

CITY OF NORTH BAY CAPITAL BUDGET DECEMBER 8, 2008

**Long-Term Capital Funding Policies
2009 Capital Budget
Five-Year Capital Forecast**

City and Water & Sewer Long-Term Capital Funding Policy

- Last reviewed on December 10, 2007
- CFO recommended no changes to existing policy at that time as a number of factors in 2008 will require a change in the policies.
- Existing policies address maximum annual funding, reduction of long-term capital debt levels, inflationary effects, annual funding for debt servicing from operating budget, Water Filtration Plant debenture issue and long-term debt for special water and sanitary sewer capital projects.

City and Water & Sewer Long-Term Capital Funding Policy

Factors Likely to Influence Restructuring of Long-Term Capital Funding Policy

- **Infrastructure Asset Management Review**
 - Evaluation of the current state of the city's infrastructure (roads, water, sanitary and storm sewer systems)
 - Reassess lifecycle and replacement needs
- **Accounting for Tangible Capital Assets**
 - Inventory of all City assets using historical costs
 - Recording and reporting of assets in financial statements
- **Senior Levels of Government Uploading/Funding?**
 - Uploading or funding of services could mean more funds available for capital projects without impacting taxes

Long-Term Capital Funding Policy

Moody's analysis, November 2007

- Consistent operating surpluses support pay-as-you-go capital financing
- Stable revenue and expenditure bases
- Strengthened internal liquidity base (increase in reserves)
- Modest borrowing program
- Low debt burden
- Strong governance and management characteristics
- Small but diverse local economic base
- Modest population growth

Long-Term Capital Funding Policy

City of North Bay Debt Rating:

- November 2007 Aa1
- November 2006 Aa1
- October 2006 Aa2
- October 2005 Aa3
- October 2004 A1
- October 2002 A2

Moody's outlook for North Bay's debt rating is stable, reflecting their expectation that the city will continue with the well structured fiscal plan.

2009 Capital Budget

Five-Year Capital Forecast

- The 2009 Capital Budget and Five-Year Capital Forecast is prepared in accordance with the existing Long-Term Capital Funding Policies *with amendments proposed later in this presentation.*
- The summary lists all proposed projects for 2009 and identifies the projected capital funding policy expenditure limit for each year.
- The variance identified at the bottom of the project list is the difference between the total project costs and the total funding sources including the amount allowed within the policy expenditure limit. *The CFO will be required to sign any Report to Council of a capital project to ensure the approvals will not cause the expenditure targets to be exceeded.*

2009 Capital Budget

City Five-Year Capital Forecast

- The 2009 Operating Budget includes an expenditure of \$13,381,900 to pay for long-term capital financing. The City's Long-Term Capital Funding Policy establishes the total level as the previous year's amount plus \$100,000 (*proposing \$600,000 for 2009 and forward*) plus an inflation factor.

2008 Budget (\$1,000,000 added)	\$12,895,000
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Policy increase (<i>Proposed</i>)	\$600,000
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3% Inflation	<u>\$386,900</u>
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2009 Operating Budget	<u>\$13,881,900</u>
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- 2009 Capital Budget per the Long-Term Capital Funding Policy:

Total	\$13,881,900
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Less: Debt service costs

Principal	\$5,848,500
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Interest	<u>\$1,549,400</u>	<u>\$7,397,900</u>
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Pay-as-you-go Capital Levy	<u>\$6,484,000</u>
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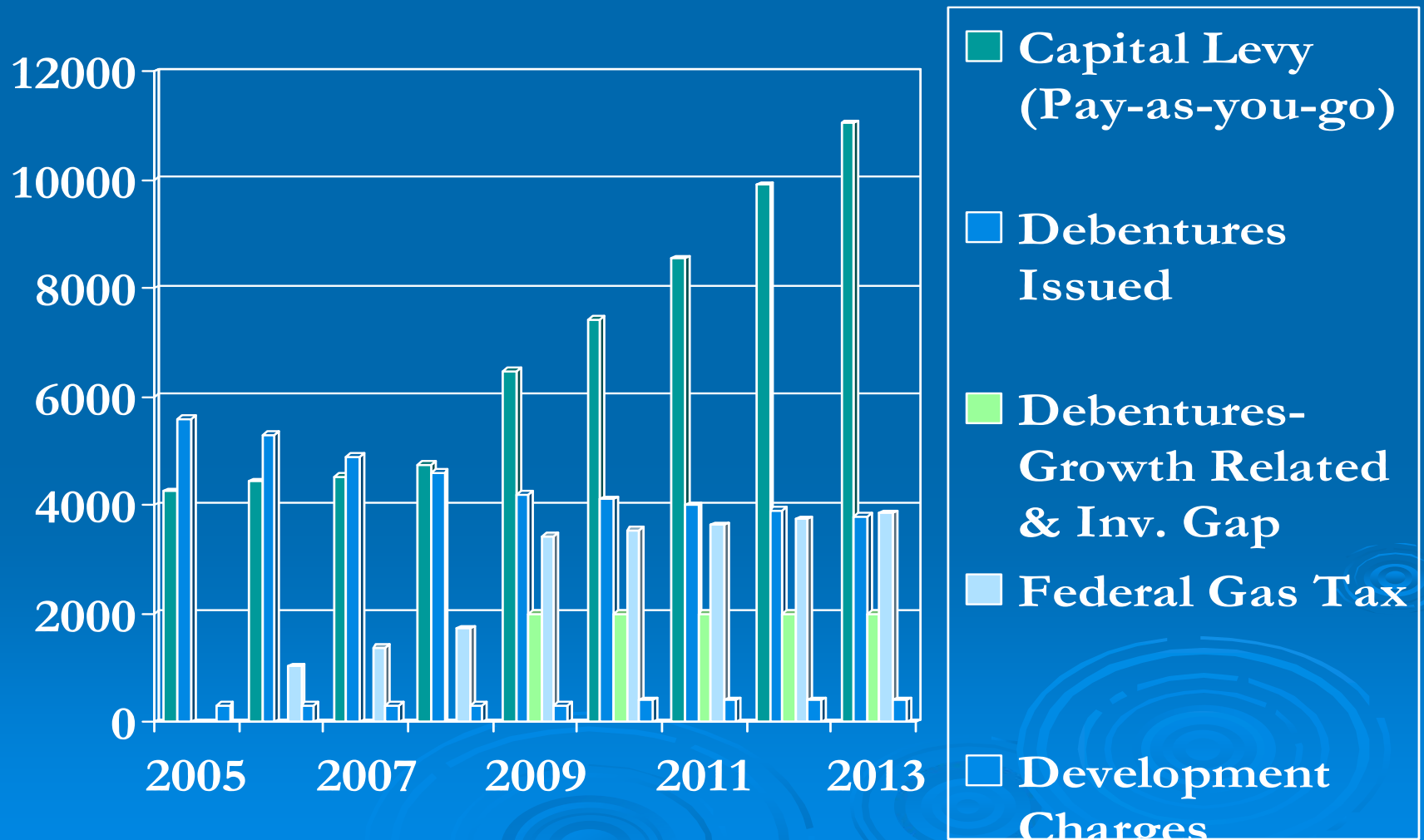
2009 Capital Budget & Five-Year Capital Forecast

