



## Corporate Services

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**Prepared for: Council-in-Budget Committee**

**Report: CBC-01-2024**

**Meeting Date: November 15, 2023**

**File: File Number 230101**

### **Title**

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2024 Capital Budget and 2025 to 2034 Forecast

### **1. Recommendations**

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**That:** Council approves the 2024 Preliminary Capital Budget of \$10,809,861 as per Appendix 1 to Report CBC-01-2024 and directs staff to submit the By-law for Council approval on December 18, 2023, and further

**That:** Council defers approval of the balance of the 2024 Capital Budget of \$16,413,800 as per Appendix 2 to Report CBC-01-2024 to February 26, 2024 with consideration of the 2024 General Levy Budget By-law, and further

**That:** Council approves the exclusion of amortization from the 2024 Operating Budget as required by Ontario Regulation 284/09.

### **2. Relation to Council's Corporate Strategic Plan**

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Priority: Choose an item.

Identified on individual capital worksheets.

Initiative: N/A

### **3. List of Stakeholders**

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Mayor & Council

Town of Fort Erie Ratepayers

Developers

Contractors  
Niagara Region

#### 4. Purpose of Report

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This report provides highlights of the proposed 2024 Capital Budget and ten-year forecast. It also provides the related 2024 Operating Budget impacts and identifies risks associated with funding and maintaining levels of service (LoS).

#### 5. Analysis

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##### Background

The Town's 2024 Capital Budget program submitted is generally based on existing master plans and assessments, the draft 2024 Development Charges (DC) Background Study, and the Asset Management Plan (AMP) and Council's Strategic Plan. These strategic documents identify priority needs and investments necessary for growth and maintaining LoS based on minimizing long-term costs, risks and available funding.

The Town approved AMP Phase 1 for core infrastructure (i.e., roads, bridges, storm, water, wastewater, facilities) July 8, 2019 (Report IS-21-2019). The mandatory five-year update and Phase 2 inclusion of all remaining assets (e.g., fire, parks natural asset inventory) is due in 2024 and is currently underway and will include all assets to comply with legislated requirements (O. Reg. 588/17). The AMP guides corporate decision making related to the construction, operation, maintenance, replacement, expansion and disposal of Town assets. It incorporates available asset studies to provide a financing strategy for the core asset classes. The AMP consolidates LoS and risk assessments to identify priority replacement and is used to evaluate funding gaps, which is the difference between required and actual spend to maintain assets at the prescribed condition levels on a network basis.

##### Capital Expenditures

The proposed 2024 Capital Budget consists of 72 projects at \$27,223,661. Budget Policy notes the advantage of tendering projects early in the budget process to obtain lower pricing and provide lead time to ensure availability. Due to ongoing supply chain issues, such lead time is especially important for time-sensitive projects. The Capital Budget is therefore divided into the following two parts to initiate early approval:

- The "Preliminary Capital" budget (Appendix 1) is funded from existing Reserve fund balances and recommended for by-law approval on December 18, 2023.
- The "General Capital" budget (Appendix 2) is used where existing Reserve fund balances are not sufficient to support the recommended program and requires 2024 General Levy base or incremental funding (e.g., debt) and therefore approval is deferred until the 2024 Operating Budget is approved.

All projects are supported with an individual project worksheet included as Tab 4 of the electronic budget package. Forecasted projects will be detailed in worksheets in the future year's budget. Capital project worksheets include estimated Operating Budget impact associated with the capital

project to ensure there is an adequate allocation of operating funds for asset operation, maintenance and lifecycle replacement.

The Capital Budget is broken down by department or service area as follows:

**Table 1:**

Department	2024 Budget
CCS - Corporate and Community Services	\$235,750
PDS - Planning & Development Services	\$2,110,000
FES - Fire & Emergency Services	\$650,000
IS - Infrastructure Services	\$24,227,911
<b>TOTAL</b>	<b>\$27,223,661</b>

### Capital Funding

The 2024 Capital Budget is funded as follows:

**Table 2:**

Funding Source	% of Budget	2024 Budget Financing
Reserves	51%	\$13,886,551
Debenture	0%	\$0
<b>Total Levy Sources</b>	<b>51%</b>	<b>\$13,886,551</b>
Development Charges	32%	\$8,712,499
Canada Community-Building Fund	7%	\$1,928,611
Other contributions (e.g., drainage landowners)	3%	\$922,000
Grants (e.g., OCIF)	7%	\$1,774,000
<b>Total External Sources</b>	<b>49%</b>	<b>\$13,337,110</b>
<b>TOTAL CAPITAL</b>	<b>100%</b>	<b>\$27,223,661</b>

### Reserves

Capital Reserves receive annual contributions from Operating Budgets and are the primary source for funding capital. Reserves should address priority replacement for the current year and maintain a balance to address unknown development requirements, construction cost variances, and matching funds for grant opportunities.

