

Staff Report



To **City Council**

Service Area Corporate Services

Date Wednesday, January 16, 2019

Subject **2019-2028 Capital Budget and Forecast**

Report Number CS-2019-02

Recommendation

1. That the following recommendations from Report CS-2019-02 titled 2019–2028 Capital Budget and Forecast be referred to January 30, 2019:
 - a. The 2019 Capital Budget in the gross amount of \$87,370,100 be approved;
 - b. The 2019 Capital Budget funding sources in the gross amount of \$87,370,100 be approved;
 - c. Debt be approved in the amount of \$5,366,000 for the specified capital projects; and
 - d. The 2020-2028 Capital Forecast in the gross amount of \$1,662,473,240 be received for information.
2. That the following recommendations from Report CS-2019-02 titled 2019–2028 Capital Budget and Forecast be referred to March 2, 2019:
 - a. Any net new on-going dividend revenues from Alectra Inc. or Guelph Junction Railway be directed to the City’s Infrastructure Renewal Reserve Fund until such time that sustainable tax supported capital funding levels are achieved.
3. That staff report back through the 2020 budget with a strategy to fund the tax supported cost of growth infrastructure resulting from the updated Development Charge Study.

Executive summary

Purpose of report

To introduce the proposed 2019-2028 Capital Budget and Forecast.

Key findings

The 2019-2028 capital budget and forecast is a comprehensive, funded, sustainable long-term capital plan for the City.

The process which led to the development of this plan, used the principles of asset management in estimating the funding required for each Program of Work and applying this available funding to determine guidelines for each program. The City is one of the first in the province to tie asset management directly to capital budget development.

This is once again, a single, integrated capital plan for the entire City, presented for approval ahead of the operating budgets, demonstrating the distinction between capital reserve transfers (operating budget) and capital project expenditures (capital budget).

Staff is recommending the following for consideration:

2019 Capital Budget	\$87,370,100
2020-2028 Capital Forecast	\$1,662,473,240

The sources of funding and priorities within the plan are complex and dynamic, requiring significant effort on staff's part to develop and maintain. The funding strategy used to build this plan required assumptions regarding capital reserve fund transfers, the Dedicated Infrastructure Levy, federal and provincial funding, development charge revenues and other items detailed in the report. Significant changes to any of these assumptions would have complex and pervasive impacts to the plan. In addition, Council should note that any proposed changes to the value or timing of projects within the plan will require staff consideration to address through the 2020 capital budget and forecast development.

Although the capital budget and forecast is funded, pressures remain and staff was required to make concessions from the previous Council's understanding of capital projects within the capital plan.

- Extension of lifecycle or replacement periods were extended to defer capital costs to later years.
- Reprioritizing projects within the funding constraints led to projects being deferred to later years of the forecast. This process also included considering reprioritization of previously approved capital projects.
- City Building initiatives are drawing the City Building Reserve Fund into an overdrawn position by 2021, which is being balanced through other offsetting tax supported reserve funds in this forecast.
- With the 2018 Development Charge Study (DC Study) complete, a funding shortfall has been identified over the ten-year period for the tax supported Growth Reserve Fund which is used to fund the tax cost of growth including the

tax cost of development charge exemptions. Staff will recommend a long-term strategy to address this concern through the 2020 budget.

- Sequencing of growth-related capital projects will need to be aligned and paced with development charge revenue collection as the current capital plan is projecting a cash flow pressure within five years for which debt capacity is not available for front-ending these costs.

Through Council priority workshops related to the Community Plan and the City's strategic vision, these concerns will be further explored and project timing will be adjusted to inform the 2020 capital budget and forecast development.

Financial implications

The 2019 Capital Budget includes 2020 operating impacts totaling \$1.6 million for the tax supported services and \$334,000 for the non-tax supported services. Further, there is a net \$185,600 growth budget request presented in the 2019 tax supported operating budget for approval given the timing of the proposed paramedic shift in Fergus starting mid-2019.

Debt totalling \$5,366,000, federal and provincial gas tax grants totalling \$9,703,100, partner contributions totalling \$612,000 and Capital Reserve Fund transfers totalling \$69,602,000 are included for approval to fund the 2019 capital budget.

The 2019-2028 capital budget and forecast is funded through a complex funding strategy over the ten years which will maintain a positive net capital reserve fund position in these years. There is a projected reliance upon inter-fund borrowing as current Council capital priorities are not aligned with the Capital Funding Allocation Policy approved in 2017.

