



Memorandum

Finance Services

Date: November 13, 2020
To: Mayor Dan Carter and Members of Council
From: Stephanie Sinnott, Commissioner, Finance Services
Re: 2021 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, improved community awareness and facilitation of 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.

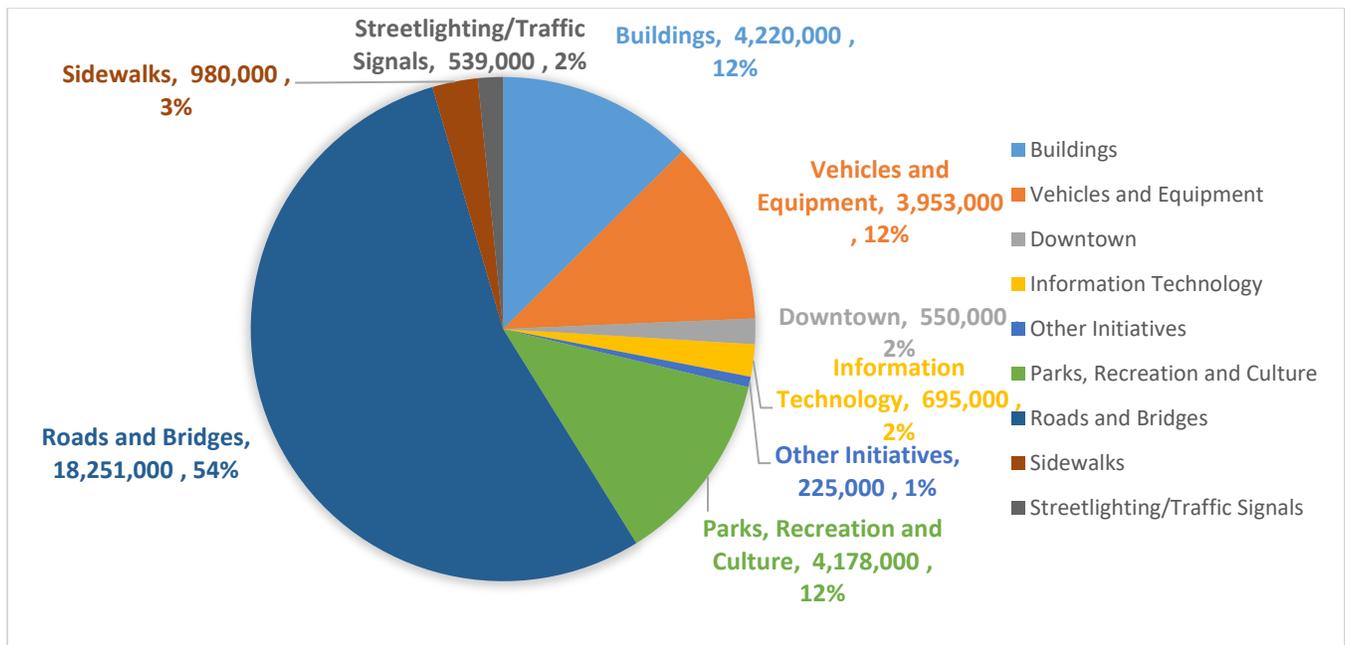
Capital projects are also considered in the context of the City's capacity to deliver approved projects. If it is not feasible to deliver a project in conjunction with other proposed capital projects during the year then projects may be deferred into a future year and captured in the 9 year forecast.

All departments and the Corporate Leadership Team worked collaboratively to prepare the 2021 capital budget submission and 2022 – 2030 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.

2021 Proposed Capital Projects

The total gross cost of the 2021 proposed capital budget is \$33,591,000 and allocated to the following categories:

Category	Amount
Building and Equipment	8,173,000
Downtown	550,000
Information Technology	695,000
Other Initiatives	225,000
Parks, Recreation and Culture	4,178,000
Transportation	19,770,000



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.

The proposed 2021 capital project list is approximately \$11.1 million lower than the capital projects approved in 2020. This is primarily due to the two projects related to the Investing in Canada Infrastructure Program, in the amount of \$14.6 million, included in the 2020 budget.