The total Capital Reserve balance projected for the end of 2023 is \$27.6 million. Base annual contributions for 2024 are \$13.9 million (including Water and Wastewater) and the recommended 2024 inflationary increase has been limited to 6.5% or \$884,480 for both levy and rate capital reserves. This rate has been shown to be much higher for capital needs in recent indices, as noted in the budget planning report, and are considered prohibitive. The Statistics Canada Residential Construction Price Index for 2024 and the last 2 budgets are rates of 13.0%, 26.5% and 22.4%. The Non-Residential rate for the same period are rates of 6.6%, 15.6% and 11.7%. When compared with the rates that Town capital contributions increased, this produces an annualized asset gap or deficit ranging from \$2.27 million to \$6.87 million. Staff use the most current and relevant pricing information for projects and these inflationary increases will be tracked over multiple years to identify effects, with changes expected to lessen in future periods. The primary effect identified for the current Budget is that most programs are falling behind with

projects being delayed beyond the 10-year forecast horizon. Strategic increases will need to be revisited with future Operating Budgets to address these gaps. Staff made a number of efforts to address anticipated reserve funding shortfalls in 2023 by transferring funds from the 2022 audited surplus and with the projected variances in the second quarter. This was still not enough to prevent shortfalls, as the Road Reserve is projected to end 2023 with a \$0.7 million deficit and \$250,000 is proposed to be transferred from the General Levy Rate Stabilization Reserve to the Storm Reserve.

### Debenture Financing

The Capital Budget includes previously forecasted debt for Point Abino Road South reinstatement (PARR20) of \$2.08 million and includes forecasted debt of \$3.5 million for Six Mile Creek Flooding (SMCF23) in 2025 and \$3.624 million for Fire Station #3 replacement (FSTN30) in 2029. All projects are expected to have the debenture secured in the year following project completion and results in Levy impacts on the bottom line of Table 3. Debt was last issued in 2023 to fund \$3.2 million of the Bridgeburg District Streetscape Improvements (BRID18) project and the issuance of \$3.9 million for Fire Station #4 (FSTN19) was delayed by the Region until 2024.

**Table 3: Impacts of Capital Budget debt issues**

	2024	2025	2026
FSTN19 - Fire Station #4, 10 year [previously approved]	\$3,916,273		
PARR20 - Point Abino Road South Reinstatement, 20 year [previously approved]	\$2,080,000		
SMCF23 - Six Mile Creek Flooding, 15 year		\$3,500,000	
Total Debt issue	\$5,996,273	\$3,500,000	\$0
Cumulative debt charges of above (principal impacts begin year after issue)	\$151,607	\$756,892	\$1,002,695

**Fire Station #4 (FSTN19):** Previously approved but unissued 10-year debt of \$3,916,273 relates to this project that was capitalized in Report No. CS-17-2022. This debt was delayed by the Region to an expected issuance in 2024. Revised estimates of debt costs at current rates are \$498,000 per year. The capital reserve forecasts do not include any repurposed debt charges.

**Point Abino Road South Reinstatement project (PARR20):** Debt of \$2,080,000 was forecast for 2024 in the 2023 Capital Budget. The project is still under review for elements that may add climate resiliency costs. The 20-year debt results in 2024 interest estimates of \$47,840 and full annual costs of \$160,000 forecast for 2025.

