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24

CITY OF KITCHENER

Draft Budget Summary

Capital Budget
November 27, 2023

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Overview by the CFO

Budget Calendar

Date	Topic
Nov 20	Operating Budget Presentation by staff
Nov 27	Capital Budget Presentation by staff
Nov 27	Public Input Night
Dec 4	Mayor's Budget Proposal
Dec 11	Council Amendments due to Clerks
Dec 14	Council Votes on Amendments/Mayor Can Veto
Dec 29	Budget Adopted (Automatic)

Budget Overview



Operating Budget

- \$526 million expenditures in total (i.e. tax supported + enterprises)
- \$255 million expenditures excluding enterprises (i.e. tax supported)
- Annual delivery of programs and services for the community



Capital Budget

- \$230 million in first year
- \$1.8 billion over the ten-year forecast
- Projects with defined scope that help address our asset replacement needs



Reserve and Reserve Funds

- \$145 million projected to be in Reserve Funds at end of 2023
- Rate Stabilization Reserves help mitigate risk and potential budget fluctuations
- Some Reserves are established for a specific purpose and use

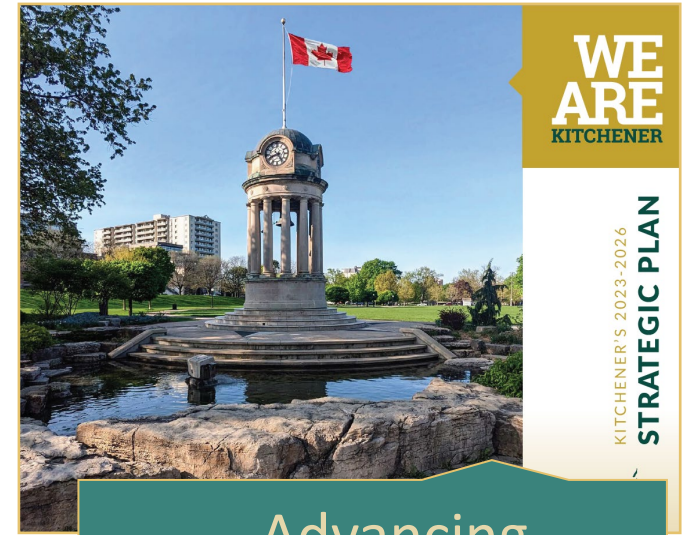
2024 Budget Priorities



Supporting City
Services



Focus on
Infrastructure



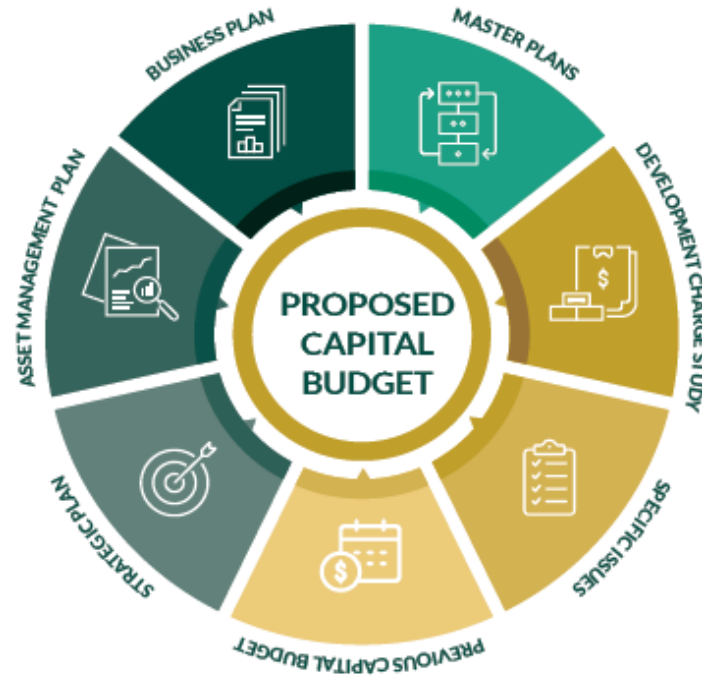
Advancing
Strategic Priorities

**WE
ARE**
KITCHENER

KITCHENER'S 2023-2026
STRATEGIC PLAN

2024 Capital Priority Setting

PRIORITY SETTING TO PROVIDE INPUT TO THE CAPITAL BUDGET:



ASSET REPLACEMENT & REHABILITATION NEEDS:

Developed based on asset management plans & condition assessments.

