City of Thorold
2023 Operating & Capital Budgets
Overview

On an annual basis, the City prepares:

- **Water Budget**
- **Urban Service Area (Sanitary Sewer & Sidewalk) Budget**
- **Operating Budget**
- **Capital Budget**
    - **Current Year Capital**
    - **General Equipment**
    - **Ten Year Capital Forecast**
    - **Internally Financed/Debt Funded Capital Projects**
- **Reserve & Reserve Fund/Deferred Revenue Forecast**

The Water & Urban Service Area (USA) budgets are separate & distinct to a degree, with the exception that their related capital projects are reflected on the overall capital budget, and their reserves are reflected in the Reserve Forecast. These budgets are not yet completed and will be presented to General Committee in the next few months. Other than the two interrelationships mentioned above, the Water & USA budgets do not form part of this package.

Therefore, this package forms the basis for the finalization of the City's Operating (Non Water & USA), and Capital budgets. While separate and distinct, linkages exist between the various budgets, with funding transfers to/from the respective budgets.

As its name suggests, the Operating Budget is the current year's forecast of "operating" ie. Current year expenses and revenues, debt servicing costs of capital projects, and should include capital and reserve provisions and funding to cover depreciation and replacement of capital infrastructure.

The Capital Budget details the capital projects or purchases to be undertaken during the year, and identifies the funding sources to be used for the projects. These sources are: current tax dollars or operating budget, in the form of a contribution to capital, or existing Reserve balances, grants, or if funding does not exist from other sources, through debt issuance, which in turn would impact on the operating budget with annual debt servicing costs.

Staff have provided a budget for Council consideration with a net 3.24% change, excluding the transfer of transit costs that will form part of the Region's bill to the taxpayers. We respectfully caution that this budgetary level does not come even close to adequately providing for servicing to the growing residential base, nor for timely asset renewal. Deferrals this year are exceptionally high.

BUDGET INTRODUCTION

In any budget year, the City faces impacts from a number of fronts:

- Infrastructure Funding – to ensure asset replacement and integrity, and follow Asset Management Plan and grant eligibility requirements.
- Non-Discretionary Levy Impacts to fund existing commitments; to maintain existing service levels, including the provision of these services to growth-expansion areas, and/or to fund unavoidable cost increases eg. Utilities, insurance, benefits, wages, etc.
- Discretionary Levy Impacts – to undertake and fund new projects and/or possible service or funding level changes

Significant changes from the 2022 Budget are summarized on Schedule 1 in this section.

What Property Owners Can Expect

The **Estimated** Impact to the Average Residential Home valued at $269,500 in 2023 (based on existing tax ratios)

- City General Levy : $-8.00
- City General Levy (2022) represents roughly 42% of the total Residential bill
- Transit transferred to Region
- Total Estimated Tax Bill including City, Urban Levy, Hospital, Region (General, Waste Management, and Transit) & Education : TBD (Regional Tax Rates not finalized yet at the time of writing this report)

The actual impact to property owners will depend upon which tax class their property is in, their change in assessment, as compared to the average change in assessment, any changes made by the Region to tax ratios, tax rates for the various property classes, and the Province's education rates.

TAB: OPERATING BUDGET & IMPACTS

Proposed 2023 Operating Budget

The Operating Budget, as presented, provides for gross operating expenditures of $32.1 million, an increase of 14.2%, or $4.01 Million over last year's expenditures. Non Tax Revenues have increased by 10.1%, or $2.82 Million representing a net deficit of $1,185,439 or 6.22%.

It should be noted that responsibility for Transit has shifted to the Region, effective January 1, 2023. The City had budgeted $714,390 for transit services in 2022. While this is removed from the City's levy, as reported above, in reality, it is a shift from one section of the tax bill, ie. City portion to another section, ie. Regional transit with tax room is freed up at the City level and is transferred to the Region. This represents a reduction to the City's 2023 levy of $714,390 or 3.75%

The City experienced assessment growth of 6.73%, however, with growth comes the need to provide the services to the new areas, and to fulfill this need, the budget should include enhanced staffing to enable provision of the same services to these areas, without impacting existing areas.

The draft budget as presented represents a net levy change after assessment growth of:

	Departmental	Infrastructure	Total
Gross Levy Change	5.98%	3.99%	9.97%
Growth	-4.04%	-2.69%	-6.73%
Transit $ To Region	-3.75%	-	-3.75%
NET LEVY CHANGE	-1.81%	1.30%	-0.51%

The Operating Budget is presented by Functional area of departmental responsibility, with the Major Impacts by section identified on each page.

TAB: REDUCTIONS/DEFERRALS/REVENUES

In order to mitigate the impact to taxpayers, staff have identified items which have been reduced, and/or deferred, and/or reserve funded.

The draft budget as presented is prepared on the basis that all of the expenditure items listed are already excluded from the budget; therefore, any changes made during Budget Deliberations to items on this list will result in a change to the levy.