In November 2019, the City made three (3) grant funding applications to the Province under the Community, Culture and Recreation funding stream of the Investing in Canada Infrastructure Program for projects related to Rotary Park Redevelopment, Splash Pad Redevelopment and Expansion program and the Oshawa Museum Facility Expansion.

On August 12, 2020 the City was informed by the Province that following an evidence-based provincial review process our applications were not successful and would not be recommended to the Federal government for funding. The intake of this funding stream was

highly competitive, and total demand reached upwards of \$10 billion against total available joint funding (federal-provincial-applicant) of nearly \$1 billion.

2022 – 2030 Capital Forecast

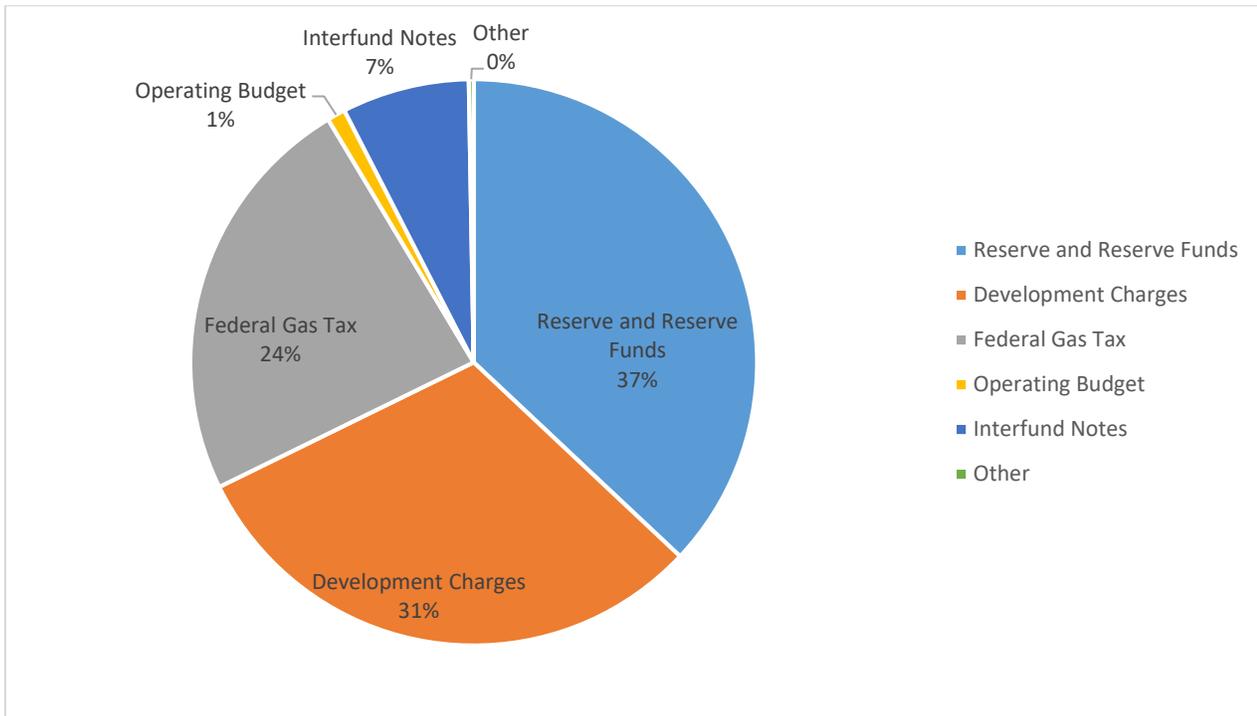
Oshawa, similar to other municipalities, has not had the capacity to invest in infrastructure resulting in an infrastructure deficit. The capital forecast helps to identify future financial requirements however the specific projects are likely to change over time as priorities change. The development of the 2022-2030 capital budget identified infrastructure projects of approximately \$580.9 million that are required throughout the forecast period.

