



# Corporate Report

<b>DEPARTMENT/ DIVISION</b>	Corporate Services & Long Term Care - Financial Services	<b>REPORT NO.</b>	R 1/2020
<b>DATE PREPARED</b>	10/11/2019	<b>FILE NO.</b>	
<b>MEETING DATE</b>	01/14/2020 (mm/dd/yyyy)		
<b>SUBJECT</b>	Proposed 2020 Operating and Capital Budget		

## RECOMMENDATION

With respect to Report No. R 1/2020 (Corporate Services and Long Term Care - Financial Services), we recommend that the proposed 2020 Operating and Capital budgets for tax and rate supported operations be received for consideration of Committee of the Whole.

AND THAT the 2020 General Municipal Tax Supported Operating Budget be approved at \$307,606,700 gross and \$237,529,200 net;

AND THAT the following Business Improvement Area levies be approved:

- |    |                            |           |
|----|----------------------------|-----------|
| 1. | Waterfront District B.I.A. | \$81,500  |
| 2. | Victoria Avenue B.I.A.     | \$60,000; |

AND THAT the 2020 General Municipal Tax Supported Capital Budget be approved at \$46,363,100 gross with financing as follows:

Capital Financed by the Tax Levy (before EIRP and Debenture)	13,796,400	
Enhanced Infrastructure Renewal Program (EIRP)	8,440,600	
Less Debenture Debt	<u>(7,284,400)</u>	
Net Capital Financed by the Tax Levy		\$14,952,600
Debenture Debt		\$7,284,400
Reserve & Reserve Funds:		
Capital Transit	295,900	
CIT	457,900	
Clean Green and Beautiful	320,000	
Corporate Energy Innovation	45,000	
Dedicated Gas Tax (Obligatory)	958,600	
EMS Facility	20,000	
EMS Vehicle & Equipment	915,000	
Federal Gas Tax (Obligatory)	6,547,100	

Fifty-Five Plus Centre Endowment	150,000	
Fuel Farm	20,000	
Ontario Community Infrastructure Fund (OCIF)	5,490,000	
Recreation Trails	39,500	
Renew Thunder Bay	400,000	
Whalen Building	<u>200,000</u>	\$15,859,000
Subsidy:		
Disaster Mitigation & Adaptation Funding	400,000	
Investing in Canada Infrastructure Program (ICIP) - Transit Stream	<u>6,328,000</u>	\$6,728,000
Other Sources:		
Recoveries and fees	1,429,000	
Other	<u>110,100</u>	<u>\$1,539,100</u>
Total 2020 Gross Tax Supported Capital Budget		<u>\$46,363,100</u>

AND THAT contributions to Capital reserve funds supported by the tax levy be approved at \$1,266,500;

AND THAT the 2020 Solid Waste (Landfill and Waste Diversion/Recycling) Operating Budget be approved at \$6,464,100 gross expenditure and \$1,258,000 net income, with a contribution to the Landfill reserve fund to result in \$0 net profit;

AND THAT the 2020 Solid Waste (Landfill) Capital Budget be approved at \$3,025,000 gross, with financing from the Landfill reserve fund (\$425,000) and debenture debt (\$2,600,000);

AND THAT the 2020 Wastewater Operating Budget be approved at \$14,105,200 gross expenditure and \$5,683,800 net income, with a contribution to the Sewer Rate reserve fund to result in \$0 net profit;

AND THAT the 2020 Wastewater Capital Budget be approved at \$8,761,800 gross, with financing from the Sewer Rate reserve fund (\$4,015,300), debenture debt (\$3,932,500) and Disaster Mitigation & Adaptation grant funding (\$814,000);

AND THAT the 2020 Waterworks Operating Budget be approved at \$19,444,300 gross expenditure and \$6,504,600 net income, with a contribution to the Waterworks reserve fund to result in \$0 net profit;

AND THAT the 2020 Waterworks Capital Budget be approved at \$10,503,000 gross, with financing from the Waterworks reserve fund (\$6,303,000) and debenture debt (\$4,200,000);

AND THAT the 2020 Prince Arthur's Landing – Boater Services Operating Budget be approved at \$312,900 gross expenditure and \$90,000 net income, with a contribution to the Marina (Boater Services) reserve fund to result in \$0 net profit;

