



Long-Range Capital Budget Plan - Council Summary 2024 Final.docx

Background Information – Guide for Annual Capital Budget
Deliberations

June 2024

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Additional Material: Refer to the accompanying updated Ten-Year General Capital Plan Document (PDF) including projected Tax Rate and Debt Ratio levels.

Introduction

The Town, led by Town Council, reviews, revises and updates its ten-year capital plan on an annual basis. This plan provides a framework for long-term planning and fiscal management. It allows the Town to anticipate infrastructure needs over the next decade. As municipalities grow, their infrastructure requirements change. By reviewing the plan annually, council can ensure that infrastructure keeps pace. The annual review helps anticipate current and future cost pressures so that the Town can allocate resources effectively and make informed decisions about essential infrastructure investments. This plan looks at revenue sources to maximize investments where and when it is most needed, which helps support the Town's long-term fiscal responsibility. In summary, the annual review ensures the Town is well-prepared to accommodate growth, improve services, and maintain existing infrastructure assets.

This annual review provides an opportunity to highlight the impact of new projects and priorities, address construction inflationary trends, and assess or reevaluate capital projects based on organizational capacity and construction cost trends. Additionally, it facilitates a review of the Town's financing sources, directly impacting the Town's tax rate and debt ratio in both the current and long term.

The ten-year capital plan complements, rather than replaces, the Town's annual budget process. While the annual process allows formal approval of tax rates and capital budget priorities, the long-term plan serves as the foundation for Council's future financial and capital project priorities. It guides day-to-day planning and operations within the Town. The objective of this process is to create an updated long-term capital plan. This plan serves as a guide for the Town's operational activities and capital budget priorities during the annual budget process. Additionally, it offers clarity on anticipated revenue projections and sets a ceiling threshold for future tax rate discussions.

Background

Value of a Long-Range Capital Plan

Developing a long-range capital budget plan for municipalities can be a challenge for Municipal Councils due to a variety of factors. Challenges include:

- **Uncertain Priorities:** Predicting future capital budget priorities is challenging due to changing circumstances and evolving community needs
- **Dynamic Demands:** Community interests shift, affecting capital investment preferences.
- **Emergencies and Opportunities:** Unexpected events require adjustments to capital plans.
- **Maintenance vs. Novelty:** Balancing maintenance with new projects can be less exciting but is essential.
- **Funding Mismatch:** Federal and provincial programs may not align with local priorities.
- **Historical Revenue:** Past councils' decisions impact today's infrastructure funding.
- **Fluctuating Commitments:** Revenue growth and tax rates can change unpredictably.
- **Adapting Assumptions:** Long-range plans must evolve as planning assumptions shift.
- **Beyond Elections:** Capital priorities extend beyond typical 4-year election cycles.

Municipal Councils must balance current community needs with future sustainability. Ensuring existing assets maintain service standards is vital. Additionally, they must plan for future infrastructure growth. This approach aligns with the Town's Sustainability Pillar in the Strategic Plan. A one-year budget process falls short; long-range plans empower thoughtful community progress. The value they offer includes, but isn't limited to:

- **Prioritization:** Establishes clear investment priorities.
- **Alignment:** Ensures organizational alignment now and in the future.
- **Execution:** Enables execution of the Town's Strategic Plan priorities.
- **Planning Time:** Allows proper planning for upcoming projects, tenders, engineering designs, etc.
- **Criteria:** Sets clear investment criteria for project selection.
- **Operational Efficiency:** Improves decision-making across the Town and its departments.
- **External Management:** Manages external demands and expectations (residents, developers, businesses).

Asset Management Plan

An **Asset Management Plan** is a long-range document designed to enhance the Town's capacity to achieve its strategic, sustainability, and long-term goals, all while serving the community effectively.

