



City of North Bay Report to Council

Report No: CORP-2021-142

Date: November 26, 2021

Originator: Shannon Saucier

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2022 Capital Budget and 2023-2031 Capital Forecast Plan

Closed Session: yes ☐ no ☒

Recommendation

That Appendix A, being the proposed 2022 General Capital Budget and 2022 Water and Wastewater Capital Budget, as attached to Report to Council CORP 2021-142 be received and referred to the General Government Committee for Special Committee Meetings to take place the week of December 6, 2021.

Background

The City's capital budget includes the cost to purchase, construct, repair and renew assets that support service delivery, such as roads, bridges, equipment, parks, arenas, water and wastewater treatment plants and other major infrastructure projects. The City's annual capital budget process involves the completion of a 10 year Capital Forecast which is separated into two parts based on funding source as follows:

- a) General Capital Budget and Forecast – supported by capital funding in the City's General Operating Budget (revenue from the property tax base) referred to as the capital levy or PAYGO amount.
- b) Water and Wastewater Capital Budget and Forecast – supported by capital funding in the City's Water and Wastewater Operating Budget (revenue from water and wastewater user fees) referred to as the capital levy or PAYGO amount.

The capital budget process commences annually with the submission of capital project requirements from operating departments as well as from various Service Partners for the upcoming 10 year period. The requests are summarized and compared against available funding sources, such as grants, reserve funds and the City's Long Term Capital Funding Envelope which includes debenture financing and the capital levy. The City's Long Term Capital Funding Policy outlines the formula to be applied annually to calculate the amount of the capital levy and stipulates the available debenture authority for both the General Capital Budget and the Water and Wastewater Capital Budget. Once the budget and funding sources are summarized, project managers meet with the CAO, CFO and

Financial Service Department staff to prioritize projects; align the type of projects with applicable funding sources; and balance the total project costs with total funding availability.

The proposed 2022 General Capital Budget and 2022 Water and Wastewater Capital Budget is attached as Appendix A to this report.

Based on the 2022 budget schedule outlined in Report to Council CORP 2021-099, the 2022 Capital Budget is expected to be reviewed with Council during December with final approval anticipated by December 17th.

Financial/Legal Implications

See Options/Analysis section for financial implications.

Corporate Strategic Plan

- | | |
|---|---|
| <input type="checkbox"/> Natural North and Near | <input type="checkbox"/> Economic Prosperity |
| <input checked="" type="checkbox"/> Affordable Balanced Growth | <input checked="" type="checkbox"/> Spirited Safe Community |
| <input checked="" type="checkbox"/> Responsible and Responsive Government | |

Specific Objectives

- Maintain infrastructure across the City in a good state of repair
- Consider all aspects of decisions to fund new infrastructure
- Ensure the efficient and effective operations of the city, with particular consideration to the impact of decisions on the property tax rate
- Maximize funding opportunities with other governments
- Develop and provide recreational and community centre services geared to meeting the broad spectrum of needs in the community

Options Analysis

1. 2022 General Capital Budget and Forecast

The enclosed Capital Budget Package includes a total gross capital investment for 2022 General Capital Projects in the amount of \$54.7 million. Major capital projects included in the 2022 budget include:

- City of North Bay Community and Recreation Centre (3711RF)
- Integrated Software Solution (3912GG)
- McKeown Avenue Widening (3801RD/ST)
- Lees Road Reconstruction (3814RD)
- Main Street Paving Stone Replacement (3934RD/ST)
- Construction of Sidewalks for Transit Routes (4021TR)
- Booth Road and Lakeshore Drive Intersection Reconstruction (4025RD)
- Asphalt Resurfacing (6611RD)
- Capital Needs of Service Partners including Cassellholme (6483AA), North Bay Police Service (6638PD) and North Bay Mattawa Conservation Authority (6682CA)

Gross spending in the amount of \$54.7 million is allocated as follows:

- 46% towards Asset Improvement and Maintenance Projects;
- 46% towards Growth Projects; and
- 8% towards Strategic Investment Projects

The General Capital Funding Policy Limit for 2022 was prepared based on the Long Term Capital Funding Policy as follows:

- Increase in the Capital Funding Allowance of 1% of the previous year's budgeted tax levy.
- \$8.5 million in debenture authority has been included to fund capital projects.
- Consistent with the approach adopted over the last several years, the CPI adjustment has been removed from the calculation of the Capital Funding Allowance.