The deferral/reduction/reserve funded list is extensive, with the items totaling approximately $12.5 Million. Of this approximately:

- $1.062 Million relates to additional costs for staffing required to service our growth. Most of the staffing on this list has either had deferred start dates and/or been deferred pending the results of the organizational review included in the budget.

- For the remainder of $ 11.4 Million in Capital, the largest items relate to the deferral of:
  - St Davids Rd Phase 2 (Foley to Ormond) $5.9 Million (This will be brought forward to proceed in 2024)
    - NB> Phase 1 (Collier to Foley) is proceeding in 2023
  - Community Services – Parks, Facilities, Cemetery $4.2 Million

The inclusion of these items on the list does not mean that staff believe that the items are not important. The deferral of capital works may result in further deterioration of the asset, and a more costly repair in the future, and the deferral of operational items will impact upon service levels.

We acknowledge that this level of deferral, cannot be accommodated in one year. However, it should be noted that the budget establishes the service levels that we can provide.

TAB: CAPITAL

Located in Capital Budget section are the respective Capital Budgets for 2023, which includes the Capital and the Ten-Year Forecast of Capital Projects, Capital Asset Renewal, Financing for Internally Funded Projects.

Capital Budget

The capital budget identifies total new project costs of approximately $10.15 million, and also identifies projects which were previously approved, yet remain uncompleted, estimated at $36 million. ($18.9 Million relates to Fire Station and Operations Centre builds and $4.4 Million to St Davids Rd Phase 1). The value of the projects to be completed during 2023 is estimated at $46.1 million.

The major new projects of the $10.15 Million budgeted for 2023 are for:

Roads & Storm Sewers	$ 4.7 Million
Water and sewer	$ 1.6 Million
Community Services	$ 1.5 Million
Fire	$ 1.0 Million

On a project specific basis, the major new projects are:

Broderick Ave - Roads, Storm Sewers, Water	$3.4 Million
Road Resurfacing	$530,000
Playground Equipment Replacement (Sullivan?)	$525,000
Sand/Salt Dome Upgrades (MECP Requirement)	$600,000
Replace Freightliner Fire Truck	$800,000

Ten-Year Capital Forecast

As part of our Capital Asset life cycle planning, we provide a ten year forecast, located in the Capital section of the package. It should be noted that this is a projection only, and not a firm commitment on timing of projects. On an annual basis, Council prioritizes projects, which may result in changes from the ten-year forecast. Additionally, there may be changes to grants, or other funding sources, either by Council, by legislation or by the upper levels of Government, which may alter the funding levels.

For the period from 2024-2033, we anticipate a total capital forecast (excluding Vehicle & Equipment Replacements) of $141.7 million. Potential funding sources have been identified for $101.5 million, leaving a capital funding gap, or shortfall of $40.2 Million. This is based on existing asset funding levels. As the provisions increase in future years, the funding gap will decline.

A capital-funding gap occurs when the capital expenditure requirements exceed the funding available, and identifies the potential for upcoming debt issuance and increased pressures on the budget from debt servicing costs, capital replacement provisions and/or delays in capital projects

It should also be noted that the Asset Management Plan/Building Condition Analysis for Non-Core Assets is presently underway, and will be presented to Council in by 2nd quarter of 2023. This will impact upon our 10 year forecast, and funding requirements.

Capital Asset Renewal Provision

Infrastructure

In 2013, the Province mandated the completion of an Asset Management Plan (AMP) for infrastructure assets, ie. Transportation (Roads, Culverts, Storm Sewers, Streetlights, Bridges, Sidewalks, Traffic Signals and Signs), Water and Sewer. The objective of an AMP is to identify the state of a municipality's infrastructure, identify expected levels of service, and develop an asset management strategy and financing strategy to ensure assets are sustained. The initial Asset Management Plan was completed in December 2013 for infrastructure. An update to the plan was mandated and was completed in 2021 and identified a requirement to address the underfunding of tax-funded Transportation assets. As anticipated, both plans showed that serious underfunding exists.

Previous Council have approved the allocation of Federal Gas Tax funds wholly to Transportation, along with a phase-in of the infrastructure deficit over 15 years, requiring a budget increase over these 15 years of $289,000 per year (as adjusted by new assets assumed and by inflation) to cover the Transportation Assets' renewal deficit. Adherence to the planned contributions will be/has been necessary, in order to be considered more successfully for any grant, along with ensuring that sufficient provisions are made to renew assets.

Past and current Councils have been diligent in making these provisions for Transportation assets. Similarly, the current budget provides for an increase in expenditures that will go towards the Transportation capital-funding deficit of $345,000 for roads and storm sewers.

