



Five Year Capital Plan
2008 - 2012

The City of Kenora, Ontario, Canada

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

2008 Capital Plan Highlights	5
A New Emphasis on Roads	5
Reserves and Reserve Funds	7
Other Funding Sources	7
Deleted Projects	8

Capital Plan Discussion

Review of Higher Value 2008 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
2008 Capital Project Summary	Index 3
2009 Capital Project Summary	Index 4
2010 Capital Project Summary	Index 5
2011 Capital Project Summary	Index 6
2012 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
- ❑ Sharen McDowall, Human Resources Manager
- ❑ Colleen Neil, Recreation Manager
- ❑ Rick Perchuk, Operations Manager

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 2008 through 2012, 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 prior years, the 2008 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. 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

2008 Capital Plan Highlights

The City of Kenora 2008 Capital Plan represents combined total cost of projects of \$11.7 million. Of this amount, \$7.2 million is for the City’s downtown revitalization project. An additional \$1.3 million relates to projects that were budgeted for but not performed or completed in 2007 that were incorporated into the 2008 capital plan.

The plan has an allocation of \$2.1 million in net tax levy for 2008, an increase from previous years’ allocation. This is primarily due to the operations equipment replacement review performed during 2007. The review resulted in an overall reduction in the operations fleet, which in turn enabled the City to reduce appropriations to operations equipment reserves. Some of this money was used to adjust funding for other reserve balances that were determined to be insufficient, such as emergency services equipment, with the balance of just over \$.1 million annually being put back into the City’s capital program. This represented an increase of about 6% in the net tax levy allocation to capital works starting in 2008.

This page includes a chart outlining the gross planned expenditures included in the draft 2008 Five-Year Capital Plan. A summary of the draft 2008 capital plan total and net cost, by functional area, has been included on the following page.

A New Emphasis on Roads

In Summer 2007, City Council asked for feedback on City services from the taxpayer. Surveys were sent out with every final property tax bill to City Taxpayers. Second only to protection services (fire protection and policing), road maintenance represented the next highest priority service for City Taxpayers, followed closely by recycling and winter road maintenance. When asked where the taxpayer would spend additional tax dollars, road maintenance was by far the number one priority for taxpayers, with 47.8% of respondents indicating that more money should be spent on City roads.

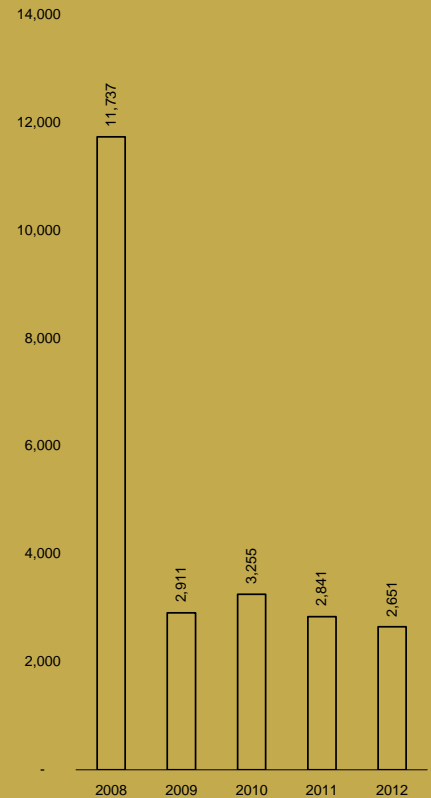
As a result, Council directed administration to place an increased emphasis on roads, including the municipal paving program in the 2008 five year capital plan. Historically, the paving program has run about \$320K, before any carry forward funds from the previous year’s budget were added. The 2007 capital plan included a strategy bring the paving program up to \$370K by 2011. For the 2008 capital plan, projected spending on the City’s municipal paving program has been increased to the following:

- ❑ 2008 - \$625,000
- ❑ 2009 - \$641,000
- ❑ 2010 - \$695,000
- ❑ 2011 - \$759,900
- ❑ 2012 - \$771,000

In addition, gross spending on consolidated roads, bridges and storm sewers has also been increased in the 2008 five year capital plan as compared to projected expenditures included in the 2007 plan after excluding a one-time expenditure on bridges in the 2007 capital budget of \$400K as well as any carry forward projects. The following table summarizes the 2007 vs. 2008 capital plan budgeted expenditures for roads programs:

<u>Year</u>	<u>2007 Capital Plan</u>	<u>2008 Capital Plan</u>
2007	\$ 980,000	--
2008	\$1,187,000	\$1,602,000
2009	\$1,210,000	\$1,631,000
2010	\$1,322,000	\$1,787,000
2011	\$1,305,000	\$1,849,900
2012	--	\$1,864,000

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



Capital Plan Highlights

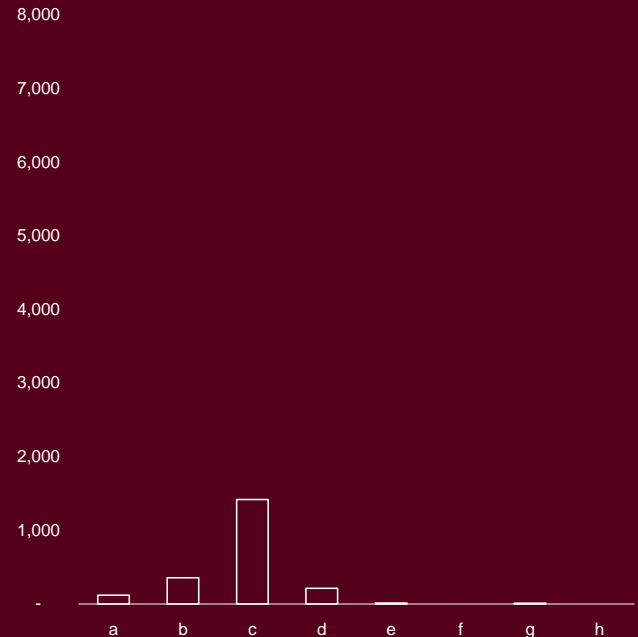
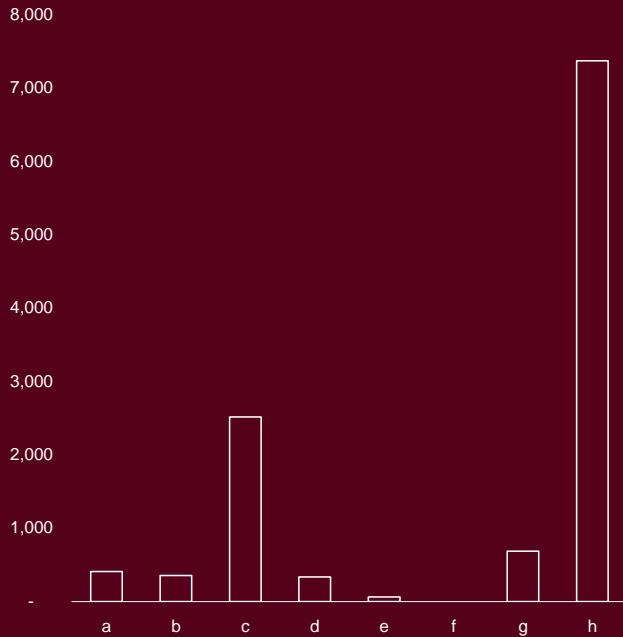
2008 Capital Plan Highlights

A New Emphasis on Roads

2008 Capital Plan

Planned Expenditures by Function – Gross / Net
2008 Planned Costs (in thousands of dollars)

Capital Plan Highlights



2008 Planned Capital Expenditures - Total Cost

a General government	412	3.5%
b Protection	355	3.0%
c Transportation	2,517	21.4%
d Environmental	337	2.9%
e Health	64	0.5%
f Social & family	-	0.0%
g Recreation & cultural	687	5.9%
h Planning & development	7,365	62.8%
	\$ 11,737	100.0%

2008 Planned Capital Expenditures - Net Cost

a General government	120	5.5%
b Protection	355	16.7%
c Transportation	1,418	66.6%
d Environmental	212	10.0%
e Health services	14	0.7%
f Social & family	-	0.0%
g Recreation & cultural	10	0.5%
h Planning & development	-	0.0%
	\$ 2,129	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, such as equipment replacement reserves. Overall, in 2008, the City is estimating it will put aside almost \$1.7 million into non-utility reserves.

As noted previously, the City performed a review of the operations equipment fleet replacement during 2007, which resulted in an overall reduction in the operations fleet. In turn, this enabled the City to reduce appropriations to operations equipment reserves. Some of this money was used to adjust funding for other reserve balances that were determined to be insufficient, such as emergency services equipment. The balance remaining after reallocating to reserves as appropriate was just over \$.1 million annually, and was directed into the City’s capital program, effectively reducing budgeted reserve appropriations from previous years’ levels.

