



SUBJECT: Overview of the 2018 proposed capital budget and forecast

TO: Committee of the Whole - Budget

FROM: Finance Department

Report Number: F-37-17

Wards Affected: All

File Numbers: 435-01

Date to Committee: November 9, 2017

Date to Council: November 13, 2017

Recommendation:

Receive the proposed 2018-2027 capital budget and forecast book; and

Direct staff to present the recommendations contained in Appendix A to finance department report F-37-17 to the Committee of the Whole – Budget meeting of December 1, 2017 for review and approval of the capital budget taking into consideration committee amendments; and

Approve the updated Vehicle Replacement Funding Policy as outlined in Appendix B to finance department report F-37-17; and

Approve the updated New / Enhanced Assets Policy as outlined in Appendix C to report finance department report F-37-17.

Purpose:

An Engaging City

- Good Governance

This report provides an overview of the proposed 2018-2027 capital budget and forecast.

Background and Discussion:

Council approved Burlington's Strategic Plan 2015-2040 in April 2016 (Report CM-01-16). The strategic plan includes four strategic directions:

- A City that Grows
- A City that Moves
- A Healthy and Greener City
- An Engaging City

Strategic Plan

The city's strategic plan clearly sets forth initiatives to plan for the future. It is staff's responsibility to resource, administer and deliver strategies and initiatives laid out in the plan. This year the Strategic Plan continues to be the driving force in the 2018 budget process.

In order to ensure alignment with the Strategic Plan, decisions about resources and pacing of project implementation were discussed by the Capital Budget Leadership Team as part of the 2018 budget process. Establishing priorities for new City investment was a key step in developing the budget this year. Staff used the capital priority matrix in order to guide the budget for new/ enhanced projects. The capital priority matrix reinforced 2018 new priorities that have been put forward in the budget.

Linking the strategic plan to the budget provides accountability between what is achieved and the cost to the taxpayer. This process provides a clear link between the strategy and the cost of implementing the initiatives.

The budget is one mechanism that brings the Strategic Plan to life through specific project initiatives as noted later in this report. In addition, the 2018 capital budget submission continues to adhere to the guiding principles and directions of the reports below:

- Report F-28-17: 2018 Budget Framework
- Report CW-22-17: Asset Management Plan
- Report F-12-17: 2016 Asset Management Financing Plan
- Report F-02-17: 20 Year Budget Driver Forecast
- Report CW-09-15: Flood Vulnerability, Prioritization and Mitigation Study
- Report F-15-15: BMA Financial Condition Assessment
- Report F-22-12: 2012 Long Term Financial Plan

2018 Proposed Capital Budget

The 2018 proposed capital budget is approximately \$68.6 million, with a ten year program of \$688.0 million. The capital budget presentation has a strong focus on infrastructure renewal projects reflective of the city's commitment to the asset management plan and the Strategic Plan initiative (4.1.e) stating the city's infrastructure such as roads and buildings, are in good condition and properly maintained.

The city is making progress on its infrastructure renewal needs as Council continues to provide *Predictable Infrastructure Investment*, in the form of:

- an annual increase in the dedicated infrastructure levy of 1.25% (\$1.9 million); and
- continued incremental funding for the remaining 2 years of the 4 year program (2016-2019) for road infrastructure renewal (\$5 million per year); and
- continued funding for storm water infrastructure improvements as previously recommended in the AMEC study in 2015. (\$11.7 million remaining of the total \$13.6 million)

As presented in previous years, this budget differentiates projects into the following three areas:

- **Infrastructure renewal projects:** repair, refurbishment or replacement of an existing asset to extend its useful life in accordance with the asset management plan
- **Growth projects:** capital required to service growth within the city
- **New / Enhanced projects:** increases to current service levels beyond what the city currently provides, not a result of growth

The budget is broken down by asset category with each project identified by one of the areas defined above. The ten year capital program of \$688.0 million is 78.6% infrastructure renewal projects, 13.8% growth related projects and 7.6% for new/enhanced projects.

Any new/ enhanced projects over \$100,000 in the budget year 2018 are supported by a New Capital Initiatives form. There are 12 new capital initiatives in 2018 totalling \$4.1 million (net city \$1.5 million).

Financial Summary

The proposed 2018-2027 capital budget and forecast project listing is provided under separate cover for Committee's review and approval. The 2018 New Capital Initiatives forms are included within the document under a separate tab.