Progress being made through the Water and Infrastructure Program, (WIP).

Addressing the facility infrastructure gap continues to be a priority.

Preventative maintenance activities are also important.



GROWTH RELATED NEEDS:

2022 Development Charge Study reflected in forecast.

Investments in new infrastructure to support new residents.

Maintaining the concept of 'Growth pays for growth'.



STRATEGIC ITEMS:

Implementation of items included in the Strategic Plan.

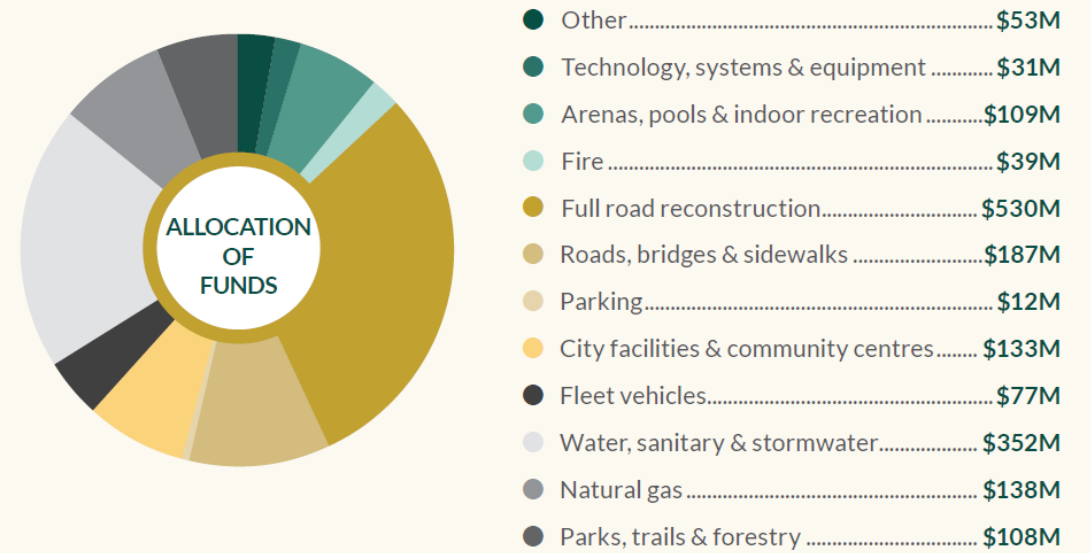
Priorities reflecting corporate and community needs.

Capital Budget Summary

Addressing Kitchener's Infrastructure Needs

- 440 projects with \$1.8B in planned spending over next 10 years
- Majority of Capital Budget is focused on infrastructure renewal
- Significant inflationary pressures in construction related costs over the past few years (~30%)
- Capital funding requirements/shortfalls will need to be addressed over time through future budgets
- More Provincial/Federal funding is needed to fully address municipal infrastructure funding needs

ALLOCATION OF CAPITAL PROJECTS TO CITY ASSETS: (in Millions)



Capital Budget Summary

Challenges Funding Growth Related Infrastructure

- 10-year capital forecast reflects projects included in most recent Development Charge (DC) Study
- Changes to the DC Act under Provincial Bill 23 and Bill 109 will make it more challenging to fund growth related infrastructure in the future
- Recent legislative changes have resulted in a reduction of \$5.5M in annual DC revenue for Kitchener (2023 YTD)
- For the first time, the City will be issuing DC debt to continue with growth related projects included in the 10 year-capital forecast

