

SUNSHINE COAST REGIONAL DISTRICT STAFF REPORT

TO: Finance Committee-Pre-Budget – December 5-7, 2022

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SUBJECT: 2023 COMMUNITY RECREATION CAPITAL FUNDING REVIEW

RECOMMENDATION(S)

THAT the report titled 2023 Community Recreation Facilities Capital Funding Update be received for information;

AND THAT the 2023 Contribution to Community Recreation capital renewal [615] be increased by \$351,201 to \$1,121,408 and increased by 2% annually thereafter;

AND THAT an additional \$60,000 annually be committed to fund Recreation Programming and increased by 2% annually thereafter (for a combined 2023 increase in contributions of \$411,210);

AND THAT the increase be funded through Ad Valorem taxation (property tax);

AND THAT for 2023, the Gibsons and Area Community Centre's Zamboni Replacement in the amount of \$322,200 be funded through Municipal Finance Authority 5-Year Equipment Finance Loan;

AND THAT a loan of up to \$322,200 for a term of 5 years be requested through the Municipal Finance Authority Equipment Financing Program under section 403(1)(a) of the *Local Government Act* (Liabilities Under Agreement) to fund the Gibsons and Area Community Centre's Zamboni Replacement;

AND THAT for 2023, the Gibsons and Area Community Centre's Package Rooftop Unit Replacement Project in the amount of \$355,700 be funded through Municipal Finance Authority 5-Year Equipment Finance Loan;

AND THAT a loan of up to \$355,700 for a term of 5 years be requested through the Municipal Finance Authority Equipment Financing Program under section 403(1)(a) of the *Local Government Act* (Liabilities Under Agreement) to fund the Gibsons and Area Community Centre's Package Rooftop Unit Replacement Project;

AND THAT for 2023, the Community Recreation Fitness Equipment Replacement Project in the amount of \$130,200 be funded through Municipal Finance Authority 5-Year Equipment Finance Loan;

AND THAT a loan of up to \$130,200 for a term of 5 years be requested through the Municipal Finance Authority Equipment Financing Program under section 403(1)(a) of the

Local Government Act (Liabilities Under Agreement) to fund the Community Recreation Fitness Equipment Replacement Project;

AND THAT for 2023, the Gibsons and Area Community Centre's Roof Renewal project in the amount of \$2,899,900 be funded through long-term borrowing (10-Year Loan);

AND THAT Electoral Approval for a loan of up to \$2,899,900 for a term of 10 years be sought via Alternate Approval Process to fund the Gibsons and Area Community Centre's Roof Renewal project;

AND THAT for 2023, the Sechelt Aquatic Centre's Phase 1 Roof Renewal Project in the amount of \$556,300 be funded through long-term borrowing (10-Year Loan);

AND THAT Electoral Approval for a loan of up to \$556,300 for a term of 10 years be sought via Alternate Approval Process to fund the Sechelt Aquatic Centre's Phase 1 Roof Renewal project;

AND THAT Capital expenditures of up to \$813,797 be included in the 2023 Budget;

AND FURTHER THAT the amended increases be included as part of the draft 2023-2027 Financial Plan as detailed in Table 1.

BACKGROUND

Since 2016 the Sunshine Coast Regional District (SCRD) has maintained a 20-year Capital Plan for Recreation Facilities [615]. The purpose of this plan was to forecast upcoming expenditures related to the renewal of capital components and to determine the annual funding necessary to complete these projects across 20-years. The Capital Plan was intended to mitigate fluctuations in the taxation on an annual basis related to these expenses.

When the initial Capital Plan was received by the SCRD Board in 2016, a decision to fund only 'critical' components was made. That decision has not been formally reviewed or changed since 2016. This means only components critical to the primary function of the facility are considered when determining the annual contribution necessary to sustainably fund the capital renewal budget. All other component renewal must come to the Board as budget requests.