Report

2019-2028 capital budget and forecast

One of the top priorities for staff was to deliver a 10-year capital budget and forecast that was comprehensive and funded. This proposed budget achieves these goals and is an achievement worth celebrating. Staff from across the entire organization worked collaboratively over the past 12 months to develop this capital plan. There is still progress to be made in terms of long-term priority setting and alignment of funding with capital projects across the forecast period, and with Council input, these changes will be incorporated in to the 2020 capital plan development. Work is also still required to bring the City to a sustainable level of capital funding over the next decade.

Sustainable capital funding

The entire capital plan is built on a number of funding assumptions, which over time allow the City to reach sustainable levels of annual capital investment.

- The tax supported capital transfer increasing annually to reflect construction price index and the capital impact of prior year approval of City Building and Growth expenditures
- An accumulating, annual one per cent Dedicated Infrastructure Levy through 2026
- Water, wastewater and stormwater capital transfers increasing by \$2.12 million annually as a build towards sustainability continues
- Federal Gas Tax funding consistent with the announced planned increases in 2019 and 2021
- Provincial Gas Tax funding remaining constant at current 2018 levels
- The Council-approved one-time dividend allocation from the Guelph Hydro/Alectra Inc. merger remains in place
- Development charge revenues will be collected at an average rate of 85% of the residential forecast and 45% of the non-residential forecast
- New parking revenues in accordance with the Council-approved financial model

Further to this, staff is recommending that the following revenue strategies are put into place through the 2019 and 2020 budgets to ensure the City will be adequately funded to meet the emerging needs of the corporation:

- That any net new dividend revenues from Alectra Inc. or Guelph Junction Railway be directed to the City's infrastructure renewal needs to maintain City assets at expected levels and to build appropriate contingency reserve funds for flexibility and immediate needs. The dividends from the newly merged Alectra Inc. and Guelph Junction Railway are expected to increase over time and may assist in reducing the tax rate impact of the Dedicated Infrastructure Levy Strategy. Until this revenue stream is more secure, staff are not able to incorporate this into the capital funding model.
- There is a funding shortfall for the tax supported cost of growth infrastructure resulting from the updated 2018 DC Study. Staff will work on developing a long-term strategy and bring this back through the 2020 budget.

Asset service level forecasting and sustainable funding

The integration of the budget with asset management data allows for presentation of service level forecasting for each group of assets. Throughout the budget document staff has incorporated charts showing the overall rating of assets in a range from very poor to very good. These charts layer the predicted condition of city-owned assets with the planned financial investment, creating a visual that enables Council to see trends in performance of assets and be accountable to infrastructure renewal investment decisions.

Figure 1 shows the forecasted service level of all tax supported assets from 2019 to 2043. It is apparent that the Dedicated Infrastructure Levy Strategy is having a

positive impact and the planned continuation through 2036 will allow the City to achieve a long-term sustainable capital plan. Over this period, the percentage of assets in 'very poor' or 'poor' increases from 22 per cent to 41 per cent by 2035, after which, the percentage starts to stabilize. This is reflecting the impact of the annual increases in capital funding reaching a tipping point where the amount transferred is sufficient to begin to reduce the infrastructure backlog.