In October of 2023, the project reached the 90% detailed design milestone. Alongside the submission of the 90% detailed design drawings, a revised cost estimate was received from the Town's consulting engineering firm retained to complete the detailed design. This cost estimate reflects the reconstruction of the roadway with an improved vertical profile, approximately 675 metres of shoreline protection, and the replacement of the existing watermain. The revised total capital replacement cost is estimated at \$6.4 million with an additional \$0.5 million for engineering services during construction. Due to the financial implications and capital budget pressures experienced in the design and construction industry for municipal infrastructure, Infrastructure Services will be recommending that Point Abino Road be reconstructed as per

previous existing conditions, using the \$1.67 million Municipal Disaster Recovery Assistance (MDRA) funding, through the approved budget of \$4.6 million in 2023. Further impacts to reserves and debt through inflationary asks will be minimal through this approach.

To better plan for the protection of Fort Erie's shoreline along Lake Erie, IS will be developing terms of reference and an engineering cost estimate for a Shoreline Protection Master Plan (SPMP). The objective of the SPMP will be to identify strategic areas along the shoreline that require flooding and erosion protection, either in water or on land, and seek federal and provincial partnerships for implementation. This approach will prioritize high-risk areas prone to flooding and erosion and develop a sustainable approach to the design, construction, and maintenance for shoreline protection of the approximate 25 kilometres of shoreline within the Town along Lake Erie.

**Six Mile Creek Flooding (SMCF23):** Debt of \$3,500,000 is forecast for 2025. The 15-year debt results in 2025 interest estimates of \$89,775 and full annual costs of \$336,000 forecast for 2026. Although debt is shown for this project, final funding has not been determined.

The Town has a debt charges to total revenues rate of 1.56% which is well below the mandated annual repayment limit of 25%. Including the proposed projects, debt charges are estimated to reach as high as 3% of total revenues in 2025 once all debt is issued and all principal payments have begun. Provincial financial indicators are used to measure flexibility related to debt, and a measure of less than 5% represents low risk.

The past two capital budgets have described this level of new debt as unusual for the Town. However, based on growth needs and economic pressures, this is trending to be a greater requirement in this and future budgets as asset costs rise at a high rate. The Town has been diligent to establish and grow reserves and could consider borrowing from these strategic reserves to reduce or eliminate proposed debt. However, debt is an important mix in available funding sources and contributes a healthy role, even in the current rate environment in which debt continues to have comparatively lower rates than forecasted reserve investment returns.

Current general debt guidelines minimize risk and maintain financial flexibility by reserving debenture financing for new or growth capital rather than replacement infrastructure where possible so future generations benefiting from the use of the infrastructure can assist with cost. The following Table 4 is a comparison of projected 2023 closing reserve and debt balances.

**Table 4:**

	<b>2023 Debt</b>	<b>Reserves</b>	<b>Debt:Reserves Ratio</b>
Capital	\$4,355,888	\$27,636,001	0.16:1
Development Charges	\$1,831,000	\$18,500,415	0.10:1
<b>TOTAL</b>	<b>\$6,186,888</b>	<b>\$46,136,416</b>	<b>0.13:1</b>

### **Development Charges (DC) Reserve**

The current DC Study By-law expires March 18, 2024 and the revised draft Study, scheduled for Council on December 11, has been used to inform and align with the 2024 Capital Budget. The projected opening, uncommitted DC Reserve balance for 2024 is \$15.3 million. Expenditures are applied against the available service categories defined by the DC by-law. The 2024 Capital Budget identifies \$8,712,499 in DC funding for growth projects such as the Gibson Centre

Expansion and West Main Street Storm Sewer Replacement. Individual capital project sheets identify the funding source and may have multiple funding sources. This large increase in reliance underscores the massive importance that this funding source provides in helping to minimize tax and rate increases. It's critical to note that the rate and pace of collections is severely inadequate to fund the related growth which has been exacerbated by recent provincial legislation that increases exemptions and severely restricts the amounts municipalities can recover (e.g., mandatory phase-ins). Current estimates, based on the draft DC Study, result in DC Reserves becoming a deficit in 2030, with major projects bringing the Reserve to a deficit of \$40 million in 2034. This means the Town would need to incur significant debt to pay the Town's share of growth assets, such as was last done when water and wastewater DCs were used in 2011 and 2012 to fund the Frenchman's Creek, Garrison Rd and Thompson Rd projects. These growth assets will have the benefit of bringing increasing assessment and customer bases, but will also impact operating budgets with maintenance and lifecycle costs (i.e., amortization).

