



**City of Kenora
Special Committee of the Whole Meeting**

AGENDA

**Tuesday, February 21, 2017
City Hall Council Chambers
8:30 a.m.**

A. Call Meeting to Order

**B. Public Information Notices
N/A**

C. Declaration of Pecuniary Interest & the General Nature Thereof
Mayor Canfield then asked if any Member of Council had any Declarations of Pecuniary Interest and the General Nature Thereof pertaining to any items as follows: -

- 1) On Today's Agenda**
- 2) From a Meeting at which a Member was not in Attendance**

Subject

1. Kenora Airport Authority Request
2. 2017 Capital Budget Department overview presentation
3. 2017 Capital Budget Council Discussion



Kenora Airport Authority Inc.

Box 469, Kenora, Ontario P9N 3X5
Phone (807) 548-5377 Fax (807) 548-1460

KENORA AIRPORT PROJECTS

Design and Engineering	\$ 500,000.00
Terminal Building (FBO, Canada Customs, Terminal)	6,200,000.00
Runway and approach lighting upgrade and renewal to LED	1,200,000.00
New loader and attachments	290,000.00
Total	\$ 8,190,000.00
Funding to Date:	
NOHFC	\$ 450,000.00
Federal Gov't Small Communities Fund - Terminal bldg	2,076,000.00
Province of Ontario - Terminal bldg	2,076,000.00
Federal Gov't - ACAP - Runway upgrade	1,200,000.00
Federal Gov't - ACAP - Equipment upgrade	290,000.00
Total	(\$ 6,092,000.00)
	(\$ 2,098,000.00)
Kenora Airport Authority Reserve fund and operating	(600,000.00)
Shortage	(\$ 1,498,000.00)



11 February 2017

City Council Committee Report

To: Mayor and Council

Fr: Karen Brown

Re: 2017 Capital Budget

Recommendation:

That Council hereby approves the 2017 Municipal Capital Budget, including Unusual Spending, as amended; and

That Council hereby directs staff to actively proceed with the projects included in that budget in accordance with the provisions of the City procurement bylaw; and

That in accordance with Notice Bylaw 144-2007, public notice is hereby given that Council intends to adopt its 2017 Municipal Capital and Unusual Spending Budget at its March 21, 2017 Council meeting; and further

That Council hereby gives three readings to a bylaw for this purpose.

Background:

In recent years, the City's capital & unusual spending budget process seems to have become increasingly arduous, with staff relying more heavily on the use of reserves each year to get many projects approved. More recently, debt issuance has also become a method of moving some projects forward, although the debt payments impact future years' available tax room. During this same time, Council has approved increases in capital budget spending through an increased percentage allocation in the tax rate, with the understanding that the increased allocation would be used for roads and bridges. This was done in an effort to work to reduce the annual infrastructure gap on the City's largest municipally funded asset group.

This year the challenge seems to have reached an all-time high. This resulted in some analysis on the capital budget specific to available spending based on the prior year's tax levy allocations, and the flexibility in the capital budget.

The table at the top of the following page shows how the City calculates the proposed Net Tax Levy (NTL) that would be allocated towards capital spend in 2017. It also shows the NTL reflected in the current draft 2017 capital budget that has been prepared for consideration by Council, with the first budget review meeting tentatively set for the morning of February 21st. (Budget Binders will be available for pick up in the Council Chambers for the February 14th Committee of the Whole Meeting.)

Anticipated 2017 Capital / Unusual Spend Based on 2016 Levels:

2017

Estimated Capital / Unusual Net Spend

2016 Net Tax Spending Level

Capital	2,024,329
Unusual Spending	<u>169,775</u>

█ 2,194,104

Additional NTL Authorized by Council 122,500

Debt Adjustments:

New Debt Issues:

KMA Arena	- 105,000
KMA Roof	- 22,750

Tax Levy available for Capital 2,188,854

Current 2017 Draft Capital Budget - NTL

Capital	2,052,454
Usual Spending	<u>135,000</u>
	<u>2,187,454</u>

Difference 1,400

As noted in the above table, the City is anticipating an allocation of just short of \$2.2M in net tax levy, based on no increase to the allocation to the capital and unusual spend budget for 2017. Any increase would be discussed separately in tandem with the City's 2017 municipal operating budget discussions. The current draft budget includes spending basically equal to this amount, with a very slight room of \$1,400 remaining. Ultimately, this amount will be cleared to show a difference of \$0.

As noted previously, in 2017 it seemed that no amount of cutting of the capital budget by staff could bring the City to a draft that would be reflective of the allocation from previous years, without basically eliminating virtually all but the regular annual budget items and items funded from reserves. This resulted in an analysis of the available NTL dollars, in comparison to the City's regular roads and storm sewer spending:

Non Roads / Storm Sewer Allocation:

2017 NTL Allocation	2,188,854
Roads Allocation	1,843,604
Storm Sewer Allocation	<u>150,000</u>
NTL Allocation to all other	<u>195,250</u>

The remaining room in the NTL after accounting for regular spend levels on roads and storm sewers is less than \$200,000. With the annual allocation to the Community Improvement Plan alone of \$100,000, this prompted a second analysis. This analysis took the available tax levy, and removed all regular annual capital and unusual spend programs to determine what room remained for all other City capital and unusual spend works:

Annual NTL Allocations vs Remaining Room

Capital:

IT - Network Upgrades	16,000
Roads & Bridges w Addnl Alloc.	1,843,604
Garage & Shop	15,000
Storm Sewers	150,000
Fitness Equipment	10,000
	<u>2,034,604</u>

Unusual Spend

Boat Launch Program	35,000
Community Improvement Programs	100,000
	<u>135,000</u>

Combined annual allocation	2,169,604
NTL Allocation	2,188,854
Remaining room for other capital	19,250

As can be seen from the above analysis, after the City's regular and annual capital / unusual spend allocations, there is only \$19,250 remaining in the tax levy allocation to use towards other City projects. A further review does need to be done of the new annual debt payments to ensure these have been correctly accounted for, although the maximum impact related to this would be an additional \$105,000. This would still only increase the annual spending allocation to other projects to \$124,250. This is a significant issue that needs to be addressed in conjunction with the City's 2017 operating budget discussions.