Figure 1, Tax supported asset service level forecast

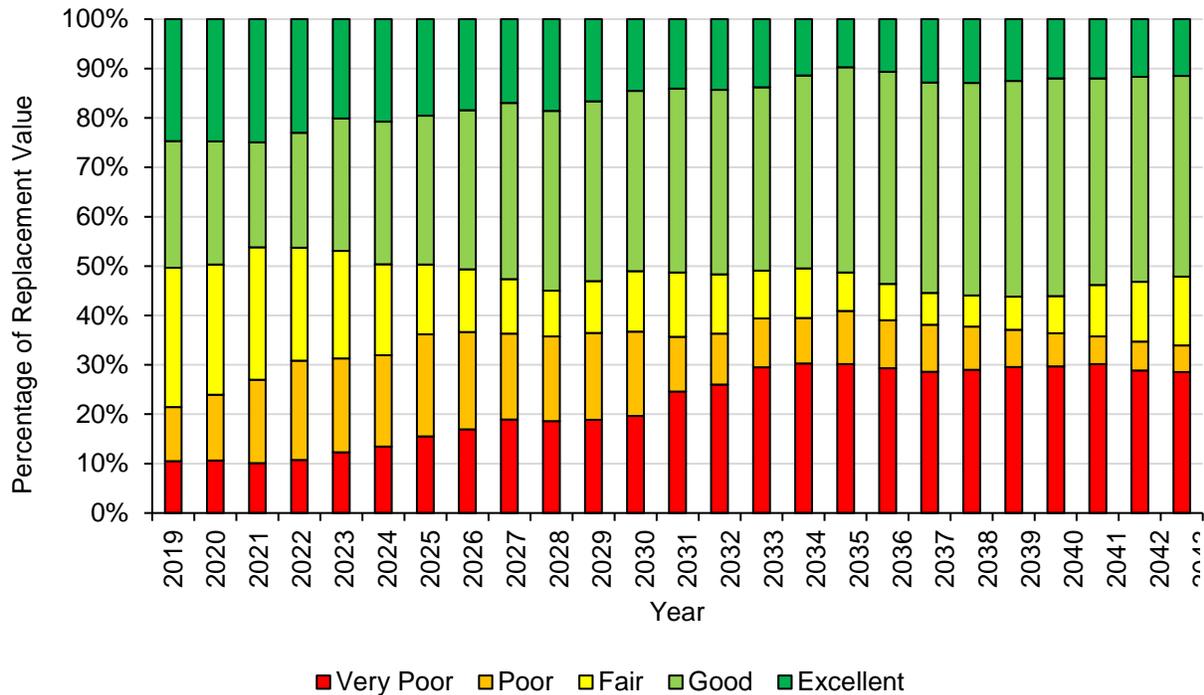
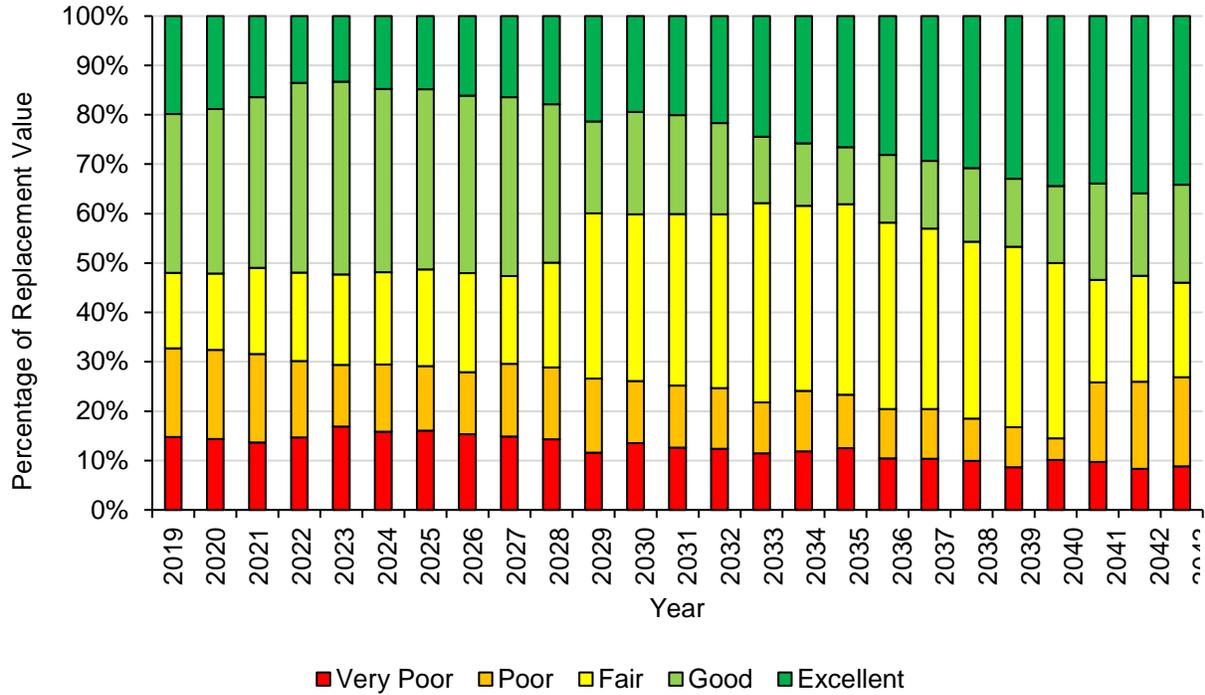


