



SUBJECT: 2021-2030 Capital budget overview

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-42-20

Wards Affected: All

File Numbers: 435-01

Date to Committee: December 10, 2020

Date to Council: December 14, 2020

Recommendation:

Receive the proposed 2021 Capital Budget book; and

Direct staff to present the recommendations in Appendix A of finance department report F-42-20 to the Corporate Services, Strategy, Risk & Accountability meeting of January 12, 2021 for review and approval, taking into consideration committee amendments.

PURPOSE:

Vision to Focus Alignment:

- Improve integrated city mobility
- Support sustainable infrastructure and a resilient environment
- Deliver customer centric services with a focus on efficiency and technology transformation

Background and Discussion:

To ensure alignment with Vision to Focus, decisions about resources and pacing of project implementation were discussed by the Capital Budget Leadership Teams as part of the 2021 budget process. Establishing priorities for existing and new City investment remains a key step in budget development.

Linking Vision to Focus to the budget provides accountability between what is achieved and the value to taxpayers. This process provides a clear link between the strategy and the investment required to implement the initiatives.

The budget is one mechanism that implements Vision to Focus through specific project initiatives.

In addition, the 2021 budget submission continues to adhere to the guiding principles and directions of the following reports:

F-45-20: 2021 Budget Framework Report
F-29-19: 2019 Financial Condition Assessment
CM-06-19: 2018-2022 Burlington's Plan: From Vision to Focus
F-12-17: Asset Management Financing Plan
F-22-12: The City of Burlington Long Term Financial Plan

Companion Reports

In addition to this capital budget overview report there are two additional staff reports which provide greater details of items related to the City's infrastructure.

Asset Management Program update (F-49-20)	CSSRA December 10, 2020
City of Burlington Cycling Plan	CPRM January 14, 2021

These two reports should be considered in parallel with this document.

Budget Process

The budget process provides a venue in which decisions are made to ensure the appropriate balance between affordability, service levels and financial sustainability are maintained.

The budget review process included:

- The Corporate Infrastructure Committee, consisting of staff representatives across the organization, conducted an in-depth review of the 10-year capital program.
- A corporate / strategic review by the Capital Budget Leadership Team. This team is comprised of the City Manager, Executive Director of Environmental, Infrastructure and Community Services, Chief Financial Officer, Director of Capital Works (rotating member) and the Director of Transportation (rotating member).

Budget Timelines

Below is a brief timeline of the 2021 budget process:

Date	Meeting	Item
December 10	CSSRA	Capital Budget Overview Report
January 12	CSSRA	Capital Budget Review and Approval
January 19	Council	Capital Budget Approval
January 20	TEAMS Live	Virtual Budget Town Hall
January 21	CSSRA	Operating Budget Overview Report
February 23 & 25	CSSRA	Operating Budget Review and Approval
March 3	Council	Operating Budget Approval

2021 PROPOSED CAPITAL BUDGET

The 2021 proposed capital budget is approximately \$72.1 million, with a ten-year program of \$786.4 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.

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 presented by asset category with each project identified by one of the areas defined above. The ten-year capital program is 70% infrastructure renewal projects, 16% growth related projects and 14% for new / enhanced projects.

Capital Budget Pressures

Investment in Asset Renewal

The City's infrastructure assets are the foundation upon which many services are delivered and capital investment in infrastructure is key to achieving economic growth, meeting organizational goals and mitigating future risks. As per the city's 2016 Asset Management Plan, the city's assets have a replacement value of approximately \$3 billion and a backlog of \$126.5 million. Historically, roughly 70% of spending on the capital program has focused on reducing the growth of the renewal deficit and addressing in-year needs to ensure reliable service. The remaining 30% of the capital program is focused on infrastructure investments required to support growth and new infrastructure initiatives.

Addressing COVID-19 challenges via reduced infrastructure renewal funding

The on-going COVID-19 pandemic is placing considerable pressure on the city's financial position. In 2020, the City is forecasting over \$18 million of revenue losses. While a large portion of these losses are being mitigated with an on-going expenditure restraint program and support from senior levels of government, the City is projecting an unfavourable variance at year end of over \$2.7 million. It is anticipated that these challenges will continue to impact city finances until such time as a vaccine is developed and provincial restrictions are fully lifted.

