



City of North Bay Report to Council

Report No: CORP 2020-120

Date: November 13, 2020

Originator: Shannon Saucier

Business Unit: Corporate Services

Department: Financial Services Department

Subject: 2021 General Capital Budget and 2021 Water and Wastewater Capital Budget,
with the 2022-2030 Capital Forecast Plan

Closed Session: yes no

Recommendation

That Appendix A, being the proposed 2021 General Capital Budget and 2021 Water and Wastewater Capital Budget, and Appendix B, being the Capital Funding Recommended to be Cancelled and/or Transferred to Reserve, as attached to Report to Council CORP 2020-120 be received and referred to the General Government Committee for a Special Committee Meeting to take place on November 25, 2020.

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.

Over the last several years, the growing capital needs of Service Partners combined with the City's own infrastructure requirements had resulted in a funding shortfall over the 10 year period for the General Capital Budget. However, during the 2019 Capital Budget process, funding challenges were reviewed with Council and direction was provided to add a one-time top up to the tax levy supported capital levy in the amount of \$1 million dollars. Additionally, Council directed staff to prepare the preliminary 2020 and 2021 General Capital and General Operating Budgets with a 1.75% increase (instead of the 1% increase as outlined in the City's Long Term Capital Funding Policy) to the capital levy as outlined in Report to Council CORP 2019-26. Accordingly, the capital levy included in the attached 2021 General Capital Budget has been calculated based on a 1.75% increase from the prior year's budgeted tax levy. The direction provided by Council during 2019 has eliminated the funding shortfall over the 10 year forecast.

The proposed 2021 General Capital Budget and 2021 Water and Wastewater Capital Budget is attached as Appendix A to this report.

Based on the 2021 budget schedule outlined in Report to Council CORP 2020-104, the 2021 Capital Budget is expected to be reviewed with Council during November and December with final approval anticipated in mid December.

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
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Options / Analysis

1. 2021 General Capital Budget and Forecast

The enclosed Capital Budget Package includes a total gross capital investment for 2021 General Capital Projects in the amount of \$48.1 million. Major capital projects included in the 2021 budget include:

- City of North Bay Community and Recreation Centre (3711RF)
- Trout Lake Road (Mountainview Drive to Lees Road) (4006RD)
- Asphalt Resurfacing (6547RD)
- Ivanhoe Drive Reconstruction – Sage to Rita (3913RD/ST)
- Construction of Sidewalks for Transit Routes (4021TR)
- O'Brien Street – Ski Club to Airport and Ski Club Signals (3920RD/ST)
- Third Avenue – Cassells to Front (3917RD/ST)
- Capital Needs of Service Partners including the North Bay Police Service (6575PD) and North Bay Mattawa Conservation Authority (6574CA)

Gross spending in the amount of \$48.1 million is allocated as follows:

- 54% towards Asset Improvement and Maintenance Projects;
- 37% towards Growth Projects; and
- 9% towards Strategic Investment Projects

The General Capital Funding Policy Limit for 2021 was prepared based on the Long Term Capital Funding Policy and includes the following adjustment:

- As per Council direction received during the approval of the 2019 Capital Budget, the 2021 capital levy amount has been increased by 1.75% of the prior year budgeted tax levy instead of the policy limit of only 1%. This additional funding assists in supporting the City's infrastructure needs over the next 10 years which includes major transformational projects such as the Cassellholme Redevelopment project and the Community and Recreation Centre.
- \$8.5 million in debenture authority has been included to fund capital projects.

The General Capital Budget includes 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 the 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 2021 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.

In anticipation of the additional debt requirements for the Community and Recreation Centre and related intersection reconstruction project, a review of open and active projects was undertaken in an effort to identify projects that were either complete or are expected to finish under budget and for which unissued debt could be cancelled. Cancellation of unutilized debt authority will assist in managing the overall debt burden of the municipality. The results of the review are summarized in Appendix B attached to this report. A total of \$5,538,780 in unutilized debt authority is recommended to be cancelled. Forecasted principal and interest payments that form part of the 2021 General and Water and Wastewater Operating and Capital Budgets have been calculated on the basis that the recommended debt to be cancelled will be approved. Additionally, \$36,582 in surplus capital levy funding is recommended to be transferred to the corresponding Completed Capital Project Reserve and a total of \$1,178,873.98 in reserve authority is recommended to be cancelled. Of the total cancelled reserve funding, \$479,000.00 has been budgeted as a funding source in the 2021 Capital Budget.

The City's estimated share of annual financing costs associated with Cassellholme's Redevelopment Project has been included in the General Capital Budget Package. These estimates are based on information provided to the City by Cassellholme. However, these amounts are subject to change as the project is currently being tendered and finalized pricing has not yet been received.