AND THAT the 2020 Prince Arthur's Landing – Boater Services Capital Budget be approved at \$60,000 gross, with the Marina (Boater Services) reserve fund as the source of financing;

AND THAT Administration request a one time \$500,000 dividend from Thunder Bay Hydro Corporation;

AND THAT the following User Fee increases and new fees be approved;

1. Recreation & Culture – various user fee changes resulting in an average 2.0% increase;
2. Transit – fee increases to cash fares and adult monthly passes and reductions to family day passes;
3. Long Term Care and Senior Services – increases to meal fees and Jasper tenant fees;
4. Licensing & Enforcement – various user fee changes including signs, administration, and animal services fees;
5. Planning – various user fee changes for application fees, committee of adjustment fees and mapping fees;
6. Realty – various user fees changes for administration fees, annual fees, application fees, temporary land user and assignment of leases and street and lane closing applications;
7. Superior North Emergency Medical Services – ambulance documentation fee increased to \$50 from \$42;
8. Fire – various user fee changes for reports, inspections and re-inspections, firework permits, fire prevention presentations, safety plans, air bottle refills, false alarms, etc.;
9. Engineering – increases to seasonal and annual heavy/oversize load permits by \$5.00 and loading zone installation permits by \$10.00;
10. Parks – various campground fees, cabin rentals and admissions to increase by approximately 3%;
11. Parking Authority – parkade monthly rates will increase from \$59/month to \$60/month and surface lot monthly rates will increase from \$52/month to \$53/month, effective June 2020;
12. Parking Authority – hourly rate at meters will increase from \$1.25/hour to \$1.50/hour and hourly rate at parkades will increase from \$1.00/hour to \$1.25/hour.
13. Solid Waste – tonnage charge for loads over 130kg will increase by 3% from \$76.95 to \$79.26/tonne;
14. Waterworks fixed and volumetric charges to increase by 4% effective April 1, 2020;
15. Other Waterworks and Wastewater charges related to consumption and services to be increased by 4% effective April 1, 2020;
16. Wastewater surcharge to remain at 90% of water fixed and volumetric charges;
17. Prince Arthur's Landing – Boater Services fees to increase by 5% effective April 1, 2020;

AND THAT the “Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09” be received for information purposes;

AND THAT any necessary By-laws be presented to Council for ratification including By-laws related to user fee changes.

**EXECUTIVE SUMMARY**

The purpose of this Report is to present the proposed 2020 operating and capital budgets to Committee of the Whole for review and approval. The proposed budget represents the “starting point” for Council’s deliberations on the 2020 budget.

**2020 Tax Supported Budget**

The proposed 2020 municipal tax levy, which represents the total amount of dollars that needs to be raised from property tax payers to fund City services, local boards and agencies and contribute to capital infrastructure programs, is \$200,237,300 (an increase of 3.17% or \$6.1 million over the 2019 approved municipal tax levy of \$194,091,700). By comparison, in 2019 the municipal levy increase was \$4.4 million, representing a 2.29% increase over 2018.

The growth in the assessment base during 2019, resulting from investment in the community through new construction and expansions less lost assessment from demolitions and successful assessment appeals, provides tax generation of \$1,641,200 or a 0.85% reduction in impact to the municipal tax levy increase. Value changes from reassessment are not considered growth and do not generate additional revenue for the City.

The following chart shows the proposed 2020 municipal tax levy increase before and net of growth.

	Amount (\$)	% Change
Proposed 2020 Municipal Tax Levy Increase	6,145,600	3.17%
Tax Revenue from 2019 Growth in Assessment	(1,641,200)	(0.85%)
Impact of Municipal Tax Levy Net of Growth	4,504,400	2.32%

Key drivers impacting the 2020 proposed budget include:

- expansion and increased expenditures for the Thunder Bay Police Service - \$1.9 million
- expansion for Next Generation 911 requirements - \$0.4 million
- decrease in annual operating grant - Ontario Municipal Partnership Fund (OMPF) - \$0.7 million
- Increased fringe benefits (CPP and long term disability costs)- \$0.6 million
- final transition of waste diversion/recycling costs to tax supported operations - \$0.6 million
- other expansions including City Solicitor’s office, and costs associated with new assets including subdivisions- \$0.4 million
- increased debenture payments relating to police/fire radio upgrades - \$0.4 million
- increase to the capital budget funded by the tax levy - \$0.2 million
- increase in the Thunder Bay District Health Unit levy- \$0.2 million

Key drivers have been offset by:

- reduction to levy from Thunder Bay District Social Services Administration Board - \$0.7 million
- Thunder Bay Hydro Corporation one time dividend - \$0.5 million
- net impact of Tbaytel dividend policy update - \$0.5 million
- user fee increases - \$0.4 million
- lower Transit budget to align with actual expenditures - \$0.4 million.

