



CITY OF KITCHENER

# 2023 Capital Budget

January 23, 2023

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# 2023



# Overview by the CFO



# Budget Calendar

Date	Topic
Dec 12, 2022	Overview, User Fees, WIP & Gas Rates
Jan 9, 2023	Public Input Night
Jan 16, 2023	Operating Budget Day
Jan 23, 2023	Capital Budget Day
Feb 2, 2023	Final Budget Approval

# Budget Overview



## Operating Budget

- \$512 million expenditures in total (i.e. tax supported + enterprises)
- \$231 million expenditures excluding enterprises (i.e. tax supported)
- Annual delivery of programs and services for the community



## Capital Budget

- \$164 million in first year
- \$1.6 billion over the ten-year forecast
- Projects with defined scope that help address our asset replacement needs



## Reserve and Reserve Funds

- \$162 million in total Reserve Funds at end of 2022
- Rate Stabilization Reserves help mitigate risk and potential budget fluctuations
- Some Reserves are established for a specific purpose and use



# Capital Priority Setting

## PRIORITY SETTING TO PROVIDE INPUT TO THE CAPITAL BUDGET



### ASSET REPLACEMENT & REHABILITATION NEEDS

Developed based on asset management plans & condition assessments

Progress being made through the Water and Infrastructure Program (WIP)

Addressing the facility infrastructure gap continues to be a priority

Preventative maintenance activities are also important



### GROWTH RELATED NEEDS

2022 Development Charge Study reflected in forecast

Investments in new infrastructure to support new residents

Maintaining the concept of 'Growth pays for growth'



### STRATEGIC ITEMS

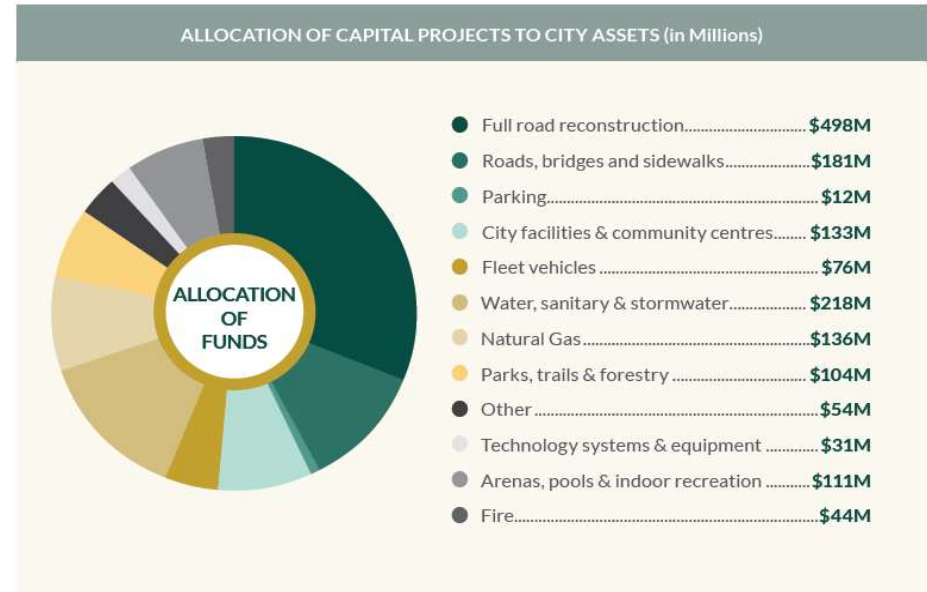
Implementation of items included in the Strategic Plan

Priorities reflecting corporate and community needs



# Capital Budget Summary

- \$1.6 Billion in Capital Improvements
- 10-year Forecast includes 400 projects
- Majority of Capital Budget is focused on Infrastructure Renewal
- Supply chain and inflationary factors are increasing costs for some projects by 30%
- Departments have had to adjust timing of projects in the forecast to work within available funding
- Capital funding requirements/shortfalls will need to be addressed in future budgets



City's infrastructure gap (available vs required funding) over a 10-year timeframe was estimated to be approximately \$442M in 2020



# Capital Funding Sources





# 10 Year Capital Funding Sources

## FUNDING SOURCES THAT COMPRISE 10 YEAR CAPITAL FORECAST



**Enterprises:** Funding transferred from the City's seven Enterprises

**Tax Supported Capital Pool:** Funding from the operating budget, debt, and the gas & hydro utility investment reserves to support the tax supported capital program

