



The City of Kenora, Ontario, Canada

Five Year Capital Plan
2007 - 2011

Budget Discussion

Introductory
Information

Capital Plan
Highlights

Capital Plan
Discussion

Detailed Budget
Schedules

Table of Contents

Introductory Information

City Council	3
City CAO and Managers	3
City Strategic Plan and Guiding Principles	4
Capital Plan Principles	4

Capital Plan Highlights

2007 Capital Plan Highlights	5
Major Projects Approved / Under Consideration in 2007	5
Deleted Projects	5
Reserves and Reserve Funds	7
Other Funding Sources	8

Capital Plan Discussion

Review of Higher Value 2007 Capital Projects	9
Long Term Debt Financing Considerations	10
Other Identified Projects	12
Budget Pressures – the Infrastructure Deficit	13

Detailed Budget Schedules

Five Year Plan Summary – Total Cost	Index 1
Five Year Plan Summary – Net Cost	Index 2
2007 Capital Project Summary	Index 3
2008 Capital Project Summary	Index 4
2009 Capital Project Summary	Index 5
2010 Capital Project Summary	Index 6
2011 Capital Project Summary	Index 7
Deleted Projects Summary	Index 8

Table of Contents



City Council

From Left to Right:

- ❑ Councillor Chris VanWalleghem, Chair of Community Services
- ❑ Councillor Charito Drinkwalter, Chair of Emergency Services
- ❑ Councillor Andrew Poirier, Chair of Utilities and Communications
- ❑ Mayor Len Compton
- ❑ Councillor Rory McMillan, Chair of Finance and Administration
- ❑ Councillor Wendy Cuthbert, Chair of Property and Community Planning
- ❑ Councillor David McCann, Chair of Operations

City CAO and Managers

Not Shown:

- ❑ Bill Preisentanz, CAO
- ❑ Karen Brown, Manager of Finance & Administration
- ❑ Warren Brinkman, Manager of Emergency Services
- ❑ Rick Perchuk, Manager of Operations
- ❑ Barry Reynard, Manager of Community Services

Introductory Information

City Council

City CAO and Managers

City Strategic Plan and Guiding Principles

The City's strategic Plan, Kenora Vision 2009, lays the foundation for the City's future. This plan sets out the City's guiding principles as well as provides the strategic directions for the City.

The guiding principles provide the City with guidelines for evaluating and determining its actions. To help ensure the City budget considerations are done in conjunction with the vision as presented within the strategic plan, the guiding principles are reviewed in conjunction with the budget deliberations, and have been set out below:

- ❑ Kenora will provide fairness in taxation
- ❑ Kenora will provide value for service to the ratepayer
- ❑ Kenora will ensure sound fiscal management
- ❑ Kenora will provide quality of life amenities and services for citizens and visitors
- ❑ Kenora will explore and pursue new opportunities
- ❑ Kenora will value and be responsible to its employees
- ❑ Kenora will understand and respect its citizens
- ❑ Kenora will inform and engage its citizens
- ❑ Kenora will be a steward of the environment

Capital Plan Principles

In developing the five-year capital plan for the years 2007 through 2011, the City has adhered to certain capital budget principles that it has established to guide overall spending within the capital budget process. These principles are as follows:

- ❑ Projects will be reviewed in conjunction with the principles as set out within the City's strategic plan.
- ❑ Priority will be given to projects that have previously received Council commitment.
- ❑ Priority will be given to projects which, left undone, would represent a significant safety concern / hazard to the community.
- ❑ Priority will be given to projects based on need, with funds allocated primarily to higher need areas.
- ❑ Priority will be given to meaningful projects that are eligible for funding from senior levels of government.
- ❑ Priority will be given to coordinating projects between departments to help ensure that unnecessary spending is eliminated.

The City utilities are dealt with through an independent budget process, in accordance with Council direction to establish these operations as self-supporting utilities independent of tax dollars. A separate budget is developed for each of these entities.