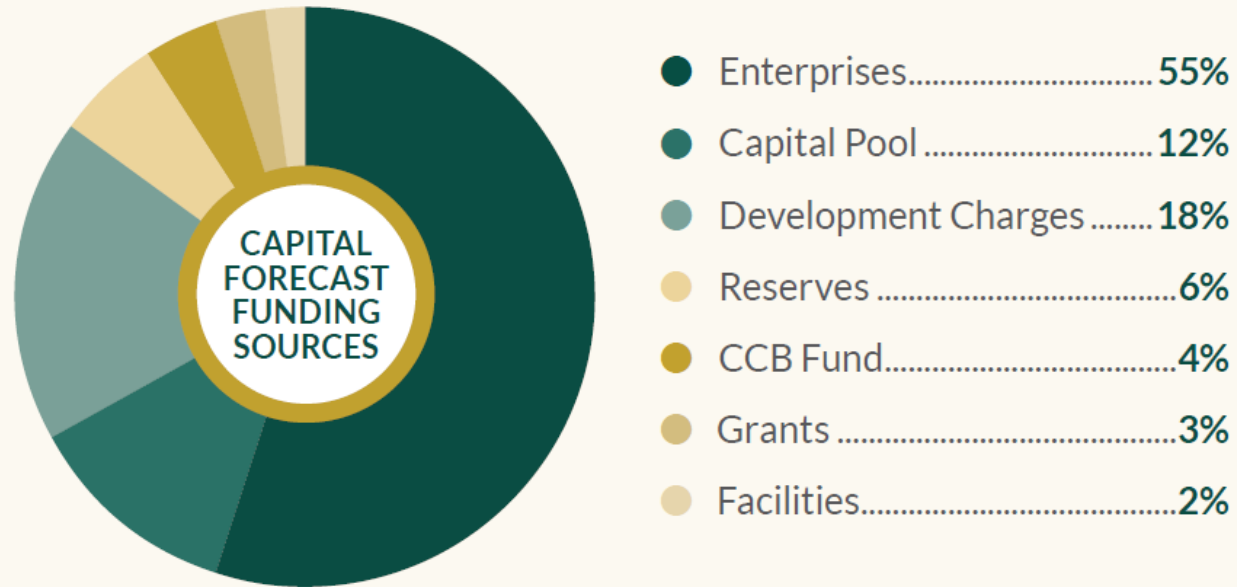


- DC debt is fully recoverable from future DC collections, but will limit the City's ability to fund future growth-related infrastructure needs

Capital Funding Sources

10 Year Capital Funding Sources

FUNDING SOURCES THAT COMPRISE 10 YEAR CAPITAL FORECAST:



Enterprises: Funding transferred from the City's seven Enterprises

Tax Supported Capital Pool: Funding from the operating budget, debt, and the gas & hydro utility investment reserves to support the tax supported capital program

Development Charges: Funding collected from development for growth related infrastructure

Reserves: Funding saved up ahead of time by the City

Canada Community Building (CCB) Fund: Formerly known as Federal Gas Tax funding

Grants: Funding from other levels of government and other agencies

Facilities Infrastructure: Funding from the facilities infrastructure reserve for City building repairs



10-Year Capital Funding Sources

Funding Source	(000's)		
	2023	2024	Change
Capital Pool	198,751	209,606	10,855
Development Charges	335,417	315,543	(19,874)
Enterprises	806,870	972,185	165,315
Reserves	110,603	111,809	1,206
CCB Fund	74,797	70,659	(4,138)
Facilities Infrastructure	36,112	40,240	4,128
Grants	49,184	47,064	(2,120)
Other	1,800	-	(1,800)
Total	1,613,534	1,767,106	153,572

Tax Supported Capital Pool

- Capital Pool (aka C/C) is fully balanced in all 10 years
 - Appendix C, page C2
- Includes:
 - Capital out of Current
 - Annual Debt Issue
 - Gas Utility Investment Reserve
 - Hydro Utility Investment Reserve

Adjusting the Capital Budget

Adjustments in one area require...