The Board also chose at the time to commit to only \$500,000 out of the identified \$725,000 annual contribution required to sustainably fund critical component replacement. Since 2016, the approved annual contribution to fund critical capital component replacement for Recreation Facilities has never been funded to meet the needs identified in the 20-year Capital Plan.

As a response to the Covid-19 pandemic in 2020, the SCRD Board approved a one-time deferral of \$500,000 from the Recreation Facilities capital renewal fund in favor of subsidizing operational expenses and mitigating the overall tax increase at that time.

In October 2021, a report titled '[2022 Community Recreation Facilities Capital Funding Update](#)' was presented to the Board which outlined two options to establish sustainable funding of the critical capital renewals. The first option was to maintain existing levels of funding with a period of increased funding aligning with the expiry of debt related with the construction of two newer recreation facility. The second option was to increase funding to a sustainable level and to

maintain that funding with only an annual inflationary increase projected for the 20-year capital plan.

As directed by the Board in Oct 2021, an [updated report was brought to the Board in July 2022](#) seeking a resolution of the increasing funding deficit for Capital Renewal projects at SCRD Recreation Facilities. It was resolved that the report should be brought to the 2023 Budget process to ensure process conformity.

The purpose of this report is to provide an update on the 20-Year Capital Plan for Community Recreation and to provide recommendations for establishing sustainable long-term funding.

DISCUSSION

Since the July 2022 report was published significant work has been completed to review and refine the Capital Plan for Community Recreation. A thorough review of the Estimated Useful Life (EUL) that was originally assigned to facility components in 2016 was conducted as well as a review of the criticality of components. The EUL review identified components that had exceeded their useful lives considerably and those that had failed prematurely and adjusted their EULs accordingly. The review of component Criticality identified three major component classes that were reclassified to critical: i) components related to the safety/accessibility of the building such as doors, elevators, railings, ii) components related to sanitary needs of facility users such as sinks, toilets and showers, and iii) components that had been overlooked such as fans, pumps, and controllers.

During the review process several components were identified within the two older facilities that had previously been overlooked as they will both exceed 65 years in age through the next 20 years considered by the capital plan and it is anticipated that items such as internal piping and wiring may exceed their useful lives and require replacement. The result is that it contributes to a higher estimated need for additional funding. If there were decisions to retire these facilities with a pre-determined date, the Capital Plan will reflect these changes.

At both the Gibsons and Area Community Centre (GACC) and the Sechelt Aquatic Centre (SAC) significant projects are scheduled for next year that require borrowing. For GACC this includes the replacement of:

- the Modified Bitumen Roof that is exhibiting significant signs of failure (~\$2.9 million to be borrowed through a 10-year long term borrowing approved via Alternate Approval Process)
- the replacement of a Package Rooftop Unit (HVAC system component) (~\$356k to be borrowed through MFA Equipment Financing 5-year borrowing)
- the replacement of the Zamboni (~\$322k to be borrowed through MFA Equipment Financing 5-year borrowing)

At SAC the first of two phases of Modified Bitumen Roof replacement are slated for 2023. (~\$556k to be borrowed through a 10-year long term borrowing approved via Alternate Approval Process)

This year it was desired that a 20-year Capital Plan be developed for Recreation Programming to include capital items of nature that relate to the operation of fitness related components within the two facilities and to ensure that the delivery of programming remains possible. Failure to

replace these capital fitness components, past their lifespans, will result in fewer pieces of equipment being available to the public, more downtime and repair of existing equipment and the potential for serious injury to occur. The replacement of fitness equipment at GACC and SAC in 2023 is expected to be funded through a ~\$133k loan to be borrowed through MFA Equipment Financing 5-year borrowing. The preliminary findings are presented below separately.

Options and Analysis

It has been observed that over the Pandemic a backlog of projects has been established with nearly 60 components identified for 2023 requiring replacement. When projects are delayed there is an increased potential of budget overruns due to inflationary increases in parts, materials, and labour. This backlog will be monitored in future capital plan reviews.