In addition, for some years now the City has been supplementing its capital and unusual spending budget through taking dollars out of City reserves. Some City reserves are designed for this purpose, such as the equipment replacement reserves. Other reserves are intended to build funds towards future building replacement or significant rehabilitation of those assets. The recreation facility reserves are a good example of a reserve that has been intended for this purpose (ie, building for future rehabilitation), but has actually been consistently used to ensure projects at the recreation centres were done. For example, despite a regular annual allocation of tax dollars to this reserve, the projected balance of this reserve, net of 2017 proposed projects, is only \$1,455.77.

To compound this issue, a summary review of the City reserves in conjunction with the City's capital & unusual spend budgets has identified at least two reserves designed to use for "smoothing" tax levy allocation to capital spend, specifically the Computer Systems and Equipment Reserves, are being underfunded annually, with issues arising within the next five years wherein there are insufficient funds available to allocate towards planned spending.

In theory, the City does have some options available to it immediately. These include increasing the allocation to capital spend or reducing the annual allocations to other areas, such as roads and bridges. At this time, none of these adjustments are recommended until both Council and staff have had the opportunity to work through the 2017 municipal operating budget. Given the current roads infrastructure deficit, it is not expected that any recommendation will come forward from staff to reduce the current allocation to roads and bridges, including storm water.

As a result, an interim approach has been taken with the 2017 capital budget. For 2017, the capital and unusual spend budget has been balanced, as always, to the adjusted 2017 NTL allocation. As with previous years, this includes a heavy reliance on City reserves. New for 2017, however, is the use of the contingency reserve to ensure a number of projects considered to be City / Council priorities move forward in the 2017 budget. The total amount recommended to be taken from contingency reserve is \$336,196, as outlined in the following table:

**CITY OF KENORA
CAPITAL BUDGET CONTINGENCY SUMMARY
2017**

Project ID	Project Description	Total Project Cost	Contingency Reserve
17.381.01	Relocate Existing Docks	25,000	25,000
17.382.01	Coney Wharf Rehabilitation	111,227	21,499
17.711.02	Keewatin Beach Retaining Wall	30,000	30,000
17.713.01	Anicinabe BBQ Pit	37,000	37,000
17.717.01	JM Washroom Building Repairs	20,000	20,000
17.733.03	Tile Pool Deck	400,000	122,697
U17.121.01	Municipal Energy Plan	100,000	50,000
U17.811.06	Investment Readiness Audit	25,000	15,000
U17.834.01	Canada Summer Games	15,000	15,000
TOTALS		763,227	336,196

For clarity, this is not a recommended approach for future years in the 2017 five year capital plan, nor for moving forward in future budget years. It is being recommended for 2017 simply to allow the City to move priority projects forward in 2017 in a timely manner, permitting the City the time to review the ongoing capital needs and related impacts in conjunction with the review of the City's municipal operating budget. If it is determined that there is some additional room related to the long term debt payments, the allocation from contingency reserve would be reduced accordingly.

Once the NTL allocation to capital and unusual spend for 2017 and beyond has been reviewed in conjunction with the municipal operating budget review, a follow up draft five year capital and unusual spending plan will be brought back for Council review, amendment and ultimately approval. At this time, the proposed projects in future years continue to represent increased tax demands to the City despite preliminary budget cuts by staff. Further cuts to these future year draft budgets are not recommended by staff until such time as the operating budget discussion has occurred.

Budget / Financial Implications:

No impact for the 2017 net tax levy with the approval of the 2017 capital and unusual spend allocation, although a more robust discussion needs to occur on this issue as part of the 2017 municipal operating budget. Once this discussion occurs, a draft five year capital plan will be finalized, including the 2017 capital and unusual spend budget as approved by Council, for Council review, amendment and approval.

Communication Plan/Notice By-law Requirements:

Notice will be given in accordance with the provisions of the Notice Bylaw - #144-2007.

Strategic Plan or other Guiding Document:

Value - Fiscal Responsibility

Strengthen our Foundations – ensure municipal infrastructure managed and maintained with available resources and work towards addressing the infrastructure deficit

Many of the other action items can also relate back to allocation of dollars towards capital spending, for example, promote and leverage recreation and leisure amenities, support Kenora's "North America's Premier Boating Destination" brand

ERM Assessment:

Financial – The financial risk related to ongoing capital requirements, including the need to continue to work towards addressing the infrastructure, has been assessed as high to critical, depending on the plan developed for phasing in future capital spending. This risk must be mitigated through the operating budget deliberations.

Operations – The infrastructure deficit and the need to ensure reliable infrastructure as well as address other and ongoing capital programs in a variety of areas can be considered a critical risk to the City, and must also be mitigated through the operating budget deliberations. Failure to approve the capital budget in a timely manner would provide further risk with regards to ensuring capital works move forward as required in 2017, which could further impact operations.