To partially mitigate the 2021 impact of COVID on the operating budget the planned increase to the dedicated infrastructure renewal levy in 2021 has been temporarily redirected to the operating budget for 1 year. This will provide \$2.18 million of one-time funding to offset the anticipated one-time COVID impacts in 2021. This in turn reduces the 2021 capital funding envelope.

The city's base infrastructure renewal levy provides funding annually to the capital renewal program and is the largest sustainable funding source for these projects. Long-term reduction in this funding will significantly impact the city's Asset Management Program and accompanying 60-year Financing Plan and will result in decreased levels of service across many asset categories.

A detailed outline of the pressures facing the City's Asset Management Plan and Financing Plan can be found in Report F-49-20 Asset Management Program Update on this same agenda.

Vision to Focus Initiatives

In July 2019, Council approved the 2018-2022 Burlington's Plan from Vision to Focus (V2F). The V2F key priority actions delivered through the capital program include:

- Reducing and then eliminating the City's infrastructure gap;
- Reducing greenhouse gas emissions from City operations;
- Increasing modal split between car use (82%), transit (10%) and active transportation (8%) by 2022; and
- Increasing connectivity of transportation modes and improving the state of good repair on all mobility modes.

With constrained capital funding, a key challenge across the capital program is the need to prioritize new / enhanced initiatives with infrastructure renewal projects, which are part of long-term, forward-looking capital programs intended to meet state of good repair targets.

City of Burlington Cycling Plan

The City of Burlington Cycling Plan will be brought forward on the Community Planning, Regulation & Mobility Committee agenda of January 5, 2021. This report will outline the infrastructure required to implement a minimum grid of safe, well connected, convenient and accessible cycling network across the city.

Implementation of this plan helps achieve a number of V2F performance targets including improving the active transportation modal split while decreasing the community's greenhouse gas emissions. Construction of this new infrastructure comes at considerable cost and must be weighed against other infrastructure priorities.

The recommendations of the cycling master plan will be incorporated into the City's overall Integrated Transportation Plan which when finalized will include a long-term funding plan.

In the short-term, the protected bikeway along Plains Road between Waterdown Road and the Royal Botanical Gardens has been included in the 2021 Capital Budget at a cost of \$3.6 million in conjunction with the road renewal project. This bikeway is a high priority project identified as part of the proposed spine network and would be constructed in tandem with the related road renewal work.

Green Infrastructure Levy

There are a number of infrastructure investments that can support the city's environmental goal of reducing greenhouse gas emissions by reducing the reliance on the use of fossil fuels, including:

- the greening of the corporate fleet and city facilities;
- the expansion and greening of the transit system;
- the construction of active transportation facilities related to cycling and trails; and
- an expanded tree planting and parkland acquisition program.

These initiatives have numerous environmental and social benefits, but they will require significant additional capital investment on an ongoing basis if meaningful progress is to be made. Sustainability needs to be fundamental to the City's infrastructure investment decisions including improving climate resiliency, by embedding climate considerations into existing and planned capital projects. This will be critical to meeting V2F goals.

In 2019, City Council declared a Climate Emergency. With a significant infrastructure renewal backlog and limited funding for growth, there is very little capacity remaining in the existing capital program to invest in green infrastructure that supports the stewardship of natural ecosystems. Additionally, sustainable infrastructure projects often have a higher upfront cost than conventional projects.

Establishing a green infrastructure levy would provide dedicated capital funding for these types of projects.

Unfortunately, given the significant financial pressures being placed on the City's operating budget as a result of the on-going COVID-19 pandemic the implementation of a green levy will need to be deferred until such a time as the City's financial position is able to recover.

Sustainability of the Transit Capital Program

For several years there have been challenges facing the long-term sustainability of Burlington Transit's capital program. Currently, the conventional bus capital program is funded through a mix of Federal / Provincial gas taxes, a newly implemented Transit vehicle depreciation reserve fund, and other senior government funding programs such as the Public Transit stream of the Investing in Canada Infrastructure Program (ICIP). This is a national cost-shared infrastructure funding program between the federal government, provinces and territories, and municipalities and other recipients. The municipal matching component of this program has been included in the 10-year capital budget which supports the construction, expansion and improvement of the public transit system.

Analysis of the long-term transit capital funding indicates that current funding levels are insufficient to ensure the sustainability of the bus renewal program.

