



## Council Report

---

**Report Number:** CA2023-005

**Meeting Date:** November 28, 2023

**Title:** **Proposed 2024 Tax-Supported Capital Budget**

**Description:** This report presents the Mayor's Proposed 2024 Budget and Business Plan for receipt by Council, presents the Mayor's Proposed 2024 Tax-Supported Capital Budget component thereof for consideration by Council, and makes related recommendations.

**Author and Title:** Dr. Adam Found, Manager of Corporate Assets

---

### Recommendation(s):

**That** Report CA2023-005, **Proposed 2024 Tax-Supported Capital Budget**, be received;

**That** the Mayor's Proposed 2024 Budget and Business Plan, consisting of the:

- Proposed 2024 Tax-Supported Capital Budget;
- Proposed 2024 Operating Budget;
- Proposed 2024 Special Projects Budget; and
- Proposed 2024 Water and Wastewater Capital and Operating Budgets;

and attached as Appendix A to Report CA2023-005, be received;

**That** the Mayor's Proposed 2024 Tax-Supported Capital Budget, be amended in accordance with Appendix B to Report CA2023-005, inclusive of \$1,218,000 in uncommitted Ontario Community Infrastructure Fund (OCIF) financing in the Low-Volume Gravel Roads capital program;

**That** the Mayor's Proposed 2024 Tax-Supported Operating Budget be amended to reduce the 2024 Asset Management Reserve contribution by \$1,400,000; and

**That** the Mayor's 2024 Tax-Supported Capital Budget, as amended, be deliberated by Council.

**Department Head:** \_\_\_\_\_

**Financial/Legal/HR/Other:** \_\_\_\_\_

**Chief Administrative Officer:** \_\_\_\_\_

## **Background:**

In accordance with the Municipal Act and the Strong Mayors, Building Homes Act, this report presents, for Council's receipt, the Mayor's Proposed 2024 Budget and Business Plan and, further for Council's consideration at this time, the Proposed 2024 Tax-Supported Capital Budget therein. This report also provides Council with complementary background information, and outlines amendments to the first draft of the Mayor's Proposed 2024 Budget and Business Plan (see Appendix A), circulated for public and Council review on October 13, 2023.

Having regard for established municipal service levels, Council direction, prevailing economic conditions, taxpayer affordability and new information, Appendix B of this report outlines amendments designed to reset the Proposed 2024 Tax-Supported Capital Budget for consideration by Council.

The Proposed 2024 Tax-Supported Capital Budget, which consists of pages 24-59 of the Proposed 2024 Budget and Business Plan, reflects the City's highest capital investment priorities based on the City's Official Plan implementation, the Corporate Strategic Plan (2019-2023), the Asset Management Plan (state-of-good-repair (SOGR) capital needs), and the Long-Term Financial Plan (LTFP). It reflects balanced prioritization of expansionary capital investments needed to support growth and development and the SOGR capital investments needed to ensure the continued reliability, efficiency and functionality of existing assets.