Capital Funding Policy Revenue Sources

<u>Source</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital Levy, from the Operating Budget	\$6,484,000	\$7,435,000	\$8,552,000	\$9,912,000	\$11,049,000
Debentures	\$4,200,000	\$4,100,000	\$4,000,000	\$3,900,000	\$3,800,000
Debentures-Growth Related & Inv. Gap	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Federal Gas Tax	\$3,429,000	\$3,532,000	\$3,638,000	\$3,747,000	\$3,859,000
Development Charges	\$300,000	\$400,000	\$400,000	\$400,000	\$400,000
Investing in Ontario Act	\$5,134,772				
Total Funding Sources = Proposed New Capital Funding Policy Expenditure Limit	\$21,547,772	\$17,467,000	\$18,590,000	\$19,959,000	\$21,108,000
Variance over (under) Proposed Policy Target	(\$515,772)	\$321,000	\$465,000	\$229,000	\$291,000
Net Construction	\$21,032,000	\$17,788,000	\$19,055,000	\$20,188,000	\$21,399,000

2009 Capital Budget & Five-Year Capital Forecast

Capital Funding Policy Revenue Sources (000's)

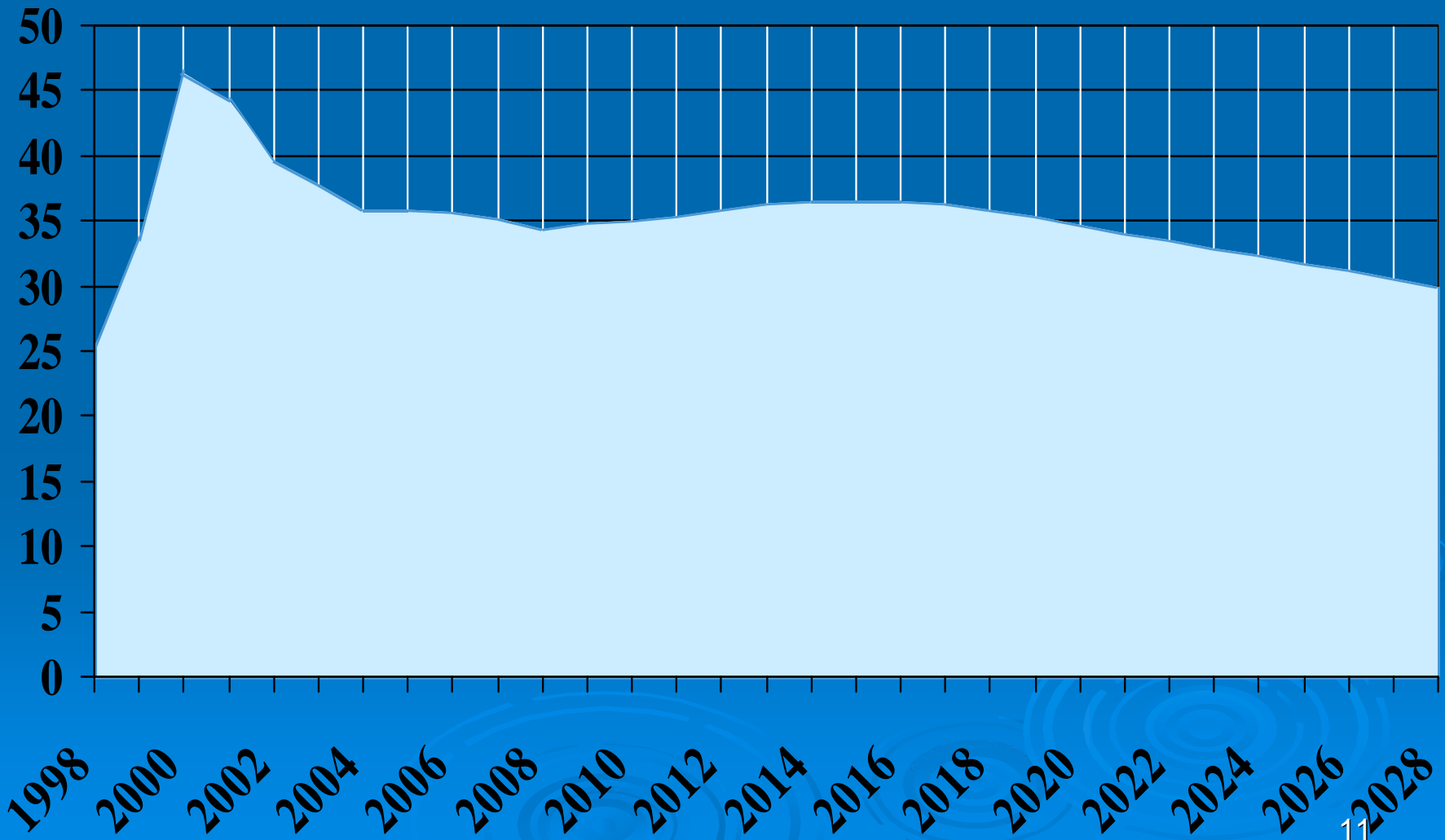


2009 Capital Budget & Five-Year Capital Forecast Other Funding Sources

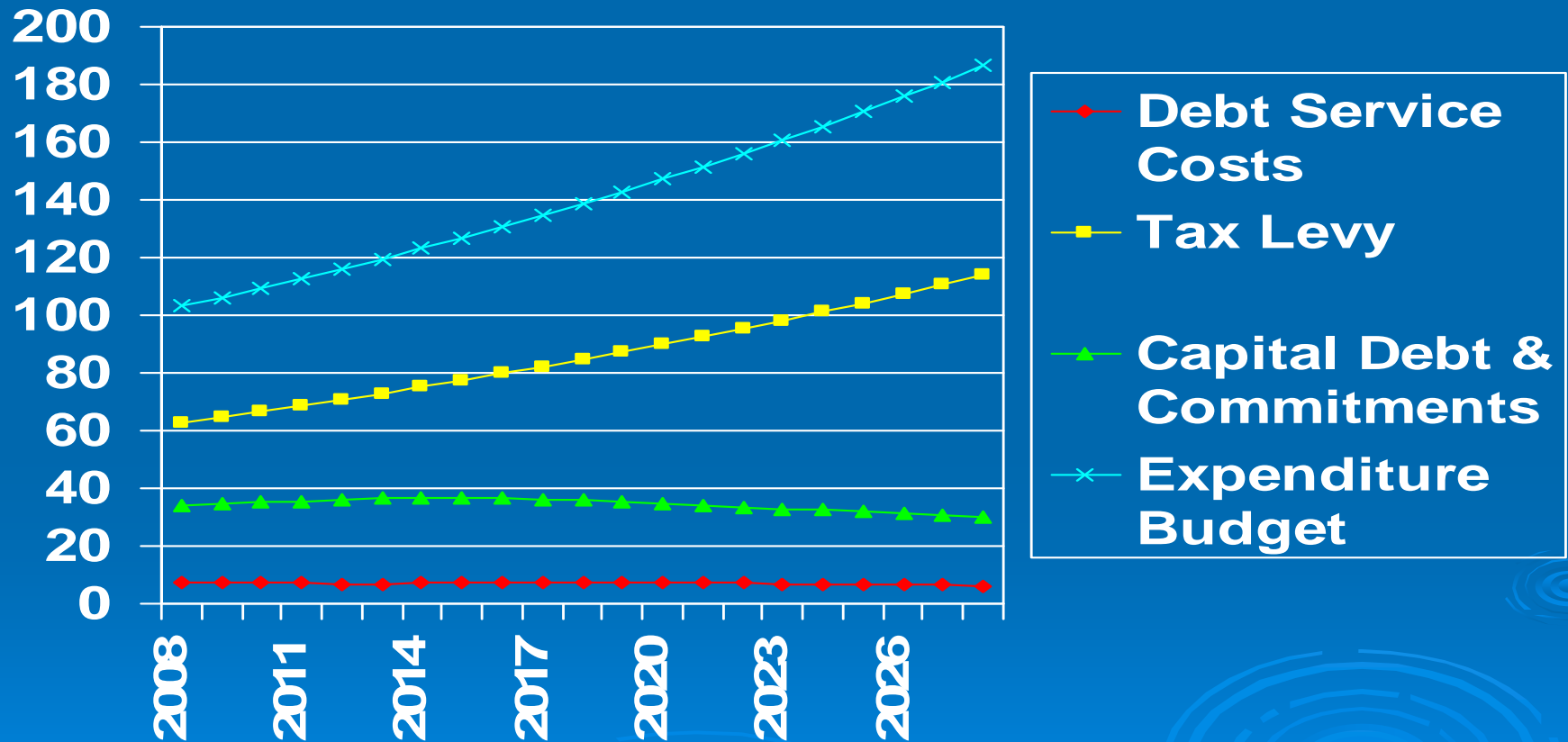
	2009	2010	2011	2010	2013
Government Grants	\$19,424,000	\$4,403,000	\$3,867,000	\$403,000	\$5,403,000
Developers / Partners	\$5,950,000	\$300,000	\$100,000		
Reserves, incl. Prov Ded Gas Tax	\$1,203,000	\$603,000	\$567,000	\$603,000	\$403,000
North Bay Regional Health Centre	\$1,496,000				
Property Sale Proceeds	\$800,000	\$300,000			
Total Funding Other Sources	\$28,873,000	\$5,606,000	\$4,534,000	\$1,006,000	\$5,806,000