For the last three years, Council has authorized increases to the Capital Funding Allowance over and above the Capital Funding Policy limit as follows:

- 2019 – additional \$1 million
- 2020 – additional 0.75%
- 2021 – additional 0.75%

These increases assisted in balancing the 10 year capital plan and assisted in provided funding for future transformational projects. However, changes to cost estimates for the transformational projects were received in 2021 which has resulted in the need for additional funding to balance the 2022 budget and capital forecast. In recognition of the operating pressures anticipated for 2022, the enclosed budget does not include increases to the capital levy beyond the Policy amount for 2022. Reprioritization of projects and additional grant funding has been used to balance the 2022 capital budget. Furthermore, the enclosed budget assumes additional increases in excess of the Policy limit for 2023 to 2025 will be required in the amount of 0.5%, 0.5% and 0.4%, respectively.

The enclosed budget incorporates the recommended changes to the City's debt authority and project funding as outlined in the Capital Variance Report to Council CORP 2021-137. These adjustments were recommended in anticipation of the additional debt requirements that are expected as a result of future transformational projects.

Included in the General Capital Budget is a preliminary funding plan for the Community and Recreation Centre, Capital Project No. 3711RF and related Capital Project, No. 4025RD – Booth Road and Lakeshore Drive Intersection Reconstruction. A combination of Special Debt, Federal Gas Tax Funding, Reserves (special dividend payments received previously) and Capital Levy funding is anticipated to be used to fund these projects. It is important to note that the cost estimates included in the enclosed budget are subject to change as these projects have not yet been tendered and financing rates used to forecast future principal and interest payments are subject to change based on changing market conditions between preparation of the 2022 budget and finalization of the debt issuance. The financing plan for these projects will be updated after the tendering process has been authorized by Council and construction values are known. Formal approval to issue the special debt will be requested from Council at the time of the tender award.

The City's estimated share of annual financing costs associated with Cassellholme's Redevelopment Project has been included the General Capital Budget Package. These estimates are based on information provided to the City by Cassellholme. However, these amounts are subject to change pending final approval from the Ministry of Long-Term Care and finalization of the funding plan for the Redevelopment Project.

2. 2022 Water and Wastewater Capital Budget and Forecast

The enclosed Capital Budget Package includes a total gross capital investment for 2022 Water and Wastewater Capital Projects in the amount of \$14.4 million. Major capital projects included in the 2022 budget include:

- Digester Replacement (3719SS)
- McKeown Avenue Widening (3801SS/WS)
- Premier Pumping Station Replacement (3818SS)
- Wastewater Treatment Plant Expansion (4103SS)
- Integrated Software Solution (3912WS)

Gross spending in the amount \$14.4 million is allocated as follows:

- 82% towards Asset Improvement and Maintenance Projects; and
- 18% towards Growth Projects

The Water and Wastewater Capital Funding Policy Limit for 2022 was prepared based on the Long Term Capital Funding Policy and includes the following adjustment:

- As outlined in the 2022 Water and Wastewater Operating Budget Report to Council CORP 2021-114, staff recommended that the CPI be removed from the calculation of the capital levy for the 2022 budget year only as there are sufficient funds available without the addition of the CPI to support projects identified for 2022. The 2022 Water and Wastewater budget has been approved on this basis.
- \$3 million in debenture authority has been included to fund capital projects.

3. Capital Reserves

The City's Reserve Fund Policy includes performance targets that are intended to achieve long-term financial stability and to support the Corporate Long-Term Strategic Plan. The performance target for discretionary capital reserve funds is at least 40% of the Capital Funding Policy Expenditure Limit. Based on the proposed 2022 General Capital and Water and Wastewater Budgets, the performance target is as follows:

Performance Target:	
2022 General Capital Funding Policy Expenditure Limit*	\$27,132,327
2022 Water and Wastewater Capital Funding Policy Expenditure Limit	\$12,887,447
Total 2022 Capital Funding Policy Expenditure Limit	\$40,019,774
	* 40%
Performance Target for Discretionary Capital Reserves	\$16,007,910

*Excludes special debt and Federal Gas Tax top-up for the Community Centre

As of November 26th, 2021, the projected balance of the City's total discretionary capital reserve funds is:

Projected Total Discretionary Capital Reserve Funds**:	
Completed General Capital Projects Reserve (99537R)	\$3,132,461
Water Systems Completed Capital Reserve (99522R)	\$2,938,747
Sanitary Sewer Completed Project Reserve (99575R)	\$3,454,492
Other Capital Reserves	\$12,647,486
Projected Total Discretionary Capital Reserve Funds	\$22,173,186

** Anticipated net transfers in the estimated amount of \$10,755,990 have not yet been transferred out of the reserve funds. Funds are not withdrawn until the associated expenditures have been incurred. The balance reported above is shown “as if” the outstanding net transfers have been withdrawn from the related reserve balances. The amounts shown are subject to year-end adjustments and accruals.