Historically, the City has established an "internal financing" philosophy. After external financing, projects that cannot be internally financed, either through reserves, or internal long term debt issued through other City funds, were not considered for inclusion in the capital plan. As in 2006, the 2007 five year capital plan includes consideration of a number of major projects, each of which would require financing either partly or entirely through long term debt that may necessitate external borrowing. These projects have not been included in the approved projects lists in the five year capital plan. Rather, each project is being held for separate and independent review by Council, pending receipt of an appropriate business plan to support the long term debt issuance. These projects are reviewed separately under the Long Term Debt Financing Considerations subsection of this report

Introductory Information

City Strategic Plan and Guiding Principles

Capital Plan Principles

2007 Capital Plan Highlights

The City of Kenora 2007 Capital Plan represents combined total cost of projects of \$6.7 million, although \$3.8 million relates to projects carried forward from 2006. The plan has an allocation of \$1.9 million in net tax levy, maintaining virtually the same net tax levy allocation towards combined capital expenditures and long term debt repayments as in the 2006 City budgets after adjusting for items on hold pending a City fleet review. This means that about the same dollar value generated through municipal taxes will be spent on combined non-utility long term debt payments and capital works as was budgeted in the previous year. The federal gas tax funding the City is currently receiving, a combined \$2.6 million between the years 2005 through 2010, is contingent on the City maintaining a set level of capital expenditures.

This page includes a chart outlining the gross planned expenditures included in the draft 2007 Five-Year Capital Plan. A summary of the draft 2007 capital plan total and net cost, by functional area, has been included on the following page.

Major Projects Approved / Under Consideration in 2007

Major capital works currently included in the 2007 five year capital plan included on the approved projects lists, representing individual projects with a value of a half of a million dollars or greater, are as follows:

- ❑ Municipal Paving Program - \$.6 million
- ❑ Matheson St. Wharf - \$.5 million
- ❑ Highway 17 E Completion - \$.6 million
- ❑ Downtown Revitalization Study / Design - \$.5 million

* This list does not include identified projects that are contingent on the issuance of long term debt as a component of the project financing. These projects are on hold pending a business plan to justify the related long term debt issuance. They are reviewed in greater detail under the Long Term Debt Financing Considerations subsection of this report.

Projects included in the 2007 capital budget project lists with a total cost of \$100,000 or higher have been outlined in the Detailed Budget Review section of this report.

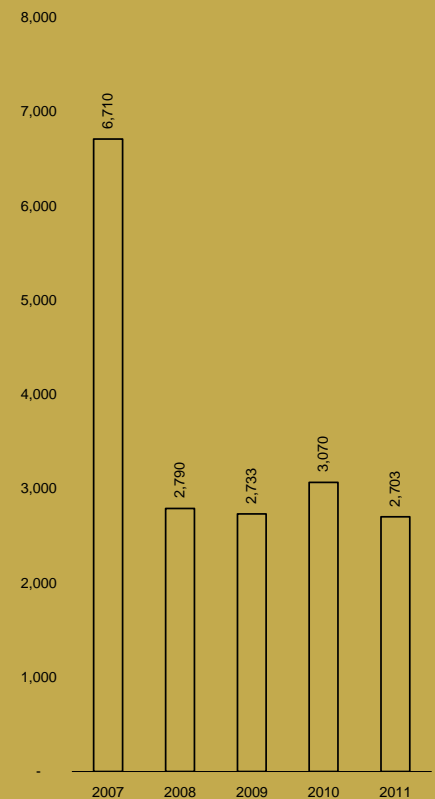
Deleted Projects

Generally, sufficient funding is not available to meet the various requests submitted under the City's capital plan process. Projects that are not approved through the capital plan process are tracked on a deleted list. Based on available funding, the City has cut projects with a total cost of \$3.5 million, or a net tax levy requirement of \$3.0 million, from its five year capital plan. Significant projects the City is currently tracking on its deleted list for the period 2007 through 2011 include:

- ❑ Donor Avenue Storm Sewer - \$.4 million
- ❑ Florence Avenue Storm Sewer - \$.4 million
- ❑ Keewatin Memorial Arena Floor Replacement - \$.5 million

All projects listed above continue to be City priorities. The Keewatin Memorial Arena floor replacement has been deferred pending a review of overall City recreation facility management. For the remaining items, there is no sufficient funding available at this time to approve these projects in the capital plan. Should additional funding be made available, these projects would become a priority for potential funding. A complete list of deleted projects can be found in Index 8 of this budget.