The principal policy statements included in the Town's Asset Management Policy are:

- **Clearly Defined Levels of Service:** To ensure transparent Asset Management practices, the Town will have clearly defined levels of service that balance stakeholder expectations and regulatory requirements with risk, affordability, and available resources. In implementing an Asset Management Plan, the Town will:
 - Maintain and manage assets at the defined levels of service;
 - Monitor standards and service levels to ensure that they meet/support community and Council expectations and objectives; and
 - Follow regulatory requirements.
- **Systemwide Approach:** To have a systemwide approach to asset management that considers the impacts of the Town's decisions on internal business units and the community. To ensure effective assessment management for all aspects of the asset life cycle the Town will:
 - Make informed decisions using formal, consistent, and repeatable methods;
 - Be informed by community priorities as determined by Council;
 - Consult with stakeholders where appropriate; and
 - Regularly report on the status and performance of the Town's Asset Management Plan
- **Long Term Decisions:** To make appropriate long-term decisions, enabling the Town's assets to meet the challenges of customer expectations, legislative requirements, and climate change impacts. When making these decisions, current and future generations shall be considered.
- **Full Life Cycle Asset Management:** Assess the full impact of managing assets through their life cycle from acquisition to renewal or disposal, the Town will evaluate new and existing asset investment decisions based on whole-of-life costs.
- **Continued Measurement:** Continually measure the effectiveness of the Town's asset management processes and adjust our processes based on feedback received.

Asset Management Plans provide communities with a clear understanding of their existing infrastructure. They bridge the gap between infrastructure and expected service levels. Additionally, these plans align financial strategies with asset management, ensuring that municipalities maintain existing assets to meet residents' service expectations. A key benefit is recognizing the substantial investment required for current services before expanding with new assets.

Key Considerations for the Current Ten-Year Plan

The Town's Ten-Year Plan must now account for significant changes. These alterations impacted the affordability of projects prioritized by Town Council in the previous version of the ten-year plan, affecting the Town's fiscal capacity. While some factors improve affordability, other factors, such as steeply rising construction costs, pose challenges that negatively impact the Town's fiscal and operational capacity.

Below is a summary of the major changes in projected revenues and expenses that are impacting the overall ten-year plan:

Assessment Growth: Due to the Town's assessment base growing by over 13% in 2024 and individual property assessments exceeding the 10% cap for over 90% of residential properties in Riverview, significantly higher tax assessment growth is anticipated in the near future. These changes in the Town's model have notable implications:

- 2025: 10% projected growth versus 6%
- 2026: 8% projected growth versus 6%
- 2027: 6% projected growth versus 3%
- 2028-2029: 3% projected growth (no change)
- 2030-2033: 3% projected growth versus 2.5%

This single assumption change increases the fiscal capacity in the ten-year plan, assuming no other model variables change. However, we also face mounting expenditure pressures within the same plan, including the following:

Riverview Recreation Complex (RRC): The Complex's tender results significantly exceeded the Cost A engineering estimates. Council had anticipated a project cost of \$51 million based on those estimates, while the previous ten-year plan budget was set at \$48 million. However, the current tender results before Council for consideration now require a budget of \$64.8 million for the project.

Roads & Streets Construction: Like other New Brunswick municipalities, Riverview has experienced significant increases in road construction project costs over recent years, and this trend continues to compound annually. As a specific example, consider the long-range capital plan approved by Council during the 2024 Budget process. The road reconstruction budget (Local Improvement) for the remaining portion of Whitepine Road was initially \$830,000. However, the current estimate for the same project, if completed in 2026, stands at \$2.1 million. Overall, project costs have risen to an average of 2.1 times their previous levels in just a few short years.

Given these competing components and assumptions affecting the Town's fiscal capacity, the ten-year plan required an update. These significant changes were incorporated into the overall model to assess their impact. The revised plan now equips Council with up-to-date information for an informed decision on approving (or not) the Riverview Recreation Complex project.

Assumptions – Foundation of Budget Projections

To create a long-range capital plan, the Town must establish assumptions for various factors, including tax base assessment growth, operating budget changes, general revenue fluctuations, external capital funding opportunities, interest rates, investment levels from the General Operating Fund, and the stability of Provincial equalization funding.