- CHANGE to OTHER CAPITAL PROJECTS
 - Current project impact
- CHANGE in RESERVE CONTRIBUTION
 - Future project impact
- CHANGE in C/C
 - Current tax impact
- CHANGE in DEBT
 - Future tax impact

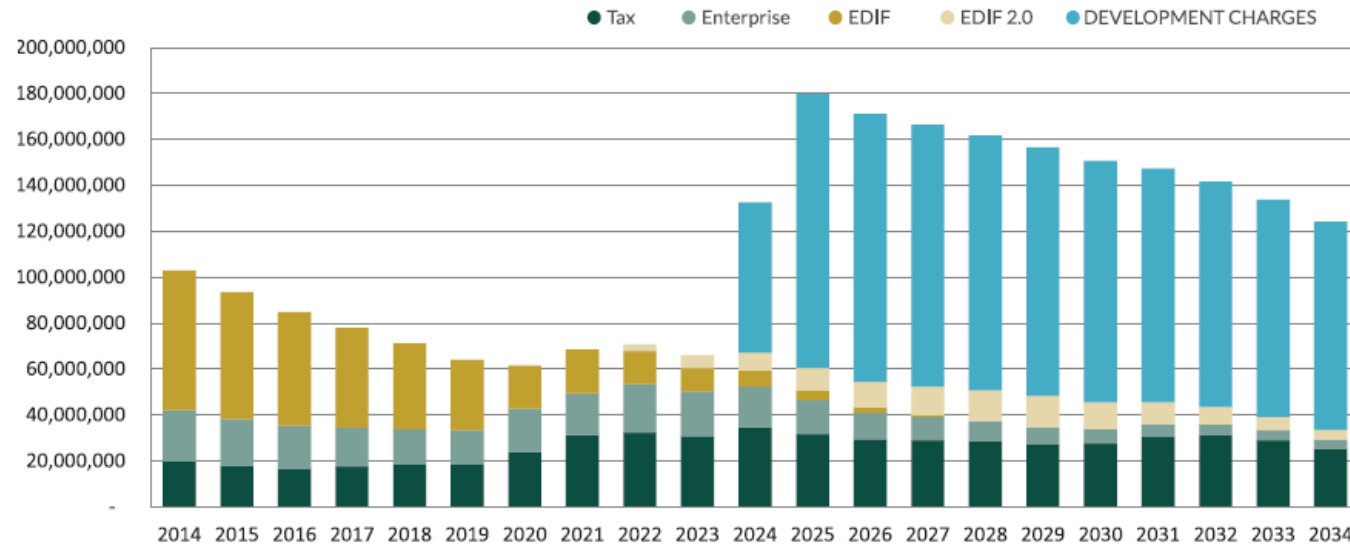
Debt

Debt

- Debt is funding the city has borrowed to complete capital projects
 - Similar to getting a mortgage to buy a house
- Interest rates and terms are fixed when debt is issued with no option to open and renegotiate
 - Like a closed, fixed rate mortgage

Debt History & Forecast

DEBT OUTSTANDING:



- Tax supported debt, which is issued each year to help fund the Capital Pool hovers around the \$20M mark
- Enterprise debt which will be repaid from non-tax sources. These include the Golf enterprise, Parking enterprise, the Kitchener Rangers, and cemetery debt.
- EDIF (Economic Development Investment Fund) debt that was issued to fund EDIF projects and will be fully paid off in 2027.
- EDIF 2.0 debt that was issued in 2022 and be fully paid off by 2039.
- DC debt which is issued for growth related projects funded by development charges (DCs). This debt will be fully repaid by future DCs and has no impact on tax/utility rates. The amount of potential DC debt issued in 2025 will depend on DC cash flows which have been negatively impacted by changes in Provincial legislation such as Bill 23.

Development Charges

Development Charges (DCs)

- Fees imposed on development to fund “growth-related” capital costs
 - Typically paid at the building permit stage
 - Provisions for delayed payment for some building types
- Principle is that “growth pays for growth”
 - Financial burden is not borne by existing taxpayers

Development Charges Act

- DC Act sets out details of the method of calculation
- City updated DC by-law & background study in 2022, with new rates effective July 1, 2022
 - Administrative changes to comply with legislation
 - Updated project costs & timing

Bill 23, More Homes Built Faster Act

- DC Act amendments from Bill 23 result in less DC revenues collected
 - Phase-in of new DC rates over 5 years
 - Discounts for purpose-built rental housing
 - Exemptions for attainable/affordable housing
 - 2023 YTD impact = \$5.5M
- No details on how municipalities will be “made whole” as promised by the Province

DC Reserve Forecast



- Bill 23 impacts reducing DC revenues each year
- Large projects in the next few years will draw on DC reserves
 - Kitchener Indoor Recreation Centre
 - Upper Hidden Valley Pumping Station
- DC debt will be issued to better balance the reserve
 - Debt costs will be fully funded by future DC collections