Five Year Capital Plan
Gross Planned Expenditures
(in thousands of dollars)



Capital Plan Highlights

2007 Capital Plan Highlights

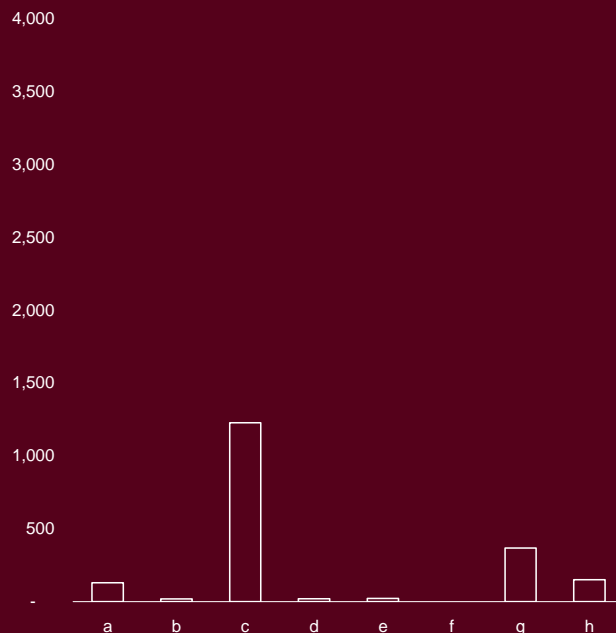
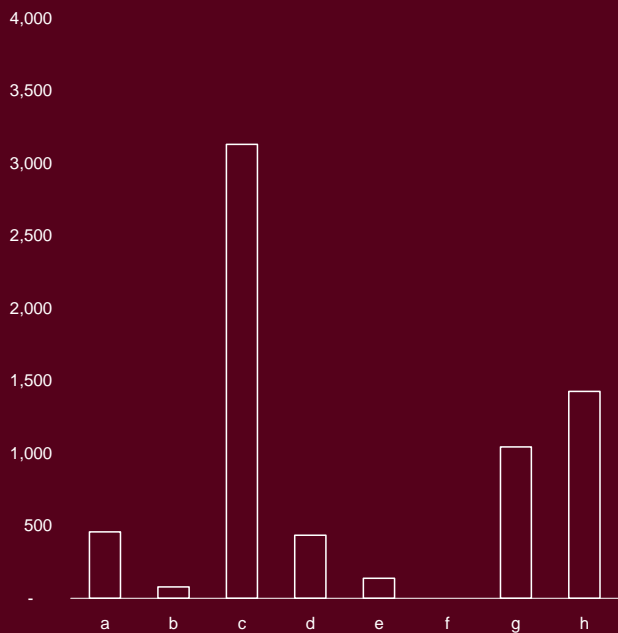
Major Projects Approved / Under Consideration in 2007

Deleted Projects

2007 Capital Plan

Planned Expenditures by Function – Gross / Net
2007 Planned Costs (in thousands of dollars)

Capital Plan Highlights



2007 Planned Capital Expenditures - Total Cost

a General government	458	6.7%
b Protection	79	1.2%
c Transportation	3,129	46.6%
d Environmental	435	6.5%
e Health	138	2.1%
f Social & family	-	0.0%
g Recreation & cultural	1,044	15.6%
h Planning & development	1,427	21.3%
	\$ 6,710	100.0%

2007 Planned Capital Expenditures - Net Cost

a General government	130	6.8%
b Protection	19	1.0%
c Transportation	1,227	63.3%
d Environmental	20	1.0%
e Health services	23	1.2%
f Social & family	-	0.0%
g Recreation & cultural	368	19.0%
h Planning & development	150	7.7%
	\$ 1,937	100.0%

Reserves and Reserve Funds

To help equalize, stabilize and fund certain annual capital expenditures, the City has established a number of reserves and reserve funds. All funds set aside in either reserves or reserve funds are allocated to a specific purpose. Certain expenditures are fully funded through reserves, the most significant of which is the City's operations equipment replacement. Historically, the City has allocated \$.5 million annually into this replacement reserve alone. Overall, in 2006, the City budgeted to put aside a total of \$1.7 million into non-utility reserves.