2024 Assumptions and Core Elements of the Ten-Year General Capital Plan

The updated assumptions and model for the proposed ten-year general capital plan before Council today are driven by projected assessment growth, the RRC tender results, and rising road construction costs. Other variables in the model will also undergo slight modifications.

Below is a high-level summary of the key assumptions incorporated into the proposed ten-year capital plan before Council:

- **Assessment Growth:** With the recent trend in assessment growth, most growth assumptions have been updated in the model and are now as follows: 10% in 2025; 8% in 2026; 6% in 2027 and 3% thereafter. If the assessment is higher than 10% in 2025, that will help reduce the tax rate and debt ratio projections.
- **Equalization Grant:** This grant is projected to continue decreasing and will fall below \$1.0 million in the remaining years of the model (three years ago, it was \$2.5 million).
- **Tax Rate:** In the proposed ten-year plan, the tax rate is expected to remain stable for five years. It will then gradually increase in the latter five years, reaching its peak in 2033 at 1.4521. This sustainable approach contrasts with previous models approved by the Council, which projected up to a 6-cent increase by the final year (when the tax rate was much higher). However, in the past three years, the Town has reduced the tax rate by 16 cents. This substantial figure, calculated based on the most recent 2024 budget with 1 cent equivalent to \$235,524, amounts to nearly \$3.8 million annually. The report below outlines the impact of additional tax rate reductions in 2025 on the debt ratio and plan affordability.
- **Operating Expenses:** Expenses are projected to increase by 5% from 2025 to 2027, followed by a decrease to 3% from 2028 onward. The operational budget also accounts for projected increases related to the new RCMP building and additional operational requirements for the Riverview Recreation Complex.
- **Debt Ratio:** The debt ratio is projected to be a low of 7.34% in 2025 (prior to heavy debt borrowing for the RRC) to a high of 12.02% in 2031 over the course of the ten years.
- **RRC Tender Results:** The ten-year plan incorporates the recent tender results for the RRC project, which is now valued at \$64.8 million. Nearly \$25 million in government funding remains to support the project during construction. Additionally, there is \$3.3 million in fundraising earmarked in the ten-year plan as a source of financing.
- **Local Improvements:** The updated ten-year plan now allocates funding for 2 to 3 local improvement projects annually, as opposed to the previous models that estimated 3 to 5 streets per year, depending on the specific year. Due to rising project costs, the plan still earmarks an

average of \$4.0 million annually for road construction within these projects (water and sewer components are covered by the Utility budget). The reduction in the number of streets reflects the current capacity of the Town's engineering team to manage the volume of capital projects across both the General and Utility Funds.

- **Borrowing:** The updated ten-year plan anticipates borrowing \$44 million over the next decade, compared to the previous plan's assumption of \$36.5 million.
- **Capital from Operating:** The updated plan anticipates a capital from operating investment of \$65.1 million over the ten-year period. In contrast, the previous plan assumed a capital contribution of \$46.3 million.
- **New Priority Projects:** To address potential emerging priority projects, the plan allocates \$1.0 million annually during the final 5 years of the ten-year period. This allocation ensures flexibility within the plan, allowing for new priority projects as needed, with guidance from the Council.