Reserve Funds (Appendix D)

Reserve Funds

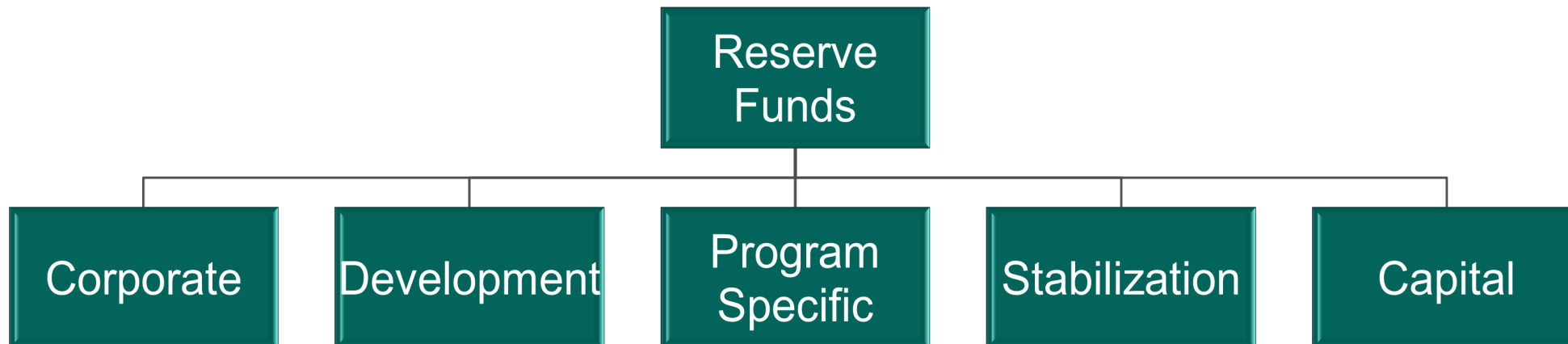
- Reserve funds have been collected by the City for a specific purpose or an unanticipated event
 - Similar to a personal savings account or RRSP
- Reserve balances have generally been positive, but many are below the minimum funding targets
- The next few slides discuss the City's reserve framework and show reserve levels

Reserve Fund Policy Highlights

- Reserve funds will only be used for the specific or intended use for which it was established
- Individual reserve funds should not have a negative balance
- Target levels for each individual reserve fund and for reserve funds as a collective
- Five categories of reserve fund

Reserve Fund Categories

- Summaries on next few slides broken down into the 5 different categories



Reserve Fund Forecast Corporate (App D, p. 1 & 6)



