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Item No. 1
Budget Committee
November 23, 2021

TO: Chair and Members of the Budget Committee (Standing Committee of the Whole on Budget)

SUBMITTED BY: Original Signed
Denise Schofield, Executive Director of Parks & Recreation

Original Signed by
Jacques Dubé, Chief Administrative Officer

DATE: October 28, 2021

SUBJECT: **2022-2023 Capital Budget Framework – Parks & Recreation Capital Budget**

SUPPLEMENTAL INFORMATION REPORT

ORIGIN

October 19, 2021 Regional Council meeting:

MOVED by Deputy Mayor Outhit, seconded by Councillor Lovelace

THAT Halifax Regional Council direct the Chief Administrative Officer to provide a briefing note on:
1. The impact of shifting capital budget for Parks and Recreation 60%-40%; and
2. Additional source of revenue including Capital Cost Contribution User Fees and Deed Transfer Tax.

MOTION PUT AND PASSED

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, Section 35(1), the Chief Administrative Officer shall (b) ensure that an annual budget is prepared and submitted to the Council.

BACKGROUND

During the October 19, 2021 Regional Council meeting, staff presented the proposed 2022-23 Capital Planning Framework. During the deliberation, concerns were raised regarding the limited ability for new recreation assets to be provided through the capital program with proposed funding of 70-80% allocated to asset renewal projects. As a result, Regional Council requested information on the impact of shifting that allocation within the capital budget for Parks and Recreation. This change would result in a reduction in the percentage allocated to renewal projects and an increase in the percentage put toward growth projects.

DISCUSSION

Current Capital Planning Framework

HRM currently bases its budget on principles outlined in the Capital Planning Framework, which indicates an allocation of 70%-80% of the annual base capital program to asset renewal projects and 20%-30% to service growth projects. HRM has 921 parks with assets including playgrounds, playing fields, courts, walkways/trails, splash pads, off-leash dog parks, docks, boat ramps, skate parks, parking lots, etc. Table 1 reflects the allocation of past capital funds for Parks & Recreation assets (excluding parkland acquisition and consulting projects). These capital funds are allocated to outdoor recreation assets only. Capital funds for recreation building infrastructure, including washrooms, are included in the building portfolio within the Corporate and Customer Services capital budget.

Asset renewal projects, also referred to as “state of good repair”, is a condition in which assets are fit for the purpose for which they were intended. Asset renewal projects are typically needed to address aging conditions, failing CSA standards, safety concerns and obsolete parts that can no longer be sourced. Renewal demands can also be a result of poor environmental conditions such as heaving, cracking, and failing asphalt, as well as falling/leaning/rusting fencing. Typically, if one portion of an asset starts to fail it is an indication that the entire asset should be considered for renewal.

Historic spending review within Parks Capital budget indicates the following allocations:

Table 1: Allocation of Past and Proposed Capital Funds		
	Asset renewal	Service growth
2022/23 *proposed*	72%	28%
2021/22	82%	18%
2020/21	73%	27%
2019/20[1]	68%	32%
2018/19	89%	11%
2017/18	85%	15%
2016/18	49%	51%
2015/16[2]	91%	9%

For context on the magnitude of asset costs, Table 2 provides information of typical asset cost and related maintenance.

Table 2: Typical Asset Cost and Related Maintenance		
	Capital Cost	Annual Maintenance
Playground Replacement	$80,000	$1,500 per playground
Court Rehabilitation	$150,000	$1,100 per court
Playing Field Rehabilitation	$350,000	$5,300 per field

A review of the outdoor recreation assets, based on site inspections, shows a growing need to maintain and improve current assets. When renewal projects are not included in capital budgets operational budgets are used to undertake additional work, ensuring the assets remain safe and usable. However, that maintenance often does not improve the overall condition and functionality. Such use of operational funds creates a pressure on the operational budget since it is required to be used for expenses beyond what is required for regular maintenance.