**Development Charges:** Funding collected from development for growth related infrastructure

**Reserves:** Funding saved up ahead of time by the City

**Canada Community Building (CCB) Fund:** Formerly known as Federal Gas Tax funding

**Grants:** Funding from other levels of government and other agencies

**Facilities Infrastructure:** Funding from the facilities infrastructure reserve for City building repairs





# 10-Year Capital Funding Sources

<b>Funding Source</b>	<b>2022</b>	<b>2023</b>	<b>Change</b>
Capital Pool	187,769	187,195	(574)
Development Charges	201,727	333,635	131,908
Enterprises	756,594	806,871	50,277
Reserves	103,563	110,323	6,760
CCB Fund	74,823	73,797	(1,026)
Facilities Infrastructure	32,544	36,112	3,568
Grants	53,759	49,184	(4,575)
Other	2,700	1,800	(900)
<b>Total</b>	<b>1,413,479</b>	<b>1,598,917</b>	<b>185,438</b>



# Tax Supported Capital Pool

- Capital Pool (aka C/C) is fully balanced in all 10 years
  - Appendix B, page B1
- Includes:
  - Capital out of Current
  - Annual Debt Issue
  - Gas Utility Investment Reserve
  - Hydro Utility Investment Reserve



# Adjusting the Capital Budget

Adjustments in one area require...

- **CHANGE to OTHER CAPITAL PROJECTS**
  - Current project impact
- **CHANGE in RESERVE CONTRIBUTION**
  - Future project impact
- **CHANGE in C/C**
  - Current tax impact
- **CHANGE in DEBT**
  - Future tax impact



# Debt

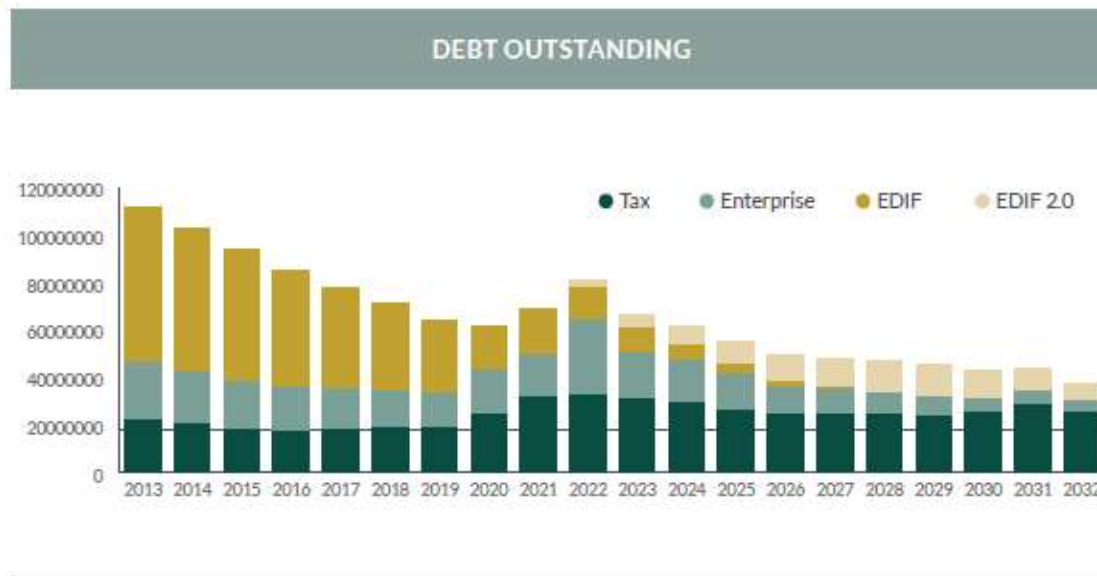


# Debt

- Debt is funding the city has borrowed to complete capital projects
  - Similar to getting a mortgage to buy a house
- Interest rates and terms are fixed when debt is issued with no option to open and renegotiate
  - Like a closed, fixed rate mortgage



# Debt History & Forecast



- City's debt load was at its peak in 2013
- City's debt load has generally been declining for the past decade
- May be a need to issue debt for Development Charge projects in the near future