Figure 2 shows the non-tax supported assets over the same period and the achievement of starting a water and wastewater sustainable capital strategy over a decade ago. With this group of assets, that also includes the more recently transitioned stormwater assets, the relative starting position of asset condition is worse with 32 per cent in 'very poor' or 'poor' versus 21 per cent of tax supported assets. The figure shows that due to the dedicated strategy for capital sustainability, their backlog is being addressed more immediately. Assets rated as 'very poor' and 'poor' will decline over time instead of the increase that is forecasted in the tax supported figure. There are some years where rating spikes occur and these are caused by large assets reaching their end-of-life and requiring multiple years of investment in rehabilitation after which, the forecast continues to improve. In a mature asset replacement model, these waves of condition will always occur and the financial strategy is then built around these predictable occurrences to ensure no tax or rate spike is required.

Figure 2, Non-tax supported asset service level forecast



2019 capital budget recommended reserve funding

The 2019 capital budget is funded from various sources, including tax funded reserve funds, non-tax funded reserve funds, development charges, grants and other minor sources:

Figure 3, 2019 capital budget funding sources

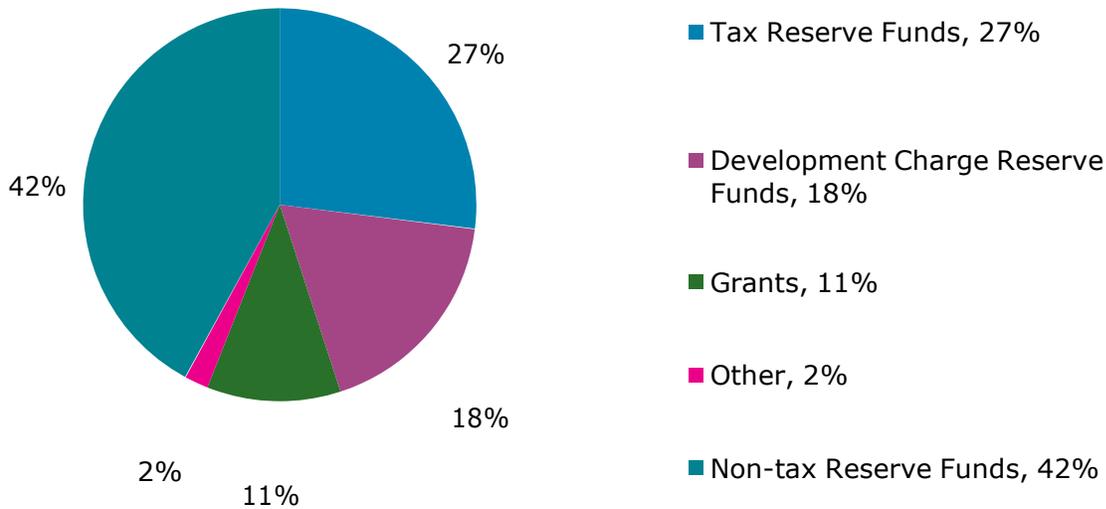


Table 1 and Table 2 together provide a summary of the funding sources for the 2019 capital budget:

Table 1, 2019 capital project funding from City reserve funds

Reserve Fund	Source of Funding	Total Transfer ('000s)
Contaminated Site Reserve Fund	Tax	3,325
Infrastructure Renewal Reserve Fund	Tax	11,448
Guelph Police Capital Reserve Fund	Tax	1,962
Guelph Library Capital Reserve Fund	Tax	407
Growth Reserve Fund	Tax	2,156
City Building Reserve Fund	Tax	3,437
Other City Reserves	Various	2,086
Court Services Reserve Fund	Non-Tax	21
Stormwater Capital Reserve Fund	Non-tax	4,862
Wastewater Capital Reserve Fund	Non-tax	9,490
Water Capital Reserve Fund	Non-tax	16,767
Development Charge Reserve Funds	Revenue	15,727
Federal Gas Tax Reserve Fund	Grant	7,210
Provincial Gas Tax Reserve Fund	Grant	2,493
Total		\$81,391

In addition to these reserve transfers are \$612 from Partner Contributions also budgeted to fund the 2019 budget.