Debt and Capital Commitments 1998 to 2028

Based on Policy and Proposed (\$millions)



Debt Service Costs and Capital Debt Relative to the Tax Levy and Budgeted Expenditures 2008 to 2028 (\$millions)



Debt Service Costs as a Percentage of Tax Levy

<u>Year</u>	<u>Tax Levy</u>	<u>Debt Service Costs</u>	<u>As A Percentage</u>
2008	\$62,953,981	\$7,123,000	11.31%
2009	\$64,842,600	\$7,209,000	11.12%
2010	\$66,787,878	\$7,268,000	10.88%
2011	\$68,791,515	\$7,202,000	10.47%
2012	\$70,855,260	\$6,929,000	9.78%
2013	\$72,980,918	\$6,918,000	9.48%
2014	\$75,170,346	\$7,178,000	9.55%
2015	\$77,425,456	\$7,301,000	9.43%
2016	\$79,748,220	\$7,247,000	9.09%
2017	\$82,140,666	\$7,302,000	8.89%
2018	\$84,604,886	\$7,382,000	8.73%
2019	\$87,143,033	\$7,474,000	8.58%
2020	\$89,757,324	\$7,344,000	8.18%
2021	\$92,450,043	\$7,214,000	7.80%
2022	\$95,223,545	\$7,084,000	7.44%
2023	\$98,080,251	\$6,954,000	7.09%
2024	\$101,022,659	\$6,824,000	6.75%
2025	\$104,053,338	\$6,694,000	6.43%
2026	\$107,174,939	\$6,564,000	6.12%
2027	\$110,390,187	\$6,434,000	5.83%
2028	\$113,701,892	\$6,304,000	5.54%

Water and Sanitary Sewer

2009 Capital Budget and Five-Year Capital Forecast

- The 2009 Water and Sanitary Sewer Operating Budget includes an expenditure of **\$7,071,700** to pay for long-term capital financing. The City's Water and Sanitary Sewer Long-Term Capital Funding Policy establishes the level as the previous year's amount, adjusted for inflation plus annual funding for debt service costs for special major capital projects.