History of the Ten-Year Plan

2015 <ul style="list-style-type: none"> • 2015 to 2024 - \$145.0 million • Assumed growth rate of 3.75% • Tax rate projection – 1.6888 in 2024 	2016 <ul style="list-style-type: none"> • Assumed growth rate in 2016 of 0.7% • Staff informed Council – Capital plan needed to be reviewed & updated 	2017 <ul style="list-style-type: none"> • Reduced projected growth rate to between 1% to 2% • Plan reduced to \$101.0 million (CAO deferred projects) • Tax rate projected to over 1.75 in 2024
Start of 2018 <ul style="list-style-type: none"> • 2018 to 2027 - \$110.0 million • Assumed growth rate 0.5% to 1.0% • Tax rate projection – 1.84 in 2027 	2018 to 2027 approved plan <ul style="list-style-type: none"> • 2018 to 2027 - \$82.0 million • Assumed growth 0.5% to 1.0% • Tax rate projection – 1.68 in 2027 	2019 <ul style="list-style-type: none"> • 2019 to 2028 - \$92.0 million • Assumed growth rate of 2.0% to 1.25% • Tax rate projection – 1.65 in 2028
2020 <ul style="list-style-type: none"> • 2020 to 2029 - \$102.0 million • Assumed growth rate of 2.0% in 2020 and 1.5% for 2 years and then up to 2.0% • Tax rate projection - 1.645 in 2029 	2021 <ul style="list-style-type: none"> • \$103.0 million • Assumed growth rate of 2.5% in 2023 and 2% remaining years • Tax rate projection – 1.6 in 2030 • Debt ratio of 17.8% in 2023 	2022 <ul style="list-style-type: none"> • \$124.0 million • Debt ratio 16.36% • Tax rate projection to 1.61
2023 Plan <ul style="list-style-type: none"> • \$141.6 million • Assumed growth in tax base of 3% in 2024 and 2025, then a 2.5% increase onward for the remaining years • Tax rate flat for 2024 and 2025 • Tax rate increase projected to 1.545 by 2032 • Debt ratio a low of 8.68% in 2023 and projected high of 13.73% in 2031 		
2024 Proposed Plan <ul style="list-style-type: none"> • \$166.2 million in total spending • Assumed growth in tax base of 10% in 2025; 8% in 2026; 6% in 2027 and 3% thereafter • Tax rate to remain flat for the five years then increase gradually to 1.4521 by the end of the ten years. • Debt ratio a low of 7.34%. Debt ratio will reach a high of 12.02%. 		

Refer to the attached Ten-Year Capital Budget document (PDF) which provides the details of the ten-year plan including financing.

Projects outside the Proposed Plan that need Future Consideration

The current ten-year model does not encompass all potential projects that Council may need to evaluate and decide upon in the coming years. Detailed proposals for several of these concepts still require presentation to Council to determine whether to include them in the ten-year plan. The ten-year model allocates \$1.0 million annually in the last five years for new projects approved by Council. Consequently, there is available capacity in the later years of the model for future projects.

Short to Medium Term Horizon (Next 2 to 5 years)

While there is a likelihood that Council will consider these projects soon, it does not guarantee that they will proceed. These projects are on the Town's radar because they are either being evaluated by staff, requested by user groups, or direction has been received from Council. However, inclusion on this list does not automatically guarantee that they will become future projects.

<u>Projects</u>	<u>Estimates</u>
• Roundabout – Whitepine/Findlay	\$2.5 million
• Infrastructure – Public transit	\$150,000
• Road work on Hillsborough Road – possible Roundabout at Runneymeade	\$2.5 million
• Turf field	\$500,000 to \$2.5 million
• Land Acquisition – Mill Creek	\$2.0 to \$4.0 million
• Additional work on Hillsborough Road (DTI contribution not secured)	\$800,000
• Facility decisions on Small Hall/Skate Park; Coverdale Centre; etc.	\$4.0 to \$5.0 million
• Recreation assets that community groups are wanting Council to invest in. (pickleball courts; tennis courts; parking lots Biggs Drive etc.)	\$4.0 to \$5.0 million

Medium to Long Term Horizon (6 years and beyond)

While these projects are not currently in the Town's ten-year plan, they merit consideration for the future. It is anticipated that the projects, which are six years onward, may be evaluated and potentially become part of the Town's plan.

<u>Projects</u>	<u>Estimates</u>
• Upgrades to Coverdale Road	\$10.0 to \$20.0 million - more
• Bridgedale Boulevard	\$10.0 to \$20.0 million – more
• Mill Creek facilities – buildings	TBD
• Mill Creek Dam	TBD
• Town Hall upgrades	TBD
• West Riverview Boulevard	TBD

Impact of Modifications to Tax Rate/Spending

Town staff aim to give Council an overview of how altering key variables in the model would impact the projections and affordability of the ten-year plan. The table below summarizes various scenarios and their effects on projected tax rates, debt levels, total general capital budgets, and the amount of debt the Town will need to access over the ten-year period.

