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**TO:** GENERAL COMMITTEE

**SUBJECT:** CAPITAL PLAN FORECAST ADJUSTMENTS

**WARD:** ALL

**PREPARED BY AND KEY CONTACT:** C. GILLESPIE, SENIOR MANAGER OF CORPORATE FINANCE AND INVESTMENTS, EXT. 5347

**GENERAL MANAGER APPROVAL:** C. MILLAR, CHIEF FINANCIAL OFFICER AND TREASURER

**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

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### **RECOMMENDED MOTION**

1. That the approved forecast of the 2023 Capital Plan be adjusted to reflect the deferral of projects highlighted in Appendix "A" to Staff Report FIN005 -23.

### **PURPOSE & BACKGROUND**

#### Report Overview

2. The purpose of this Staff Report is to recommend capital projects which could be deferred or canceled to ensure the Tax Capital Reserve does not fall negative over the forecast period.
3. As part of the 2023 Business Plan and Budget, Council approved motion 23-G-023 that included the following motions:

“That the projects funded from the proposed Stormwater Reserve on page 47 of the 2023 Business Plan and Budget be funded from the Tax Capital Reserve, and that staff report back to General Committee no later than the end of March 2023 on recommendations to cancel or defer tax capital funded projects to ensure financial sustainability of the Tax Capital Reserve.”

“That staff in the Finance Department be directed to develop a separate reserve for the Dedicated Infrastructure Renewal Fund (DIRF) and that contributions to the DIRF be increased to 2% for 2023 through to 2025 and that 50% of the DIRF collected is to be used for Stormwater Capital Infrastructure.”

“That to help offset inflationary pressures in 2023, \$1,900,000 dollars from the Reinvestment Reserve and \$1,100,000 from the Tax Rate Stabilization Reserve be used one time to fund City tax-funded operations.”
4. This report provides a status update on the Tax Capital Reserve and recommends a course of action that forecasts an end of period balance that is close to the Financial Policy Framework target.
5. Staff recommend that forecast spending for projects detailed in Appendix A be deferred as shown, to allow the Tax Capital Reserve to remain in a financially sustainable position over the next 5 years.



**ANALYSIS**

6. The City's 2020 Stormwater asset management plan identified that \$211 million or 21% of the City's \$1.25 billion in stormwater assets are in poor or very poor condition (nearing end of life) and require a short-term financial investment.
7. The proposed 2023 Business Plan and Budget included a proposed stormwater fee to shift the costs of this service from property taxes onto a user fee to help fund both operating and capital expenses of Stormwater.
8. As shown below, the proposed 2023 budget reduced the property tax-funded contribution to the Tax Capital Reserve by \$7.6 million. This reduction in revenue was to be offset by the creation of a Stormwater Capital reserve funded by the Stormwater rate revenues.

Tax Capital Reserve						
Contributions (Not Including MOU Capital)	2022	2023	2024	2025	2026	Total
Proposed 2023 Budget - Tax Capital Reserve with 1% DIRF	\$ 40,349,811	\$ 35,793,061	\$ 38,598,438	\$ 41,496,518	\$ 44,400,115	\$ 200,637,943
Proposed 2023 Budget - StormWater Reserve		\$ 7,632,576	\$ 7,836,185	\$ 8,053,120	\$ 8,267,815	\$ 31,789,696
<b>Baseline Increase with 1% DIRF</b>	<b>\$ 40,349,811</b>	<b>\$ 43,425,637</b>	<b>\$ 46,434,623</b>	<b>\$ 49,549,638</b>	<b>\$ 52,667,930</b>	<b>\$ 232,427,639</b>

9. The highlighted line in the above table, represents the baseline tax capital contribution that would have otherwise been put forward in the 2023 budget, irrespective of the proposed Stormwater rate.
10. The approved 2023 Business Plan and Budget did not approve the proposed separate stormwater rate but instead included a net 1 percent increase in the Dedicated Infrastructure Renewal Fund (DIRF) in years 2024 and 2025, and an additional \$3M transfer to the Tax Capital Reserve from the Reinvestment Reserve and Tax Rate Stabilization reserve in 2023. As illustrated in the table below, the approved 2023 budget is contributing \$13.5 million less over the next four years to the Tax Capital Reserve compared to the contributions levels before the proposed stormwater rate.