[1] The current allocation was established in 2019.
[2] In 2015 Parks & Recreation was established a new Business Unit

It is important to note that when operational budgets are used to address one aspect of a renewal project, the entire asset may still have challenges left unaddressed. For instance, if fencing is addressed as an operational expense, other issues such as drainage, grading, lights, etc. are not, though they may need to be.

Proposed change to funding allocation

In preparation for the 2022/23 Capital Budget deliberations, Regional Council was asked to review and consider the continued allocation of 70%-80% of the annual base capital program to asset renewal projects and 20%-30% to service growth projects for the 2022-23 through 2025-26 budget years. At the October 19, 2021 meeting Regional Council requested a briefing note to review the impact of shifting the allocation to 60% for growth projects and 40% for asset renewal for the Parks and Recreation portion of the capital budget. This shift reflects a desire to reduce resources toward state of good repair projects and instead invest more in new projects.

In communities across the country, municipal governments are faced with the reality that new infrastructure is needed to service growth that has been steadily increasing. In HRM there has been considerable population growth over the past five years. Between 2019 and 2020 the population grew by over 9,000 people; positioning Halifax as one of the fastest growing areas in the country. This type of growth is not common to Halifax, which has had consistent but low population growth.

Communities across HRM are seeing an increase in the real estate market, which leads to more residents and subsequently results in exposing where assets may be lacking or perceived to be lacking. Residents count on municipal governments to deliver these services and there is typically an increased demand to build new assets in residential growth areas.

There is also an ongoing need to satisfy overdue maintenance of existing assets and to continue to finance the replacement of the old assets. Balancing “growth” and “renewal” is part of the foundation of the current Capital Planning Framework approach where the allocation for asset renewal is weighted more heavily than growth projects.

Asset Management

Outdoor recreation assets exist to deliver value and service to the community. These assets must be managed over their full life cycle, considering both the current and future needs of the community. Decision-making should be evidence-based and support the delivery of clearly defined levels of service and other performance measures. An effective asset management program helps to ensure that asset maintenance and renewal requirements are not pushed out too far into the future, which would then impact future budgets, Councils, and residents.

HRM is still building a strong asset management system including a comprehensive inventory of all assets, a desired level of services, caring for assets throughout their life cycle, as well as determining a financial strategy to address life cycle management.

Historic spending indicates that there is a need to maintain resources dedicated to renewal projects as HRM looks ahead into future capital budget years. Numbers already indicate that this investment is critical to ensure public safety standards are met for the assets. Reducing the current allocation toward renewal, would necessitate additional pressure on the operating budget to extend the asset life through minor repairs. Pressure on the operational budget is still a financial pressure, which is passed onto ratepayers or user groups.

Consequences of changing budget allocation

Council could consider maintaining the current allocation but seek ways to increase the available funds to the Parks & Recreation capital budget. Increased revenue options are outlined below in the Revenue section. In this scenario, the Parks Capital budget would still meet the established allocation of resources in each category (renewal and growth) but would undertake additional growth and renewal projects each year. Historically, capital funding for outdoor recreation assets has been primarily focused on asset renewal which has added to the gap in new assets.

If Council choses to adjust the percentage allocation for outdoor recreation assets (increase growth projects and decrease renewal projects) the state of parks assets, generally, would decline and impact future municipal budgets. Renewal of assets will always be a requirement and the consequence of decreasing that budget means future residents will be faced with those debts.

Further, growth projects require twelve months lead time to undertake scoping and project preparation which includes site analysis, topographical survey, archeological assessments (where required), geotechnical investigation, cost estimates and final recommendations. As a result, any increase to growth projects could be considered in fiscal 2022/23 but there would not be sufficient time to complete the projects. Therefore, it would be more effective to consider adjustments to the budget to enable more growth projects in the 2023/24 Capital Budget.

<u>Revenue</u>
Halifax has additional revenue sources beyond the regular residential and commercial tax rates. Regional Council requested staff look specifically at the Capital Cost Contribution program and the Deed Transfer Tax as possible means to fund Parks and Recreation capital spending.