The Long Term Financial Overview scheduled for Committee of the Whole on January 8, 2020 will expand on the drivers that contribute to the budget increase.

The 2020 tax supported net operating budget is presented at \$237,529,200 representing an increase of 2.8% compared to the 2019 budget.

The 2020 proposed capital budget is presented at \$46,363,100 gross of which \$14,952,600 is funded by the tax levy representing an increase of 1.5% compared to the 2019 budget.

The 2020 proposed budget includes contributions of \$1,266,500 to capital reserve funds and \$12,037,100 to the obligatory reserve funds for the Federal Gas Tax and Ontario Community Infrastructure grants. Both are consistent with 2019 levels.

### **2020 Rate Supported Budget**

The 2020 rate-supported operating and capital budgets are being presented as follows:

1. Waterworks – operating budget of \$6,504,600 net income to be transferred to the Waterworks reserve fund and net capital budget of \$6,303,000 to be funded from the Waterworks reserve fund.
2. Wastewater – operating budget of \$5,683,800 net income to be transferred to the Sewer Rate reserve fund and net capital budget of \$4,015,300 to be funded from the Sewer Rate reserve fund.
3. Solid Waste (Landfill and Waste Diversion/Recycling) – operating budget of \$1,258,000 net income to be transferred to the Landfill reserve fund and a Landfill net capital budget of \$425,000 to be funded from the Landfill reserve fund.
4. Prince Arthur’s Landing – Boaters Services – operating budget of \$90,000 net income to be transferred to the Marina (Boater Services) reserve fund and net capital budget of \$60,000 to be funded from the Marina (Boater Services) reserve fund.
5. Administration is proposing increases to the water rates of 4% for 2020 in accordance with the 2018 Water Authority Financial Plan. Wastewater surcharge

rates are proposed to remain at 90% of the total water fixed and volumetric charge consistent with the Wastewater System 20 year financial plan approved in 2015.

6. The minimum charge for a trip to the landfill remains at \$10 applicable on loads up to 130kg. Tonnage charges for loads over 130kg will increase 3% to \$79.26/tonne.
7. The Boaters Services fees are proposed to increase by 5%.

### **Budget Review Process**

The proposed 2020 operating and capital budgets will be considered by Committee of the Whole at Special Committee meetings, in accordance with the budget calendar approved by City Council Report No. R 75/2019 (Corporate Services & Long Term Care – Financial Services).

### ***DISCUSSION***

During the 2020 budget review process, the Executive Management Team, members of the Financial Services team and numerous departmental staff worked diligently to prepare the proposed 2020 budget for Council consideration.

The key elements of the budget review included the following:

- City departments and outside boards and agencies reviewed their budgets to identify efficiencies and opportunities for cost containment without service level reductions.
- Corporate accounts were reviewed for possible budget reductions.
- Proposed 2020 tax supported capital financing to remain similar to 2019 levels.

Council approved Budget Directions 2020 (R117/2019) included that additional options to reduce the 2020 net municipal tax levy increase be provided and include items identified by Administration and by the Program and Service Review Phase One. The proposed budget includes reductions identified by Administration. The December 2019 Grant Thornton Program and Service Review Phase One report did not identify short-term significant cost savings opportunities. Two savings opportunities were noted for 2020 including the elimination of the Sister Cities Committee and elimination of retirement honoraria, service awards and the retirees banquet. Areas will be explored in depth in Phase Two of the Program and Service Review with potential savings and revenue generating opportunities noted in the final report to be delivered in June 2020.