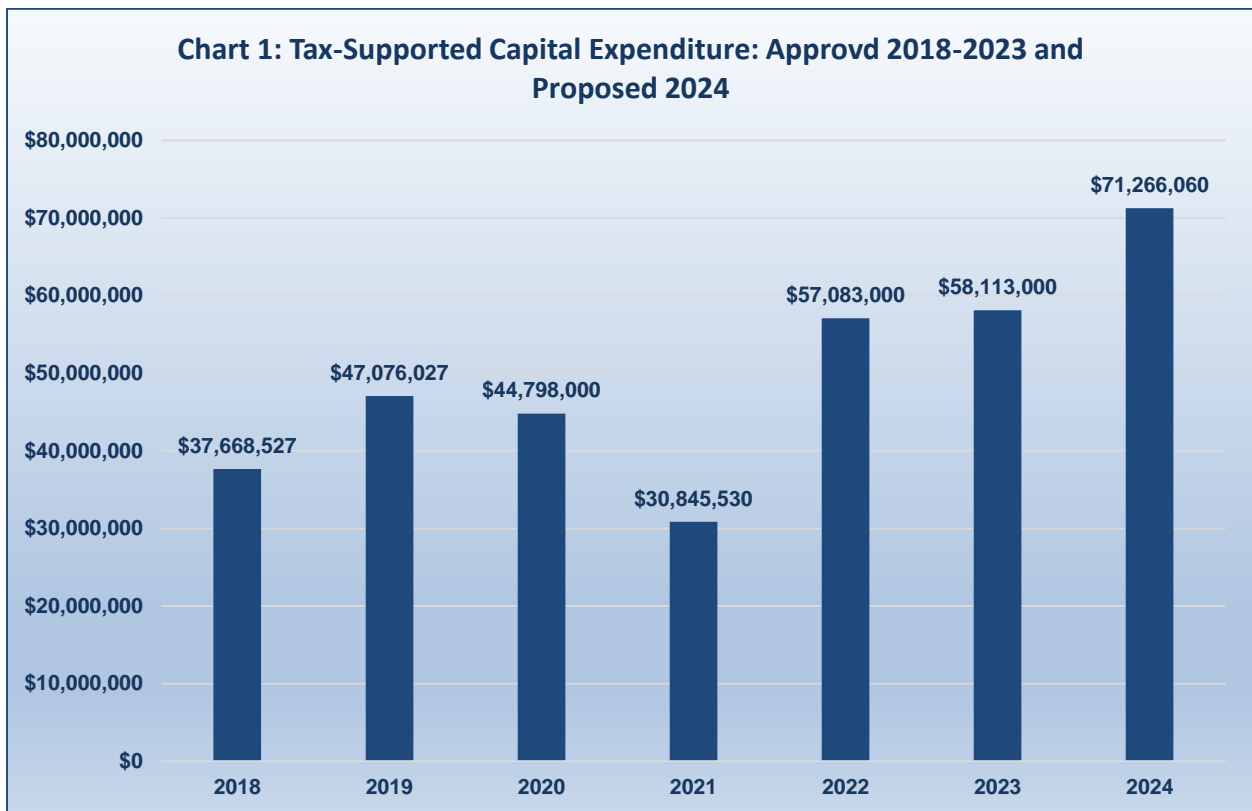
In its first draft and published form, the Mayor's Proposed 2024 Budget and Business Plan reflects a general tax increase of 4.56% plus a special tax increase of 1.5% which exclusively supports the dedicated capital levy and thus the Asset Management Reserve as per the LTFP. If the amendments outlined in Appendix B to this report are approved, the general tax increase would be reduced to 3.99%.

## **Rationale:**

Through review and discussions with the Mayor, the starting point for the Proposed 2024 Tax-Supported Capital Budget was the LTFP, a strategic document adopted by Council in 2022. Based on established municipal service levels and Council direction, that plan is designed to inform and guide capital and operating budgets. Concurrent with preparation of proposed 2024 budgets, staff revised the capital and operating forecasts underlying the LTFP to account for several external factors such as continuance of high inflation, increasing interest rates, ongoing supply chain challenges, acceleration of growth, and new legislated and Council directives.