The Capital Cost Contribution program can be applied in two different ways:

1. Regionally, to support expenditures that provide benefit across the entire municipality; and
2. Locally, in designated masterplan areas.

In this context, a regional Capital Cost Contribution charge could be levied for Parks and Recreation infrastructure such as recreation facilities or all-weather sport fields. A percentage of estimated costs to build new infrastructure of this nature, that would be attributable to growth in the municipality, would be used to establish a charge. Regional Capital Cost Contribution yields modest revenues, typically under 10% of Regional Capital Programs, to support new infrastructure.

Local Capital Cost Contributions are established over a masterplan area and recoverable infrastructure costs are usually in the range of 30-50% of the infrastructure needed to support the masterplan area . Local Parks and Recreation infrastructure such as playgrounds, sport fields, recreation centres, and trails would be eligible. Local Capital Cost Contribution charges for Parks and Recreation infrastructure could be applied for new masterplan areas.

Either one of, or Both Regional and Local Capital Cost Contributions could be implemented through the development process for new growth areas. As a result, they would provide a funding option for assets in new areas but would not support an increase in the capital budget for new assets in established areas. A report on Capital Cost Contributions for recreation as well as other services enabled under the HRM Charter will be coming to Council early in 2022. These charges are substantive, and the impact on the affordability of new homes will be a key consideration in adopting such charges.

Deed Transfer Tax is currently used to fund municipal expenditures generally. The upcoming capital and operating budgets will project higher revenues for Deed Transfer Tax than have been estimated in the past. These estimates will be outlined in the Fiscal Framework that will be presented to Council on November 23, 2021. Increases in Deed Transfer Tax have been planned as a funding source to address the Strategic Initiatives contained in the capital budget. As a result, increases in Deed Transfer Tax would not be a revenue source for an adjusted Parks and Recreation capital budget.

In addition, to Capital Cost Contribution and increased Deed Transfer Tax revenue opportunities, there are other potential revenue possibilities which would be project specific. Funding from other orders of government, partnership opportunities and sale of naming rights could result in additional funding, but those opportunities are typically specific to a particular project and as a result, would not have a measurable impact on the overall capital budget.

FINANCIAL IMPLICATIONS

Maintaining the existing renewal level of investment is critical for public safety and also minimizes the future budget increases for deferred work. The opportunity to address growth, as contemplated by Regional Council, may best be considered through an increase to the overall Parks and Recreation Capital Budget. If Regional Council choses to increase the Parks Capital budget, with the intention of increasing the number of projects per year, there will be a financial implication on staffing. For budgeting purposes one additional staff to the Parks Capital team would be approximately $112,000 (total cost). In addition to staffing related to capital project delivery, there is the consequence to maintenance staff, materials, and equipment required with a higher number of assets. These costs are identified as “Operating Cost to Capital” at the time that Regional Council deliberates on the capital budget and will be an on-going expense in future years.

Should Regional Council choose to adjust the percentage allocation to 60% asset renewal/40% growth within the existing Parks and Recreation capital budget, there will be increased pressure on the operating budget in order to maintain assets for a longer period of time prior to replacement. The impact on the operating budget would be dependent on the length of time that project replacements are delayed and number and type of projects.

To date, for the current 2021/22 fiscal, the existing Parks & Recreation staff have tendered 90% of all projects in the capital budget and completed 67% of the projects. As presented in the 2021/22 Parks and Recreation Business Plan (Table 3), this service delivery statistic is a projected trend.

Table 3: Service Delivery Measures

Performance Measures	**2018/19** Actual	**2019/20** Actual	**2020/21** Projected	**2021/22** Planned
% of Parks Capital Projects Tendered	97%	94%	95%	95%
% of Parks Capital Projects Completed	83%	80%	93%	85%

Should additional projects be expected to be delivered, a review of funding and staffing levels within this team would need to be considered, as detailed herein.

COMMUNITY ENGAGEMENT

No community engagement was required.

ATTACHMENTS

No attachments.

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