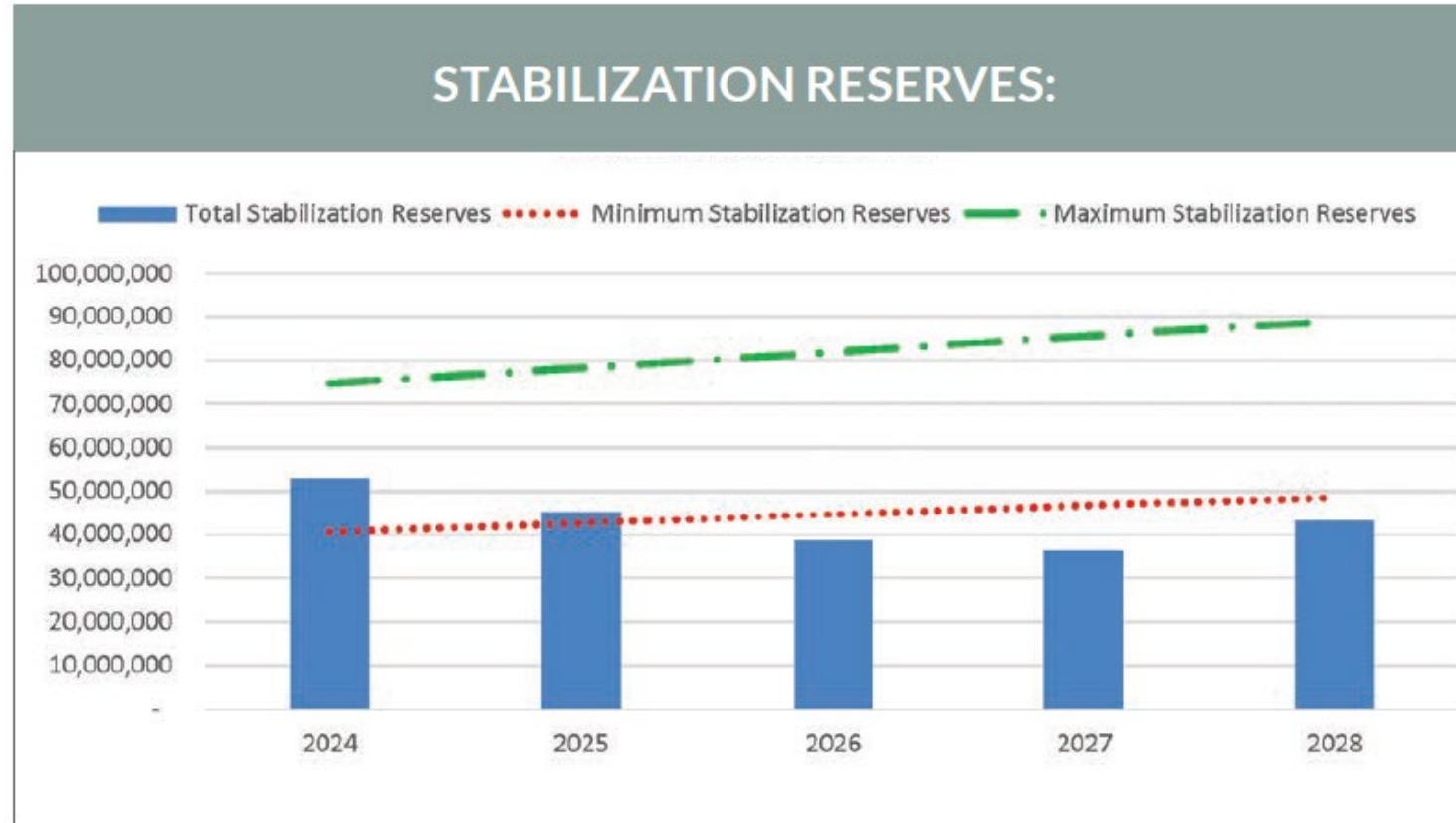
Reserve Fund Forecast Development (App D, p. 1 & 6)



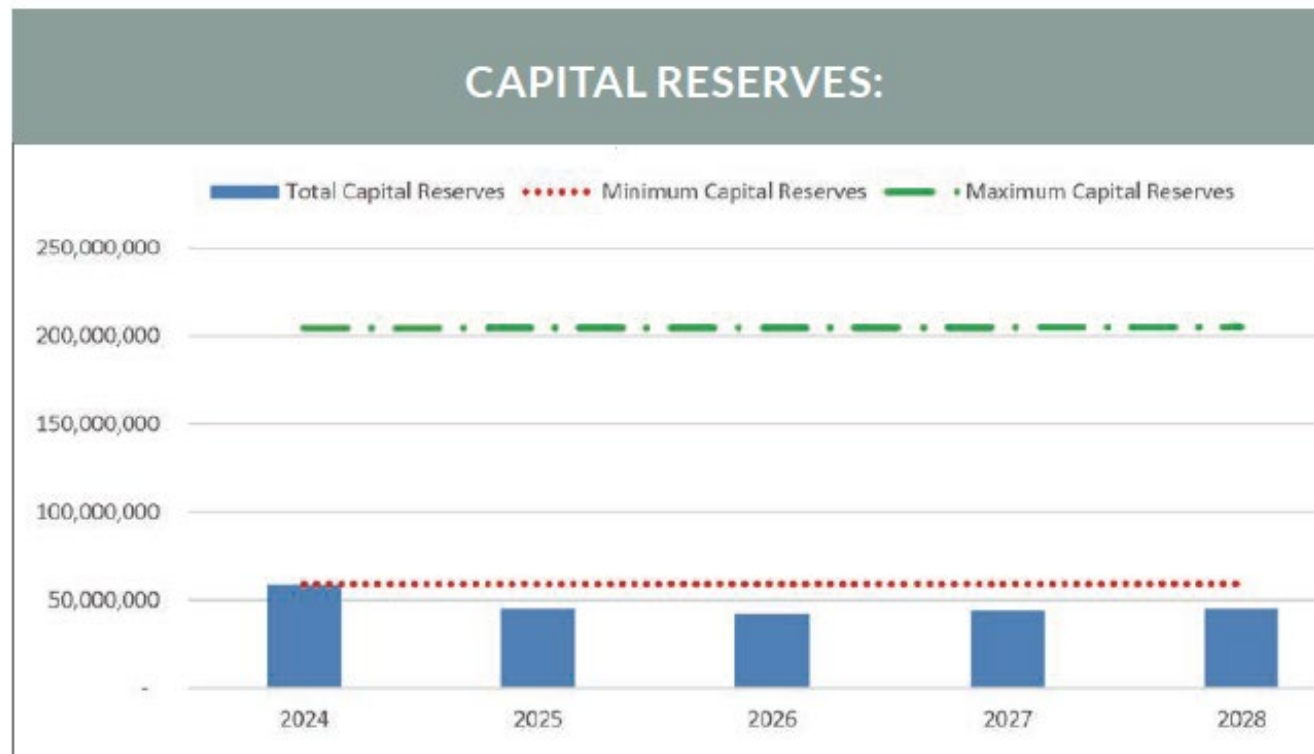
Reserve Fund Forecast Program Specific (App D, p. 2 & 7)