### Tax-Supported Capital Budget Trend

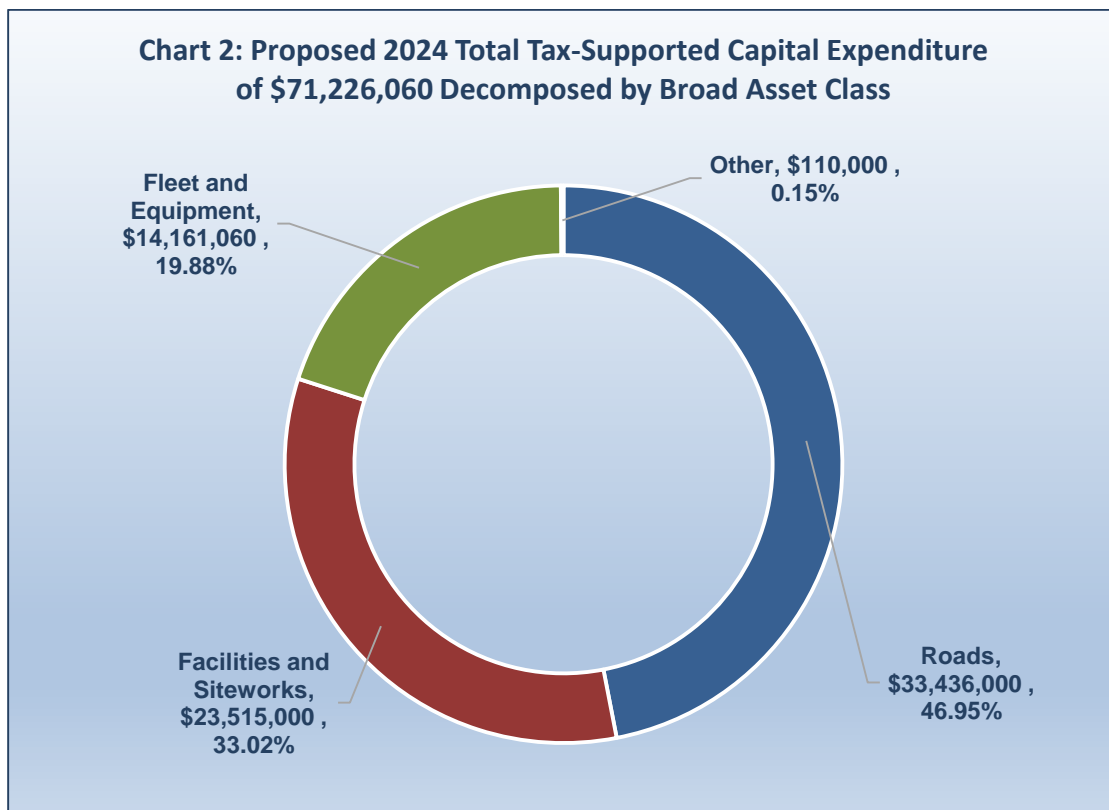
To place the Proposed 2024 Tax-Supported Capital Budget into historical context for Council’s information and consideration, Chart 1 below tracks total tax-supported capital expenditure as approved by Council through 2018-2023 and as proposed for 2024. The 2024 bar in the chart reflects the revisions outlined in Appendix B to this report. Due mainly to cost inflation and accelerated growth, staff is presently forecasting capital needs exceeding \$100,000,000 per year over 2025-2031, the balance of the planning horizon of the LTFP. Staff expects to refine and expose these pressures to Council in 2024 through a long-term financial outlook, understanding that they are likely to increase once the completion of ongoing master plans further reveals the anticipated impact of accelerated growth in Kawartha Lakes.



### Summary of Proposed 2024 Tax-Supported Capital Budget

In short, a capital budget consists of an expenditure plan balanced by a corresponding financing plan. Respectively, Charts 2 and 3 below summarize these two sides of the Proposed 2024 Tax-Supported Capital Budget. Chart 2 decomposes total expenditure by broad asset class whereas Chart 3 decomposes total financing by source.

Total proposed 2024 tax-supported investment is \$71,226,060 once the amendments outlined in Appendix B to this report are accounted for. As indicated by Chart 2, this figure consists of (i) state-of-good-repair capital projects aimed at maintaining lifecycles, reliability, functionality and efficiency of existing assets and (ii) expansionary capital projects aimed at meeting the needs of growth and development. The total investment consists of \$33,436,000 (46,96%) for roads, \$23,515,000 (33.02%) for facilities and siteworks, \$14,161,060 (19.88%) for fleet and equipment and \$110,000 (0.15%) for other purposes.



As indicated by Chart 3 below, financing of the Proposed 2024 Tax-Supported Capital Budget derives from a variety of sources as follows:

1. Asset Management Reserve (20.69%): This is designed to be the main and most reliable source of financing for state-of-good-repair capital projects. It is funded through the tax-supported operating budget in the form of the dedicated capital levy. With the entire 2024 contribution to this reserve being committed in the Proposed 2024 Tax-Supported Capital Budget, financing of capital projects through this source directly impacts the tax levy.