### **Community Benefits Charges (CBC)**

The Town's new CBCs were established by By-law 134-2023 following Report No. PDS-53-2023. The program is intended to offset the cost of additional services attributable to growth, but the above report noted the insufficiency of forecasted revenue for the 10-year study period to pay for the growth (e.g., estimated to be 21% to 48%). The 2024 Capital Budget does not rely on any funding but it is expected that future budgets will begin to identify and rely on this source as information is refined.

### **Canada Community-Building Fund (CCBF)**

The 2024 Capital Budget uses CCBF (i.e., previously Federal Gas Tax) funding of \$1,928,611 sourced from the 10-year agreement that began in 2014. Payment for 2023 was \$1,016,319 with the same amount expected for 2024 with no agreement beyond that. 2024 funds are applied to Road resurfacing and Bridge & Culvert replacement.

### **Donations, Grants and Other**

Funding from landowners within pertinent watersheds is included for those benefiting from municipal drainage works and will be recovered when final construction costs are determined and apportioned by the Drainage Engineer. The 2024 budget includes contributions of \$872,000.

Grants are accessed where possible and may be substituted for approved funding, such as the Region's Combined Sewer Overflow (CSO) program. The Town is expecting Ontario Community Infrastructure Fund (OCIF) - Formula-Based Funding for 2024 but, to date, the Province has not announced specific allocations. In 2023 the Town received \$2,087,115 which was allocated to 3 infrastructure projects and the 2024 budget includes \$1,774,000 for Elm Street Watermain, West Main Street Storm Sewer, and Road Resurfacing. Water meter installations for new accounts are offset through sales of the meter for new builds, which is estimated at \$50,000 for 2024.

### **Operating Budget Impacts**

Capital Budget project worksheets identify related Operating Budget impacts. In particular, new or growth-related assets result in increased operating and maintenance costs and affect reserve requirements for future replacement. The operating increases will be separately identified in the

General Levy and are listed in Appendix 3 by department and by account. The overall operating impact for 2024 is \$264,086 (2023: \$146,617) which includes wages, materials, contracts, and new amortization costs. The Reserve Policy requires a contribution to Capital Reserves to be budgeted to fund annual amortization charges when the construction of new capital infrastructure is authorized. Debt charge impacts identified above are budgeted in the year of debt issuance following construction. There are significant impacts that will begin in the year operation begins (e.g., Gibson Centre expansion janitorial, software licencing, fleet fuel).

## **Risks and Opportunities**

Spending required to meet target LoS was presented in the July 2019 AMP based on condition information and assumptions at that time. This is being updated and reviewed with the 2024 AMP. Long-term infrastructure spending requirements and LoS will be re-evaluated to address sustainability for all assets. The Town also continues to gather better condition assessment data (e.g., storm systems). The AMP Update and future budgets will consider financial strategies and contribution rate targets to address gaps.

Due to extraordinary levels of inflation, Infrastructure Services reviewed the existing approved capital program in September 2023 to estimate expected increases related to future project awards so as to have a more realistic view of capital reserve capacity. This exercise identified an additional \$3.69 million in cost pressures that have been removed from reserve balances and forecasts in the 2024 Capital Budget documents.

The 2024 OCIF allocation is estimated above to be \$1.774 million. Forecast periods rely on approximately \$1 million in related annual funding. However, the province has not indicated a commitment to this funding beyond 2026 which is a risk to the program.

The Fleet Division has reviewed a number of areas in relation to capital and maintenance needs. Electrification is being evaluated with consideration given to initial cost, vehicle type offerings, range, emissions, and power access, all with a view to enhance total cost of ownership. Fleet service life is also being updated together with the current AMP to maximize value. Lastly, alternative purchasing options, including opportunities for purchasing used vehicles, are being considered for suitability.

On September 22, 2022, the Financial Accountability Office of Ontario released “Costing Climate Change Impacts to Public Infrastructure: Assessing the financial impacts of extreme rainfall, extreme heat, and freeze-thaw cycles on public infrastructure in Ontario”. The study identified additional climate-related costs for public transportation ranging from 17% to 32%.

An AMP update report was provided July 24, 2023 (Report No. IS-18-2023) to outline asset management initiatives and resource requirements to implement the plan and meet the deadlines required for legislative compliance. Phase 3 involves establishing proposed LoS and lifecycle management and financial strategy by July 1, 2025.