# Development Charges





# Development Charges (DCs)

- Fees imposed on development to fund “growth-related” capital costs
  - Typically paid at the building permit stage
  - Provisions for delayed payment for some building types
- Principle is that “growth pays for growth”
  - Financial burden is not borne by existing taxpayers



# Development Charges Act

- DC Act sets out details of the method of calculation
  - Act was recently amended via Bill 23
- City updated DC by-law & background study in 2022, with new rates effective July 1, 2022
  - City uses consultant to ensure compliance
  - Administrative changes to comply with legislation
  - Updated project costs & timing



# DC Reserve Forecast



- The 2022 projected balance is positive
- DC reserves projected to turn negative and remain there for a number of years due to significant growth-related projects
  - Schlegel Park Aquatics Centre & Indoor Turf Field
  - Upper Hidden Valley Pumping Station
- Will also have impacts of Bill 23, which are not included in the current projection
  - City may need to defer growth projects and/or issue DC debt



# Reserve Funds (Appendix D)



# Reserve Funds

- Reserve funds have been collected by the City for a specific purpose or an unanticipated event
  - Similar to a personal savings account or RRSP
- Reserve balances have generally been positive, but many are below the minimum funding targets
- The next few slides discuss the City's reserve framework and show reserve levels



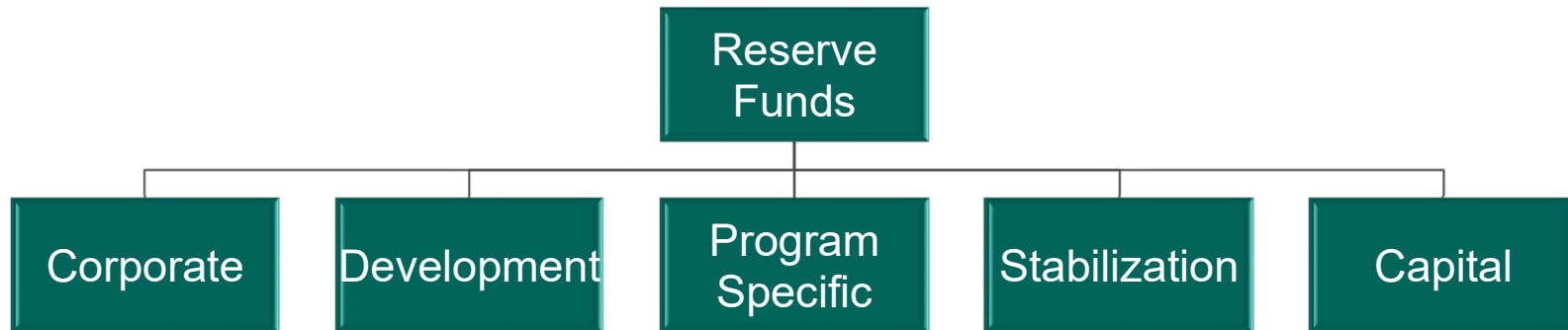
# Reserve Fund Policy Highlights

- Reserve funds will only be used for the specific or intended use for which it was established
- Individual reserve funds should not have a negative balance
- Target levels for each individual reserve fund and for reserve funds as a collective
- Five categories of reserve fund