2019 capital budget recommended debt funding

An integrated debt management strategy is also a critical component of the City's 2019-2028 capital budget and forecast. Debt is used on certain significant capital projects as a way to match the cost of long-lived assets to the benefit that future tax and rate payers will receive.

The 2019 capital budget proposes debt to be approved for the following projects:

Table 2, 2019 Capital projects funded by debt

Project	Source of Funding	Total Debt ('000s)
PN0693 FM Woods Station Upgrade	Non-Tax	5,366
Total		\$5,366

The City has approved debt in past capital budgets as a long-term funding strategy and the 2019 debt principal and interest costs are recommended to be funded from the City's Capital Reserve Funds are as follows:

Table 3, 2019 Debt funding from City reserve funds

Reserve Fund	Source of Funding	Total Debt ('000s)
Infrastructure Renewal Reserve Fund	Tax	8,005
Growth Reserve Fund	Tax	621
City Building Reserve Fund	Tax	1,055
Court Services Capital Reserve Fund	Non-tax	397
Stormwater Capital Reserve Fund	Non-tax	110
Development Charge Reserve Funds	Revenue	555
Total		\$10,743

Looking forward to 2020 and beyond

Although the capital budget and forecast is funded, pressures remain and staff were required to make concessions from previous Council's understanding of capital projects within the capital plan. These include:

- Lifecycle or replacement periods were extended to defer capital costs to later years.
- Reprioritizing projects within the funding constraints led to projects being deferred to later years of the forecast. This process also included considering reprioritization of previously approved capital projects.
- City Building initiatives are drawing the City Building Reserve Fund into an overdrawn position by 2021, which is being balanced through other offsetting reserve funds in this forecast
- With the 2018 DC Study complete, a funding shortfall has been identified over the ten-year period for the tax supported Growth Reserve Fund which is used to fund the tax cost of growth including the tax cost of development charge exemptions. Staff will report back through the 2020 budget with a funding strategy for this gap.
- Sequencing of growth-related capital projects will need to be aligned and paced with development charge revenue collection as the current capital plan is projecting a cash flow pressure within five years for which debt capacity is not available for front-ending these costs.

Through Council priority workshops related to the Community Plan and the City's strategic vision, these concerns will be further explored and project timing will be adjusted to inform the 2020 capital budget and forecast development.

Financial implications

Operating impacts from the 2019 capital budget

When Council approves Growth and City Building capital projects, there are direct operating cost increases and pressures that need to be considered as part of the capital project approval. Operating impacts in the current and future years from 2019 capital projects have been identified within each Program of Work transmittal.

Departments have worked to identify projects that will lead to increased or decreased operating costs in 2019 and beyond. These costs will be approved by Council with approval of the 2019 capital budget and will be included as part of the 2020 base operating budget accordingly. There is one exception for the growth-related Paramedic Ambulance project (PM0002) that will have 2019 budget impacts and has been included as a Growth Budget Request for Council consideration in the 2019 tax supported operating budget.

Table 4 summarizes the 2019 capital budget by Program of Work along with the associated 2020 operating budget impact and further details are provided within the budget document.

Table 4, 2019 Program of Work summary and 2020 operating impacts

Program of Work	2019 Budget	2020 Operating Impact	Highlights
Contaminated Sites	\$3,325,000	\$0	
Corporate Projects	\$8,361,000	\$190,000	Software licensing
Emergency Services	\$4,926,000	\$515,100	Paramedic – 4 FTE & Operating and Maintenance (O&M) Police – O&M
Open Spaces, Recreation, Culture and Library	\$7,916,000	\$200,450	Parks Operations – Seasonal Staff and O&M
Solid Waste Services	\$3,107,000	\$578,000	4 FTE and O&M
Stormwater Management	\$4,683,700	\$0	
Transportation Systems	\$14,502,000	\$155,200	Transit – 1 FTE and O&M Operations – O&M
Wastewater Services	\$13,104,400	\$0	
Water Services	\$27,445,000	\$334,000	O&M
Total City	\$87,370,100	\$1,972,750	
	Total Tax Supported	\$1,638,750	
	Total Non-tax Supported	\$334,000	

Reserve Fund and Debt Strategy

With the development of a long-term funding strategy and a comprehensive ten-year capital budget and forecast, staff is better able to forecast the use of reserves and identify optimal use of inter-fund borrowing and external debenture issuance.