Tax Capital/DIRF Reserve						
Contributions (Not Including MOU Capital)	2022	2023	2024	2025	2026	Total
Baseline Increase with 1% DIRF	\$ 40,349,811	\$ 43,425,637	\$ 46,434,623	\$ 49,549,638	\$ 52,667,930	\$ 232,427,639
2023 Amended Budget	\$ 40,349,811	\$ 38,843,061	\$ 41,648,438	\$ 47,596,518	\$ 50,500,115	\$ 218,937,944
<b>Difference</b>	<b>\$ -</b>	<b>\$ (4,582,576)</b>	<b>\$ (4,786,185)</b>	<b>\$ (1,953,120)</b>	<b>\$ (2,167,815)</b>	<b>\$ (13,489,696)</b>

11. The proposed 2023 Capital Plan included stormwater spending requests of \$17.3 million and forecasted spending of \$23.14 for a total of \$40.41 million over the next 5 years that was planned to be funded directly from the Stormwater Capital reserve. It should be noted that the proposed stormwater rate did not fully fund stormwater capital needs.
12. With the cancellation of the stormwater rate and related stormwater capital reserve, the stormwater renewal capital costs will be shifted to the Tax Capital Reserve and the separated DIRF reserve which are both funded by property taxes.
13. The Tax Capital Reserve and separate DIRF reserves are used to fund Capital renewal works and benefit to existing for growth projects for tax support assets such as Roads, Facilities and Stormwater. The City owns \$7.5 billion in assets with \$4.5 billion supported by property taxes, \$1.7 billion from wastewater rates, and \$1.5 billion from water rates.



- 14. The City’s Financial Policy Framework states that the Tax Capital Reserve should:  
  
“Maintain a minimum threshold cash balance in the Tax Capital Reserves, equivalent to one year’s worth of the 5 year average of the non-growth tax-supported capital expenditure requirements. This ensures that one year of tax-based funding is available in reserves to maintain liquidity.”
- 15. Staff have calculated the Tax Capital Reserve target to be almost \$35 million.
- 16. The impacts of the approved 2023 budget on the Tax Capital Reserve (including the 2% Dedicated Infrastructure Renewal fund contributions in 2024 and 2025) before any deferral over the next 5 years are shown in the following continuity reserve table:

**Tax Capital Reserve and DIRF Reserve before recommended Capital deferrals**

Tax Capital Reserve	2023	2024	2025	2026	2027
Beginning Balance	\$ 71,949,969	\$ 13,998,616	\$ (9,856,960)	\$ (14,310,846)	\$ (8,452,053)
<b>Draws</b>					
Previous Commitments	\$ (58,048,443)				
2023 Business Plan - Approved	\$ (41,265,971)	\$ (37,314,012)	\$ (23,359,972)	\$ (8,529,903)	\$ (5,859,224)
2023 Business Plan - Forecasted		\$ (30,920,002)	\$ (36,340,432)	\$ (48,541,419)	\$ (51,456,486)
<b>Contributions</b>					
MOU Capital	\$ 2,520,000	\$ 2,730,000	\$ 7,650,000	\$ 12,430,000	\$ 11,410,000
2023 Business Plan	\$ 38,843,061	\$ 41,648,438	\$ 47,596,518	\$ 50,500,115	\$ 53,401,719
<b>Uncommitted / (Overcommitted) Reserve Balance</b>	<b>\$ 13,998,616</b>	<b>\$ (9,856,960)</b>	<b>\$ (14,310,846)</b>	<b>\$ (8,452,053)</b>	<b>\$ (956,044)</b>