Additionally, Council will need to address how to deal with the underfunding of non-infrastructure assets, (eg Buildings, Land Improvements, and Machinery & Equipment) which will further impact on future budgets and the condition of the assets. The non-core Asset Management Plan, (AMP) mandated by the Province is currently underway and will be brought forward in Q2 of 2023. It will identify the condition of these assets and the underfunding and phase in strategy. Provision this year has been increased by $280,000.

It should be noted that the increase in Hydro interest will fund $156,700 of the increase. (discussed further below)

On a combined basis for both infrastructure and non-infrastructure, we estimate an under-funding of $8.2 Million PER YEAR (pending update by the non-infrastructure AMP)

A chart has been provided that shows the funding position for each asset category.

Debt/Unfunded Capital

The City presently has a total of $575,000 in external debt outstanding as at December 31, 2022, which relates strictly to the City Hall relocation to Schmon Parkway, which will be fully paid off in 2026.

The Capital Budget Section also includes Financing Proposals for Unfunded Capital Projects, which have utilized internal financing from available reserve cash balances. The balances to be funded are as follows:

Project	Balance Projected Dec 31/22	Term
Outdoor Pool	$932,000	To 2026
City Hall	$109,000	To 2025
Energy Retro Fit	$448,000	To 2027
Arena Remediation Projects 2016 &2017	$1.14 Million	To 2029
Arena Ice Plant	$428,000	To 2028
Arena Doherty Roof	$-55,000	To 2031
Canada Games Facility	$1.102 Million	To 2039

Project	Balance Projected Dec 31/22	Term
Quonset Hut	$165,000	To 2030
Battle of Beaverdams Park	$472,000	To 2029
Fire SCBA	$498,000	To 2028
Fire Station 1	$1.102 Million	To 2045
Operations Centre Design	$69,000	To 2023
Operations Centre Construction	$2.245 Million	To 2046
TOTAL	**$8.655 Million**	

Provisions have been made in the previous and current budgets, to accommodate the financing costs for the above projects.

TAB: GENERAL EQUIPMENT

The section includes the 10 year General Equipment Replacement Schedule, and Corporate summary.

Total vehicle fleet and equipment have an estimated replacement value of $14.4 million. We have for a number of years identified the need to increase our replacement contribution to avoid deficits in the General Equipment Reserve, which was set up to fund the purchase of vehicles and equipment, with regular contributions from the Operating budget. Theoretically, proper funding should reflect life cycle costing and depreciation of the fleet. Due to budgetary constraints, the increase in contribution has not been fully implemented year after year, with vehicle/equipment replacement deferred to mitigate ratepayer impact.

We see that in a number of years, ie. 2024, the Reserve will be in a deficit position, based on the planned purchases and funding, and we will have to consider debt issuance/internal financing with a corresponding levy impact and/or deferral of purchases.

To adequately provide for renewal of our fleet & equipment, the target replacement should be $1,174,000 per year. In fact, we are funding at a level of $789,000, for a funding shortfall of $415,000 per year (included in Capital Asset Renewal numbers above) In addition, inflation, insurance, and fuel increases to fleet operational costs, will continue to erode the level of replacement contribution.

We await the results of our fleet rationalization study, which may modify the above.

TAB: RESERVE & RESERVE FUNDS

Excluding Hydro

Located in the "Reserve" Section are the Reserve & Reserve Fund detailed sheets and summary.

Reserve & Reserve Funds are shown with total balances and with uncommitted balances. Total balances show the balance projected to be in the account at year-end, and ignores commitments which have been made from the reserves, for current or future obligations or capital projects. The uncommitted balance accounts for these obligations and reflects the true value available.

We estimate a projected available balance of $68.1 Million (excluding internally funded projects). However, it should be further noted that while there may be a balance available, for the majority (82%) of the reserves, it is only available for the specific or legislated purposes, which cannot be repurposed for other uses, with the bulk of the funds held for Water and Sewer and Development Charges. Present operating and capital reserves are below the targeted levels.

Further utilization and erosion of the reserve levels, will impact negatively upon future years' budgets.

Hydro Reserve

Also in the "Reserve" Section:

The Hydro Reserve is shown separately with interest proceeds of $560,000 forecast for 2023.

Utilization proposed is as follows:

- $162,700 for Capital Assets' Renewal,
- $200,000 for Capital Transportation Assets Renewal
- $150,300 for debt servicing City Hall project, consistent with previous budgetary levels. (ends 2026)

It should be noted that the Hydro Interest is projected to contribute a combined total of $513,000 to the provision for capital items, as proposed for 2023. This represents a reduction to the levy & capital of 2.7% impact, in comparison to where the existing levy & capital funding would be if it were not for the hydro interest contribution, and spending levels remained the same.

The Hydro interest has provided capital levy support of over $12 Million since 2001.

The Hydro Interest 10 year forecast is provided for indication only, with Council having the opportunity to review on an annual basis. In effect, Council approves the current year figures only, as part of the annual budget.

TAB: OTHER

The last tab in the package includes the budget requests submissions from the Library and the BIA.