



The City of Kenora, Ontario, Canada

Five Year Capital Plan
2009 - 2013

Budget Discussion

Introductory
Information

Capital Plan
Highlights

Capital Plan
Discussion

Detailed Budget
Schedules

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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 Corporate 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 2009 through 2013, 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 2009 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 listed in Index #3 of this budget.

Introductory Information

City Strategic Plan and Guiding Principles

Capital Plan Principles

2009 Capital Plan Highlights

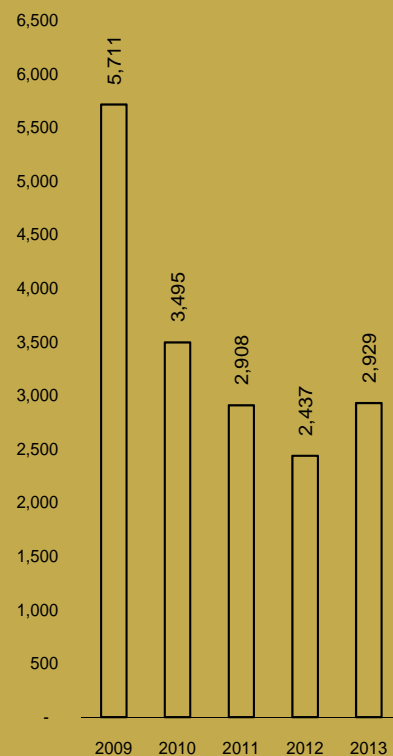
The City of Kenora 2009 Capital Plan represents combined total cost of projects of \$5.7 million. Of this amount, \$1.1 million is for the City’s downtown revitalization project. An additional \$1.3 million is for an upgrade to the KRC Parking Lot, including paving the surface and replacing underground utility related infrastructure.

The plan has an allocation of \$1.5 million in net tax levy for 2009, representing a substantial decrease from previous years’ allocation. This is primarily due to two specific factors:

- ❑ **Public Sector Accounting Board (PSAB) Section PS 3150 (Tangible Capital Assets)** – Commencing with the 2009 fiscal year end, municipalities are required to report their Tangible Capital Assets (TCA) on their Statement of Financial Position (aka, the Balance Sheet). In recognition, the City was required to perform a shift in how it budgets for non-capital special projects and / or unusual spending. Historically, the City has used its capital plan to fund larger dollar expenditures, particularly where they are not regular annual spending, for example, the Bridge Inventory / Audit, which is a biannual requirement, estimated at about \$1 million annually. Other spending that was historically incorporated into the capital budget included spending on capital assets that would be more accurately classed as maintenance than capital spending, despite the significant cost it represented. Since, historically, a set amount of tax levy was allocated to capital spending, it made sense from a perspective of “smoothing” budget requirements to introduce this type of unusual spending through the capital budget and adjust net capital spending accordingly. With the introduction of the new requirements under PSAB 3150, the City could no longer mix items that were truly not capital in nature with those that were capital simply for the purposes of “smoothing” funding requirements. At the same time, it was recognized that to simply shift this spending into the operating budget, without adjusting for spending in the capital plan, would result in a significant impact to the City and its taxpayers. As a result, in the 2009 budget, the City has listed out the “Non-Capital Special Projects / Unusual Spending” in Index #9 of the capital budget. While this spending is not included in the total capital spending in 2009 (Indexes #1 through #7), it is also recognized that historically it has been funded through this budget. The total for this non-capital spending has been accounted for in the City’s operating budget. For 2009, this non-capital spending accounts for about \$0.6 million in total costs, with a net tax levy allocation of about \$0.2 million.
- ❑ **Declining Interest Rates** – As a result of changes in the global economy over the past year, interest rates in Canada have fallen drastically. Since the 2008 budget was approved to when the 2009 budget came in final form before Council for approval, the interest rates have dropped by about 2%. For the City of Kenora, this is significant. In 2008, the City’s operating budget reflected an estimated \$2.3 million in investment related income (not including interest charged on outstanding property taxes or arrears). In 2009, the City is projecting closer to \$1.5 million in investment related income – a net loss of just under \$0.8 million. The City believes this to be an issue that will turn around over the next year or two. In the interim, given the anticipated shorter term nature of this issue, the decision was made to partially reduce the net tax levy allocation to capital spending rather than either pass the lost revenue on to the taxpayer or cut local services. The 2010 planned spending currently reflects a restatement of capital spending to historical levels. This decision will be actively re-evaluated during the 2010 budget process.

This page includes a chart outlining the gross planned expenditures included in the draft 2009 Five-Year Capital Plan. A summary of the draft 2009 capital plan total and net cost, by functional area, has been included on the following page.