2008 Budget		\$6,541,800
Inflation		\$232,400
Funding-debt service costs for special major capital project		<u>\$297,500</u>
2009 Operating Budget		\$7,071,700
Less: Debt service costs:		
Principal	\$308,025	
Interest	<u>\$102,675</u>	<u>\$410,700</u>
Pay-as-you-go Capital Levy		<u>\$6,661,000</u>

Water and Sanitary Sewer

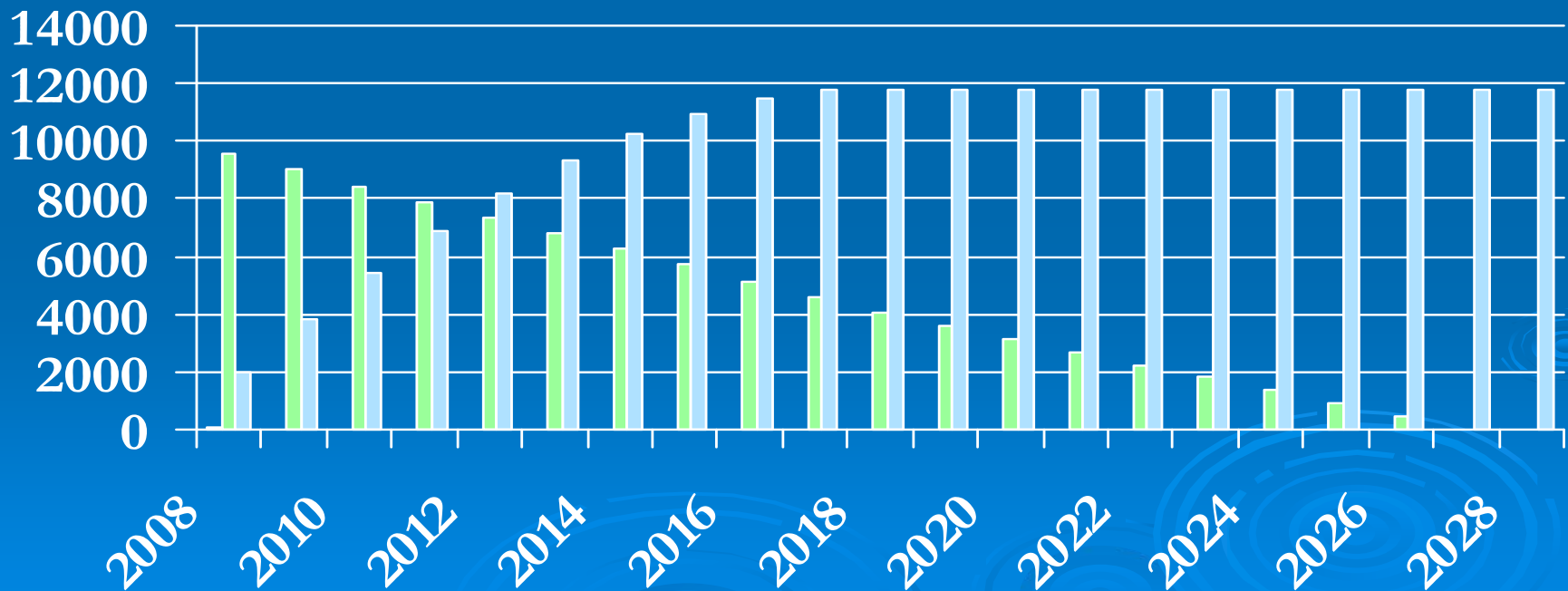
2009 Capital Budget and Five-Year Capital Forecast

Funding Sources 2009-2013

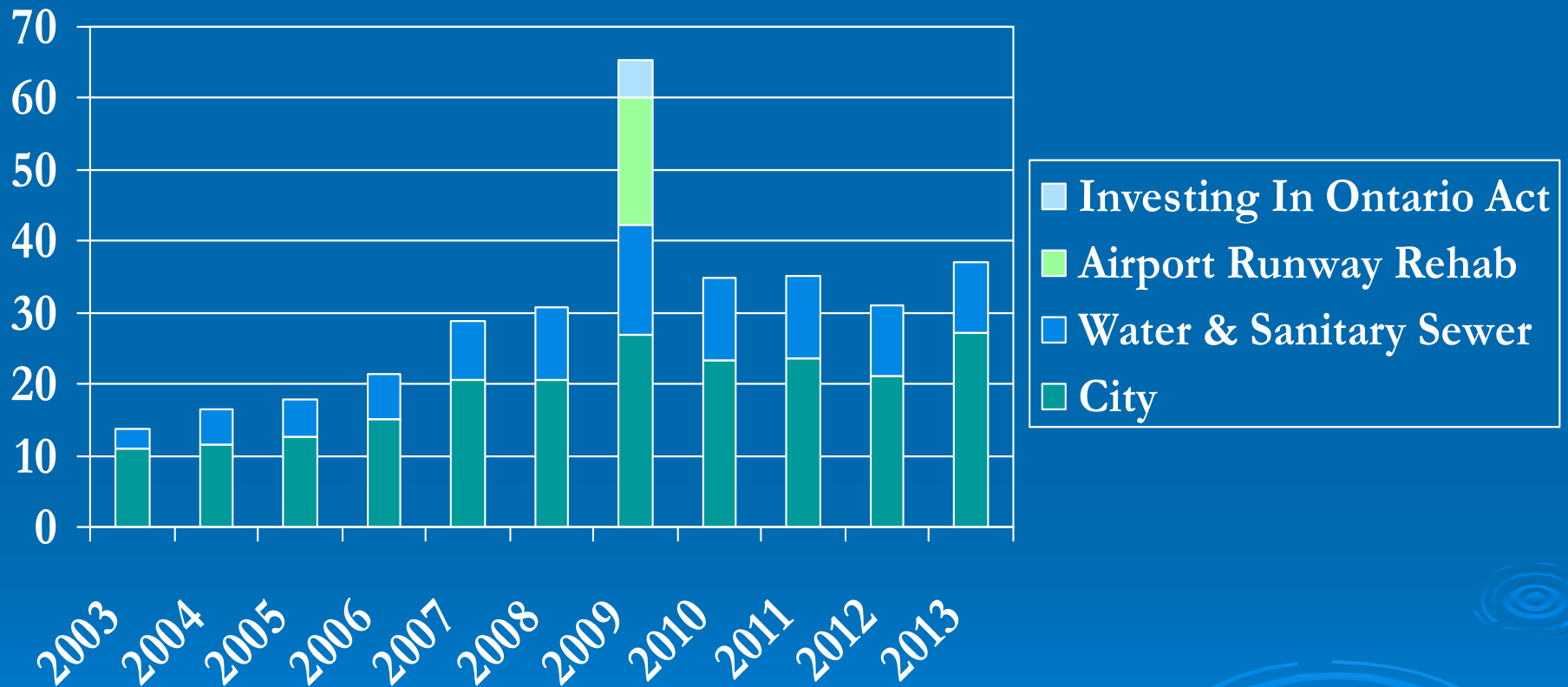
<u>Source</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
From Water and Sewer Rates	\$6,715,000	\$7,020,000	\$7,320,000	\$7,575,000	\$7,875,000
Debt Issue-Growth Related & Investment Gap	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Total	\$8,715,000	\$9,020,000	\$9,320,000	\$9,575,000	\$9,875,000
Government Grants	\$4,400,000	\$2,250,000	\$2,000,000		
Development Charges Reserve	\$100,000	\$200,000	\$200,000	\$200,000	
NBRHC	\$1,852,000				
Property Sale Proceeds	\$200,000				
Total Other Funding	\$6,552,000	\$2,450,000	\$2,200,000	\$200,000	
Total Funding Sources	\$15,267,000	\$11,470,000	\$11,520,000	\$9,775,000	\$9,875,000
Total Construction	\$15,267,000	\$11,470,000	\$11,520,000	\$9,775,000	\$9,875,000