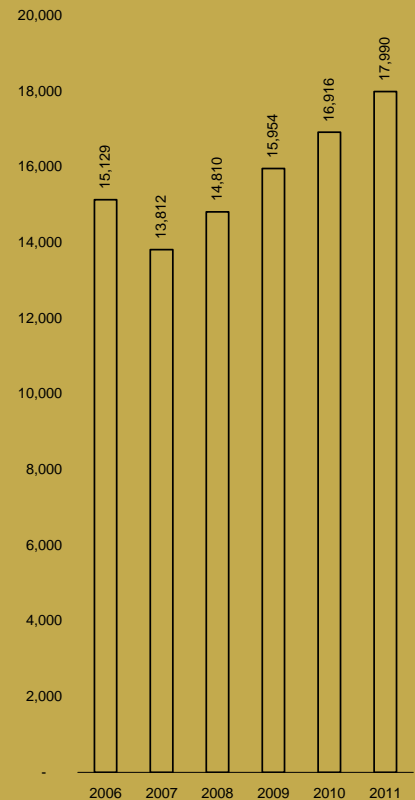
City reserves and reserve funds have come under increased pressure over the past number of years. The money received from the Province related to the downloaded roads and bridges is projected to be significantly reduced by the end of 2007. Equipment replacement reserves were also substantially depleted over the post-amalgamation years due to the replacement of an aged fleet inherited through the amalgamation process in 2000. Under the five year plan, the equipment replacement reserve has now been stabilized, with a gradual rebuilding of the reserve commencing in 2007. Through the capital budget planning process, the City is working towards evaluating future infrastructure needs in an effort to determine appropriate future reserve levels. This includes working towards a recovery plan for reserves, such as the equipment replacement reserve.

The 2007 Five-Year Capital Plan continues the City's reliance on its reserve and reserve funds for 2007, although this reliance is reduced significantly in the following budget years. This is primarily due to an extension of the original capital plan in 2006 resulting from the Move Ontario roads funding. A significant portion of the overall municipal budgeted capital expenditures remained incomplete at the end of 2006. These unspent budgeted funds for capital projects are transferred to capital reserves and brought forward to the 2007 capital plan wherever possible. This transfer represents approximately \$3.0 million of the total \$3.6 million projected reserve appropriations. Some of the more significant carry forward projects from 2006 include the completion of both Highway 17 E the Downtown Revitalization Study, each representing significant reserve appropriations for 2007. Planned contributions to capital works from reserve and reserve funds for the five-year plan are:

- ❑ 2007 - \$3.6 million, represented by:
 - \$3.0 million for projects carried forward to 2007 from 2006
 - \$.6 million for 2007 projects
- ❑ 2008 - \$.8 million
- ❑ 2009 - \$.6 million
- ❑ 2010 - \$.9 million
- ❑ 2011 - \$.7 million

This page includes a chart outlining the projected non-utility reserve and reserve fund balances, based on approved capital expenditures included in the 2007 Five-Year Capital Plan. This chart assumes that the preliminary reserve appropriations budgeted for 2007 will be continued throughout the period 2008 through 2011. As demonstrated in the chart, the City is slowly working towards rebuilding its overall non-utility reserve levels over the next several years.

Projected City Reserves and Reserve Funds
(in thousands of dollars)



Capital Plan Highlights

Reserves and Reserve Funds

Other Funding Sources

The proposed primary sources of funding for the 2007 capital plan approved projects are appropriations from reserves / reserve funds and net tax levy, followed by subsidies from senior levels of government. The City also relies on other funding sources for capital expenditures. In 2007, other funding sources are represented solely by recoveries.

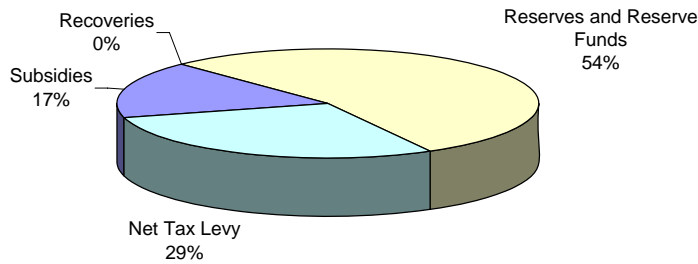
Subsidies from senior levels of government include funding from both the Federal and Provincial governments. Projects projected as eligible for federal and / or provincial funding in the 2007 capital plan approved lists include:

- ❑ Hi-Volume Fire Hose
- ❑ Keewatin Channel Bridge Paving
- ❑ Handi Transit Bus purchase
- ❑ Wharf Expenditures

Project implementation is contingent upon receiving funding.

Some of the projects being considered for debt financing are also dependent on funding from senior levels of government. These projects will be examined further in the Long Term Debt Financing Considerations subsection of this report.