# Reserve Fund Categories

- Summaries on next few slides broken down into the 5 different categories





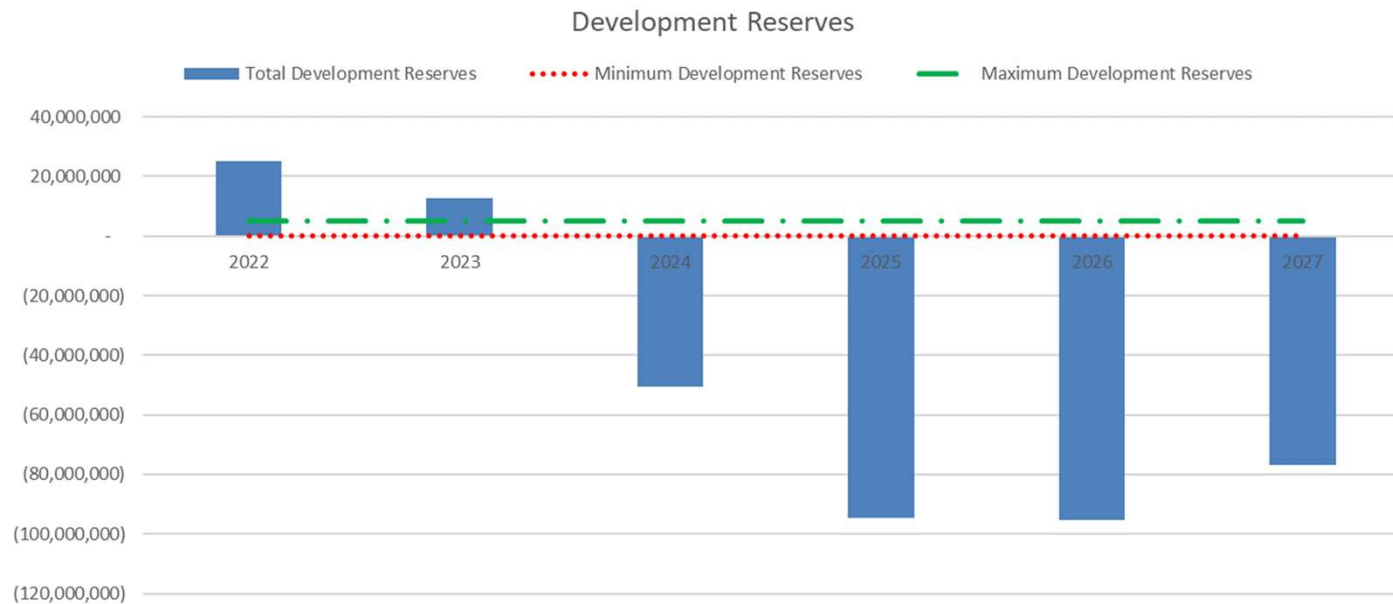


# Reserve Fund Forecast Corporate (App. D, p. D1, D6)



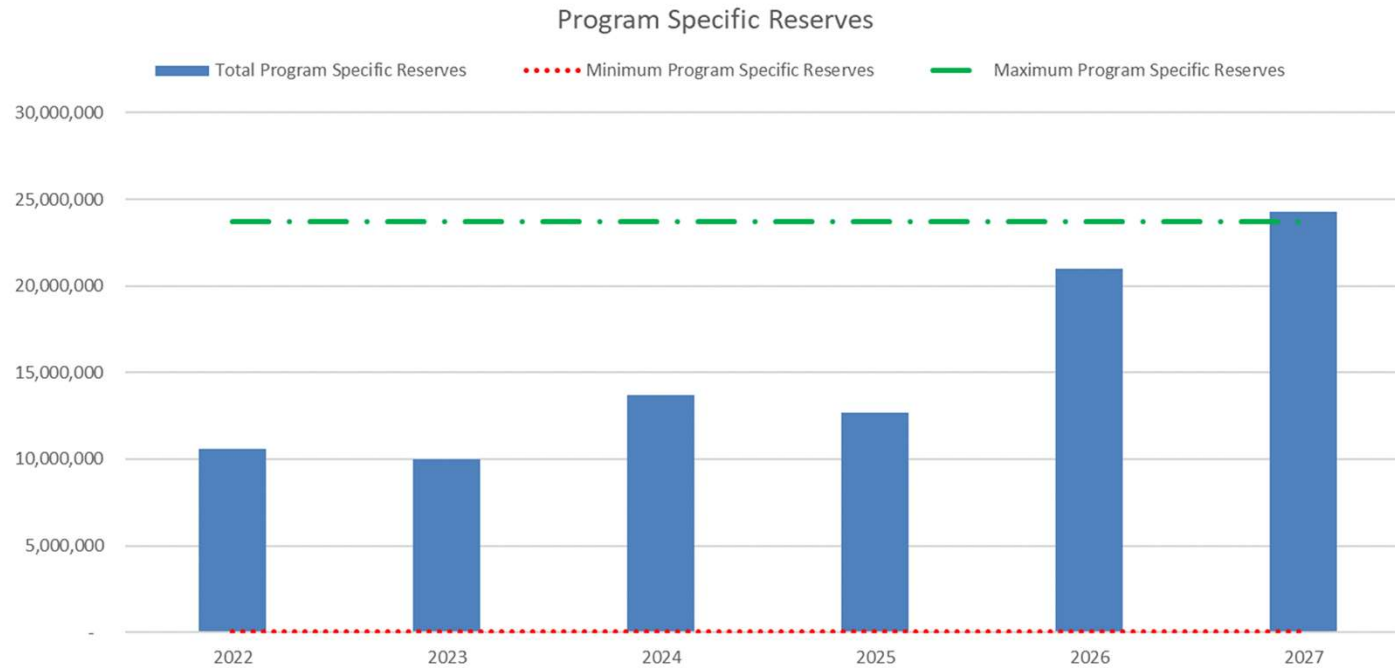


# Reserve Fund Balances & Forecast Development (App. D, p. D1, D6)



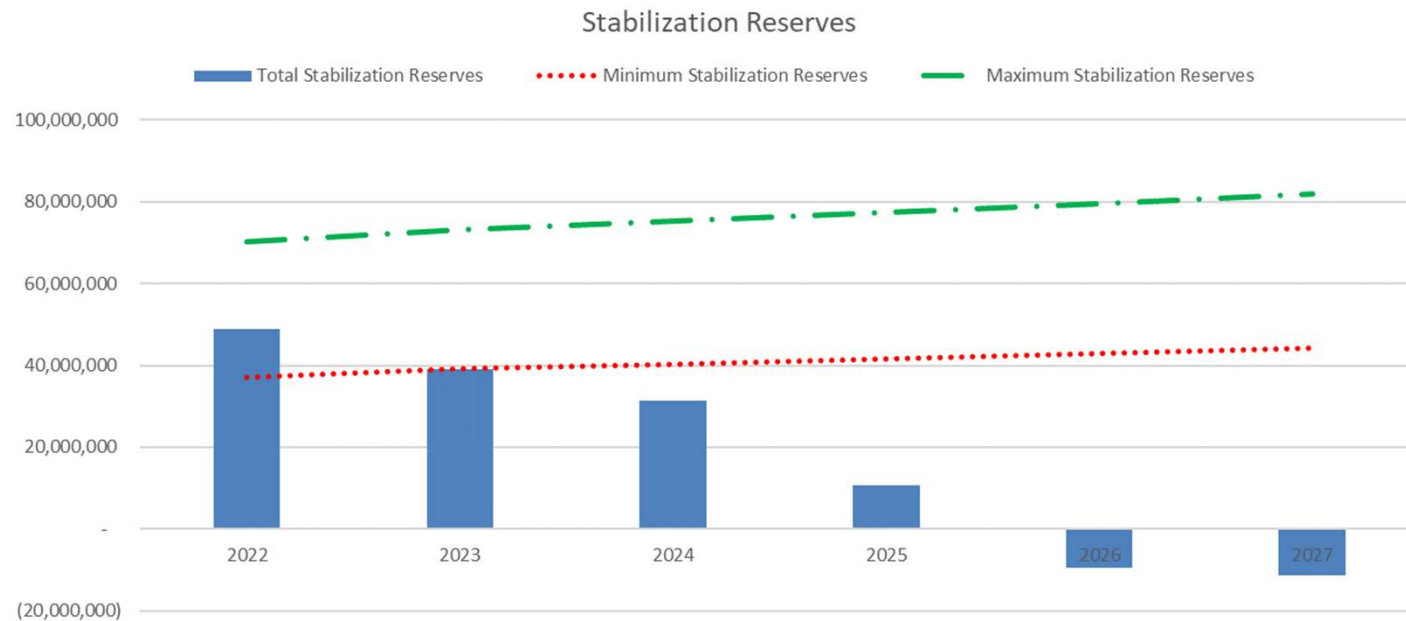


# Reserve Fund Forecast Program Specific (App. D, p. D2, D6)



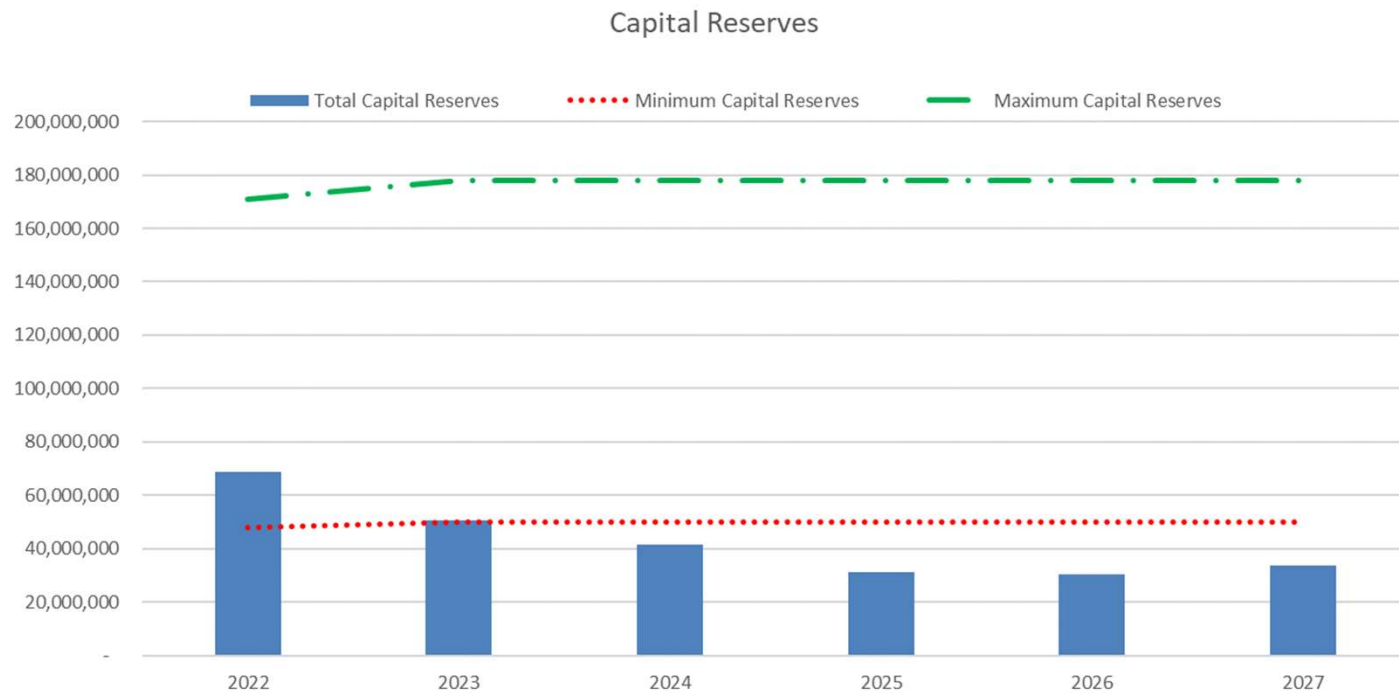


# Reserve Fund Forecast Stabilization (App. D, p. D3, D7)





# Reserve Fund Forecast Capital (App. D, p. D4-5, D7)





# Capital Budget Format



# Capital Budget Pages

- Pages are ordered by department, then division
- Subprojects have been broken out from main projects
  - *Subproject titles are italicized in the Capital Forecast*
- New projects identified by a ☒