1. **Previous Ten-Year Plan (2024):** Projections from the 2024 annual budget process (November 2023).
2. **Proposed Updated Ten-Year Plan (June 2024):** The recommended ten-year capital budget plan in this update.
3. **Option Two with 3-Cent Tax Rate Reduction:** Projected ten-year capital plan assuming Council's decision to reduce the tax rate by three cents starting in 2025.
4. **Option Two with 5-Cent Tax Rate Reduction:** Projected ten-year capital plan assuming Council's decision to reduce the tax rate by five cents starting in 2025.
5. **Option Two with Increased Budget for Local Improvements:** Projected ten-year capital plan considering the pace of local improvements from the November 2023 plan.
6. **Option Two with Increased Budget for Local Improvements with a 3-cent Tax Rate Reduction:** Projected ten-year capital plan considering the pace of local improvements from the November 2023 plan and assuming Council's decision to reduce the tax rate by three cents starting in 2025.

	1) Previous Plan	2) Proposed Plan	3) 3-Cent Reduction	4) 5-Cent Reduction	5) Increased Budget	6) Increased budget with 3-cent Reduction
Total Ten-Year Capital Spend	\$141.1 million	\$166.2 million	\$166.2 million	\$166.2 million	\$178.3 million	\$178.3 million
Tax Rate projections at end of ten years (2033)	1.5130 per \$100	1.4521 per \$100	1.4418 per \$100	1.4350 per \$100	1.4949 per \$100	1.4867 per \$100
Debt Rate projections at end of ten years (2033)	2033 – 10.70%	11.16% (highest at 12.02%)	12.51% (highest at 13.12%)	13.43% (highest at 13.87%)	13.55% (highest at 14.42%)	14.99% (highest at 15.51%).
Total borrowing required over ten years	\$36.5 million	\$43.9 million	\$52.4 million	\$58.0 million	\$57.5 million	\$65.7 million
Capital from Operating Investment over ten years	\$45.9 million	\$65.1 million	\$56.7 million	\$51.0 million	\$63.6 million	\$56.2 million

An essential aspect to consider is the interplay between the tax rate and debt over time. As additional borrowing accumulates, the tax rate gradually diminishes. For instance, after ten years, if Council reduces the rate by 3 cents, it eventually surpasses the current rate (1.4326) to 1.4418. Simultaneously, compounding debt leads to increased tax dollars allocated for servicing. Comparing this to option 4, a 5-cent reduction would set the tax rate at 1.3826 in 2025, rising to 1.4350 by 2033—exceeding today’s rate. In contrast, the proposed plan demonstrates sustainability whereby fixing all variables you can see that the tax rate remains flat for 5 years in the plan and rises by less than 2 cents by the end of ten years.

As significant decisions are deliberated for the Town, it is crucial to recognize the current economic landscape. Here are key factors to consider:

1. **Uncertainty and Inflation:** Currently, it is a precarious market environment. The current economic environment remains uncertain due to factors like sustained pandemic pressures, inflation, and higher interest and borrowing costs. Several unknowns remain, and inflation rates continue to fluctuate. These dynamics impact the Town’s financial planning.