The following pie chart outlines the combined funding sources for the 2007 capital plan:



Capital Plan Highlights

Other Funding Sources

Review of Higher Value 2007 Capital Projects

The following table summarizes capital projects included in the 2007 capital budget approved project lists (in thousands of dollars) that have a total cost estimate of \$100,000 or higher:

	Total Cost	Net Tax Levy
General Government		
City Hall Building & Stair Rehabilitation	100	-
Capital Asset Implementation	100	100
Transportation		
Municipal Paving Program	552	320
Sidewalks	183	100
Gould Road	170	170
Keewatin Channel Bridge Paving	400	-
Matheson Street Wharf	535	-
Salted Sand Storage Building	150	-
Bridge Inventory / Audit	150	-
Environmental		
Kenora Rec. Centre Storm Sewer	125	-
16th Ave. N. Storm Sewer	290	-
Recreation & Cultural		
KRC Phase 1 Site Planning	156	156
Museum Annex Restoration	202	-
Planning & Development		
Hwy 17 E Completion	615	-
Downtown Revitalization Study / Design	520	-
Total Significant Projects	4,248	846
Projects less than \$100K	2,462	1,091
Total Planned 2007 Capital	\$ 6,710	\$ 1,937

More detailed information on all of the 2007 approved projects included in the budget can be found in Index 3.

Capital Plan Discussion

Review of Higher Value
2007 Capital Projects

Long Term Debt Financing Considerations

The City has identified several significant projects which are not currently included in the approved 2007 five year capital plan project lists. The net costs for these projects are well in excess of what the City historically contributes to capital expenditures through the tax levy. The following projects are currently being considered in the 2007 five year capital plan, but would require long term debt financing to proceed:

- ❑ **Emergency Services Facility** – This project represents the construction of a new emergency services facility to consolidate Fire Stations #1 and #3. This project is required to address the deficiencies identified in the Station #1 review conducted in July 2005.
- ❑ **Aerial (Telesquirt) for Fire & Emergency Services** – This project represents the replacement of the 1978 telesquirt with a new Aerial (Quint) emergency services rescue vehicle. The existing telesquirt is now 29 years old and is beyond the current 25 year rotation on similar equipment. In addition, the old apparatus is singular in its purpose. The proposed replacement would provide the City with increased functionality. It should be noted that the new vehicle cannot fit in the current fire hall. Either the new emergency services facility must be constructed or alternate arrangements made before this vehicle can be purchased.
- ❑ **Norman Drive** – This project represents the rehabilitation and resurfacing of Norman Drive.
- ❑ **Highway 17 East Rehabilitation** – This project represents the rehabilitation of Highway 17 East, including grading, paving, granular base and culverts, from the junction of Transmitter Road to the City limits.
- ❑ **Kenora Recreation Centre Phase 2 Site Planning** – This project involves the completion of phase 2 of the site development for the parking lot. This phase addresses components 2, 3, 4 and completion of the parking area and upgrades to the basketball courts.
- ❑ **Convention / Performing Arts Centre Study & Development** – This project represents the development of a convention / performing arts centre within the City. This project has been included due to the lack of a suitable venue within the City for arts / cultural events and conferences.
- ❑ **Downtown Revitalization** – This project represents a rehabilitation of the downtown core and includes streetscaping, utility and infrastructure improvements to the Harbourtown Centre area. This project is considered an economic development priority due to the recent Abitibi Mill closure. Concerns with failure to implement this project include decreasing property values and competitiveness throughout the commercial district, along with deteriorating utilities and infrastructure.

These projects are being held for Council consideration pending the development of a business plan that would support the associated long term debt issuance to fund the related project.

The table on the following page provides some summary budget information on these projects, including the proposed year of implementation, total projected cost, total anticipated funding through long term debt issue, estimated annual repayment amounts, and the potential percentage impact on the tax rate if costs relating to the debt repayment were added directly to property taxes. Information included on the table is based on projected external borrowing costs.

The City's current annual debt repayment limit, as calculated by the Province, is almost \$7.0 million. In comparison, the City's existing annual debt obligation is approximately \$1.5 million. Based on this, the City has sufficient room within its annual debt repayment limit to issue the proposed new debt included in the 2007 five year capital plan.