- Type Column
  - “T” = Triple funded projects
    - Funded by Stormwater, Water & Sanitary
    - Used for Full Road Reconstruction projects
  - “TS” = Triple funded projects with sidewalk infill





# Quality of Estimates

- Estimate qualities identified for projects over \$1M (excluding general provision accounts)
- Three classes of estimates (A, B & C) based on the quality of information available



# Quality of Estimates

## Class A

- Based on construction drawings from detailed design
- Typically includes a contingency of 5% to 8%

## Class B

- Based on preliminary functional designs
- Typically includes a contingency factor of 20% to 30%

## Class C

- Based on preliminary sketches/plans with minimum scope
- Typically includes a contingency factor of 40% to 60%



# Issue Papers (Appendix C) & Capital Forecast (Appendix B)



## Issue Papers – Appendix C

IP #	IP Name	Page	Comment
Cap 01	Water Infrastructure Program (WIP) Update	C37	The cost of full road reconstructions is increasing significantly, reducing the ability to close the infrastructure gap.
Cap 02	Urban Forestry	C41, B58	\$5.7M has been added throughout the 10-year forecast to achieve the canopy targets outlined in the Sustainable Urban Forestry Strategy (SUFS).
Cap 03	DMAF Budget Impacts from Inflationary and Project Adjustments	C43, B61-62	The costs of projects funded by the DMAF grant are going up considerably, so significant changes to the Stormwater capital program have been made.
Cap 04	Construction Inflation – Water Only Project Impacts	C45, B63	The costs of Water-only capital projects have increased substantially, so a number of project budgets have been increased.