Water and Sanitary Sewer Debenture Debt 2008 to 2028 (000's)

- Existing Debt
- New Water Treatment Plant
- New Debt Issues-Growth Related Projects & Invest. Gap



City of North Bay Infrastructure Investment 2003 – 2013 (\$millions)



City of North Bay

Infrastructure Investment

2009 – 2013 (Millions \$)

	2009	2010	2011	2012	2013	Total
City Projects						
Capital Funding Policy Expenditure Limit (Proposed)	\$21.6	\$17.4	\$18.6	\$20.0	\$21.1	\$98.7
Other Funding	\$28.9	\$5.6	\$4.5	\$1.0	\$5.8	\$45.8
Total City	\$50.5	\$23.0	\$23.1	\$21.0	\$26.9	\$144.5
Water and Sanitary Sewer Projects						
Capital Funding Policy Expenditure Limit (Proposed)	\$8.7	\$9.0	\$9.3	\$9.6	\$9.9	\$46.5
Other Funding	\$6.6	\$2.4	\$2.2	\$.2	\$0	\$11.4
Total W & SS	\$15.3	\$11.4	\$11.5	\$9.8	\$9.9	\$57.9
TOTAL	\$65.8	\$34.4	\$34.6	\$30.8	\$36.8	\$202.4

City of North Bay

2009 Capital Budget

RECOMMENDATIONS:

- That the 2009 Capital Budget for capital projects to be funded from Debentures, Capital Levy, Federal and Provincial Government Grant Programs, Reserves and other Contributions totaling \$49,905,000, as set out in Report No. CORP 2008-172, be adopted.
- That the Chief Financial Officer review and sign each Report to Council that requests approval of a Capital Project to ensure the approvals do not exceed the Proposed Capital Funding Policy Expenditure Limit of \$21,547,772.
- That the Five-Year Capital Forecast (2009-2013) for Capital Projects to be funded from Debentures, Capital Levy, Federal and Provincial Government Grant Programs, Reserves and other Contributions totaling \$145,287,000, as set out in Report No. CORP 2008-172, be adopted.

City of North Bay

2009 Capital Budget

RECOMMENDATIONS:

- That the 2009 Capital Budget for Capital Projects to be funded from Water and Sanitary Sewer Rates, Federal and Provincial Government Grant Programs, Reserves and other Contributions totaling \$15,267,000, as set out in Report No. CORP 2008-172, be adopted.
- That the Chief Financial Officer review and sign each Report to Council that requests approval of a Capital Project to ensure the approvals do not exceed the Proposed Capital Funding Policy Expenditure Limit of \$8,661,000.
- That the Five-Year Capital Forecast (2009-2013) for Capital Projects to be funded from Water and Sanitary Sewer Rates, Federal and Provincial Government Grant Programs, Reserves and other Contributions totaling \$57,907,000, as set out in Report No. CORP 2008-172, be adopted.
- That any debenture debt required to fund Water and Sanitary Sewer Projects be presented to City Council for approval before undertaking the project.

CITY OF NORTH BAY 2009 LONG TERM CAPITAL FUNDING POLICY RECOMMENDATIONS

RECOMMENDATIONS:

- That the Long Term Capital Funding Policy be amended as follows:
 - Long Term Capital Funding allowance in the Operating Budget be increased by \$600,000 each year instead of the \$100,000 in the current policy
 - The annual debenture funding be increased by \$2,000,000
 - The Capital Expenditure Limits be set based on the capital revenue sources generated by the policy
- That the Long Term Capital Funding Policy be reviewed in detail to address the infrastructure investment deficit identified in the Stantec State of the Infrastructure Report

CITY OF NORTH BAY

2009 WATER AND SANITARY SEWER LONG TERM CAPITAL FUNDING POLICY RECOMMENDATIONS

RECOMMENDATIONS:

- That the Water and Sanitary Sewer Long Term Capital Funding Policy be amended as follows:
 - Long Term Capital Funding allowance in the Operating Budget be increased by \$300,000 each year
 - The annual debenture funding be increased by \$2,000,000
 - The Capital Expenditure Limits be set based on the capital revenue sources generated by the policy

- That the Water and Sanitary Sewer Long Term Capital Funding Policy be reviewed in detail to address the infrastructure investment deficit identified in the Stantec State of the Infrastructure Report

INFRASTRUCTURE INVESTMENT DEFICIT (GAP)

**IS THE CITY OF NORTH BAY CURRENTLY INVESTING
SUFFICIENT FUNDS TO SUSTAIN OUR INFRASTRUCTURE??**

- 2007 FCM-McGILL REPORT: THE LOOMING COLLAPSE OF CANADA'S MUNICIPAL INFRASTRUCTURE
- PROVINCIAL – MUNICIPAL FISCAL AND SERVICE DELIVERY REVIEW
- NORTH BAY STATE OF THE INFRASTRUCTURE REPORT (STANTEC REPORT)