The Capital Budget Submission:

- Underwent extensive review by asset category teams and a line-by-line review by the Asset Lead Panel Review Committee along with a full review from the Capital Budget Leadership Team.
- Presents a balance between identified needs, council directions, available financing and capacity to deliver the program.
- Reflects project costs in 2018 dollars.
- Includes a minimum 15% contingency for non-routine projects, 2% allowance for project management costs.
- Reflects updated operating budget impacts for ten years for projects in excess of \$1 million and for at least four years for all other projects as required.
- Is aligned with the 2014 Development Charges Study.

The 10-year program for 2018-2027 is \$688.0 million. This is approximately \$20.2 million higher when compared to the 2017 approved capital budget (\$667.8 million). The increase reflects the significant investment approved by council for infrastructure renewal as per the asset management plan.

Table A below provides the breakdown for each asset category. Infrastructure renewal represents the largest type at 78.6% which is an increase of \$7.4 million over last year's 10 year program.

Table A: 10-year capital budget by category

| Project Type | Infrastructure Renewal | Growth | New/ Enhanced |
|------------------------|------------------------|------------------|------------------|
| Roadways | \$ 229,923 | \$ 43,848 | \$ 19,694 |
| Storm Water Management | \$ 30,383 | \$ 29,593 | \$ - |
| Facilities & Buildings | \$ 121,721 | \$ - | \$ 100 |
| Parks & Open Space | \$ 53,695 | \$ 11,507 | \$ 5,976 |
| Parking | \$ 1,180 | \$ - | \$ 19,500 |
| Fleet Vehicles | \$ 69,264 | \$ 9,603 | \$ 967 |
| Information Technology | \$ 23,251 | \$ - | \$ 5,749 |
| Local Boards | \$ 11,193 | \$ 303 | \$ 579 |
| Total | \$ 540,609 | \$ 94,853 | \$ 52,564 |

*All values in thousands ('000)

78.6%

13.8%

7.6%

The capital budget uses a variety of sources for funding the program. Tax supported funding (cash and debt funding from the operating budget) continues to be the largest component accounting for roughly half (57%) of the overall funding envelope. The budget continues to rely on the cash flow from development charge revenue to fund growth projects (8%) and park dedication reserve fund (4%) and other recreation facility renewal reserve funds for parks & recreation assets.

Debt

The proposed capital budget and forecast reflects *Responsible Debt Management* as the budget adheres to the city's debt policy limits while using debt in the most effective manner as per the city's long term financial plan. The city's debt policy limits the total debt charges and liabilities as a percentage of revenues to 12.5% (provincial legislated limit is 25%).

The city is at the debt limit over the next two years as the city is still required to make the last hospital cash commitment of approximately \$15.5 million, after which debt capacity will become available. Over the last several years, Finance staff have been using debt more efficiently to be consistent with the city's long term financial plan, by ensuring that less debt is being applied to lifecycle projects and more debt is being used towards projects that are considered new/ enhanced/ strategic. This has the benefit of building a more sustainable source of funding towards the city's asset management plan.

Development Charges

Strategic initiative 4.1.f states:

“New infrastructure needed to support growth is paid for by new development”

The proposed 2018 capital budget and forecast includes development charge funding of approximately 8% which is slightly higher than the 2017 budget where development charges represented 6% of the overall funding envelope. The proposed 2018 capital budget and forecast conforms to the policy that ensures that spending in any year does not exceed the uncommitted balance in the reserve fund at the end of the preceding year.

Addressing Staff Directions

The following three staff directions are addressed as part of the proposed capital budget and forecast:

1) Rural Road Renewal (SD-11-16)

“Direct the Executive Director of Capital Works and the Director of Transportation Services to consult with the Director of Finance to carry out an assessment of providing paved shoulders in the rural area to improve road safety for vehicles, pedestrians and cyclists while increasing the longevity of the roadway platform and report back to the Planning and Development Committee with the results and a multiyear implementation schedule in the third quarter of 2017.”

TS-12-17 provided an initial feasibility assessment of providing 1.5m paved shoulders on rural roads. This will inform the forthcoming Rural Active Transportation Strategy (RD-SW-1850). The strategy planned for 2018 will provide a framework for to include active transportation infrastructure into the transportation network as well as guide the prioritization and implementation of infrastructure as part of future capital works.

2) Trails Master Plan (SD-13-16)

“Direct the Executive Director of Capital Works to review the Trails Master Plan and funding requirements as part of the proposed 2018 capital budget and report back at that time.”

The Community Trails Strategy (November 2015) identified \$16.5 million of recommendations to improve the city’s trail network. Significant progress has been made to date with funding from the city, grants offering matching funding and from Halton Region. These include:

- resurfacing of the Spencer Smith Park promenade (Canada 150/ Halton Region),
- construction of the Elgin Promenade phase 1 (completed earlier this summer) and phases 2 & 3 (Canada 150/ PTIF/ city) currently under construction, and
- construction of the Multi-Use Path Graham’s Lane to Ontario St. (PTIF/ city).