2. **Geo-Political Unrest:** Global events can ripple through local economies. The current geopolitical climate introduces additional volatility, affecting investment and stability.
3. **Capital Project Complexity:** The Town's proposed capital project—the largest in its history—requires careful evaluation. Unprecedented swings in construction costs add complexity. We must assess whether these trends will persist.
4. **Unconsidered Projects:** Beyond the Town's existing plan, numerous projects await consideration. Unexpected developments may necessitate adjustments to our priorities. Unforeseen shocks pose potential concerns, such as geopolitical unrest, supply chain disruptions, legislative changes—all impact municipal finances and require agile responses. This creates infrastructure investment pressures. Municipalities must balance the need to rehabilitate or replace existing infrastructure while investing in new infrastructure for growing communities. Aging assets and increasing funding pressures pose significant challenges.
5. **Limited Revenue Tools:** Municipalities lack revenue tools that grow with the economy hindering the ability to adapt to changing circumstances. Ninety percent of revenue comes from property tax revenue (2024), which is heavily dependent on the housing market. We have seen in the past the housing market slow to less than 1%. No one can be naïve to think that this could not happen again.
6. **Fiscal Responsibility:** The Town advocates for sustainable fiscal practices. While the Town's economy remains somewhat unstable, we must approach decisions thoughtfully.
7. **Timing:** Now presents an opportunity. While the economy stabilizes, Council can make informed choices today and revisit them as conditions improve.
8. **Demand with Population Growth:** The population continues to grow in this area at the fastest rates in Canada, hence demand for services, wear and tear on Town assets and new demands will be inevitable.

In summary, exercising vigilance and recognizing our responsibility to the community is crucial. By aligning our decisions with economic realities and remaining mindful of unforeseen pressures, we fortify the town for a resilient and prosperous future.

Utility Capital Budget

As Council is aware, the Utility Budget and the General Budget share a close relationship. Numerous projects have components that span both categories, including our local improvements. The Utility budget has been recently revised to align with the proposed plan for the General Fund.

The Utility Capital Budget project categories remain consistent with the previous version presented to Council. However, the timeline has been adjusted to align with the General Fund. The Town's focus within the Utility Fund remains dedicated to prioritizing Watermain Renewal Projects as a top priority. Unfortunately, like the General Fund, the Utility Budget has been significantly affected by the rapid escalation in construction costs for underground infrastructure projects. Analyzing unit price trends over the past several years reveals a staggering 55% increase in rates from 2023 to 2024 alone. Remarkably, rates have surged over 200% since 2020. Consequently, project costs have risen significantly compared to just a few years ago.

While the Utility Capital Plan currently has no planned borrowing in 2024 and 2025—largely due to secured federal and provincial funding, notably through the Infrastructure Renewal Program—the escalating costs of infrastructure necessitate borrowing \$29.2 million from 2026 to 2033. This represents a larger proportion than previously considered (the 2024 budget Council would have last seen accounted for \$21 million). The Town's strategy moving forward is to strategically target future federal and provincial infrastructure projects, aiming to reduce borrowing requirements in the later years of the plan. As noted, the Town has already secured funding for 2023-2025 through the Infrastructure Renewal Program, therefore the ongoing goal is to maintain this funding stream.

In addition to the Town's Federal and Provincial funding availability through the Canada Community-Building Fund (CCBF), it's worth noting that the Province and the Federal Government have yet to finalize a formal agreement on the updated ten-year CCBF program for New Brunswick. As part of the Town's strategy, CCBF funding has been allocated primarily towards watermain renewals, aiming to reduce borrowing; approximately 66% of this funding is currently earmarked for the Utility Fund over the next decade. At present, the conditions of the program extension remain uncertain, and hence its impact on the Town's current plan is yet to be determined.

Utility Capital Plan Ten-Year highlights include:

- **Resident User Rate Stability:** The resident user rate of \$912 is projected to remain unchanged through 2026.
- **Watermain Replacement Investment:** Planned investments include \$12.7 million for Watermain Replacement projects (part of Local Improvement) and \$20.4 million for Watermain Renewal projects (trench only).
- **Water Master Plan Commitment:** Over \$7 million is allocated for Water Master Plan Projects.
- **Sanity Sewer Renewal:** A budget of \$14 million is earmarked for Sanity Sewer Renewal Projects, including items identified in the Sewer Master Plan.

- **Council-Approved New Projects:** The ten-year model also allocates \$500,000 annually in the last five years for new projects approved by Council. Consequently, there is available capacity in the later years of the model for future projects or to help curtail any further rising costs.