The transit capital program currently receives 25% of the City's annual Federal Gas Tax allocation. In addition, the City receives approximately \$2.3 million of provincial gas tax funding annually. In 2021 approximately \$1.5 million will be used to support Transit's capital budget requirement, while the remaining \$765,000 will support the operating budget. A business case will be brought forward as part of the 2021 Proposed Operating Budget to recommend that the Provincial Gas Tax operating budget support be reduced to \$500,000 annually with the balance transferred into the capital budget to support the renewal program. The transition to implement a sustainable financing program may be required to be phased over a few years in recognition of the funding challenges resulting from the pandemic.

There is a risk that the annual provincial gas tax allocation the city receives may be reduced in 2022 due to the reduction in fuel usage across the province during the pandemic. There is a 5 year agreement in place with respect to the Federal Gas Tax funding allocation.

Development Charges and Park Dedication

The city approved an updated Development Charges (DC) By-law which came into effect on June 1, 2019.

Strategic initiative 4.1.f states:

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

The proposed 2021 capital budget and forecast includes development charge funding of approximately 9.3%. The budget conforms to the policy that ensures that spending in the year does not exceed the uncommitted balance in the reserve fund at the end of the preceding year.

The growth-related capital infrastructure included in the 2019 DC Background study formed the basis of projects included in the 2021 Capital Budget and Forecast.

Spending of development charges is based on the City's policy that expenditures in any year do not exceed the uncommitted balance in the reserve fund at the end of the preceding year. Development Charge revenues over the last 5 years have averaged \$4.9 million per year. As of November, approximately \$4.3 million has been received in 2020.

Park Dedication revenues over the last 5 years have averaged \$3.1 million per year. As of November, approximately \$1.0 million has been received in 2020. The reduced revenues have resulted in some delay of capital projects reliant upon these funding

sources. Staff will continue to closely monitor revenue implications as it relates to funding of the city's capital program.

On July 21, 2020 the Province approved Bill 197, Covid-19 Economic Recovery Act. As part of this new legislation, staff will be required to update the DC background study, alternative parkland dedication and develop a Community Benefits Charge strategy by July 21, 2022. As noted in the recent finance report (F-47-20) on Bill 197, Covid-19 Economic Recovery Act, 2020, the updates will allow the city to collect growth-related revenue on additional services, remove the 10% discount on soft services and collect a percentage of land value on high density developments, potentially increasing our revenue potential however, not creating revenue neutrality.

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%).

As of September 30, 2020, the City's total debt charges as a percentage of own source revenue is estimated to be 10.5%. 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. This has the benefit of building a more sustainable source of funding towards the city's asset management plan.

ADDRESSING STAFF DIRECTIONS

The following two staff directions are addressed as part of this report and the accompanying proposed capital budget and forecast:

1. Gas Tax Allocation (SD-04-20)

"Direct the Executive Director of Environment, Infrastructure & Community Services to review the impact of increasing the gas tax allocation to transit from 75/25 to 70/30."

As identified earlier in this report the transit capital program is unsustainable at current funding levels. One option to provide increased funding to the transit capital program would be to adjust the percentage of Federal Gas tax allocation currently shared at a 75%/25% split between roadway renewal and transit respectively.

While this change would improve transit sustainability it would have significant long-term impacts to the road renewal program. The city is currently challenged to maintain roadway infrastructure in a state of good repair on an overall network level. Historically, the city has not reinvested at a rate that allowed for the replacement of infrastructure at the optimal time to minimize renewal costs. Any reductions to current funding levels would further compound this issue resulting in lowered service levels and cost increases for both current and future residents. Investments would not be able to be made at the appropriate stage in the asset's lifecycle to prevent premature deterioration, deliver projects jointly with the Region of Halton, and avoid cost escalation.

As such it is recommended that the current 75%/25% Federal Gas Tax allocation be maintained. Instead, a business case to increase the portion of Provincial Gas Tax funding used to support the Transit capital program will be brought forward in the 2021 Proposed Operating Budget.

2. Spray Pad at Tansley Woods Park (COW-08-19) (SD-26-19)

“Direct the Director of Capital Works to bring forward for council consideration during the 2020 capital budget and 2021-2029 forecast, the design and construction of a spray pad at Tansley Woods Community Park.”

A new spray pad has been included in the Proposed Capital Budget with funding for design in 2021 and construction in 2022. Please refer to project number PO-PD-1887 in the Parks and Open Space section of the budget documents.

Financial Matters:

The proposed 2021-2030 capital budget and forecast project listing is provided under separate cover for Committee's review and approval.