Excluded from this forecast estimate are the capital infrastructure requirements at the Tribute Communities Centre (TCC). Over the forecast period of 2022-2030 the total capital projects at the TCC is approximately \$5.1 million. These projects are predominately for HVAC units, elevators, arena and food & beverage equipment replacements, IT equipment and contributions to the fleet reserve to accumulate funds for the future replacement of the ice resurfacers.

Capital Infrastructure Funding

Financing for the City's capital program is derived by a variety of sources including Reserve & Reserve Funds, Development Charges, Federal Gas Tax allocations, contributions from the operating budget, the issuance of Interfund Notes (internal debt) and other sources such as cost sharing agreements for the delivery of specific projects. The chart below outlines the funding sources for the 2021 capital budget.

Reserve and Reserve Funds	12,433,000
Development Charges	10,324,000
Federal Gas Tax	7,949,000
Operating Funds	350,000
Interfund Notes	2,442,000
Other sources of funding	93,000



Federal Gas Tax

The federal gas tax fund provides permanent and stable federal funding for local infrastructure projects. Funds can be invested in the construction enhancement or renewal of local infrastructure used to improve long-term plans and asset management systems or banked, up to 5 years, to support future projects. Local governments decide how funds can be best directed to address specific priorities. Municipalities can spread investments of the fund over several project categories to boost productivity and economic growth, create a cleaner environment and build stronger communities.

Municipal infrastructure projects may fall within 17 categories: local roads and bridges (including active transportation), short-sea shipping, short-line rail, regional and local airports, broadband connectivity, public transit, drinking water, wastewater, solid waste, community energy systems, brownfield redevelopment, sport, recreation, culture, tourism, disaster mitigation and capacity building.

Municipalities are required to demonstrate how investment in infrastructure projects is supporting progress towards achieving the national objectives of increased productivity and economic growth, cleaner environment, and stronger cities and communities. Municipalities must report at least one outcome indicator for each project that best illustrates progress towards achieving beneficial impacts on communities and enhanced impact of Funds as predictable source of funding. There are three National Objectives as approved by the Oversight Committee:

- Productivity and Economic Growth: Local Roads and Bridges, Public Transit, Short-line Rail, Short-Sea Shipping, Regional and Local Airports and Broadband Connectivity.
- Clean Environment: Solid Waste, Drinking Water, Wastewater, Community Energy Systems and Brownfield Development
- Strong Cities and Communities: Sport Infrastructure, Recreational Infrastructure, Cultural Infrastructure, Tourism Infrastructure and Disaster Mitigation Infrastructure

In 2020, the City received \$4,837,355 in Federal Gas Tax funding that was directed toward the 2020 Capital budget. Also, in 2020, the Association of Municipalities Ontario (AMO) released its 2019 Annual Report on the Federal Gas Tax Fund. In the 2019 Annual Report, Oshawa received a special mention for Energy-Efficient Equipment Upgrades at the Civic Recreation Complex and Northview Community Centre.

In 2021, the City will receive \$5,057,235 in Federal Gas Tax funding which has been included as a funding source for the 2021 proposed capital budget.

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 could be used to fund a range of capital infrastructure projects. The regulations for the Community Benefits Charge were released September 18, 2020 therefore the full financial impact is not quantifiable at this time. The potential implications of the Community Benefits Charge will be investigated in 2021. 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 2021.