There is one project included in the 2021 General Capital Budget that has been previously approved by Council as a pre-commitment against the 2021 Budget as follows:

- \$175,000 for project 4006RD – Trout Lake Road (Mountainview Drive to Lees Road) was approved on October 27, 2020 by Council Resolution 2020-318

2. 2021 Water and Wastewater Capital Budget and Forecast

The enclosed Capital Budget Package includes a total gross capital investment for 2021 Water and Wastewater Capital Projects in the amount of \$13.4 million. Major capital projects included in the 2021 budget include:

- Digester Replacement (3719SS)
- Ivanhoe Drive Reconstruction – Sage to Rita (3913WS/SS)
- Wastewater Treatment Plant – Raw Sewage Pumping Station (4029SS)

Gross spending in the amount \$13.4 million is allocated as follows:

- 83% towards Asset Improvement and Maintenance Projects;
- 8% towards Growth Projects; and
- 9% towards Strategic Investment Projects

The Water and Wastewater Capital Funding Policy Limit for 2021 was prepared based on the Long Term Capital Funding Policy and includes the following adjustment:

- As outlined in the 2021 Water and Wastewater Operating Budget Report to Council CORP 2020-95, staff recommended that the CPI be removed from the calculation of the capital levy for the 2021 budget year only as there are sufficient funds available without the addition of the CPI to support projects identified for 2021. The 2021 Water and Wastewater budget has been prepared 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 2021 General Capital and Water and Wastewater Budgets, the performance target is as follows:

| Performance Target: | |
|--|---------------------|
| 2021 General Capital Funding Policy Expenditure Limit* | \$25,485,332 |
| 2021 Water and Wastewater Capital Funding Policy Expenditure Limit | \$12,436,543 |
| Total 2021 Capital Funding Policy Expenditure Limit | \$37,921,875 |
| | * 40% |
| Performance Target for Discretionary Capital Reserves | \$15,168,750 |

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

As of October 31st, 2020, 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) | \$2,926,154 |
| Water Systems Completed Capital Reserve (99522R) | \$1,844,741 |
| Sanitary Sewer Completed Project Reserve (99575R) | \$3,514,449 |
| Other Capital Reserves | \$14,388,561 |
| Projected Total Discretionary Capital Reserve Funds | \$22,673,905 |

** Anticipated net transfers in the estimated amount of \$9,058,842 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 \$6.7 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. Similarly, the recommended cancellation of reserve funding summarized in Appendix B has not been deducted from the outstanding commitments listed above.

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 is currently reviewing the OCIF program and the City has not received confirmation of the 2021 allocation. The amount included in the enclosed budget of \$2.6 million has been estimated based on previous information received from the Province prior to the program review. Should the City's actual allocation for 2021 be reduced, then projects will need to be reprioritized to fit within available funding.

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 2021 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:

- 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.
- Strategic Investments (SI):** These projects include those that improve, enhance or expand the level of service offered to the community.
- Growth (G):** Projects that primarily address increased demands 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 detailed review of individual capital projects is scheduled for the Special Committee Meeting on November 25th. Furthermore, November 26th and 27th have been earmarked for additional Special Committee Meetings for Capital Budget deliberations should Council require additional time to discuss specific projects and consider prioritization of projects. Following these meetings, combined General Operating Budget and Capital Budget Committee Meetings are scheduled for December 2nd to 4th. The Capital Budget is tentatively scheduled to be approved by Council at the December 15th Council meeting.

Recommendation

That Appendix A, being the proposed 2021 General Capital Budget and 2021 Water and Wastewater Capital Budget, and Appendix B, being the Capital Funding Recommended to be Cancelled and/or Transferred to Reserve, as attached to Report to Council CORP 2020-120 be received and referred to the General Government Committee for a Special Committee Meeting to take place on November 25, 2020.

Respectfully submitted,

Name: Shannon Saucier, CPA, CA
Title: Director of Financial Services

We concur in this report and recommendation.

Ian Kilgour
Director, Community Development & Growth

John Severino, P.Eng., MBA
City Engineer, Infrastructure &
Operations

Lea Janisse
Chief Human Resources &
Information Officer

Jason Whiteley
Fire Chief

Margaret Karpenko, CPA, CMA
Chief Financial Officer/Treasurer

David Euler, P.Eng., PMP
Chief Administrative Officer

Personnel designated for continuance:

Name: Shannon Saucier, CPA, CA
Title: Director of Financial Services

Attachments: Appendix A – 2021 General Capital Budget and 2021 Water and
Wastewater Capital Budget with Capital Forecast for 2022 to 2030
Appendix B – Capital Funding to be Cancelled and/or Transferred to
Reserve