The current level of funding for the Community Recreation Facilities Capital Renewal does not meet the projected needs across the next 20-years. Two different funding approaches to achieving sustainable funding for the replacement of critical capital components for all Recreation Facilities are presented below. One approach seeks to achieve a one-step increase in funding while the other looks to time a temporary injection of capital funding with expiring debt commitments to minimize the taxation impact.

Option 1

Option 1 presents a simple approach to sustainable funding by increasing the 2023 contribution amount to \$1,121,408 from \$770,198 and increasing annually at 2% to account for typical annual inflation. These are the amounts that are funded through taxation. The amount through user fees is variable based on actuals received. The predictable nature of this model establishes a predictable level of taxation which aligns with the original purpose of the Recreation Facilities' capital plan.

Table 1: Option 1 - Five Year Projections

CAPITAL PLAN	2022	2023	2024	2025	2026	2027
5% of User Fee Revenue	\$ 89,598	\$ 91,390	\$ 93,218	\$ 95,082	\$ 96,984	\$ 98,923
Funding Commitment	\$ 770,198	\$ 1,121,408	\$ 1,143,836	\$ 1,166,713	\$ 1,190,047	\$ 1,213,848
Opening Reserve Balance	\$ 2,338,314	\$ 1,587,427	\$ 1,860,791	\$ 1,788,044	\$ 1,830,991	\$ 2,253,827
Carry Forward Projects	\$ 755,615	\$ -	\$ -	\$ -	\$ -	\$ -

This option would put the Community Recreation Facilities Service 'back on track' with funding critical items, limits risks associated with deferred maintenance and creates a more sustainable plan that leverages investment returns and mitigates fluctuations in taxation. It does assume there will be a combination of reserves and debt used to fund projects. This is the recommended option. A model that considered a 3% annual increase (as opposed to the 2% increase used in Option 1) in funding indicates that a 10% reduction in 2023 funding commitment (~\$1,017,000) can be sustainable under these conditions. This option is recommended.

The entire 20-year Capital Plan for Option 1 can be found in **Attachment A**.

Option 2

Option 2 provides an alternative solution to the funding shortfall that coincides the expiration of debt associated with the construction of both the Gibsons and Area Community Centre and Sechelt Aquatic Centre with a temporary series of additional annual contributions to the capital renewal funding. In order to resolve the projected funding shortfall the increased funding would occur as \$1.6 million of annual debt obligations expire as mentioned in the [September 17, 2020 CAS report](#). Modelling suggests that by contributing an additional \$826,000 for ten consecutive years between 2026 and 2035 would be sufficient to supplement the existing level of funding and establish a sustainable 20-year capital plan for Recreation Facilities. This approach mitigates fluctuations in the amount of taxation on an annual basis but requires that future Board implements the funding commitment as prescribed by this model.

Table 2: Option 2 - Five Year Projections

					Injection = \$ 826,000	
CAPITAL PLAN	2022	2023	2024	2025	2026	2027
5% of User Fee Revenue	\$ 89,598	\$ 91,390	\$ 93,218	\$ 95,082	\$ 96,984	\$ 98,923
Funding Commitment	\$ 770,198	\$ 785,602	\$ 801,314	\$ 817,340	\$ 1,659,687	\$ 1,676,361
Opening Reserve Balance	\$ 2,338,314	\$ 1,587,427	\$ 1,512,929	\$ 1,424,356	\$ 1,405,948	\$ 2,189,184
Carry Forward Projects	\$ 755,615	\$ -	\$ -	\$ -	\$ -	\$ -

However, there are several considerations to explore as part of this option which are legislative implications to re-assigning the funds such as potential Bylaw changes, public or Ministry approval as well as the method of recovering the funds in the future (parcel/flat tax or property tax), as well as the associated financial implications. Therefore, this option is not recommended at this time.

The entire 20-year Capital Plan for Option 2 can be found in **Attachment A**. Table 3 below shows the 10-year funding commitment prescribed by this model.

