

**City of Thorold**  
**2024 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 Council 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 2.99% change.

## **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 2023 Budget are summarized on Schedule 1 in this section.

### **What Property Owners Can Expect**

The **Estimated** Impact to the Average **Residential** Home valued at \$273,600 in 2024 (based on existing tax ratios)

- City General Levy : \$52
- City General Levy (2023) represents roughly 39% of the total Residential bill
- 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.

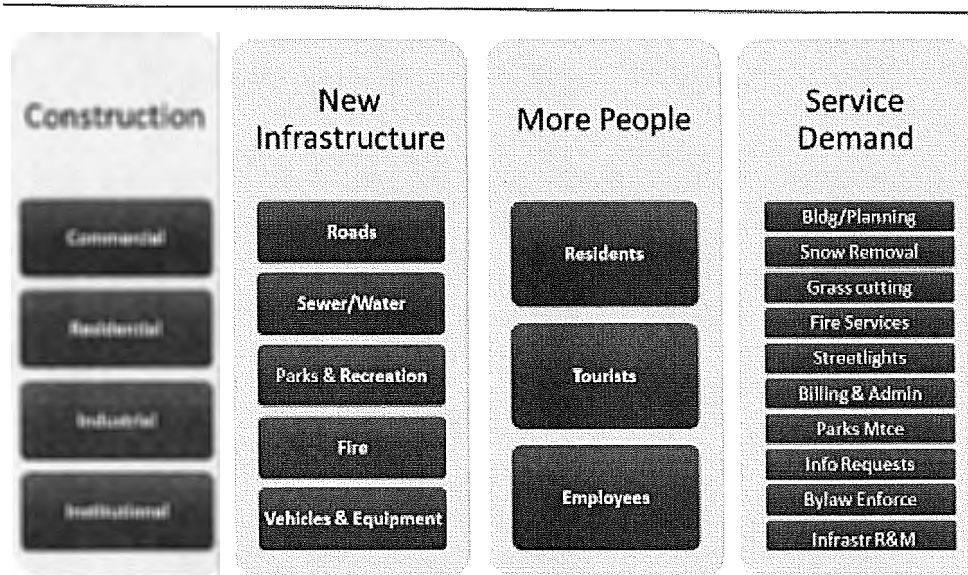
## **TAB: OPERATING BUDGET & IMPACTS**

### **Proposed 2024 Operating Budget**

The Operating Budget, as presented, provides for gross operating expenditures of \$35.3 million, an increase of 9.4%, or \$3.1 Million over last year's expenditures. Non Tax Revenues have increased by 3.5%, or \$1.11 Million representing a net deficit of \$1,923,417 or 9.47%.

The City experienced assessment growth of 6.48%, based on weighted assessment using projected Regional tax ratios, however, with growth comes the need to provide the services to the new areas, and to fulfill this need, the budget includes

enhanced staffing to enable provision of the services to these areas/additional residents, without negatively impacting existing areas/residents. The demands and impacts of the growth cycle can be viewed in the following table:



With construction development, new infrastructure is required. The new construction brings in more people, be it residents, tourists or employees. This increase in infrastructure and people will increase the demands for service, which will in turn increase our operating expenditures. This demand for service starts with the Planning Department, and then the Building Department, as the developments occur. It then filters down to and requires increases to all departments to service the established developments, eg. Snow plowing, street sweeping, grass cutting, maintenance and repairs for water and sewer, roads, streetlight hydro, Bylaw enforcement, Fire Services, Parks Maintenance, capital renewal provisions and maintenance, billing and administrative functions. Our growth over the past number of years has been significant with a 27% increase in population from 2016 to 2021. During the same period, we experienced 17% increase in weighted assessment. From 2022 to 2024, we have seen additional growth of 18% in weighted assessment.

The cost to service growth was confirmed and recommended in the recently completed Organizational Review which identified the immediate need for 24 new positions. In order to mitigate the impact, 21 positions have been included, with varying start dates, and 3 positions deferred, ie. Fleet Supervisor and Cemetery/Parks supervisor; and In-house Legal Counsel. Business cases for the recommended positions will be provided to Council under separate cover prior to budget deliberations.

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

	<b>Departmental</b>	<b>Infrastructure</b>	<b>Total</b>
Gross Levy Change	6.80%	2.67%	9.47%
Growth	-4.65%	-1.83%	-6.48%
<b>NET LEVY CHANGE</b>	<b>2.15%</b>	<b>0.84%</b>	<b>2.99%</b>

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 \$15.5 Million. Of this approximately:

- \$925,000 relates to reductions to operating costs
  - \$185,000 due to deferrals in staffing costs
  - \$632,000 due to reductions in capital base funding and utilization of reserves for capital works. This will impact on future budgets.
  - \$109,000 due to reductions other expenses.
  
