



## Corporate Services

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

**Report: CBC-01-2025**

**Meeting Date: November 25, 2024**

### **Title**

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2025 Capital Budget and 2026 to 2035 Forecast

### **1. Recommendations**

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**That:** Council approves the 2025 Preliminary Capital Budget of \$12,988,900 as per Appendix “1” to Report CBC-01-2025 and directs staff to submit the By-law for Council approval on December 16, 2024, and further

**That:** Council defers approval of the balance of the 2025 Capital Budget of \$13,049,512 as per Appendix “2” to Report CBC-01-2025 to February 24, 2025 with consideration of the 2025 General Levy Budget By-law, and further

**That:** Council approves the exclusion of amortization from the 2025 Operating Budget as required by Ontario Regulation 284/09.

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

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Priority: Identified on individual capital worksheets

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

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Mayor & Council  
Town of Fort Erie Ratepayers  
Developers  
Niagara Region

### **4. Purpose of Report**

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This report provides highlights of the proposed 2025 Capital Budget and ten-year forecast. It also provides the related 2025 Operating Budget impacts and identifies risks associated with funding and maintaining levels of service (LoS).

## 5. Analysis

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The Town's 2025 Capital Budget program submitted is generally based on existing master plans and assessments, the 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 with Report IS-21-2019 and Phase 2 with all remaining assets (e.g., fire, parks) July 8, 2024 with Report IS-05-2024 to comply with O. Reg. 588/17. The AMP guides corporate decision making related to the construction, operation, maintenance, replacement, expansion and disposal of assets using available asset studies and consolidates LoS and risk assessments to identify priority replacement. The "what-if scenarios", risk management and detailed plans to implement a financial strategy have yet to be coordinated and completed and will be done in advance of the July 1, 2025 provincial deadline. Based on work done with Infrastructure Services, the AMP "has identified an annual funding gap of \$12 million to maintain current LoS, and an annual gap of \$29 million to meet the proposed LoS as per lifecycle strategies that have been documented throughout this plan".

### Capital Expenditures

The proposed 2025 Capital Budget consists of 66 projects at \$26,038,412. Budget Policy notes the advantage of tendering projects early in the budget process to obtain lower pricing and provide lead time to ensure availability. 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 16, 2024.
- The "General Capital" budget (Appendix 2) is used if existing Reserve fund balances are insufficient to support the program and requires 2025 General Levy base or incremental funding (e.g., debt) and therefore approval is deferred until Operating Budget approval.

All projects are supported with individual project worksheets included as Tab 4 of the electronic budget package. Forecasted projects will be detailed in worksheets in the future year's budget. Project worksheets include estimated Operating Budget impacts to ensure there is adequate funds for asset operation, maintenance and lifecycle replacement. The Capital Budget is broken down by department or service area as follows:

**Table 1:**

Department	2025 Budget
CCS - Corporate and Community Services	\$680,150
PBBS - Planning, Building & By-law Services	\$760,000
FES - Fire & Emergency Services	\$397,000
IS - Infrastructure Services	\$24,201,262
<b>TOTAL</b>	<b>\$26,038,412</b>

## Capital Funding

The 2025 Capital Budget is funded with the following sources:

**Table 2:**

<b>Funding Source</b>	<b>% of Budget</b>	<b>2025 Budget Financing</b>
Reserves	67%	\$17,526,456
Debenture	0%	\$0
<b>Total Levy Sources</b>	<b>67%</b>	<b>\$17,526,456</b>
Development Charges	20%	\$5,215,506
Canada Community-Building Fund	1%	\$200,000
Other contributions (e.g., drainage landowners)	2%	\$461,000
Grants (e.g., OCIF)	10%	\$2,635,450
<b>Total External Sources</b>	<b>33%</b>	<b>\$8,511,956</b>
<b>TOTAL CAPITAL</b>	<b>100%</b>	<b>\$26,038,412</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 2024 is \$31.0 million. Base annual contributions for 2025 are \$15.0 million (including Water and Wastewater) and recommended 2025 increases have been limited in the absence of an updated financial strategy to match 2024 increases of \$884,480 for both levy and rate capital reserves. 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.