Reserve Fund Forecast Stabilization (App D, p. 3 & 8)



Reserve Fund Forecast Capital (App D, p. 4-5 & 9-10)



Capital Budget Format

Capital Budget Pages

- Pages are ordered by department, then division
- Subprojects have been broken out from Parent projects
- New projects identified by a ☒
- Estimate qualities identified for projects over \$1M (excluding general provision accounts)
- Type Column
 - Three classes of estimates (A, B & C) based on the quality of information available
 - “T” = Triple funded projects
 - Funded by Stormwater, Water & Sanitary
 - Used for Full Road Reconstruction projects
 - “TS” = Triple funded projects with sidewalk infill

Quality of Estimates

For projects over \$1M (excluding general provision accounts)

Class A

- Based on construction drawings from detailed design
- Typically includes a contingency of 5% to 8%

Class B

- Based on preliminary functional designs
- Typically includes a contingency factor of 20% to 30%

Class C

- Based on preliminary sketches/plans with minimum scope
- Typically includes a contingency factor of 40% to 60%

Capital Forecast (Appendix C) & Issue Papers (Appendix F)

Issue Papers – Appendix F

IP #	IP Name	Page	Comment
Cap 01	Road Reconstruction Timing Changes	F 19	Outlines changes to the construction timing of road reconstruction projects
Cap 02	Facilities Management Additional Funding	F 20-21	Additional \$5M of debt included in the budget to address short term facility needs based on updated information.

Highlighted Budget Changes > \$250,000 Boards, General Expense & CAO p.3-5

Division	Project	Page	Comment
General Expense	Environmental Remediation	C 4	Removed \$2.8M to reflect a more accurate estimate of expenditures and timing
General Expense	Development Charge Act Study	C 4	Updated project timing to 2026 to reflect start of next study

Highlighted Budget Changes > \$250,000 Community Services p.6-18

Division	Project	Page	Comment
Fire	Major Fleet Equipment	C 8	Added \$2.8M in 2024-2025 to reflect updated costs of new vehicles.
	Additional Fleet Vehicle		Added \$713K to 2025 and 2028 to reflect updated costs of new vehicles.
Neighbourhood Programs & Services	Mill Courtland Addition	C 11	Added \$2M for State of Good Repair (SOGR) work alongside addition.
Sport	Aquatics – General Provision	C 14	Added \$500K in 2024-2025 for the removal of the slide and addition of a new feature at Harry Class pool.



Highlighted Budget Changes > \$250,000

Corporate Services p.22-28

Division	Project	Page	Comment
TIS	Geographic Information System	C 28	Added \$740K in 2024-2033 to cover increase in software licensing costs.