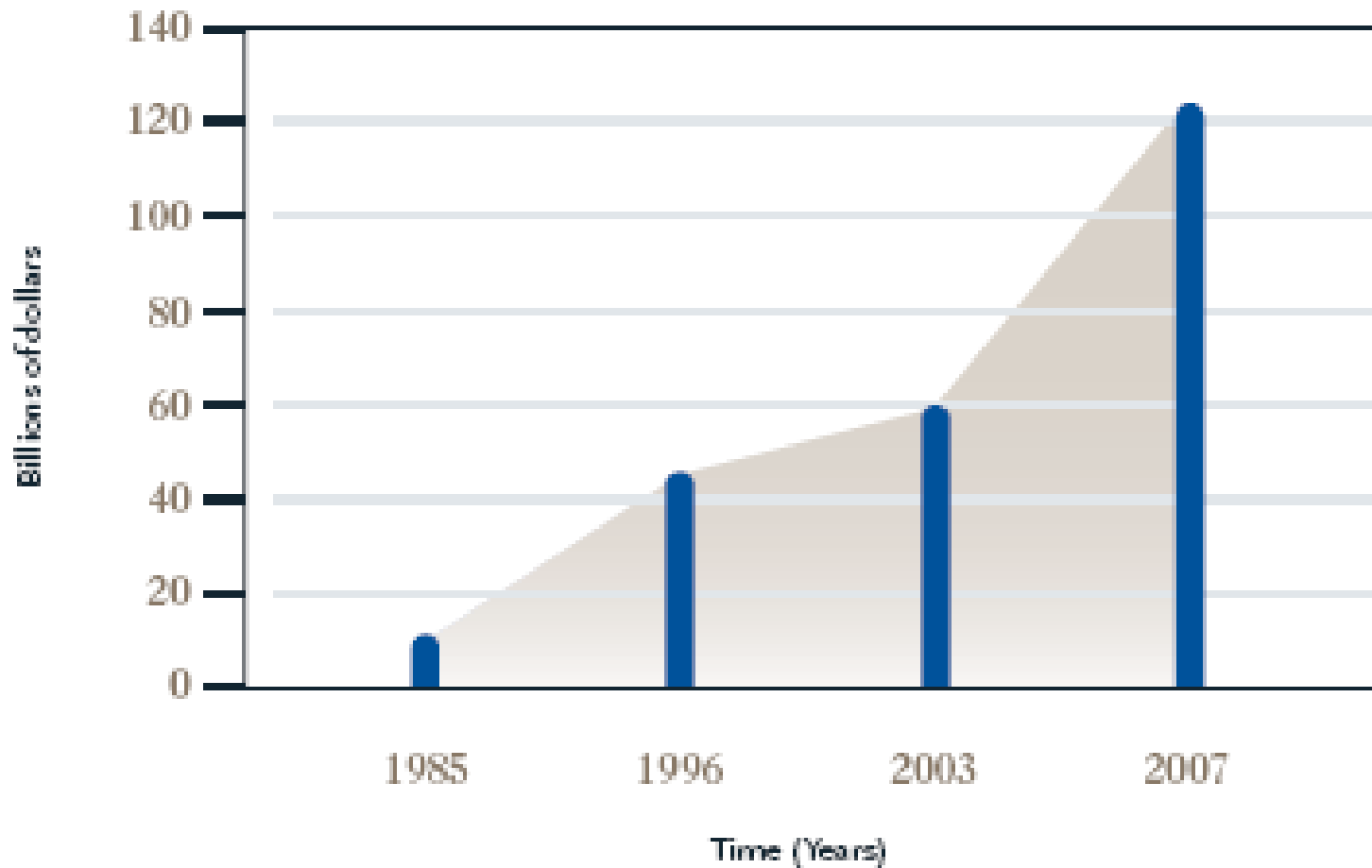
2007 FCM-McGill Report: Danger Ahead:

The Looming Collapse of Canada's Municipal Infrastructure

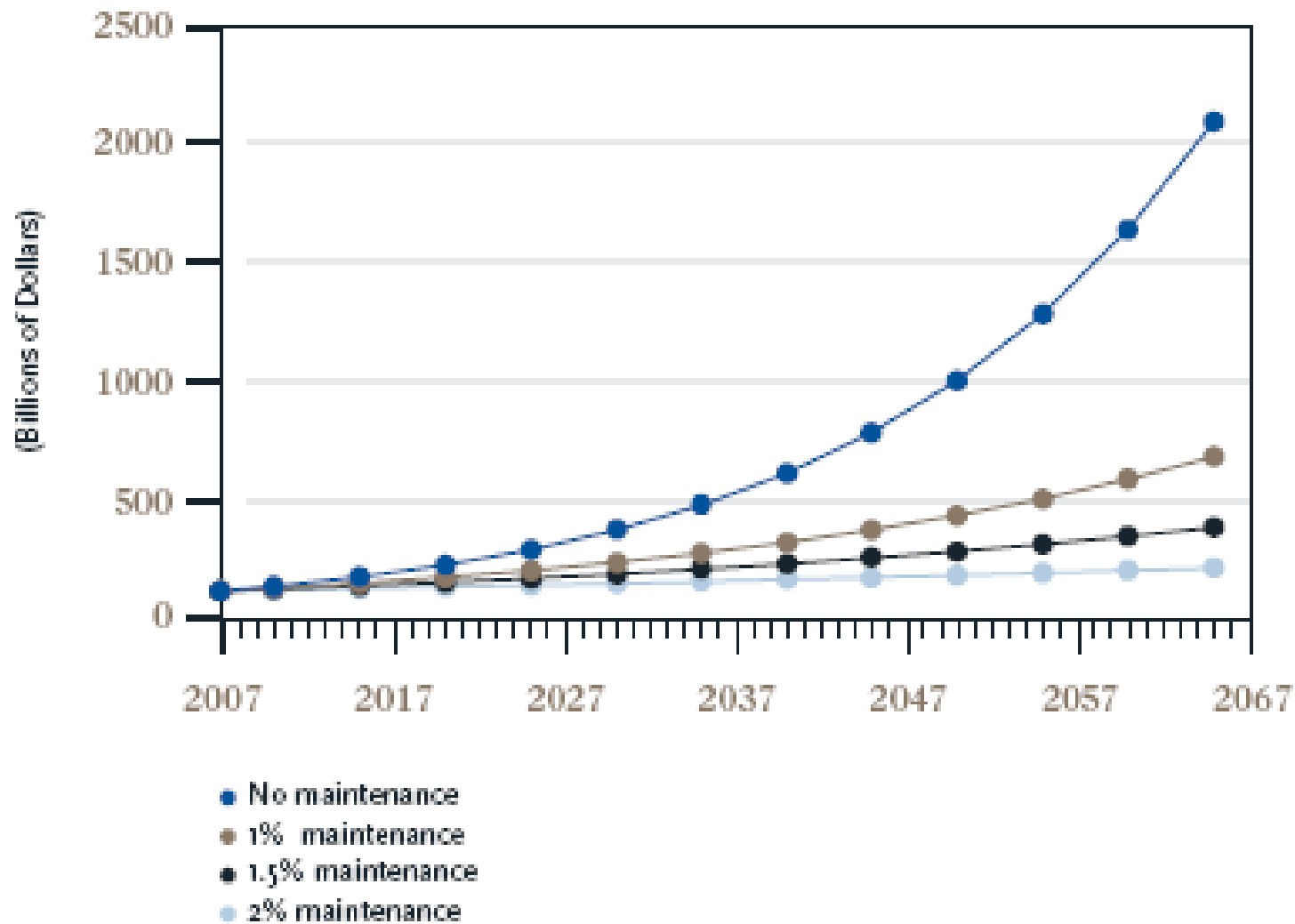
- Municipal governments invest the majority (over 50%) of the total public funds directed to infrastructure.
- The infrastructure deficit is the difference between the funding needed for maintenance, repair, rehabilitation, retrofitting and replacement of existing deteriorated infrastructure and the funding available from all sources, including taxes, government subsidies and grants, private sector contributions, etc.
- The 2007 FCM-McGill report concludes that with current funding levels, infrastructure problems will continue to grow worse.