The 2020 budget included 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

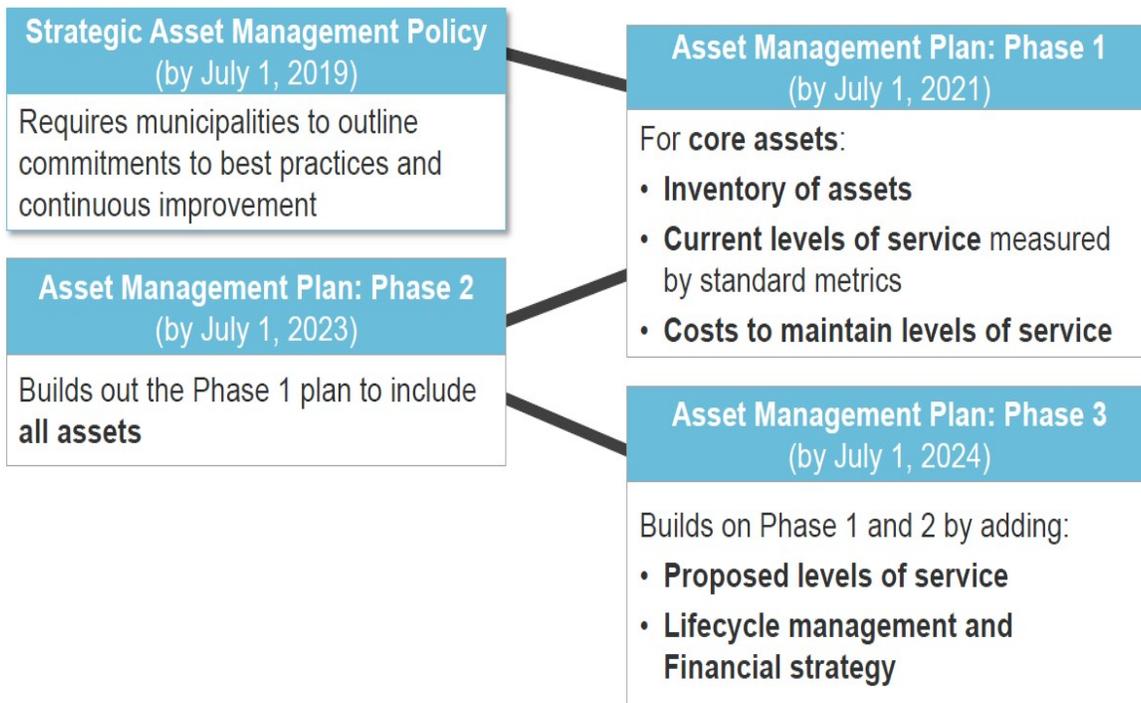
The adoption of an asset management plan is not only a recognized best practice but is also fulfills the Provincial requirement for all Ontario municipalities to have an asset management plan to remain eligible for Federal Gas Tax funding and to meet the requirements of the Development Charges Act.

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.

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.

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 below.



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 City has an Asset Management Steering Committee (A.M.S.C.) that is advancing the City’s asset management practices and are continuing to work toward the next Milestone date of July 2021 to complete the AMP for core assets. The A.M.S.C. has a good understanding of what needs to be done to further enhance the City’s asset management systems and to ensure compliance with O. Reg. 588/17. However, a clear path of how to get there needs to be established and a dedicated resource is required.

The City has engaged Watson & Associates to assist the City’s Asset Management Steering Committee in the development of an Asset Management Roadmap (Roadmap) which will help to guide and focus the City’s asset management efforts to comply with O. Reg. 588/17. The Roadmap will identify specific tasks and associated timing related to meeting the timelines directed by the Province.

The Municipal Finance Officers’ Association of Ontario (MFOA) is requesting the Minister of Infrastructure to grant a one-year extension of all upcoming deadlines in O. Reg. 588/17: Asset Management Planning for Municipal Infrastructure under the Infrastructure for Jobs and Prosperity Act 2015.

Municipalities have not had the capacity to work on meeting the 2021 deadline in O. Reg. 588/17 and with the second wave of COVID-19 and a return to modified stage two in some parts of the province with no end in sight and the possibility of extended restrictions elsewhere it is unlikely that current capacity challenges will be resolved in the short-term.

The MFOA is also concerned that revenue losses in some municipalities will result in re-evaluations of capital plans including asset management plans. Asset management planning completed during a period of high revenue uncertainty is unlikely to be very reliable.

Similar to the Public Sector Accounting Board's one-year deferral of the effective date of upcoming standards MFOA is recommending a one-year extension of all upcoming deadlines in O. Reg. 588/17. An extension will help focus municipalities focus on pandemic management. Extending the timelines will ensure municipalities can produce meaningful work that embodies the spirit of Asset Management and reflects new post COVID-19 realities.