Highlighted Budget Changes > \$250,000 Development Services p.29-48

Division	Project	Page	Comment
Engineering	Road Reconstruction Projects (WIP Road Reconstruction Program) NOTE: These are projects with type "T" or "TS"	C 36-40	Adjustments made based on priority of projects and funding constraints. Significant components of the infrastructure that comprises these projects have been identified as being at the end of its life cycle and requires replacement. More information in issue paper Cap 01.
Engineering	SCADA	C 43	Added \$1.6M in 2024-2025 for SCADA enhancements based on the 2023 WIP Utility review.



Highlighted Budget Changes > \$250,000 Infrastructure Services p.49-66

Division	Project	Page	Comment
Facilities Management	Facility Maintenance Projects	C 49 - 50	Adjusted budgets for facilities in early years of the forecast based on building condition assessments. Also included additional \$5M in 2024 based on facility needs. More information in issue paper Cap 02.

Highlighted Budget Changes > \$250,000 Infrastructure Services p.49-66

Division	Project	Page	Comment
Parks & Cemeteries	Additional Cemetery Facilities/Expansion	C 57	Advanced funding from 2029 to 2024 for the purpose of expanding the facility at Williamsburg Cemetery.
Parks & Cemeteries	Community Trails General Provision	C 60	Added \$300K in 2024 for Walter Bean Trail improvements.
Parks & Cemeteries	McLennan Park	C 61	Added \$1.295M in 2024-2026 for repairs to the washroom and splash pad.



Highlighted Budget Changes > \$250,000 Infrastructure Services p.49-66

Division	Project	Page	Comment
Gas	Business Strategy in KU Rental Programs	C 54	Added \$750K over 5 years (2024-2028) to advance business strategy for expanded rental program and associated incentives to promote upgrades and fuel switching.
Gas	KU Business Strategy	C 54	Added \$450k in 2024 to support phase 2 of the clean energy transition strategy.

Highlighted Budget Changes > \$250,000 Infrastructure Services p.49-66

Division	Project	Page	Comment
Sanitary	- Sanitary Flow Monitoring - Pumping Station Replacement - CCTV Sewer Inspection - Pumping Station General Mtce - Trunk Sewer Rehab	C 62	Added \$66.8M over 10 years to existing capital projects through the WIP (Water Infrastructure Program) review.
Sanitary	Ottawa Trunk Sewer Rehab	C 62	Transferred \$3.5M from Trunk Sewer Rehab to Ottawa St Trunk Sewer project, to support ongoing work.



Highlighted Budget Changes > \$250,000 Infrastructure Services p.49-66

Division	Project	Page	Comment
Sanitary	Various projects indicated with a ☒	C 62	Added \$47.7M to the forecast for new projects arising from the WIP review. The largest projects are: - Sewer Main Rehabilitation (\$21.9M) - Sanitary Capacity Projects (\$14.2M)

Highlighted Budget Changes > \$250,000 Infrastructure Services p.49-66

Division	Project	Page	Comment
Stormwater	DMAF Middle Strasburg Naturalization	C 62	The project has been moved from 2024-2026 to 2028-2031, to better align with the extension of the DMAF grant. Inflationary impacts increased the cost of the project by \$2.2M.
Stormwater	DMAF – Creek Naturalization	C 64	The project timing has been adjusted to better align with the extension of the DMAF grant. Inflationary impacts increased the cost of the project by \$923k.
Stormwater	- Schneider Creek Watercourse - SWMF61 Retrofit - Biehn Park SWM Enhancement - Market Incentive Program	C 64	These 4 projects were removed from the forecast last year to free up funding for cost escalations in DMAF projects. These projects have now been added back into the back-end forecast, adding \$21.4M.

Highlighted Budget Changes > \$250,000 Infrastructure Services p.49-66

Division	Project	Page	Comment
Water	- Unspecified Water Capital Replacements - Raising Water Air Relief Valves/Chambers	C 65	Added \$16M to the forecast for new projects arising from the WIP review.
Water	Deer Ridge/ Sportsworld Backfeed	C 65	Added \$2M to the forecast. This project was rebudgeted to 2028 from 2023 due to timing changes by the Region.