Predictable and sustainable reserve funds are a foundational component of a long-term financial plan, and the 2019-2028 capital budget and forecast is a first step in development of that plan.

As presented in the 2019-2028 capital budget transmittals, the City is forecasting a complex funding strategy over the ten-year forecast period which will maintain a positive net capital reserve fund position in these years. There is a projected reliance upon inter-fund borrowing as current Council capital priorities are not aligned with the Capital Funding Allocation Policy approved in 2017.

As previously mentioned, the City's Development Charge Reserve Funds are projecting to be in an overdrawn position with the current proposed plan and further realignment to pace growth related projects to revenue collection is required. The proposed capital plan also remains within the City's targets for affordable debt capacity although there is risk in future years that debt levels will be looked upon unfavourably by the City's external credit rating agency.

Projected 2019 reserve fund net change

The recommended 2019 tax supported operating budget includes a transfer to the Capital Reserve Funds of \$33,784,000. This is an increase over 2018 of \$1,030,669 which reflects impacts from the construction price index (an increase of 1.4%), and an allotment for the future replacement cost of new assets added as a result of Growth and City Building projects. Approval of the one per cent Dedicated Infrastructure Levy would add approximately \$2,412,000 bringing the total to approximately \$36,196,000 which is 58 per cent of sustainable capital funding.

Court Services' transfer to capital reserves of \$441,000 which is a \$32,391 increase over 2018. Court Services does not have a target capital funding contribution at this time.

The Stormwater Services operating budget includes a transfer to the capital reserve funds of \$4,710,000, an increase of \$616,750 over 2018. This is 65 per cent of sustainable capital funding.

The Water Services operating budget includes a transfer to the capital reserve funds of \$14,900,000, an increase of \$500,000 over 2018. Water Services has reached sustainable funding levels and this increment is required to maintain sustainable funding levels.

The Wastewater Services operating budget includes a transfer to the capital reserve funds of \$14,500,000, an increase of \$1,000,000 over 2017. This is 60 per cent of sustainable capital funding.

With the combination of the proposed 2019 capital budget with the 2019 operating budgets, there is a net reserve fund impact expected and detailed as follows ('000s):

Table 5, 2019 Transfers to and from City Capital Reserve Funds

Reserve Fund	Transfer to Capital Reserve Funds	Funding of 2019 Capital Projects	Funding of 2019 Debt Servicing Costs	Net Reserve Fund Increase (Decrease)
Contaminated Site Reserve Fund	2,500	(3,325)		(825)
Infrastructure Renewal Reserve Fund	26,148	(11,448)	(8,005)	6,695
Guelph Police Capital Reserve Fund	695	(1,962)		(1,267)
Guelph Library Capital Reserve Fund	450	(407)		43
Growth Reserve Fund	3,093	(2,156)	(621)	316
City Building Reserve Fund	3,310	(3,437)	(1,055)	(1,182)
Parking Capital Reserve Fund	965			965
Court Services Capital Reserve Fund	441	(21)	(397)	23
Stormwater Capital Reserve Fund	4,710	(4,862)	(110)	(262)
Wastewater Capital Reserve Fund	14,500	(9,490)		5,010
Water Capital Reserve Fund	14,900	(16,767)		(1,867)
Development Charges Reserve Funds	28,841	(15,727)	(555)	12,559
Federal Gas Tax Reserve Fund	7,996	(7,210)		786
Provincial Gas Tax Reserve Fund	2,830	(2,493)		337
Total	111,379	(79,305)	(10,743)	21,331

Difference from Table 1 in Capital Project funding is due to minor other reserves not detailed here, Partner Contributions and Debt Funding identified in Table 1 and Table 2.

Consultations

The 2019-2028 capital budget and forecast was developed through the oversight of the Capital Planning Steering Committee made up of senior staff from all service areas. This group planned and led the budget process which was carried out by an integrated staff team that included members from all departments. This team worked collaboratively to achieve the goal of presenting to Council a 2019-2028 capital budget and forecast that addresses the organizations key priorities in a comprehensive, funded and sustainable plan.

Corporate Administrative Plan

Overarching Goals

Service Excellence
Financial Stability
Innovation

Service Area Operational Work Plans

Our Services - Municipal services that make lives better
Our People- Building a great community together
Our Resources - A solid foundation for a growing city

Attachments

None

Departmental Approval

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