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



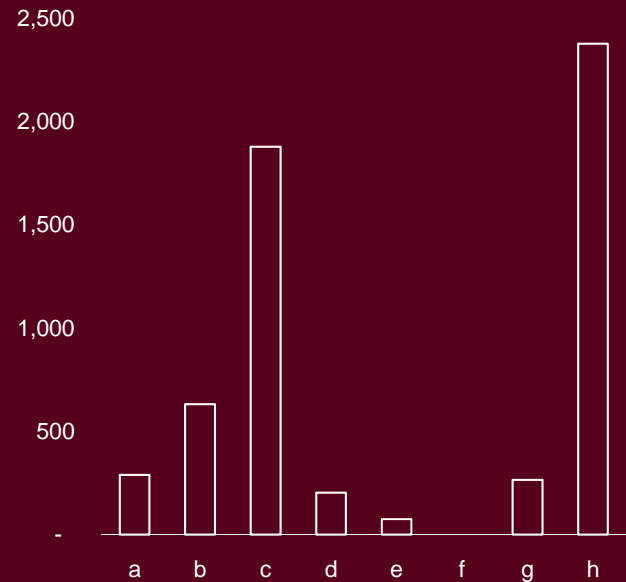
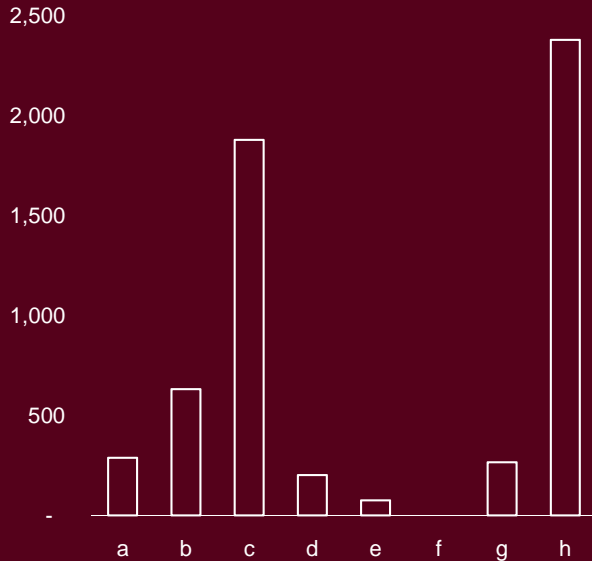
Capital Plan Highlights

2009 Capital Plan Highlights

2009 Capital Plan

Planned Expenditures by Function – Gross / Net
2009 Planned Costs (in thousands of dollars)

Capital Plan Highlights



2009 Planned Capital Expenditures - Total Cost

a General government	288	5.2%
b Protection	630	11.0%
c Transportation	1,876	32.8%
d Environmental	202	3.5%
e Health	75	1.3%
f Social & family	-	0.0%
g Recreation & cultural	265	4.6%
h Planning & development	2,375	41.6%
	\$ 5,711	100.0%

2009 Planned Capital Expenditures - Net Cost

a General government	40	2.7%
b Protection	10	0.7%
c Transportation	1,317	88.7%
d Environmental	67	4.5%
e Health services	25	1.7%
f Social & family	-	0.0%
g Recreation & cultural	25	1.7%
h Planning & development	-	0.0%
	\$ 1,484	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 2009, the City is estimating it will put aside almost \$1.8 million into non-utility reserves.

Planned contributions to capital works from reserve and reserve funds for the 2009 five-year capital plan are:

- ❑ 2009 - \$2.2 million
- ❑ 2010 - \$1.0 million
- ❑ 2011 - \$.9 million
- ❑ 2012 - \$.3 million
- ❑ 2013 - \$.9 million

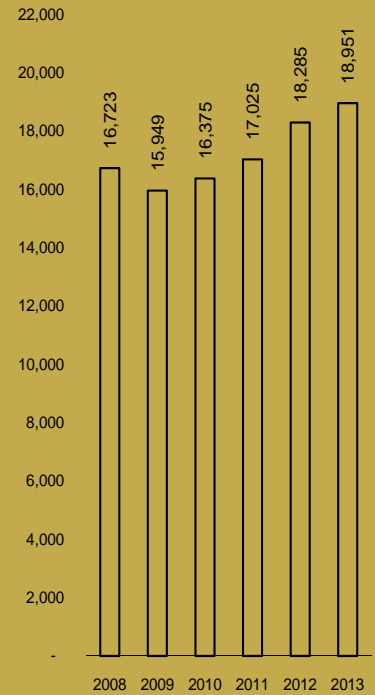
This page includes a chart outlining the projected non-utility reserve and reserve fund balances, based on approved capital expenditures included in the 2009 Five-Year Capital Plan, as well as contributions to Non-Capital Special Projects / Unusual Spending and some minor contributions to other operating items. This chart assumes that the preliminary estimated reserve appropriations for 2009 will be continued throughout the period 2010 through 2013.