- For the remainder of \$ 14.6 Million in Capital, the largest items relate to the deferral of:
  - Sullivan/Clairmont (Pine to Ormond) \$5.6 Million
    - Road Work \$3.2 Million
    - Sanitary \$1.0 Million
    - Water \$0.7 Million
    - Storm \$0.7 Million
  
  - South Main St Bridge - \$4.0 Million

- Ross St \$1.3 Million
  - Road Work - \$500,000
  - Storm Sewer -\$500,000
  - Water - \$200,000
  - Sanitary -\$100,000

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. Reductions to reserve levels and capital funding erosion will impact upon future budgets, requiring either deferral of capital projects and/or internal/debt financing with corresponding servicing costs to the levy.

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 2024, 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 \$25.66 million, and also identifies projects which were previously approved, yet remain uncompleted, estimated as at October 31, 2023 at \$28.0 million. (\$1.0 Million Replace Fire Vehicle; \$7.3 Million relates to Fire Station and Operations Centre builds and \$2.2 Million to St Davids Rd Phase 1; \$2.2 Million to Broderick Phase 1; South Main St Bridge Design \$458K; Water Meter Retrofits \$2.3 Million; Parks \$3.5 Million). The value of the projects to be completed during 2024 is estimated at \$53.78 million.

The major new projects categories of the \$25.66 Million budgeted for 2024 are for:

Roads & Storm Sewers	\$ 10.8 Million
Water and sewer	\$ 4.59 Million
Community Services	\$ 6.61 Million
Fire	\$ 1.62 Million

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

St Davids Rd (Ormond to Foley) Roads, Sewers, Water	\$6.4 Million
Broderick Ave - Roads, Sewers, Water	\$2.9 Million
Fire Truck Replacement	\$1.4 Million
Lakeview Cemetery Admin Building	\$1.3 Million
New Mausoleum	\$3.0 Million
Port Robinson Rd (406-Egerter) Urbanization	\$1.3 Million
Decew Rd (Ivy to Richmond) Roads, Sewers, Water	\$1.6 Million

### **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 2025-2034, we anticipate a total capital forecast (excluding Vehicle & Equipment Replacements) of \$144.8 million. Potential funding sources have been identified for \$101 million, leaving a capital funding gap, or shortfall of \$43.8 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

### **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.

Previous Council have approved the allocation of CCBF (Canada Community Building Fund), formerly the Federal Gas Tax funds wholly to Transportation, along with a phase-in of the infrastructure deficit over 15 years, 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 \$421,000 for roads and storm sewers.

The Province also mandated that AMP for non-core assets be completed by July 2024. The City completed this plan in 2023. This plan also showed, as expected, an underfunding in capital renewal provisions, with phase-in recommended over 15 years, with adjustments for inflation and new assets. Provision this year has been increased by \$235,000.

On a combined basis for both infrastructure and non-infrastructure, we estimate an under-funding of \$6.3 Million PER YEAR based on existing assets and existing replacement costs.

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

**Debt/Unfunded Capital**

The City presently has a total of \$440,000 in external debt outstanding as at December 31, 2023, 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:

<b>Project</b>	<b>Balance Projected Dec 31/23</b>	<b>Term</b>
<b>Outdoor Pool</b>	\$704,000	To 2026
<b>City Hall</b>	\$69,000	To 2025
<b>Energy Retro Fit</b>	\$361,000	Pay off 2024 Recommended
<b>Arena Remediation Projects 2016 &amp;2017</b>	\$992,000	To 2029
<b>Arena Ice Plant</b>	\$777,000	Pay off 2024 Recmd

<b>Project</b>	<b>Balance Projected Dec 31/23</b>	<b>Term</b>
<b>Arena Doherty Roof</b>	\$170,000	To 2031
<b>Canada Games Facility</b>	\$1.049 Million	To 2039
<b>Quonset Hut</b>	\$145,000	To 2030
<b>Battle of Beaverdams Park</b>	\$408,000	To 2029
<b>Fire SCBA</b>	\$422,000	To 2028
<b>Fire Station 1</b>	\$8.2 Million	To 2045
<b>Operations Centre Construction</b>	\$7.1 Million	To 2049
<b>TOTAL</b>	<b>\$20.4 Million</b>	

Provisions have been made in the previous and current budgets, to accommodate the financing costs for the above projects. It should be noted that in order to assist in the achievement of a net levy change of less than 3%, reserves in the amount of \$1.425 Million have been utilized to pay down the Energy Retrofit and Arena Ice Plant 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 \$20.1 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. 2025, 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 \$1,632,000 per year. In fact, we are funding at a level of \$669,000, for a funding shortfall of \$994,000 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.



## **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 \$56.7 Million (excluding internally funded projects). However, it should be further noted that while there may be a balance available, for the majority (87%) 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.

Utilization of reserves for 2024 to fund projects resulted in a decline in available capital and operating reserves of \$4.4 Million.

Further utilization and erosion of the reserve levels, will impact negatively upon future years' budgets and the ability to fund projects without a corresponding levy impact and/or a deferral in projects.

### **Hydro Reserve**

Also in the "Reserve" Section:

The Hydro Reserve is shown separately with interest proceeds of \$600,000 forecast for 2024.

Utilization proposed is as follows, identical to the 2023 allocations:

- \$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 2024. This represents a reduction to the levy & capital of 2.5% 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 \$13 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. We have yet to receive the budget from the BIA, and have utilized last year's numbers as a place holder. This will be updated once received.