Capital Plan Discussion

Long Term Debt Financing Considerations

City of Kenora

Potential Capital Projects for Long Term Debt Financing

(in thousands of dollars)

	Year	Total Cost	Long Term Debt Issue	* Annual Repayment	% Tax Impact
Fire & Emergency Services					
Emergency Services Facility	2007	\$ 2,700	\$ 2,000	\$ 158	1.0%
Aerial (Telesquirt)	2008	800	780	56	0.4%
Roads					
Norman Drive	2008	1,500	1,500	107	0.7%
Highway 17E Rehabilitation	2009	2,600	2,600	185	1.2%
Highway 17E Rehabilitation	2010	2,600	2,600	186	1.2%
		5,200	5,200	371	2.4%
Kenora Recreation Centre					
Phase 2 Site Planning	2009	1,740	1,740	102	0.7%
Other Cultural					
Convention / Performing Arts Centre	2008	7,500	3,750	220	1.4%
Infrastructure					
Downtown Revitalization	2007	2,199	783	46	0.3%
Downtown Revitalization	2008	2,199	783	46	0.3%
Downtown Revitalization	2009	2,199	783	46	0.3%
		6,598	2,348	138	
Combined Costs / Impacts		\$ 26,038	\$ 17,318	\$ 1,152	7.5%

* Annual repayments have been calculated on the following assumptions:

Interest Rate - 5.05% (Based on Prime as at May 1, 2007), compounded annually

Term of Debt Issue - 40 years on all buildings and infrastructure, 25 years on major pieces of equipment and roads

The table shows the impacts of new debt issuance based on the repayment terms as indicated. The associated debt repayments represent incremental costs that must be funded through either alternate revenue sources, reductions in expenditures or increased tax levy. Historically, the City has only used long term debt to fund projects where a business case scenario can be built to show that there will be incremental revenues, either through increased assessment and therefore taxes or other revenue sources such as user fees, or a significant reduction in City expenditures that would justify the debt issuance, or some combination thereof. In addition, the City has only historically financed projects through internal long term debt issue. The only remaining external long term debt, inherited at amalgamation, was retired in February 2006 leaving the City with only internal debt. The projects indicated above extend outside this historical approach, with the potential for external borrowing, and the requirement to either reduce other capital expenditures, or increase tax rates. Both options are shown on the table.

Ultimately, the decision must be made as to which, if any, of these projects are considered priority items for the City, and whether they should be financed through either internal or external long term debt. Should the decision be made to pursue all projects currently included in the budget, the City may be required to pursue external long term debt financing. Council must, however, balance the priority of the projects, together with the longer term impacts to capital and / or other spending, or ultimately the tax rate, to ensure the City maintains fairness in taxation, while ensuring the projects implemented are in accordance with the City's strategic directions. On a priority basis, the downtown revitalization project is currently the City's top priority for completion among these projects. Pursuing any of these projects, however, would result in bringing on new debt in the face of the City's existing, and significant infrastructure deficit. As such, all these projects are being held pending the development of a business plan that would ultimately support the issuance of the related long term debt financing.

Other Identified Projects

In addition to the 2007 five year capital plan approved lists and projects currently under consideration, other projects have been identified and discussed by the City over the years. The following table outlines the projects that are currently being tracked by the City, but are not included in the City's 2007 capital plan (in thousands of dollars):

	Total Cost
Tunnel Island	\$ 1,000
Development of an interpretative centre of the area's forestry legacy and cultural history. A five year development plan was included.	
Downtown Revitalization - Future Phases	14,190
Completion of the infrastructure renewal and traffic pattern improvements in the downtown area of the City. The first portion is included in the 2007 capital plan.	
Bush Plane Museum	500
Development of a museum at the Harbourfront Pavilion depicting the area's bush plane history.	
Marine Interpretive Centre	-
Fish gallery and history panels on marine life. Cost to be determined.	
Residential Sub-Division Development	250
Development of 7 lots along Treadway Drive and behind the Skyline Store.	
Infrastructure Replacement Plan	-
Development of a long term plan to address the City's current infrastructure deficit. Costs are unknown at this time. This item is further addressed within the Budget Pressures - Infrastructure Deficit portion of this report.	
Animal Control Pound	135
Building renovations - deferred for several years now.	
Sidewalks - Underserviced Areas	-
Extension of sidewalks to underserviced areas.	
Urban Trail System	180
Total Known Costs	\$ 16,255

Capital Plan Discussion

Other Identified
Projects

Budget Pressures – The Infrastructure Deficit

As with most municipalities, the City has a significant infrastructure deficit. The entire outstanding obligation is not currently known, although the City will be working, over the next several years, to establish a capital asset inventory and valuation for tracking purposes.