Planned contributions to capital works from reserve and reserve funds for the 2008 five-year capital plan are:

- ❑ 2008 - \$4.3 million, represented by:
 - \$1.3 million for projects carried forward to 2008 from 2007
 - \$2.0 million for downtown revitalization
 - \$1.0 million for 2008 projects
- ❑ 2009 - \$.7 million
- ❑ 2010 - \$.9 million
- ❑ 2011 - \$.7 million
- ❑ 2012 - \$.4 million

This page includes a chart outlining the projected non-utility reserve and reserve fund balances, based on approved capital expenditures included in the 2008 Five-Year Capital Plan. This chart assumes that the preliminary estimated reserve appropriations for 2008 will be continued throughout the period 2009 through 2012.

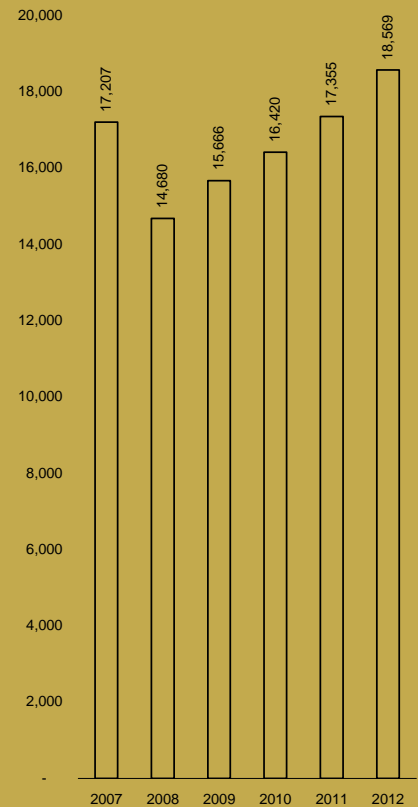
Other Funding Sources

The proposed primary source of funding for the 2008 capital plan approved project is from subsidies from senior levels of government, representing 44% of all capital funding on approved projects for 2008. This is followed by appropriations from City reserves and reserve funds, representing a further 36% of capital funding, and then the net tax levy allocation, representing an additional 18%. The City is projecting only a very modest allocation from recoveries of about 2% of funding for total approved 2008 capital projects. These percentages have been strongly impacted by the City’s downtown revitalization project, and the City would see a significant shift in reliance on funding sources had that project not been included in the 2008 capital plan.

This information does not include those projects being contemplated under the Long Term Debt Financing Considerations section of this report. 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 later in this report.

The following page includes a pie chart outlining the combined funding sources for the 2008 capital plan.

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

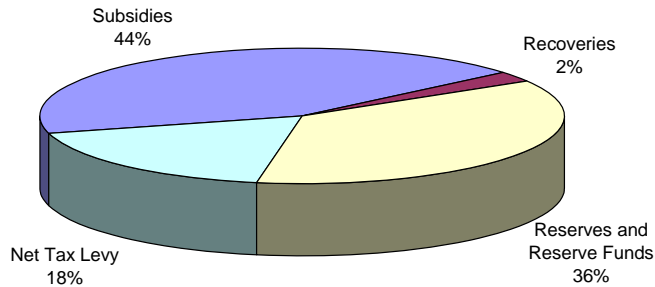


Capital Plan Highlights

Reserves and Reserve Funds

Other Funding Sources

Other Funding Sources (Cont.)



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 \$4.9 million, or a net tax levy requirement of \$4.8 million, from its five year capital plan. Projects with a value of over \$.25 million the City is currently tracking on its deleted list for the period 2008 through 2012 include:

- ❑ Donor Avenue Storm Sewer - \$.35 million
- ❑ Florence Avenue Storm Sewer - \$.55 million (combined)
- ❑ Kenora Rec Centre Phase Two Site Planning - \$1.74 million
- ❑ Keewatin Memorial Arena Floor Replacement - \$.45 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 not 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.

In addition, as a result of Council's decision to move to the Ontario Provincial Police for providing policing services to the entire City, all police capital works for the Kenora Police Services have been deleted from the City capital plan commencing in 2008.

A complete list of deleted projects can be found in Index 8 of this budget.

Capital Plan Highlights

Other Funding Sources (Cont.)