### **2020 Tax Supported Operating Budget Highlights**

The proposed 2020 tax supported budget is presented with a 2020 municipal tax levy of \$200,237,300 (an increase of \$6.1 million over the 2019 approved municipal tax levy of \$194,091,700). The tax levy represents the total amount of dollars that needs to be raised from

property tax payers to fund City services, local boards and agencies, and contribute to capital infrastructure programs.

Administration is presenting the proposed 2020 budget with a 3.17% municipal tax levy increase before growth and 2.32% net of growth.

In May, Council will make 2020 tax policy decisions based on the approved budget. At that time, policy options and an impact analysis will be provided. The analysis will include the tax implications for properties within each property class.

### **Major Drivers**

The 2020 budget increase is driven by several major items in addition to inflationary and wage related increases required to continue to offer the same services.

The Thunder Bay Police Service has requested an additional \$1.9 million (excluding wage contingency) which includes new full time equivalents (FTEs) for Guns & Gangs initiatives, additional Office of the Independent Police Review Director (OIPRD) recommendation costs, increased overtime and Workplace Safety and Insurance Board (WSIB) costs. The municipal levy impact of this requested increase is 1.0%. In addition, an expansion is requested in the Communications Centre related to Next Generation 911 for \$0.4 million or 0.2% of the municipal tax levy.

The Ontario Municipal Partnership Fund (OMPF) budget is reduced by \$0.7 million in relation to the 2019 budget, increasing the municipal tax levy by 0.4%.

The final phase in of the waste diversion/recycling program transitioning to the tax supported budget at \$0.6 million results in a 0.3% increase to the municipal tax levy. With this proposed budget the Waste Diversion program will be fully transitioned to the tax supported budget.

The debenture debt charges are projected to increase \$0.4 million due to the previously approved special debenture for radios for Thunder Bay Fire Rescue and the Thunder Bay Police Service. This increases the municipal tax levy by 0.2%.

Changes to Canada Pension Plan (CPP) rates and increasing long term disability (LTD) costs result in increased fringe benefit costs of \$0.6 million or 0.3% of the municipal tax levy.

Other expansions add \$0.4 million or 0.2% to the municipal tax levy. These include, but are not limited to, increased staffing in City Solicitor and Corporate Counsel, additional costs associated with maintaining new assets, including subdivisions, and expanded counselling services for City employees.

The levy from the Thunder Bay District Health Unit will increase by \$0.2 million or 10% related to changes in the cost sharing model between the Province and municipalities. Provincial transitional funding capped the change at 10% for 2020 with the full impact expected to be

realized in the 2021 budget (estimated at an additional \$1.2 million). The 2020 municipal tax levy increased by 0.1%.

The capital budget that is funded by the tax levy increased by \$0.2 million, and results in a 0.1% increase to the municipal tax levy.

The increases noted above have been partially offset by other revenue increases and expenditure reductions totalling \$2.5 million, which reduce the municipal tax levy by 1.4% and are discussed below.

The proposed budget includes a \$0.5 million one time dividend from Thunder Bay Hydro Corporation which reduces the municipal tax levy by 0.3%. A dividend of \$0.6 million related to Synergy North merger efficiencies is anticipated to start in 2021.

The Tbaytel dividend policy changes result in a proposed budget reduction of \$0.5 million or 0.3%.

The estimated District of Thunder Bay Social Services Administration Board (TBDSSAB) levy results in a reduction of \$0.7 million or 0.4% of the municipal tax levy. This reduction reflects the lower than budgeted levy in 2019 offset by the 2020 estimated increase.

The proposed Transit budget is reduced by \$0.4 million to align with actual expenditures. The municipal tax levy reduction is 0.2%.

Increases to user fees provide an additional \$0.4 million, which reduces the municipal tax levy by 0.2%.

The growth in the assessment base during 2019, resulting from investment in the community through new construction and expansions less lost assessment from demolitions and successful assessment appeals, provides tax generation of \$1.6 million or 0.8% reduction to the tax levy increase.

## **Key Components**

Key components of the 2020 tax supported operating include:

1. Federal Grants

The proposed budget includes \$6.5 million in Federal Gas Tax grant revenue that is transferred to the obligatory Federal Gas Tax reserve fund to be used for capital projects.

2. Provincial Grants

The largest component of provincial grant revenue is the Ontario Municipal Partnership Fund (OMPF). The 2020 OMPF budget is \$18.8 million, a decrease of \$0.7 million from the 2019 budget.



