an asset management plan to remain eligible for Federal Gas Tax funding and to meet the requirements of the Development Charges Act.

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.

On January 1, 2018, Ontario Regulation 588/17: Asset Management Planning for Municipal Infrastructure came into effect. The regulation sets out requirements for municipal asset

management planning to help municipalities better understand their infrastructure needs and inform infrastructure planning and investment decisions. The Regulation prescribed key milestone dates for the completion of various plan development phases as shown in the Figure 1.

Figure 1



A number of initiatives related to the Asset Management Plan (AMP) are underway to comply with the Provincial regulation. These initiatives include activities related to the determination of service levels, replacement cost valuations, establishing a change management framework, identification of resource requirements and alignment with the Financial Strategy.

The Strategic Asset Management Policy (SAMP) was developed and includes asset management principles to be considered in planning and day-to-day operations, a governance and accountability framework, commitment to continuous improvement and scope of practices and procedures as required by the Provincial Regulation. The SAMP was adopted by City Council on May 21, 2019 through report FIN-19-35.

The Asset Management Steering Committee continues to work toward the next Milestone date of July 2021 to complete the AMP for core asset. Core assets include roads, bridges & structures, storm water and facilities.

The Asset Management Plan is a living document to evolve and be refined over time as better information becomes available. Committing the necessary resources to the Asset Management Plan is vital to meeting the deliverables in the Provincial regulation as well as having a well-founded, fully integrated, fiscally responsible asset management plan.