2007 FCM-McGill Report

Canada's Municipal Infrastructure Deficit (\$ Billion)

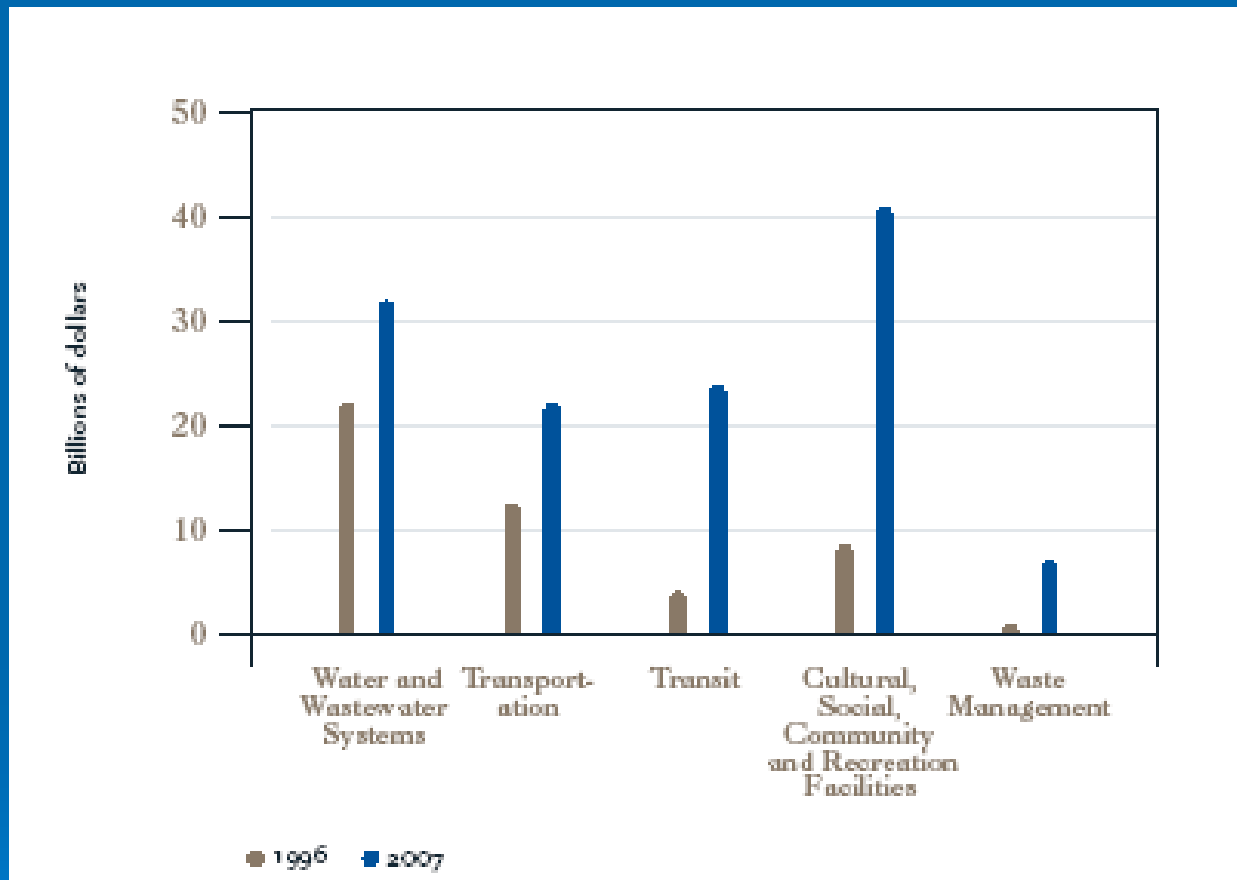


2007 FCM-McGill Report Infrastructure Deficit: Projected Growth



2007 FCM-McGill Report

Infrastructure Deficit by Category in 1996 and 2007



Infrastructure Deficit (2007)

= \$123.6 billion

(New Needs = \$115 billion)

Courtesy FCM Report

2007 FCM-McGill Report

- 41% of Canadian infrastructure is 40 years old or less
- 31% between 40 and 80 years
- 28% more than 80 years old
- 79% of life expectancy of Canada's infrastructure has been used up (2006)