The Capital Budget Submission:

- Presents a balance between identified needs, council directions, available financing and capacity to deliver the program.
- Reflects project costs in 2021 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 2019 Development Charges Study.

The 10-year program for 2021-2030 is \$786.4 million. Table B below provides the breakdown for each asset category. Infrastructure renewal represents the largest type at 70%.

Table B: 10-year capital budget by category

Project Type	Infrastructure Renewal	Growth	New/Enhanced
Facilities & Buildings	\$ 130,800	\$ 1,296	\$ 23,920
Fleet Vehicles	\$ 83,323	\$ 537	\$ 12,529
Information Technology	\$ 35,439	\$ -	\$ 7,208
Parks & Open Space	\$ 59,326	\$ 7,151	\$ 4,000
Roadways	\$ 210,275	\$ 95,562	\$ 63,251
Stormwater Management	\$ 31,033	\$ 20,705	\$ -
Total	\$ 550,196	\$ 125,251	\$ 110,908

**All values in thousands ('000)*

70%

16%

14%

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 over half (58.9%) of the overall funding envelope. The budget continues to rely on the cash flow from development charge revenue to fund growth projects (9.3%), federal and provincial gas taxes (10.3%), vehicle depreciation reserve funds (6.2%), park dedication reserve fund (1.3%) and other recreation facility renewal reserve funds for parks & recreation assets.

Council Information Session

The traditional council information session formats would be difficult to accommodate in a virtual platform. As such it is requested that Members of Council provide all budget related questions directly to Finance who will coordinate response back in a consolidated memo to all of Council. These responses will be provided in advance of when Budget Action Request Forms are due.

Should a member of Council have numerous questions for a particular Asset Category, staff can arrange a virtual session for that area.

Capital Budget Action Request Forms

The capital budget action request 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 Corporate Services, Strategy, Risk &

Accountability Committee meeting on January 12, 2021. Please return your completed form to the Director of Finance by January 4, 2021 to allow time for consolidating the information and distributing the summary before the committee review date.

Climate Implications

In April 2019, Council declared a Climate Emergency. Burlington's Draft Climate Action Plan (CW-20-19) identified a number of initiatives to assist the City in reducing its overall carbon footprint.

As part of the city's reserve and reserve fund review report (F-28-20) the city created a "Green Initiatives Reserve Fund". As we move forward, the city will need to carefully balance the increasing costs associated with being more environmentally conscious against the city's other funding demands.

There are many foundational initiatives in the city's Vision to Focus (V2F) plan such as creating the Climate Adaptation Plan, Corporate Energy Plan, Green Fleet Strategy, Urban Forestry Management Plan and enhanced Transit that will require significant capital and operating funding to achieve the city's aspirational climate goals.

Through a focus on improving climate resiliency, staff are embedding climate vulnerability considerations and adaptation responses into existing and planned capital projects.

Engagement Matters:

The City is continuously looking for ways to improve and increase transparency for the public. Staff will continue to use the city's website as a communication medium through videos, webcast and online surveys.

The "Budget Basics" video continues to be available on the website which explains how the city develops its budgets.

In addition, 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 2021 budget data in an intuitive and illustrative form.

A virtual budget townhall using the TEAMS live format is scheduled for January 20, 2021.

Conclusion:

Financial sustainability will continue to be our key strategic priority. The budget will continue to face rising pressure from infrastructure renewal costs, limited revenue growth, and completion of the 4-year workplan initiatives representing visions to meet important community needs. These factors ultimately impact property taxes and reserve fund balances to maintain / enhance existing service levels and quality of life.

Respectfully submitted,

Lori Jivan

Coordinator of Budgets and Policy

905-335-7600 ext. 7798

Appendices:

A. 2021 Capital Budget Recommendations

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.

Appendix A: 2021 Capital Budget Recommendations

Budget Recommendations

Approve the 2021 Capital Budget for the City of Burlington, with a gross amount of \$72,122,030 with a debenture requirement of \$7,800,000, and the 2022-2030 capital forecast with a gross amount of \$714,232,893 with a debenture requirement of \$45,325,000 as outlined in report F-42-20 and as amended by the Corporate Services, Strategy, Risk & Accountability Committee; and

Administer the debenture in the amount of \$7,800,000 in 2021 as tax supported debt; and

Authorize staff to proceed with the 2021 capital projects representing not more than 50% of the 2021 capital from operating funding in advance of the 2021 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.