- 17. As shown above, the reserve is overcommitted by \$9.9 million in 2024 and by \$14.3 million in 2025. The balance in the reserve improves to a committed balance of \$956 thousand in 2027 as the compounded impact of the higher DIRF starts to take effect, however still much lower than the suggested target.
- 18. With the cancellation of the proposed Storm Water Rate, to ensure the financial sustainability of the Tax Capital Reserve, Council directed staff to look at projects to defer or cancel. From the table above, there is \$170 million of approved forecasted draws over the next 5 years. Forecasted projects do not have approved spending authority, and therefore provide more flexibility to defer or cancel.
- 19. Finance Staff worked with departments in choosing the projects, so that the overall risk impacts are minimized. Twenty-four projects were initially chosen as options to be deferred. After discussion with departments, some of the projects were removed from the list as deferring them may lead to operational risks. In the end, 14 projects were selected for deferral and are shown in Appendix A.
- 20. The deferral of these final 14 projects still results in increased lifecycle risks. Some projects are forecast to reach their end of life and therefore will result in lower service standards if they are deferred past the date that departments have been tasked with their replacement. Additionally, there are projects in the capital plan that only go ahead after certain projects are completed – deferral of these projects will impact other areas of the capital plan. Appendix B highlights the impacts of delaying the final list of projects. As part of the 2024 Budget process, staff will complete a full reprioritization of the Capital plan for Council’s consideration.
- 21. The original capital plan that Staff brought forward encompassed growth and rehabilitation projects that were affordable based on forecasted revenues. With the stormwater expenses being added in



the Tax Capital Reserve and no fully offsetting revenues, there will be long-term effects on the City's financial sustainability.

- 22. It is recommended the forecasted projects identified in Appendix A be deferred. The deferral timelines range from 1 to 2 years and ensure the Tax Capital Reserve balance will be positive for the forecast period, and trending towards the \$35 million target that has been set.
- 23. The analysis performed determined that deferring in this way would result in a total of \$25 million worth of projects being pushed out.
- 24. The impact of deferring the recommended projects (See Appendix A) on the Tax Capital Reserve is shown in the following table:

**Tax Capital Reserve after deferring projects**

AMENDED - Tax Capital Reserve	2023	2024	2025	2026	2027
Beginning Balance	\$ 71,949,969	\$ 13,998,616	\$ 6,877,018	\$ 12,679,624	\$ 19,432,435
<b>Draws</b>					
Previous Commitments	\$ (58,048,443)				
2023 Business Plan - Approved	\$ (41,265,971)	\$ (37,314,012)	\$ (23,359,972)	\$ (8,529,903)	\$ (5,859,224)
2023 Business Plan - Forecasted		\$ (30,920,002)	\$ (36,340,432)	\$ (48,541,419)	\$ (51,456,486)
<b>Forecast Adjustments</b>					
Defer Projects		\$ 16,733,978	\$ 10,256,492	\$ 894,018	\$ (2,460,063)
<b>Contributions</b>					
MOU Capital	\$ 2,520,000	\$ 2,730,000	\$ 7,650,000	\$ 12,430,000	\$ 11,410,000
2023 Business Plan	\$ 38,843,061	\$ 41,648,438	\$ 47,596,518	\$ 50,500,115	\$ 53,401,719
<b>Uncommitted / (Overcommitted) Reserve Balance</b>	<b>\$ 13,998,616</b>	<b>\$ 6,877,018</b>	<b>\$ 12,679,624</b>	<b>\$ 19,432,435</b>	<b>\$ 24,468,381</b>

- 25. The projects selected for deferral shown in the yellow highlighted row above are detailed in table 2 of Appendix A.
- 26. While significantly below the Financial Policy target, the deferral of the proposed projects will leave the Tax Capital Reserve with an uncommitted balance by 2027 of \$24.5 million. However, there are still substantial capital needs that have not been funded, that staff will need to prioritize and present to Council for consideration as part of the 2024 Business Plan and Budget process.
- 27. With the completion of Asset Management Plans, an updated Development Charges (DC) by-law, Community Benefits Charges (CBC) by-law and a Parkland Dedication by-law later this year that incorporate the impact of Bill 23, staff will recommend funding through the 2024 budget process to complete a comprehensive update to the City's Long Range Financial Plan and related Financial Policy Framework. Staff will report back to council in the early spring of 2024.

**ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS**

- 28. No environmental and/or climate change impact matters are directly related to the recommendation. Indirectly, some of the proposed deferrals may have an impact on the environment or climate change as some of the deferred infrastructure or facilities projects are related to storm pond repairs, facility maintenance, etc.

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## **ALTERNATIVES**

29. The following alternatives are available for consideration by General Committee:

**Alternative #1**

General Committee could alter the proposed recommendation by deferring the projects for longer than suggested.

Although this alternative is available, it is not recommended as this may impact the long-term infrastructure build out planned by the City and also may result in delays in development and increase the risk of asset failure for the duration of the deferral. City staff will have an opportunity to further reprioritize the Capital plan during the 2024 Capital Budgeting process and will present it to Council for consideration.

**Alternative #2**

General Committee could alter the proposed recommendation by deferring a different set of projects.

Although this alternative is available, it is not recommended as City Staff chose the projects based on the level of impact that their deferral would have. The projects chosen out of the possible forecasted projects available have the lowest impact to the City. City staff will have an opportunity to further reprioritize the Capital plan during the 2024 Capital Budgeting process and will present it to Council for consideration.

## **FINANCIAL**

30. The financial impacts of the deferral of capital projects have been addressed in the Analysis section of this report.

## **LINKAGE TO 2022-2026 STRATEGIC PLAN**

31. The recommendation(s) included in this Staff Report support the following goals identified in the 2022-2026 Strategic Plan:

- Responsible Governance

32. The deferral of capital projects reflects the real-world efforts to implement Council's strategic goals. The recommendation meets the following Council aims

- a) Financial stewardship which includes finding efficiencies and innovation
- b) Support the services our community needs while keeping tax rate low

APPENDIX "A" – Capital Deferral Projects 2024-2027

**Table 1: Original 2023 Forecast spending for 14 'deferred' projects as per Budget Binder**

Project	2024	2025	2026	2027	Total
EN1282 - NRP- HNS Allandale A Neighbourhood Reconstruction	100,000	3,844,253	3,086,594	3,086,594	10,117,442
EN1437 - NRP- HNS Brock Park B Neighbourhood Reconstruction	350,000	1,113,000	2,522,200	1,253,200	5,238,400
EN1463 - Sophia Creek Owen Tributary storm outlet from Memorial Square	1,980,000	346,500	201,364	-	2,527,864
EN1473 - LT04 Storm Pond repairs and retrofit	1,250,000	300,000	-	-	1,550,000
EN1484 - Mary Street ROW Replacement - Ross to Dunlop	72,649	1,663,380	555,632	-	2,291,661
EN1398 - Queen St. ROW Reconstruction- St. Vincent Street to Berczy Street	-	460,000	1,524,008	1,464,008	3,448,016
EN1512 - Watercourse Erosion Repair Program	140,000	195,000	195,000	195,000	725,000
EN1318 - NRP- HNS Brock Park Neighbourhood Reconstruction	290,000	1,551,077	2,870,000	3,511,323	8,222,400
EN1453 - Codrington St and Lakeview Cres ROW Replacement - Duckworth to Nelson	148,737	1,225,370	1,840,949	2,479,016	5,694,072
EN1528 - Orchard Drive ROW Replacement - St. Vincent to End	61,000	112,000	1,078,500	323,000	1,574,500
EN1508 - NRP- HNS Grove B1 Neighbourhood Reconstruction	-	330,000	685,850	561,150	1,577,000
Z301 - Sanford Street & Short Street Reconstruction - Brock St to Tiffin St	-	102,000	216,000	397,000	715,000
000474 - Facilities Forecasted Needs	12,206,592	4,770,900	3,796,650	2,867,760	23,641,902
FC1269 - Environmental Center Automatic Weigh Scale and Traffic Lane	135,000	2,610,000	-	-	2,745,000
<b>Total</b>	<b>16,733,978</b>	<b>18,623,481</b>	<b>18,572,747</b>	<b>16,138,051</b>	<b>70,068,257</b>