### Debenture Financing

The Capital Budget includes previously forecasted debt for Point Abino Rd South reinstatement (PARR20) of \$2.08 million in 2026, \$3.8 million for Six Mile Creek Flooding (SMCF23) in 2026, \$3.624 million for Fire Station #3 replacement (FSTN30) in 2029, and \$1.2 million for Hershey Cemetery Development Phase 1 in 2032. All projects are expected to have the debenture secured in the year following project completion. Debt was last issued in 2024 to fund \$3.9 million of the Fire Station #4 (FSTN19) project.

**Point Abino Road South Reinstatement project (PARR20):** Debt of \$2,080,000 was forecast for 2024 in the 2023 Capital Budget. Due to the financial implications and capital budget pressures experienced in the design and construction industry for municipal infrastructure, Infrastructure Services (IS) recommended that Point Abino Road South be reconstructed as per existing conditions without improvements to shoreline protection. In line with this prior recommendation, the capital project was tendered on Friday, November 8, 2024 closing on Tuesday, December 3, 2024; a tender period of approximately three weeks. Based on the 100% Detailed Design cost estimate, the \$1.67 million Municipal Disaster Recovery Assistance

(MDRA) funding and previously committed capital reserve funding from 2024 (roads refurbishing reserve and water refurbishing reserve) are projected to fully fund the proposed works thereby eliminating the need for debenture funding in the amount of \$2,080,000.

**Six Mile Creek Flooding (SMCF23):** Debt of \$3,800,000 is currently forecast for 2026 as a placeholder and is not indicative of final funding determinations, pending completion of the Municipal Class Environmental Assessment. Debt principal and interest estimates have not been reflected in the Operating Budget forecasts for this project for this reason.

The Town has debt charges to total revenues rate of 1.8% which is well below the mandated annual repayment limit of 25%. Including the proposed projects, debt charges are estimated to reach 2.5% of total revenues in 2026 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.

Debt reliance is trending to be a greater requirement in this and future budgets as asset costs rise at a high rate based on growth needs and economic pressures. 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 2024 closing reserve and debt balances.

**Table 4**

	<b>2024 Debt</b>	<b>Reserves</b>	<b>Debt:Reserves Ratio</b>
Capital	\$7,647,889	\$31,748,009	0.24:1
Development Charges	\$1,619,000	\$13,708,562	0.12:1
<b>TOTAL</b>	<b>\$9,266,889</b>	<b>\$45,456,571</b>	<b>0.20:1</b>

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

The current DC Study was approved March 4, 2024 and has been used to inform and align with the 2025 Capital Budget. The projected opening, uncommitted DC Reserve balance for 2024 is \$14.8 million. Expenditures are applied against the available service categories defined by the DC by-law. The 2025 Capital Budget identifies \$5,215,506 in DC funding for growth projects such as the Thunder Bay Road Upgrade and Catherine Street SPS Catchment. Individual capital project sheets identify the funding source and may have multiple funding sources. This large increase in reliance underscores the importance that this funding provides to minimize tax and rate increases. It's critical to note that the rate and pace of collections is inadequate to fund the related growth. Forecasted reliance results in DC Reserves becoming a deficit in 2030, with major projects bringing the Reserve to a deficit of \$58 million in 2035. 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 CBCs were established with By-law 134-2023 following Report 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 2025 Capital Budget does not rely on any CBC 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 2025 Capital Budget uses CCBF (i.e., previously Federal Gas Tax) funding of \$200,000 sourced from the 10-year agreement that began in 2014. The application of funding is balanced over multiple years. Payment for 2024 was \$1,034,411 with \$1,077,512 expected for 2025 with an agreement that extends to 2028. 2025 funds are applied to Road resurfacing.

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

The Town's allocation for the 2025 Ontario Community Infrastructure Fund (OCIF) - Formula-Based Funding is \$2,635,450 and the budget allocates these funds to Road Resurfacing, Lakeshore Road Reconstruction, Walden Blvd Upgrades and Thunder Bay Road Upgrades. In 2024 the Town received \$2,400,182 which was allocated to 4 infrastructure projects.