PROVINCIAL – MUNICIPAL FISCAL AND SERVICE DELIVERY REVIEW

- Report released October 31, 2008
- Extensive work done by Infrastructure Working Table to quantify the Infrastructure Investment Gap in Ontario
- Concluded that the Infrastructure Investment Gap for Ontario municipalities totals almost \$6 billion per year
- To put in perspective this is 6 times the level of one-time funding being distributed to municipalities under the Investing in Ontario Act (ie. Provincial surplus distribution)

PROVINCIAL – MUNICIPAL FISCAL AND SERVICE DELIVERY REVIEW

Infrastructure Working Table Investment Gap \$millions

Municipal Infrastructure Category	Investment Needs				Average	Gap
	Lifecycle	Eliminate Deficit	Growth	Total Needs	Spending	(Needs Less Spending)
	1	2	3	4 = 1+2+3+4	5	6=4-5
Roads and Bridges	\$2,671.1	\$935.8	\$651.6	\$4,258.5	\$1,460.2	\$2,798.3
Water and Wastewater	\$844.3	\$1,277.7	\$661.3	\$2,783.3	\$1,520.5	\$1,262.8
Stormwater	\$525.3	\$27.8	\$234.7	\$787.8	\$106.7	\$681.1
Transit	\$899.8	\$0.0	\$730.1	\$1,629.9	\$563.7	\$1,066.2
Conservation Authorities	\$4.4	\$3.2	\$0.0	\$7.6	na	\$7.6
Solid Waste Management	\$316.5	na	\$77.4	\$393.9	\$291.1	\$102.8
TOTALS	\$5,262.4	\$2,246.5	\$2,358.1	\$9,861.0	\$3,947.2	\$5,918.8

PROVINCIAL – MUNICIPAL FISCAL AND SERVICE DELIVERY REVIEW

Infrastructure Working Table Investment Gap

- The \$5,918,800,000 gap does not include any infrastructure investment gap for buildings, facilities, parks, parking lots, trails, vehicles and equipment
- The gap works out to an average of \$1,200 per household
- This would translate to \$28.6 million for the City of North Bay if we are a typical municipality in Ontario ($\$1,200 \times 23,841$)

PROVINCIAL – MUNICIPAL FISCAL AND SERVICE DELIVERY REVIEW

Infrastructure Working Table Investment Gap By Region

- The size of the infrastructure investment gap varies across the Province
- The gap is generally greater in northern and rural municipalities
- The investment gap for the Nipissing region is estimated to be between \$1,500 to \$1,750 per household which is above the Provincial average
- This would translate to between \$36 million and \$42 million for the City of North Bay if we are a typical municipality within the region

PROVINCIAL – MUNICIPAL FISCAL AND SERVICE DELIVERY REVIEW

Consensus Included in Final Report

- Municipalities recognize the need to increase their investment in municipal infrastructure, in partnership with the provincial and federal governments.
- Participants in the review agreed that municipalities need to develop and share best practices in asset management planning.
- We agree to begin a joint provincial-municipal process to develop options regarding responsibilities and funding arrangements for roads and bridges.
- We affirm the need for partnership in public transit, such as the Province's Move Ontario 2020 approach in the Greater Toronto Area, and allocation of a portion of the provincial gasoline tax to transit.

CITY OF NORTH BAY
 STATE OF THE INFRASTRUCTURE REPORT
 Stantec (SotI Report)
 Sustainable Revenue Deficit

Tax Levy Funded Infrastructure	Sustainable Funding	2008 Funding Levels	Infrastructure Investment Gap
Roads, Bridges and Related Infrastructure (Stantec Report)	\$29 million	\$16 million	\$13 million
Facilities, Parks Vehicles, Equipment and Other (Estimate)			\$5 million
Total			\$18 million

CITY OF NORTH BAY
 STATE OF THE INFRASTRUCTURE REPORT
 Stantec (SotI Report)
 Sustainable Revenue Deficit

Water and Sanitary Infrastructure	Sustainable Funding	2008 Funding Levels	Infrastructure Investment Gap
Watermains and related Infrastructure (Stantec Report)	\$8.0 million	\$4.4 million	\$3.6 million
Sewermains and Related Infrastructure (Stantec Report)	\$5.3 million	\$3.1 million	\$2.1 million
Facilities (Estimate)			\$1.3 million
Total			\$7.0 million

CITY OF NORTH BAY

STATE OF THE INFRASTRUCTURE REPORT

Stantec (SotI Report)

Recommendations

- 1. Develop, through more detailed analysis, a plan for allocating the additional funds to the operating and/or capital budgets, as required (including additional staff), in order to successfully develop, implement, and maintain the required asset management plans;
- 2. Develop a plan to close the gap between sustainable revenue and the current revenues applied to the assets identified in the SotIR;
- 3. Develop a policy and implement a strategy to reach sustainable funding for each of the assets covered in this SotI Report;
- 4. Implement a comprehensive budget structure along service delivery lines, so that service managers can adequately know what the true total cost of their service is (including asset management, operations, capital, and borrowing costs) as well as measure their progress towards sustainable funding;
- 5. Develop a public communication program to engage the community in discussing the true cost of services and the assets required to provide those services. Develop and implement service levels (and by default the required assets) that are in line with public expectations and willingness/ability to pay;

CITY OF NORTH BAY
STATE OF THE INFRASTRUCTURE REPORT
Stantec (SotI Report)
Recommendations

- 6. Review the selection and use of rehabilitation technologies on a least life-cycle cost and return-on-investment (ROI) basis. This SotIR Analysis was generally based only on replacement costs except for the road centreline sections. Within the road centreline section analysis, rehabilitation has been selected for all sections that have not past the point of rehabilitation;
- 7. Review operating and maintenance practices balancing least life-cycle cost against level of service and risk exposure, on a business-case basis using InfraGuide Best Practices and other industry sources;
- 8. Develop the necessary operations, maintenance, inspection, and analytical programs as the City reduces its reliance on internal resources for execution of capital projects and increases its focus on life-cycle management of its assets;
- 9. Develop more robust figures for optimum funding of operations and maintenance activities, as a percent of replacement cost. This will assist in future SotI Reports;
- 10. Provide regular updates to the SotI Report Card and Analysis.