The most significant portion of the non-utility infrastructure deficit is represented by the City's road and bridge infrastructure. In 2007, the draft budget includes estimated expenditures of about \$1.7 million on City roads and bridges. There is an additional proposed spending of \$.4 million on City storm sewers, bringing total spending on roads and bridges to about \$2.1 million for 2007. In comparison, the City's entire tax levy allocation to capital spending is only \$1.9 million for 2007.

In contrast, the City estimates that annual capital spending on roads and bridge infrastructure should be closer to \$6.8 million. The table on the following page provides an overview of the City's road and bridge inventory, including storm sewers, sidewalks, streetlights and street signs. The table provides information on lengths / quantities included in the inventory, as well as replacement costs and expected useful life. This table shows that, even if the City was able to achieve two thirds funding on all related expenditures, annual spending should still be in excess of \$2.6 million. It should be noted that both the 2007 roads and storm sewer budgets are exaggerated from a regular budget due to the carry over of several roads related programs to 2007, including a portion of both the municipal paving program and sidewalk programs, as well as both the Kenora Recreation Centre and 16th Avenue N. storm sewer projects. In contrast, the estimated two thirds funding is both unrealistic and unattainable given current funding programs.

A significant portion of this infrastructure was previously funded primarily through the Province. This funding source has been discontinued. This concern is compounded by the commitment of the remaining downloaded roads reserve monies from Province to the downtown revitalization project. The infrastructure is aging, and represents a potentially significant cost to the City that cannot feasibly be funded primarily through tax dollars.

Even more disconcerting is that the City's infrastructure deficit is not limited to roads and bridges alone. Similar deficits exist, albeit to a lesser extent, for City assets such as buildings and facilities, and equipment.

The City is currently working towards quantifying the extent of our combined annual infrastructure deficit. As part of the 2006 capital plan, the City invested in software to help both analyze and track the infrastructure deficit from an overview perspective. This software includes the capabilities of providing alternatives that will help Council make decisions on long term funding models to work towards eliminating the City infrastructure deficit. Commencing in 2007, the City will be actively working towards quantifying its existing infrastructure in more detail in accordance with the new capital asset requirements under the Public Sector Accounting Board standard PS 3150.

Capital Plan Discussion

Budget Pressures - The Infrastructure Deficit

City of Kenora
Roads & Bridges Infrastructure
Estimated Future Annualized Capital Needs
(in thousands of dollars)

	Length / Quantity	Cost / km or Total Cost	Useful Life	Annualized Cost / km	Annualized Total Cost
Kenora Roads					
Asphalt	64 km	\$ 225	25	\$ 9	\$ 576
Surfact Treatment	5 km	150	10	15	75
Gravel	1 km	100	5	20	20
	70				671
Keewatin Roads					
Asphalt	18 km	\$ 225	25	\$ 9	\$ 162
Surfact Treatment	14 km	150	10	15	210
Gravel	1 km	100	5	20	20
	33				392
Jaffray Melick Roads					
Asphalt	43 km	\$ 225	25	\$ 9	\$ 387
Surfact Treatment	18 km	150	10	15	270
Gravel	159 km	100	5	20	3,180
	220				3,837
Combined Roads Requirements					
	323 km			\$	4,900
Other					
Storm Sewers	39 km	\$ 350	50	\$ 7	\$ 273
Sidewalks	120 km	100	25	4	480
Streetlights	1,700	0.5	25	-	34
Street Signs	10,000	0.1	20	-	50
				\$	837
Total Requirements Before Bridges					
				\$	5,737
Bridges					
Kenora	9	\$ 56,375	75	\$	751
Keewatin	3	15,500	75		207
Jaffray Melick	5	3,000	75		40
	17			\$	998
Pedestrian Bridges	3	1,750	75		23
Combined Bridges Requirements					
	20				1,021
Total Requirements					
				\$	6,758
Net Requirements (assuming 2/3's funding) *					
				\$	2,629

* Assumes 2/3's funding on Roads, Bridges and Storm Sewers only.