The 10 year forecast includes funding of approximately \$5 million for further implementation of the Community Trails Strategy. The city will continue to apply for funding opportunities, to leverage city funding.

3) Skate Park in North Burlington (SD-14-16)

“Direct the Executive Director of Capital Works to carry out an assessment of the cost and feasibility of constructing a medium size skate feature at either Lowville City Park or Kilbride Community Park and report back to Council prior to the approval of the 2018 budget directions.”

On October 10, 2017, Council approved Kilbride Park as the preferred location for a medium sized skate park (CW-37-17). Included in the proposed 2018 capital budget is Kilbride Skatepark (PO-PD-1802) for the design and construction of this new skate park.

Proposed Projects Aligned to the Strategic Plan

The following areas highlight notable items as part of the 2018 capital budget and forecast which are aligned to the city’s Strategic Plan.

A CITY THAT GROWS

| Project | Alignment |
|---|--|
| QEW Prosperity Corridor Study (RD-RL-1790) 2018 | An all-encompassing study to determine the development potential for employment lands adjacent to the QEW corridor. |
| Elgin Street Promenade Construction (RD-SW-1756) 2019 | This project is included in the Core Commitment Implementation Strategy to improve active transportation in the downtown and enhance pedestrian and cycling connections. |

A CITY THAT MOVES

| Project | Alignment |
|--|---|
| Active Transportation Initiatives and Infrastructure (RD-SW-265) 2018-2027 | This project addresses the need and justification for new active transportation facilities, minor improvements to existing infrastructure and city-led initiatives to realize the intent of the cycling master plan and helps to support the complete streets vision. |

A HEALTHY AND GREENER CITY

| Project | Alignment |
|--|---|
| Rural Active Transportation Study (RD-SW-1850) 2018 | This study will provide a framework for the embedded active transportation infrastructure into the transportation network as well as guide the prioritization and implementation of infrastructure as part of future capital works. |
| LED Street Light Conversion Program (RD-ST-1763) 2018 | This project will reduce energy consumption and reduce the city's climate change impacts. |
| Kilbride Skatepark (PO-PD-1802) 2018 | This project ensures that residents in rural Burlington have unique recreational offerings in the rural area. |
| Community Garden (PO-PD-1562) 2022, 2024 | This project will increase the availability of community garden plots so that residents may grow their own fresh and healthy food. |
| Electric Vehicle Charging Stations - Downtown (PK-PK-1795) 2018-2022 | This project supports the increased use of hybrid and electric vehicles in our community and to support the goal of becoming a carbon neutral community. |
| Storm Water Management Renewal (Various) | Continued funding is being provided for storm water infrastructure improvements as previously recommended in the AMEC study. These projects ensure the city is a leader in storm water management and low impact development as well as ensures the rehabilitation and preservation of the city's creeks and streams. |

A HEALTHY AND GREENER CITY (Continued)

| Project | Alignment |
|---|--|
| Cumberland Avenue Pedestrian – Railway Underpass (RD-RA-681) 2022 | This expansion to the city’s trail system links to the city’s park network, neighbourhoods and other forms of transportation. A number of new multi-use pathways and safe pedestrian/ cycling linkages are included in the capital budget. |
| Active Transportation Crossing of the QEW (RD-SW-1286) 2021,2024 | |
| Multi-use Pathway - Hydro Corridor – Cumberland (PO-PD-1647) 2018, 2019 | |
| Multi-use Pathway - Alton Village (PO-PD-1648) 2018, 2019 | |
| Multi-use Pathway - Sheldon Creek (PO-PD-1733) 2020, 2021 | |

AN ENGAGING CITY

| Project | Alignment |
|---|--|
| Itabashi Gardens (PO-PD-1758) 2018 | This project supports the existing twinning relationship with Itabashi Japan and its associated cultural celebrations through the design of public space. |
| Infrastructure Renewal Projects (Various) | Infrastructure renewal needs are being addressed in accordance with the city’s Asset Management Plan with incremental tax funding of 1.25% annual contribution to ensure assets are in good condition and properly maintained. 78.6% of projects in the 10 year capital program support the renewal of the city’s existing infrastructure. |

AN ENGAGING CITY (Continued)

| Project | Alignment |
|-----------------------------------|--|
| Growth Related Projects (Various) | \$94.9 million of growth related projects have been included in the 10 year capital program. External cost recoveries account for \$6.9 million. Of the remaining \$88.0 million of costs, \$57.9 million are funded from development charges and park dedication. |

Underfunded Capital Needs

- **Transit Capital Requirements**

At the Committee of the Whole Workshop on September 7, 2017 council received a presentation from Transit staff on the challenges facing the long term sustainability of their capital program. Historically, the Transit capital program has been funded solely from non-tax supported revenues including Federal and Provincial gas taxes and other senior government funding programs as they become available such as the Public Transit Infrastructure Fund (PTIF). At current funding levels these sources are insufficient to meet the long term capital needs of Transit.