2. Development Charges Reserve (11.01%): This is funded by development charges levied on new development to aid the City in its recovery of growth-related capital costs. It can be used only for such needs identified in the Development Charges Background Study, a document which quantifies the needs and determines which portions of them are growth-related and recoverable by development charges. Financing of capital projects through this source is restricted but does not have a direct impact on the tax levy.

3. Gas Tax Reserves (7.05%): These consist of the Federal Gas Tax Reserve funded by Canada and the Provincial Gas Tax Reserve funded by Ontario. The latter is based on transit ridership and restricted to eligible operating and transit expenditures, and the City typically allocates the vast majority of its annual allocation to transit operations. For future budgets, the former will be known as the Canada Community Building Fund to align with recent reforms made to it by the Government of Canada. Financing capital projects from these sources does not directly impact the tax levy.

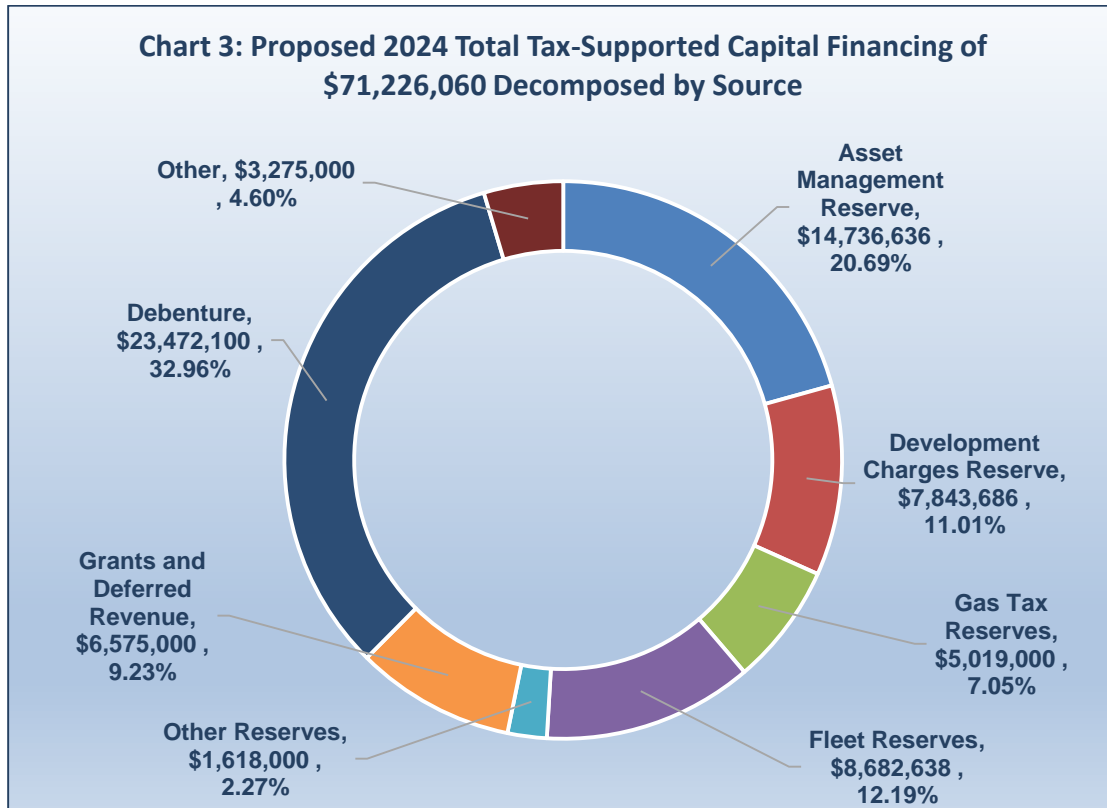
4. Fleet Reserves (12.19%): These consist of the Public Works Fleet Reserve and the Fire Fleet Reserve, and they are funded through the tax-supported operating budget by the tax levy. Financing capital projects from these sources impacts the tax levy.