## Highlighted Budget Changes >\$250,000 General, Boards & CAO p.B2-B5

- None



## Highlighted Budget Changes >\$250,000 Financial Services p.B6-B7

Division	Project	Page	Comment
Asset Management	Clevest Upgrade and Genesis	B6	Added \$362K throughout the 10-year forecast to upgrade Clevest and acquire the Genesis tool to provide greater longevity of the application.
Asset Management	Asset Management Plan Compliance	B6	Added \$350K to 2023 and 2024 to meet legislated requirements on Asset Management for Municipal Infrastructure.



## Highlighted Budget Changes >\$250,000 Corporate Services p.B8-B13

Division	Project	Page	Comment
Technology Innovation & Services	Microsoft Software	B10	Added \$1.64M over 10 years due to: <ul style="list-style-type: none"><li>• Price increase between 10-15%</li><li>• Increased quantity of licenses and devices due to staff mobility</li><li>• Upgrade to cloud-based software and device management platform</li></ul>
Technology Innovation & Services	WREPNet Fibre	B10	Added \$300K throughout the 10-year forecast to fund increase in sites coming online such as Victoria Park Pavilion and Huron Community Centre.
Legislated Services	Council Chambers A/V Upgrade	B12	Added \$750K in 2023 to upgrade the audio/visual equipment in the Council Chambers to improve the hybrid meeting experience of attendees.





## Highlighted Budget Changes >\$250,000 Community Services p.B14-B26

Division	Project	Page	Comment
Sport	AUD Videoboard Replacement	B16	Added \$500K to 2032 for the City's share of the Videoboard replacement in the Dom Cardillo Arena.
Neighbourhood Programs & Services	Outdoor Winter Rinks	B23	Added \$540K from 2023-2027 to address the waitlist for new winter rinks.
Fire	Fire Personal Protective Equipment	B26	Added \$524K throughout the 10-year forecast due to the significant increased costs related to Personal Protective Equipment (PPE) required for firefighters.



## Highlighted Budget Changes >\$250,000 Development Services p.B27-B46

Division	Project	Page	Comment
Engineering	Stirling & Courtland Bridge/Culvert – 812	B40	Added \$526K in 2023 due to an increase in scope of the project based on a recent assessment of culvert condition.



## Highlighted Budget Changes >\$250,000 Infrastructure Services p.B47-B63

Division	Project	Page	Comment
Facilities Management	City Hall Spandrel Glass	B47	Added \$770K based on updated cost estimate.
Facilities Management	State of Good Repair (SOGR) projects	B47	Specific projects have been identified funded from the SOGR account. New large projects for 2023 include: <ul style="list-style-type: none"><li>• HVAC Replacements (\$500K)</li><li>• Salt Dome (\$1.859M) - there will be a Final Budget Day adjustment to increase the original budget by an additional \$1M.</li></ul>
Fleet	Replacement Equipment	B48	Adjusted the 2023 budget to reflect replacement needs based on the annual equipment replacement review process. Funded from the Equipment reserve.



## Highlighted Budget Changes >\$250,000 Infrastructure Services p.B47-B63

Division	Project	Page	Comment
Stormwater	<ul style="list-style-type: none"><li>Schneider Creek Watercourse</li><li>SWMF 61 Retrofit</li><li>Biehn Park SWM Enhancement</li><li>Market Incentive Program</li></ul>	B61-62	These 4 projects have been deferred to outside the 10-year capital forecast window to free up \$11.4M to help fund the increased inflationary costs of projects funded by the Disaster Mitigation and Adaptation Fund (DMAF).
Stormwater	SWMF 79 Hydro Feasibility Study	B61	Added \$293K in 2023. Hydro One requested that a feasibility study be done to assess different configurations of this SWM facility (within Hydro One lands), to allow for continuous maintenance access to their transmission lines.
Water	Replacement Water Meters	B63	Added \$874K from the Sanitary utility to match the Water utility's contribution towards this shared service program.



# Resolution



# Capital Budget Resolution

- Resolution to be passed by Committee regarding follow up items for staff