During 2018, a transit capital funding strategy will be developed and reported back in advance of 2019 budget framework. This will include review of the Federal Gas Tax program split of 80% roads / 20% transit, the potential need for tax supported capital funding for transit and a review of the Provincial Gas Tax funding used to support Transit operating budget.

As part of the 2018 proposed capital budget, \$787,000 of tax supported capital funding has been included to support transit facility and IT requirements in advance of the longer-term funding strategy.

- **Enterprise Systems - Replacement (ERP) (IT-CA-1507)**

This initiative focuses on the replacement of enterprise systems that are at end of life and/ or no longer meeting the needs of the organization. These include systems that support Maintenance Management, Finance, and Human Resources. As identified in the ERP Strategic Review Council report (IT-01-13), a key recommendation was to consolidate Human Resources and Finance applications while also pursuing opportunities for efficiencies and service improvements using newer technologies. In

2017, thorough reviews of the business needs and the markets in each of the 3 application areas was completed. Strategies and recommendations were developed along with funding requirements, resource impacts and schedules. Total replacement cost for these systems is \$7.8 million to \$13.8 million with \$9.8 million accommodated within this 10 year budget and forecast, resulting in a potential shortfall of up to \$4 million.

The IT Asset Category is experiencing annual funding shortfalls requiring funds to be accumulated over a number of years before replacement can occur. In this case, funding is allocated over a period of 6 years. This extended implementation schedule will necessitate additional funding and staff resources to keep systems running that are targeted for replacement. The requirement to maintain existing systems will also delay the realization of benefits associated with newer and more advanced systems.

Capital Policy Updates

A) Vehicle Depreciation Reserve Fund (Appendix B)

The last Vehicle Depreciation Reserve Fund (VDRF) review was completed in 2013 (RPM-02-13). That report recommended that the adequacy of the VDRFs and the assumptions within the VDRF policy be reviewed on a 5 year cycle. In 2017, a cross departmental team with representation from Roads and Parks Maintenance, Fire, Transit, Parks and Recreation and Finance was formed to review the current policy and sustainability of the reserve funds.

An updated policy has been included as Appendix B. The core components of the policy remain unchanged however additional reference to industry best practices such as Asset Management have been incorporated. This policy also allows for variations in vehicle pricing as a result of currency exchange. Finally, a 60 year renewal needs analysis was conducted using data from the City's Asset Management Plan. As a result of this review, it is recommended that the annual contributions to the VDRFs be increased from 3% to 4% per annum to ensure long-term financial sustainability. This increased contribution will have an incremental \$32,000 ongoing impact to the operating budget.

B) New / Enhanced Assets Policy (Appendix C)

A New Capital Initiative Form is to be completed for any new infrastructure project over \$100,000 or for any renewal project in which 25% or more of the total project cost is attributed to providing an enhanced level of service beyond that currently provided by the existing asset and the enhancement portion of the total project cost exceeds \$100,000. This change ensures that there is adequate disclosure of renewal projects in which a significant portion of the costs represent new infrastructure.

The New Capital Initiative Form also includes a section to outline Asset Management considerations such as lifecycle costing of the new infrastructure.

Changes to the policy are identified in bold in Appendix C.

Budget Process

The 2018 capital budget process is similar to previous years with Council approval scheduled for December 11, 2017. This allows earlier tendering in order to capture favourable pricing and the timely and efficient delivery of capital projects.

The budget review process continues to include:

- Cross functional teams of asset leads to conduct in depth panel reviews of the capital budget
- Capital Budget Leadership Team comprised of the City Manager, Executive Director of Capital Works, Director of Finance, Director of Transit (rotating member) and the Director of Roads and Parks Maintenance (rotating member)
- Review of existing open capital orders and proposed capital budget
- Enhanced communication with city staff and local boards

Council Information Session

As in prior years, the budget review process includes an information session to provide Council with the opportunity to ask questions on the proposed capital budget.