5. Other Reserves (2.27%): These consist of various lesser reserves such as the Haul Routes Reserve, Parkland Reserve and Streetlights Reserve. Financing capital projects from these sources generally does not entail a direct impact on the tax levy.

6. Grants and Deferred Revenue (9.23%): These typically consist of the Ontario Community Infrastructure Fund and, where and when available in any given year, relatively minor capital grants which, unlike Federal Gas Tax Fund allocations, do not flow through an intermediary reserve. Financing capital projects from these sources does not directly impact the tax levy.

7. Debenture (32.96%): Debentures are the means by which the City issues debt in respect of capital projects. They are typically issued upon substantial completion of debentured capital projects, and tax-supported debenture repayments (principal and interest) flow through the tax-supported operating budget. Consequently, financing 2024 capital projects from this source impacts post-2024 tax levies, but not the 2024 tax levy. A key strategy and commitment in the LTFP is the phasing out of the City's planned reliance on debenture for state-of-good-repair capital needs over 2022-2031. This is enabled by the building up of the annual contribution to the Asset Management Reserve over the same period through the dedicated capital levy.

8: Other Financing (4.60%): This typically consists of the Wilson Estate and contributions from community organizations and other municipalities. For example, this category captures contributions anticipated from neighbouring municipalities for capital works on boundary roads. Financing capital projects from these sources does not directly impact the tax levy.



### Pressures and Revisions

Due mainly to high inflation, capital expenditures included in the Proposed 2024 Tax-Supported Capital Budget generally exceed those forecasted for 2024 in the LTFP. Staff is planning to return to Council in Q1 of 2024 with a long-term financial outlook, which will reflect adopted 2024 budgets. Staff will subsequently bring forward a revised LTFP in Q2-Q3 of 2024 following adoption of the forthcoming 2024 Asset Management Plan. Focused on the City's non-core assets (facilities, parks, landfills, airports, fleet, equipment etc.), that Asset Management Plan is required to be in place by July 1, 2024 to maintain the City's compliance with O.Reg. 588/17.

Since circulation of the Proposed 2024 Tax-Supported Capital Budget for public and Council review, staff has noted the need for several amendments ahead of its being deliberated at Council. These amendments are documented in Appendix B of this report and generally provide for minor corrections or adjustments, two notable exceptions

being revisions 6 and 7 as they shift financing from the Asset Management (AM) Reserve to the Ontario Community Infrastructure Fund (OCIF). These latter revisions replace \$1,218,000 in AM Reserve financing with uncommitted OCIF financing transferred from the multiyear Low-Volume Gravel Roads capital program.

In sum, the revisions outlined in Appendix B of this report reduce the 2024 contribution to the AM Reserve by \$1,400,000, which in turn reduces the general tax increase from 4.56% to 3.99% once combined with other revisions anticipated for the Proposed 2024 Tax-Supported Operating Budget.

### **Low-Volume Gravel Roads Capital Program**

As the revisions outlined in Appendix B of this report are facilitated largely by the transfer of uncommitted OCIF financing from the Low-Volume Gravel Roads capital program, this subsection provides context around that program and the rationale for the transfer in financing. The program, which was not previously envisioned in an Asset Management Plan, LTFP or capital budget, and which was funded from an unanticipated “doubling” of OCIF funding as of 2022, was created on January 25, 2022 through the following resolution of Council:

#### **CR2022-008**

**That** Report CORP2022-001, **2022 Ontario Community Infrastructure Fund Allocation**, be received;

**That** the 2022 Capital budget be amended to include a multi year project titled “Low Volume Gravel Roads” in the amount of \$6,800,000;

**That** additional \$2,519,746 of Ontario Community Infrastructure Funding received in 2022 be allocated to the Low Volume Gravel Roads capital budget for 2022; and

**That** the balance of the project be funded equally over four years (2023-2026) from the annual Ontario Community Infrastructure Funding allocation.