Other Funding Sources

The proposed primary source of funding for the 2009 capital plan approved project is appropriations from City reserves and reserve funds, representing 38% of all planned capital spending for 2009. This is followed by subsidies from senior levels of government, representing a further 36% of capital funding, and then the net tax levy allocation, representing an additional 26%. The City is not projecting any revenues from other items such as recoveries for 2009. These percentages continue to be impacted by the City's downtown revitalization project as well as the planned upgrades to the KRC Complex parking lot, although certainly to a lesser extent than in occurred in the 2008 capital plan.

This information does not include those projects being contemplated through Long Term Debt Financing in Index #8 of this report. Some of the projects being considered for debt financing are also dependent on funding from senior levels of government.

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



Capital Plan Highlights

Reserves and Reserve Funds

Other Funding Sources

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 \$1.6 million, or a net tax levy requirement of \$1.6 million, from its five year capital plan. Projects with a value of \$.1 million or greater the City is currently tracking on its deleted list for the period 2009 through 2013 include:

- ❑ Fire / Rescue / Dive Boat - \$.1 million
- ❑ Portage Bay Rec Area Lighting - \$.1 million
- ❑ Anicinabe Park Washroom & Shower Unit - \$.25 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 services. 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 #10 of this budget.

Capital Plan Highlights

Other Funding Sources (Cont.)

Deleted Projects

Review of Higher Value 2009 Capital Projects

The following table summarizes capital projects included in the 2009 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	\$ 375	\$ -
Fire - Radio Communications Upgr	200	-
Transportation		
Municipal Paving Program	749	556
Sidewalks	110	110
Sedesky Road	100	100
Environmental		
Redesign Recycle Facility	135	-
Recreation & Cultural		
Thistle Arena - Board & Glass	161	-
Planning & Development		
Downtown Revitalization	1,050	-
KRC Parking Lot / Infrastructure	1,257	-
Total Significant Projects	4,137	766
Projects less than \$100K	1,574	718
Total Planned 2009 Capital	\$ 5,711	\$ 1,484

More detailed information on all of the 2009 approved projects included in the budget can be found in Index #3.

Capital Plan Discussion

Review of Higher Value
2009 Capital Projects

Long Term Debt Financing Considerations

The City has identified several significant projects which are not currently included in the approved 2009 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, shown with their total projected cost, are currently being considered in the 2009 five year capital plan, but would require long term debt financing to proceed:

- ❑ Emergency Services Facility - \$5.0 million
- ❑ Fire 100' Platform Truck - \$1.0 million
- ❑ Winnipeg River West Branch Bridge - \$6.7 million
- ❑ Darlington Bay Bridge - \$.7 million
- ❑ Bay Street Overpass - \$1.7 million
- ❑ Seventh Avenue South Bridge - \$3.4 million
- ❑ Norman Drive - \$1.5 million
- ❑ Highway 17 East Rehabilitation - \$7.2 million
- ❑ Convention / Performing Arts Centre - \$7.5 million
- ❑ Downtown Revitalization Phase II - \$5.5 million

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. On a priority basis, the Emergency Services Facility has been referred to the Emergency Services Committee for review and a final recommendation to Council. Related design work is already underway, and initial plans include financing this project through Infrastructure Ontario. Index #8 of this budget 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 in this Index is based on projected external borrowing costs.

The City's current annual debt repayment limit, as calculated by the Province, is almost \$7.3 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 2009 five year capital plan. The associated debt repayments would 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, 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. 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. Pursuing any of these projects will 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.

Capital Plan Discussion

Long Term Debt Financing Considerations

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 is currently actively working 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 2009, the draft budget includes estimated expenditures of about \$1.3 million on City roads and bridges. There is an additional proposed spending of \$.1 million on City storm sewers, bringing total spending on roads and bridges to about \$1.4 million for 2009. In comparison, the City's entire tax levy allocation to capital spending is only \$1.5 million for 2009.

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 2009 spending. 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.

Commencing in 2008, the City did shift additional monies into its roads capital programs. By 2013, the City budget reflects roads capital spending of close to \$1.8 million, down slightly from the planned 2012 spending of \$1.9 million. This is still not close to 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.

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.