Grants are accessed where possible and may be substituted for approved funding. Recent applications include Walden Blvd Upgrades to the Housing-Enabling Water System Fund (HEWSF), Thunder Bay Road Upgrades to the Housing-Enabling Core Servicing (HECSF), and Oakes Park Renovations to the Community Sport and Recreation Infrastructure Fund (CSRIF).

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 2025 budget includes contributions of \$411,000. Related construction costs will be forecasted once engineering reports are finalized.

Water meter installations for new accounts are offset through sales of the meter for new builds, which is estimated at \$50,000 for 2025.

### **Operating Budget Impacts**

Capital Budget project worksheets identify related Operating Budget impacts. New or growth-related assets result in increased operating and maintenance costs and affect reserve requirements for future replacement. The increases will be separately identified in the Operating Budgets and are listed in Appendix 3 by department and account. The overall operating impact for 2025 is \$117,746 (2024: \$264,086) 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 new capital is authorized. There are significant impacts that begin in the year operation begins (e.g., software licencing, fleet fuel).

## Risks and Opportunities

Spending required to meet target LoS was presented in the July 2024 AMP based on available condition information and assumptions. 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.

Infrastructure Services reviewed the existing approved capital program in September 2024 to estimate expected increases related to future project awards to have a more realistic view of capital reserve capacity in the environment of high construction inflation. This exercise identified an additional \$5.1 million in cost pressures that have been adjusted from reserve balances and forecasts in the 2025 Capital Budget documents.

The 2025 OCIF allocation is \$2.6 million. However, forecast periods rely on decreasing amounts due to unknown calculations and provincial commitments which is a risk to the program.

Staff responsible for fleet maintenance are reviewing a more refined condition assessment model for each vehicle to develop opportunities for a more accurate fleet strategy over the longer term.

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%.

Determining capital project priorities is a complex function of minimizing risk, maintaining reserve balances for variations in annual spending, yet still providing ten-year reserve forecasts that reflect long term needs. This promotes lowest long-term costs to residents for the maintenance and replacement of assets. Examples of inherent program risks include reliance on annual contributions paid by developers, including Cash in Lieu of Parkland and DCs. 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 as growth results in large, related costs. For example, Infrastructure Services has estimated annual operating costs to be \$45,000 per kilometre for core infrastructure and \$75,000 per hectare of parks.

Staff monitors and reports on existing projects semi-annually for closure and capitalization, most recently through Report CS-09-2024. 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 is building on the Corporate Software Review (Report COS-01-2021) that identified opportunities to integrate and modernize systems. This roadmap to prioritize acquisitions and projects includes projects such as the CityWide Asset and Work Order Management System (WOMS21) and reviews of other systems with the aim to find efficiencies (e.g., ERP, PPLS).

Projects for the 2026 to 2035 10-year forecast are included in the Council package. The average annual expenditure for all budget and forecast periods is \$33.9 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.

2025 capital reserve contributions include base 2024 amounts of \$10.3 million for the General Levy and \$4.7 million for Water & Wastewater. These exceed amortization for both General Levy of \$7.3 million and Water & Wastewater of \$2.4 million and result in an accounting surplus.

## **7. Policies Affecting Proposal**

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By-law 136-2023 adopted Council's 2023-2026 Corporate Strategic Plan.

By-law 127-09, as amended, adopted the Budget Policy.

By-law 89-09 adopted the Capital Asset Policy.

By-law 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-laws 20-2024, as amended, 21-2024 and 22-2024 approved DCs.

By-law 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 2025 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 29, 2025 meeting.

## **10. Communicating Results**

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2025 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 2025 Capital Budget is \$26,038,412 and meets requirements to rehabilitate and replace capital assets identified in the AMP. The preliminary Capital Budget By-law is scheduled for December 16, 2024 and the general Capital Budget By-law is scheduled for approval with the Operating Budget February 24, 2025.

## **12. Report Approval**

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Submitted by:  
Jonathan Janzen, CPA, CA  
Director of Corporate Services

Approved by:  
Chris McQueen, MBA  
Chief Administrative Officer

## **13. Attachments**

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Appendix 1 – 2025 Preliminary Capital Budget  
Appendix 2 – 2025 General Capital Budget  
Appendix 3 – Operating Budget impact of 2025 Capital approvals