#### **Carried**

As noted above, the City is facing a number of financial pressures which are challenging its adherence to the LTFP. In an effort to reduce the 2024 general tax increase to an affordable level under these circumstances, staff recommends three measures respecting the current Low-Volume Gravel Roads capital program as follows:

1. Pause on Financing Installments: The Proposed 2024 Tax-Supported Capital Budget does not include the financing installment of approximately \$1,100,000 originally

planned for 2024 in the program's 2022-2026 lifespan. Even if the City were not currently facing financial pressures, this financing pause would still be recommended to let work under the program catch up to existing committed financing.

2. Reallocation of Uncommitted OCIF Financing: Over 2022-2023, the Low-Volume Gravel Roads capital program was financed entirely by OCIF in the amount of \$3,619,000. Of this, approximately \$1,909,000 has been expended or otherwise committed through work undertaken through the program to date, leaving approximately \$1,710,000 in uncommitted financing in the program. This report recommends that \$1,218,000 of this amount be reallocated to the Proposed 2024 Tax-Supported Capital Budget, leaving approximately \$492,000 of uncommitted financing in the program. Appendix B of this report outlines how this \$1,218,000 in added OCIF financing is applied to various proposed 2024 capital projects to reduce AM Reserve financing commensurately.

3. Report to Council: Staff support existing direction of Council for staff to report to Council on the state and future of the Low-Volume Gravel Roads capital program in Q1 of 2024. Staff expects the program to be discontinued in its current form whereby capital projects to pave gravel roads will instead be incorporated into the Rural Resurfacing capital program through the Asset Management Plan, LTFP and future tax-supported capital budgets.

### **Deferred Capital Needs and Capital Decision Units**

To support Council's consideration of the Proposed 2024 Tax-Supported Capital Budget, this report brings forward the list of 2023 deferred tax-supported capital needs as well as the list of Council's unfunded capital decision units forwarded to the 2024 budget process. For Council's reference, these lists are attached hereto as Appendices C and D, respectively. To promote informative and efficient consideration of these lists, staff has indexed cost estimates of the deferred capital needs to 2024 and has developed 2024 cost estimates and commented where appropriate for the decision units.

As noted in the Proposed 2024 Budget and Business Plan, the City has been working diligently to address the tax-supported capital backlog. Table 1 below provides a medium-term forecast for the elimination of known 2023 deferred tax-supported capital needs, where all needs tentatively slated for 2024 have been included in the Proposed 2024 Tax-Supported Capital Budget. Since preparation of that budget, this table and that in Appendix C to this report have been revised to make various minor corrections and account for cost inflation.



<b>Table 1: Forecasted Elimination of 2023 Deferred Tax-Supported Capital Needs</b>			
<b>Tentative Year</b>	<b>Expenditure (2024\$)</b>	<b>Share of Total</b>	<b>Comments</b>
2024	22,050,000	24.68%	Included in Proposed 2024 Tax-Supported Capital Budget.
2025	33,366,000	37.35%	Included in long-term capital forecast.
2026	16,000,000	17.91%	Included in long-term capital forecast.
2027	17,536,000	19.63%	Included in long-term capital forecast.
Eliminated	391,000	0.44%	No longer required; deleted from long-term capital forecast.
<b>Total</b>	<b>89,343,000</b>	<b>100.00%</b>	

Not only do capital backlogs adversely impact municipal service levels, but they often result in operational challenges as well as excessive operating and capital costs. As a general rule, untimely renewal and replacement of assets tend to increase long-term costs and decrease municipal service levels, and such impacts are not necessarily immediately apparent or felt. This is mainly why the Province of Ontario is requiring municipalities to improve their Asset Management Plans, develop strategies to ensure their long-term financial sustainability and make decisions with regard for the long-term consequences thereof.

Tax-supported capital decision units will, if and when approved, generally place upward pressure on the 2024 general tax increase, unless they are financed by sources other than tax-supported sources (e.g. AM Reserve, Fleet Reserves etc.) or are accompanied by other appropriate offsetting financing measures. In general, the approval of any decision unit without an appropriate offsetting financing measure is apt to increase required AM Reserve financing and thus the general tax increase for 2024.