Deleted Projects

Review of Higher Value 2008 Capital Projects

The following table summarizes capital projects included in the 2008 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
Protection		
Fire - Pumper Replacement	\$ 300	\$ 300
Transportation		
Municipal Paving Program	625	583
Sidewalks	283	100
Salted Sand Storage Building	400	-
New Grader	190	-
Environmental		
Ninth St. / Rupert Rd. Storm Sewer	212	212
Kenora Rec. Centre Storm Sewer	125	-
Recreation & Cultural		
Thistle Arena - New Seating	197	-
KRC Phase 1 Site Planning	156	-
Planning & Development		
Downtown Revitalization	7,235	-
Hwy 17 E Completion	110	-
Total Significant Projects	9,833	1,195
Projects less than \$100K	1,904	934
Total Planned 2007 Capital	\$ 11,737	\$ 2,129

More detailed information on all of the 2008 approved projects included in the budget can be found in Index 3.

Capital Plan Discussion

Review of Higher Value
2008 Capital Projects

Long Term Debt Financing Considerations

The City has identified several significant projects which are not currently included in the approved 2008 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 2008 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 30 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.
- ❑ **Convention / Performing Arts Centre** – 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 Landscaping** – This project represents the completion of the downtown revitalization works through landscaping. The downtown revitalization project is a rehabilitation of the downtown core and includes streetscaping, utility and infrastructure improvements to the Harbourn Centre area. This project is considered an economic development priority due to the Abitibi Mill closure in 2005. 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 \$7.2 million. In comparison, the City does not currently have any outstanding long term debt. Based on this, the City has sufficient room within its annual debt repayment limit to issue the proposed new debt included in the 2008 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	2008	\$ 3,654	\$ 2,904	\$153	1.0%
Aerial (Telesquirt)	2008	800	780	52	0.3%
Roads					
Norman Drive	2008	1,500	1,500	99	0.6%
Highway 17E Rehabilitation	2009	3,600	3,600	238	1.5%
Highway 17E Rehabilitation	2010	3,600	3,600	238	1.5%
		7,200	7,200	476	3.1%
Other Cultural					
Convention / Performing Arts Centre	2008	7,500	3,750	199	1.3%
Infrastructure					
Downtown Landscaping	2008	875	438	55	0.4%
Combined Costs / Impacts		\$ 21,529	\$ 16,572	\$ 1,034	6.7%

* Annual repayments have been calculated on the following assumptions:

Interest Rate - 4.30% (Based on Prime as at April 8, 2008), compounded annually

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

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. The table above shows the impacts of these various options. 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, although it has investigated opportunities related to external borrowing.

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 on this listing, the City may choose 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 landscaping project is currently the City's top priority for completion among these projects in order to fully complete the downtown revitalization works. 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 2008 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 2008 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 2008 capital plan, under potential long term debt projects.	
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 few 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 2008, the draft budget includes estimated expenditures of about \$1.6 million on City roads and bridges. There is an additional proposed spending of \$.3 million on City storm sewers, bringing total spending on roads and bridges to about \$1.9 million for 2008. It should be noted, however, that the 2008 roads and storm sewer budgets are overstated from a regular budget due to the carry over of works related to lane paving, sidewalks and the Kenora Recreation Centre storm sewer project in the amount of about \$.3 million combined, bringing the annual budget allocation closer to \$1.6 million. In comparison, the City's entire tax levy allocation to capital spending is only \$2.1 million for 2008.

In contrast, the City estimates that annual capital spending on roads and bridge infrastructure should be closer to \$6.8 million, more than four times planned 2008 spending before including 2007 projects carried forward to the 2008 capital budget. 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.

The City does include in its 2008 capital plan a strategy to increase spending on consolidated roads / bridges / storm sewers over the next five years. The anticipated maximum spending, however, is still only \$1.9 million as compared with the suggested \$2.6 million. In addition, the \$2.6 million net spending is based on an estimated two thirds funding from senior levels of government on all roads related spending, which 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. The recent bridge failures in both Quebec and Minnesota can only serve to remind us of the importance of ensuring our municipal infrastructure is properly maintained, and the serious repercussions of not doing so.

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. In 2007, the City began actively working towards a full valuation of its infrastructure inventory to meet the requirements under the Public Sector Accounting Board standard PS 3150, ultimately providing Council with improved information for evaluating, assessing and addressing the City's infrastructure deficit.

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 Unit 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.