Table 3: Option 2 - 10-year Funding Projections

					Injection = \$ 826,000						
CAPITAL PLAN	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Funding Commitment	\$ 770,198	\$ 785,602	\$ 801,314	\$ 817,340	\$ 1,659,687	\$ 1,676,361	\$ 1,693,368	\$ 1,710,715	\$ 1,728,410	\$ 1,746,458	\$ 1,764,867

Funding Recreation Programming Components

The level of funding necessary to ensure that renewal of components necessary to provide the recreation services at the facilities was determined through a capital modelling process. The equipment includes exercise machines, weights, benches, audio equipment, and accessories at both the Gibsons and Area Community Centre and the Sechelt Aquatic Centre. Preliminary results suggest that an annual contribution of \$60,000 in 2023 increasing 2% annually would provide sustainable funding for these components. The 20-year Capital Plan can be seen in **Attachment B**. Table 4 below shows the five-year funding projections associated with this level of funding.

Table 4: Funding Fitness Equipment - Five Year Projections

CAPITAL PLAN	2022	2023	2024	2025	2026	2027
Funding Commitment	\$ -	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946
Opening Reserve Balance	\$ -	\$ -	\$ 62,154	\$ 72,118	\$ 66,943	\$ 107,005

Financial Implications

Committing to a sustainable level of funding for Community Recreation facilities critical capital components will help mitigate fluctuations in annual funding and enable consistent financial planning. Without a long-term funding increase, the capital plan will fail in 2028 and all critical items will need to be brought forward for funding approval. High priority and desirable components will continue to be brought forward for funding approval on an annual basis.

Taxation implications for each of the models has been estimated based on 2022 taxation assessments and are presented in Table 5 below.

Table 5: Estimated Taxation Implications

Option	Year of Increase	Increase Amount	Total Annual Funding for Capital Renewal	Estimated Total Taxation per \$100k of Assessed Improvement Value
1	2023	\$411,210	\$1,181,408	\$19.48

All debt projected by the capital plan must be approved prior to borrowing, and the debt required for 2023/2024 has been factored into the funding envelope above. The principle and interest are adjusted annually as part of the review of the Capital Plan. Therefore, the implication of the debt have been factored above.

Next Steps

Supporting increased funding to the existing Capital Plan provides more assurance that the renewal of critical capital components is sustainable over the next 20 years. However, two of the four facilities are aging and will require significant investments within the next 5-10 years. Community Services has identified the strategic benefits of having a recreation facilities needs assessment in the next couple of years to inform the long-term planning for recreation facilities, help confirm levels of current services, as well as desired service levels in the future, possibly including different or additional services. As more explicit direction is provided with respect to the levels of service and lifespans of recreation facilities is developed the capital plan will be adopted to reflect the projected capital renewal investment required to achieve those targets.

STRATEGIC PLAN AND RELATED POLICIES

The information provided in this report is consistent with the Board's Strategic Focus Area of Asset Stewardship as well as the Financial Sustainability and Asset Management policies.

CONCLUSION

Community Recreation critical capital components have been under-funded since the inception of the 20-year Capital Plan in 2016. This shortfall has resulted in the need to increase the funding in order to maintain a sustainable Capital Plan for components that are critical to the delivery of the service at the four facilities operated by Community Recreation.

It is recommended to increase funding for critical items \$1,121,408 and include \$60,000 for Recreation Programming equipment replacement, both with a 2% annual increase applied thereafter (for a combined 2023 increase in contributions of \$411,210). This will require an amendment to the 2023-2027 Draft Financial Plan.

Attachments

A – Proposed Community Recreation 20-Year Capital Plans – Option 1 & 2

B – Proposed Recreation Equipment 20-Year Capital Plan

Reviewed by:			
Manager		CFO/Finance	X - T. Perreault
GM	X – S. Gagnon	Legislative	
CAO	X – D. McKinley	Other	