Determining capital project priorities for budget approval is a function of minimizing risk, maintaining reserve balances for variations in annual spending levels, yet still providing ten-year reserve forecasts that provide for long term needs. This enables the lowest long-term costs to residents for the maintenance and replacement of assets. Examples of risks inherent in the program include those that rely on annual contributions paid by developers, including Cash in Lieu of Parkland and also DCs which were discussed above. The timing of cash receipts may

delay projects until actual revenues are collected from developers. Using Town sources to fund growth projects is a risk to sustaining current infrastructure service levels.

Staff monitors and reports on existing projects semi-annually for closure and capitalization. This addresses variances (“surplus/deficit”) by allocating funding with the related reserves. This has the potential to impact future availability of reserve funding. Additional projects may also arise during the Budget year for Council to consider.

The Town continues to build on the Corporate Software Review approved in Report No. COS-01-2021 that identified opportunities to integrate and modernize systems. This provided a roadmap to prioritize acquisitions and the implications are being refined. The Asset and Work Order Management System (WOMS21) was awarded in 2023 and other system reviews continue to move forward to find efficiencies (e.g., FSOF22).

Projects for the 2025 to 2034 10-year forecast are included in the Council package. The average annual expenditure for all budget and forecast periods is \$31.2 million.

## **6. Financial, Staffing and Accessibility (AODA) Implications**

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The Municipal Act requires financial statements and Operating Budgets be prepared in accordance with Public Sector Accounting Standards (PSAS) with capital asset amortization included in the Operating Budget. Amortization accounts for the cost of an asset each year over its estimated useful life. It is based on the historical cost of assets and therefore understates the long-term cash requirement for asset replacement but it can be used as a benchmark of a minimal investment required for capital.

The Province issued Ontario Regulation 284/09 in 2009 such that, if amortization is not included in the budget, municipalities must report an estimate of the change in the accumulated surplus that results from excluding capital asset amortization from the Budget. This regulation was in effect until 2012 but is still under review by the Province and information suggests that the regulation will be maintained in its current form. That is, the Town will not be required to budget for amortization but to report the impact.

2024 capital reserve contributions include base amounts approved in 2023 of \$9.5 million for the General Levy and \$4.4 million for Water & Wastewater. These exceed estimated amortization for both General Levy of \$7.2 million and Water & Wastewater of \$2.3 million and result in an accounting surplus.

## **7. Policies Affecting Proposal**

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By-law No. 136-2023 adopted Council’s 2023-2026 Corporate Strategic Plan.

By-law No. 127-09, as amended, adopted the Budget Policy.

By-law No. 89-09 adopted the Capital Asset Policy.

By-law No. 93-12, as amended, adopted the Reserve Policy that governs the strategy for infrastructure reserve funding to address the legislative and long-term capital needs.

By-law No. 47-2019, as amended, approved DCs.



By-law No. 78-2019 adopted the Asset Management Policy.

Ontario Regulation 284/09 allows a municipality to exclude amortization from the Operating Budget provided the impact is reported to and approved by Council

## **8. Comments from Departments, Community and Corporate Partners**

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All managers and directors submitted their 2024 budget and ten-year capital requirements and reviewed the proposals and financial implications.

## **9. Alternatives**

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Individual capital projects will be considered at the Council-in-Budget Committee meeting. Council may consider other levels of long-term reserve funding together with the General Levy Operating Budget at the January 31, 2024 meeting.

## **10. Communicating Results**

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2024 Capital Budget information will be communicated through media releases and social media updates. A public brochure is available to share the state of the Town's Corporate Asset Management Program and provide an overview of areas such as LoS report card, funding sources, current state and future plans.

## **11. Conclusion**

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The proposed 2024 Capital Budget is \$27,223,661 and meets requirements to rehabilitate and replace capital assets identified in the AMP. The preliminary Capital Budget By-law is scheduled for December 18, 2023 and the general Capital Budget By-law is scheduled for approval with the Operating Budget February 26, 2024.

## **12. Report Approval**

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Submitted by:

Jonathan Janzen, CPA, CA  
Director, Corporate Services

Approved by:

Chris McQueen, MBA  
Chief Administrative Officer

## **13. Attachments**

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Appendix 1 – 2024 Preliminary Capital Budget  
Appendix 2 – 2024 General Capital Budget  
Appendix 3 – Operating Budget impact of 2024 Capital approvals