**Table 2: Proposed spending to be deferred for 14 projects in 2023 Forecast**

Project	2024	2025	2026	2027	2028	2029
EN1282 - NRP- HNS Allandale A Neighbourhood Reconstruction	100,000	3,744,253	(757,659)	-	(3,086,594)	-
EN1437 - NRP- HNS Brock Park B Neighbourhood Reconstruction	350,000	763,000	1,409,200	(1,269,000)	(1,253,200)	-
EN1463 - Sophia Creek Owen Tributary storm outlet from Memorial Square	1,980,000	346,500	(1,778,636)	(346,500)	(201,364)	-
EN1473 - LT04 Storm Pond repairs and retrofit	1,250,000	(950,000)	(300,000)	-	-	-
EN1484 - Mary Street ROW Replacement - Ross to Dunlop	72,649	1,663,380	482,983	(1,663,380)	(555,632)	-
EN1398 - Queen St. ROW Reconstruction- St. Vincent Street to Berczy Street	-	460,000	1,524,008	1,004,008	(1,524,008)	(1,464,008)
EN1512 - Watercourse Erosion Repair Program	140,000	195,000	55,000	-	(195,000)	(195,000)
EN1318 - NRP- HNS Brock Park Neighbourhood Reconstruction	290,000	1,551,077	2,580,000	1,960,246	(2,870,000)	(3,511,323)
EN1453 - Codrington St and Lakeview Cres ROW Replacement - Duckworth to Nelson	148,737	1,225,370	1,692,212	1,253,646	(1,840,949)	(2,479,016)
EN1528 - Orchard Drive ROW Replacement - St. Vincent to End	61,000	112,000	1,017,500	211,000	(1,078,500)	(323,000)
EN1508 - NRP- HNS Grove B1 Neighbourhood Reconstruction	-	330,000	685,850	231,150	(685,850)	(561,150)
Z301 - Sanford Street & Short Street Reconstruction - Brock St to Tiffin St	-	102,000	216,000	295,000	(216,000)	(397,000)
000474 - Facilities Forecasted Needs	12,206,592	(1,896,089)	(5,797,440)	(1,526,233)	(2,986,830)	-
FC1269 - Environmental Center Automatic Weigh Scale and Traffic Lane	135,000	2,610,000	(135,000)	(2,610,000)	-	-
<b>Total</b>	<b>16,733,978</b>	<b>10,256,492</b>	<b>894,018</b>	<b>(2,460,063)</b>	<b>(16,493,927)</b>	<b>(8,930,497)</b>