The reserve balances include the following amounts that need to be considered when evaluating the actual reserve balance against the performance target:

- Reserves include approximately \$6.3 million of unspent capital funding for vehicle replacements. The vehicle usage rates calculated as part of the Fleet Life Cycle Methodology include a vehicle replacement amount that is to be held in the reserve to maintain the City’s Fleet on a life cycle basis.
- Recommended transfers from reserve included in the enclosed capital budget have not been deducted.

4. Risks – General Capital Budget and Forecast

The City’s Asset Management Plan (AMP) was approved by Council in 2014 at which time only core infrastructure such as roads, bridges, and water and wastewater distribution and plants were required to be identified in the AMP. Senior Management is working to ensure the AMP is updated in time to comply with upcoming legislative changes and to ensure that all assets are incorporated into the revision. Currently, certain grant programs restrict funding to projects that have been identified in the City’s approved AMP. This requirement limits the City’s ability to use grants to fund projects outside of the current AMP.

The Province recently announced its redesign of the Ontario Infrastructure Fund (OCIF) which involves several key changes to the program that will commence in 2022. One significant enhancement is that the Province will be investing an additional \$200 million annually over the next 5 years to effectively double the OCIF envelope. Allocation notices to individual municipalities confirming the 2022 allocation will be sent out over the coming weeks. However, the enclosed budget has been prepared on the basis that the redesign will result in a doubling of the City’s allocation from \$2.6 million to \$5.2 million for 2022. Should the City’s actual allocation for 2022 differ from the estimate, then projects will need to be adjusted to fit within available funding. The OCIF allocation for future years beyond 2022 will be adjusted in the preparation of the 2023 capital budget following the release of the full details of the program redesign.

The capital forecast includes estimated future grant funding that may be available for certain projects. Should the grant funding not materialize for these projects, then the projects will not proceed until other sources of funding are identified.

5. Format of the Capital Budget Package

Projects within the 2022 Capital Budgets and related Forecasts have been grouped according to Business Unit. However, the asset categories as previously recommended by the Special Review Committee – Long Term Financial Policies have been denoted on the summary pages of the Budget Reports with the following abbreviations added beside each project name:

- a) **Asset Improvement and Maintenance (AIM):** These projects address existing capital assets and major repairs, rehabilitation and maintenance to City

infrastructure, facilities and equipment. These investments are intended to support expected asset life cycles, replacement of assets that have reached their end of life, and technological upgrades to assist in managing operating costs and improve on the delivery of services.

- b) **Strategic Investments (SI):** These projects include those that improve, enhance or expand the level of service offered to the community.
- c) **Growth (G):** Projects that primarily address increased demand for services or are to stimulate growth and development of the City.

It is important to note that it is possible for some projects to be related to more than one of the above categories; however, these projects have been included in the category for which the majority of the project falls.

6. Process Moving Forward

A review of the capital budget is anticipated to occur during the Special Committee Meetings scheduled for the week of December 6th. The Capital Budget is tentatively scheduled to be approved by Council at a Special Council Meeting on December 17th.

Recommended Option

That Appendix A, being the proposed 2022 General Capital Budget and 2022 Water and Wastewater Capital Budget, as attached to Report to Council CORP 2021-142 be received and referred to the General Government Committee for a Special Committee Meeting to take place the week of December 6, 2021.

Respectfully submitted,

Name: Shannon Saucier, CPA, CA

Title: Director, Financial Services / Deputy Treasurer

I concur with this report and recommendation

Name: Ian Kilgour, MCIP, RPP

Title: Director, Community Development and Growth

Name: John Severino, P.Eng., MBA

Title: City Engineer – Infrastructure and Operations

Name: Domenic Schiavone

Title: Director Public Works and Parks

Name: Jason Whiteley

Title: Fire Chief

Name: Margaret Karpenko, CPA, CMA

Title: Chief Financial Officer /Treasurer

Name: David Euler, P.Eng., PMP

Title: Chief Administrative Officer

Personnel designated for continuance:
Shannon Saucier, CPA, CA
Director, Financial Services / Deputy Treasurer

Attachments: Appendix A – 2022 General Capital Budget and 2022 Water and
Wastewater Capital Budget with Capital Forecast for 2023 to 2031