**Budget Process Changes Arising from the Strong Mayors, Building Homes Act**

The following outlines the new process by which the City’s proposed budgets are approved, as provided for by the Strong Mayors, Building Homes Act and its regulation O. Reg. 530/22:

1. Budgets shall be prepared, and proposed to Council for its consideration, annually on or before February 1 of each year by the Mayor. If the Mayor does not propose a budget to Council by February 1, then Council shall prepare and adopt the budget for that year for the municipality.
  
2. Within 30 days of having received a budget proposed by the Mayor, Council may pass resolutions amending the proposed budget. If Council does not pass such a resolution within the 30-day amendment period, the proposed budget is deemed to be adopted by the municipality without amendment.

3. If Council passes a resolution to amend a proposed budget, the Mayor may, within 10 days after expiry of the 30-day amendment period, veto such a resolution by providing to each member of Council and to the City Clerk, on the day on which the veto is issued, a written veto document that includes the veto and the reasons for the veto. Any resolution so vetoed shall be deemed not to have been passed by Council. If, however, such a resolution is not vetoed by the Mayor during the 10-day veto period, the proposed budget is deemed to be adopted by the municipality as amended.
4. If a resolution passed by Council to amend a proposed budget is vetoed by the Mayor, Council may, within 15 days after expiry of the 10-day veto period, override that veto by a 2/3 vote, and should such an override occur, the subject resolution shall be deemed to be passed by Council.
5. Upon expiry of the veto override period, a proposed budget, as amended by the foregoing process, is deemed to be adopted by the municipality.

Strong mayor powers were granted to an expanded list of Heads of Council, inclusive of the City of Kawartha Lakes, effective October 31, 2023. The process to draft and provide the City's 2024 Budgets was initiated well before this effective date. It is the intent of the Mayor to respect the current process and timelines to adopt budgets for 2024, while also respecting the new legislation and role of the Head of Council.

**Council may pass a resolution to shorten the amendment period to less than 30 days or to shorten the veto override period to less than 15 days. The Mayor may, by writing to each member of Council, shorten the veto period to less than 10 days.**

At the request of the Mayor, staff will bring forward options and recommended resolutions at the onset of the November 28<sup>th</sup> Council meeting, in order to synchronize the timelines of the 2024 budget deliberations generally in keeping with the established budget schedule (and scheduled Council meetings).

### **Other Alternatives Considered:**

As the Proposed 2024 Tax-Supported Capital Budget, as amended, has been prepared based on established municipal service levels and asset management best practices and with regard for taxpayer affordability, no alternatives to the recommendations of this report are being considered by staff at this time. Council, however, has forwarded to the 2024 budget process various capital projects as decision units to be considered in the Proposed 2024 Tax-Supported Capital Budget. These decision units are listed in Appendix D of this report.

## **Alignment to Strategic Priorities:**

The recommendations of this report support responsible financial and asset management, and hence align with the strategic priority of “Good Government” identified in the City’s 2020-2023 Strategic Plan.

## **Financial/Operation Impacts:**

The expected financial implications of the Proposed 2024 Tax-Supported Capital Budget are outlined therein, as revised by Appendix B of this report, understanding that actual financial implications will depend on the version of that budget adopted through the process noted above.

## **Consultations:**

Mayor  
Senior Management Team  
City Treasurer

## **Attachments:**

Appendix A: Proposed 2024 Budget and Business Plan



Proposed 2024  
Budget and Business I

Appendix B: Amendments to Proposed 2024 Tax-Supported Capital Budget



Revisions to  
Proposed 2024 Tax-Si

Appendix C: 2023 Deferred Tax-Supported Capital Needs



2023 Deferred  
Tax-Supported Capita

Appendix D: Unfunded Tax-Supported Capital Decision Units Forwarded by Council



Unfunded  
Tax-Supported Capita

**Department Head email:** [jrojas@kawarthalakes.ca](mailto:jrojas@kawarthalakes.ca)

**Department Head:** Juan Rojas, Director of Engineering and Corporate Assets