APPENDIX “B” – Impacts of Capital Deferrals

Project	Impact Description	Department
EN1282 - NRP- HNS Allandale A Neighbourhood Reconstruction	This neighbourhood has some of the oldest infrastructure within the city and infrastructure is at or approaching the end of its life. This project is also coordinated with EN1396 Hotchkiss Creek Storm Ponds as well as the potential development of the fairgrounds. Deferral of the Forecasted Construction would mean that the area would continue to experience poor road conditions and risk of water main breaks, for the duration of the deferral. It would be preferred not to defer the utilities phase as there are efficiencies in coordinating these designs and potential development.	Infrastructure Department
EN1437 - NRP- HNS Brock Park B Neighbourhood Reconstruction	Continue to experience poor road conditions and risk of water main breaks, for the duration of the deferral. Infrastructure is at the end of life.	Corporate Asset Management
EN1463 - Sophia Creek Owen Tributary storm outlet from Memorial Square	EN1463 has two projects that are dependent on this project being completed: EN1464 and the future Heritage Park Master Plan. EN1463 is at 60% detailed design. Utility, Geotechnical and permitting authorities have been engaged. In order for EN1464 project to start construction (2025), EN1463 needs to be completed (2024). Part of EN1464 is to construct the watermain and sanitary upgrades needed for the future development within the downtown core. Delaying EN1463 will also impact the start of the Heritage Park works in 2025.	Infrastructure Department
EN1473 - LT04 Storm Pond repairs and retrofit	Deferral is not recommended. The configuration of the outlet structure is prone to being clogged with debris resulting in having to draw down the water level many times manually to restore flow placing the City in noncompliance with the Environmental Compliance Approval issued by the Ministry of the Environment, Conservation and Parks	Infrastructure Department
EN1484 - Mary Street ROW Replacement - Ross to Dunlop	Poor road conditions for the duration of the delay. Infrastructure approaching end of life and requires renewal.	Infrastructure Department
EN1398 - Queen St. ROW Reconstruction- St. Vincent Street to Berczy Street	Continue to experience poor road conditions, sewer deficiencies and risk of water main breaks, for the duration of the deferral. Infrastructure is at the end of life.	Infrastructure Department
EN1512 - Watercourse Erosion Repair Program	Delays to stream improvement with continuing stream quality degradation and risk of localized flooding	Corporate Asset Management
EN1318 - NRP- HNS Brock Park Neighbourhood Reconstruction	Continue to experience poor road conditions and risk of water main breaks, for the duration of the deferral. Infrastructure is at the end of life.	Infrastructure Department
EN1453 - Codrington St and Lakeview Cres ROW Replacement - Duckworth to Nelson	Poor road conditions for the duration of the delay. Infrastructure approaching end of life and requires renewal.	Infrastructure Department
EN1528 - Orchard Drive ROW Replacement - St. Vincent to End	Poor road conditions for the duration of the delay. Design phase should not be deferred.	Infrastructure Department
EN1508 - NRP- HNS Grove B1 Neighbourhood Reconstruction	Deferral would delay asset renewal as infrastructure is approaching the end of life	Corporate Asset Management
Z301 - Sanford Street & Short Street Reconstruction - Brock St to Tiffin St	Delay to watermain looping to provide increased reliability and continue to experience poor road conditions	Corporate Asset Management
000474 - Facilities Forecasted Needs	This is a roll up of future forecasted needs based on previous facility condition assessments and the lifespans of all of the City's buildings/building components. Individual projects are identified in the actual year of approval. As there is a significant backlog of repairs and maintenance required for the City's facility assets, staff would request that \$3M of the \$15.76M be maintained in 2024 to address emergency repairs and to address the inflationary pressures that will be experienced due to further delays. The impact of deferring the remaining work for a year or longer is that the backlog will continue to grow as projects identified several years ago are further delayed. This increases the likelihood of additional emergency repairs which typically have a greater impact on services as they are unplanned (such as a pool or ice shut down due to major equipment failures) and are more expensive to address. Delays also increase the cost of the project due to inflationary pressure. As noted earlier, rather than deferring the entire \$15.76M, Facilities staff are seeking to keep \$3M of the forecasted funds in 2024.	Facilities Department
FC1269 - Environmental Center Automatic Weigh Scale and Traffic Lane	The installation of a third weigh scale at the Environmental Centre was identified to reduce the line ups for residents, the City's waste contractor and City staff with materials for disposal. Currently, given an average of 400 people per day with peak Saturdays over 700 people per day, the average trip to the Environmental Centre and landfill is approximately one hour. This project involves a separate weigh scale and traffic lane to specifically handle the City's contractors and staff, thereby reducing the wait time for residents and also saves the time and money it takes for the contractor and City staff to wait their turn as well. Delaying this project will result in residents, City contractors and City staff continuing to wait in line with a total trip time averaging one hour. Note: the previously approved \$350K from 2022 is unlikely to be expended in 2023 as well, given the existing vacancies and salary gapping.	Facilities Department