The budget information session for members of Council will be held on November 16, 2017, in Rooms 305 and 307, from 1:00 p.m. – 3:30 p.m. Capital budget asset categories will be scheduled in the rooms noted below:

| Room 305 | Room 307 |
|--|--|
| Roadways Storm Water Management Parks & Open Space Information Technology | Facilities & Buildings Local Boards Fleet Vehicles, Accessories & Equipment Parking |

Capital Budget Review Form

The capital budget review form will be provided to all members of council in an electronic format. Staff propose that each Council member use this form to highlight proposed amendments to the capital budget. The consolidated listing of the budget review forms will assist in budget review at the Committee of the Whole - Budget meeting on December 1, 2017. Please return your completed form to the Director of Finance by November 21, 2017 to allow time for consolidating the information and distributing the summary before the committee review date.

Financial Matters:

The 2018 capital budget is \$68.6 million, with a ten year program of \$688.0 million. There are a number of capital projects included in the 10 year forecast to support the city's Strategic Plan.

The city has capital assets with a replacement cost of approximately \$2.9 billion. The capital program focuses on the city's infrastructure requirements to address the much needed renewal of these assets in the most cost effective manner. The budget reflects incremental tax supported funding of 1.25% (\$1.9 million) from the operating budget to support infrastructure requirements of the city while maintaining the long term financial objective of *Competitive Property Taxes*.

Public Engagement Matters:

Staff will continue to use the city's website as a communication medium through videos, webcast and online surveys.

The City is continuously looking for ways to improve and increase transparency for the public. A revised version of Burlington Open Budget, on the city's website, will be available to the public to allow residents to view the city's 2018 budget data in an intuitive and illustrative form.

The City hosted a Telephone Town Hall on the 2018 Proposed Budget on Wednesday, October 18, 2017 for residents, businesses and community partners. Participants learned about and discussed the proposed 2018 budget priorities with Mayor Rick Goldring and senior staff.

In this live, call-in session, residents, organizations and business owners were able to ask questions about the upcoming budget and respond to polling questions. There was

an emphasis placed on resident satisfaction with value for service, increased funding for transit, and support for city infrastructure renewal funding.

A report on the results of this community engagement will be provided on the December agenda.

Budget Timelines

| Key Dates | Meeting |
|-------------------|---|
| October 18, 2017 | Community Input - Telephone Town Hall 7:30 p.m. to 8:30 p.m. |
| November 9, 2017 | Committee of the Whole – Budget: Overview of 2018 - 2027 Proposed Capital Budget & Forecast |
| November 16, 2017 | Council Information Session – Capital Budget 1:00 p.m. to 3:30 p.m. |
| November 21, 2017 | Capital Budget Review Forms due |
| December 1, 2017 | Committee of the Whole – Budget: Review and Approval of 2018 - 2027 Proposed Capital Budget & Forecast Overview of the 2018 Proposed Operating Budget |
| December 11, 2017 | Council: Approval of 2018 - 2027 Capital Budget & Forecast |
| December 12, 2017 | Council Information Session – Operating Budget 1:00 p.m. to 4:30 p.m. |
| January 18, 2018 | Committee of the Whole – Budget: Review and Approval of the 2018 Proposed Operating Budget |
| January 22, 2018 | Council: Approval of 2018 Operating Budget |

Conclusion:

The proposed 2018-2027 capital budget and forecast presents a balanced program aimed to deliver on the Strategic Plan and the city's commitment to the asset management plan.

Respectfully submitted,

Lori Jivan

Coordinator of Budgets and Policy

905-335-7600 ext. 7798

Appendices:

- A. 2018 Capital Budget Recommendations
- B. Vehicle Replacement Funding Policy
- C. New / Renewal Assets Policy and Infrastructure Renewal Policy

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.

Appendix A: 2018 Capital Budget Recommendations

Approve the 2018 capital budget for the City of Burlington, with a gross amount of \$68,562,193 and a debenture requirement of \$11,477,656, and the 2019-2027 capital forecast with a gross amount of \$619,464,356 and a debenture requirement of \$60,738,172 as outlined in report F-37-17 and as amended by the Committee of the Whole - Budget; and

Administer the debenture in the amount of \$9,492,656 in 2018 as tax supported debt; and

Administer the debenture in the amount of \$65,000 in 2018 as non-tax supported debt; and

Administer the debenture in the amount of \$1,920,000 in 2018 as special circumstances debt; and

Authorize staff to proceed with the 2018 capital projects representing not more than 50% of the 2018 capital from current funding in advance of the 2018 operating budget approval; and

Declare that, in accordance with sis. 5(1)5 of the *Development Charges Act, 1997* and s. 5 of Ontario Regulation 82/98, it is Council's clear intention that the excess capacity provided by the above-referenced works will be paid for by future development charges.