Also included in provincial grant revenue is the Ontario Community Infrastructure Fund (OCIF) estimated at \$5.5 million which is transferred to the obligatory OCIF reserve fund to be used for capital projects. At the time of this report the 2020 allocation notices have not been released, however the Province has confirmed the overall provincial fund will remain the same as 2019.

3. Other Revenue

*Tbaytel Annual Dividend*

The proposed budget includes \$18.0 million dividend revenue of which \$0.25 million is to be transferred to the General Capital Reserve Fund consistent with the updated Tbaytel Dividend policy.

*Municipal Accommodation Tax*

The 2020 proposed budget includes Municipal Accommodation Tax (MAT) revenue estimated at \$2.3 million, an increase of \$0.3 million from the 2019 budget. The City's 50% share of the MAT is budgeted to be transferred to the Municipal Accommodation Tax Reserve Fund. The remaining 50% will be provided to the Community Economic Development Commission, the designated eligible tourism entity. In 2019, the City's share was transferred to the Indoor Turf Facility reserve fund.

*Other Corporate Revenues*

Other revenues include transfers from reserve funds, casino revenues, penalties and interest on taxes, administrative recoveries, Thunder Bay Hydro Corporation one time dividend, Synergy North roof top solar dividend, investment earnings and sundry revenues. These sources total approximately \$12.3 million compared to \$11.1 million in 2019. The \$1.2 million increase mainly relates to a one time dividend from Thunder Bay Hydro Corporation (\$0.5 million), an increase in reserve fund transfers (for one time items) and increased penalties and interest revenue (\$0.2 million).

4. Other Corporate Expenditures

*Provision for Operating Reserve and Reserve Funds*

In 2020, the proposed budget contains contributions to reserve and reserve funds of \$2.2 million, a \$0.3 million decrease from 2019. The decrease relates primarily to the removal of the \$0.5 million transfer to the Stabilization Reserve Fund partially offset by an increased transfer to the MAT Reserve Fund. The Stabilization reserve fund transfer was related to a portion of the Tbaytel dividend which is now being proposed to be transferred to the General Capital reserve fund consistent with the updated Tbaytel Dividend Policy.

Debenture Debt Charges

In 2020 the debenture charges are expected to increase by \$0.4 million relating to the police/fire radio upgrades.

Other Corporate Expenditures

Other corporate expenditures, excluding reserves and debenture charges, total \$21.2 million and have increased \$3.5 million or 20.1%. These costs primarily relate to amounts set aside for wage settlements, contributions to community groups and organizations, insurance claim costs, external legal fees, early leave and retirement benefits, payments to the Municipal Property Assessment Corporation, tax write-offs and legislated rebates, and corporate WSIB. For 2020, they include \$0.3 million for the Next Generation 911 and Employee Family Assistance Program (EFAP) expansions and \$0.15 million in one time costs for the 50<sup>th</sup> Anniversary celebrations.

6. Net Departmental Budgets

The 2020 proposed net budget, for all City departments is \$124.2 million a \$1.2 million or 0.9% increase over the 2019 level of \$123.1 million.

Included in the tax supported budget is an increase of 9.1 full time equivalents (FTEs) primarily related to the expansions in City Solicitor and Corporate Counsel (2.0), additional staffing in Asset Management Division to bring Lift+ maintenance in-house (2.0), additional staffing in Recreation & Culture which are fully funded from grants (1.9), and staffing primarily associated with subdivision expansions and green space maintenance requirements in Infrastructure & Operations (2.3). The detailed departmental changes and a summary are provided in the executive summary section of the 2020 budget books. Personnel services make up approximately 75% of departmental gross expenditures.

7. Contributions to Outside Boards and Agencies

In 2020, the projected contribution to boards and agencies excluding wage contingencies totals \$76.2 million, a \$1.8 million or 2.4% increase over the 2019 level of \$74.4 million. The increase relates primarily to Thunder Bay Police Services of \$1.9 million that includes 9.0 additional FTE's, the Thunder Bay District Health Unit levy of \$0.2 million, and a \$0.2 million increase in the municipal accommodation tax revenue provided to the Community Economic Development Commission (CEDC), partially offset by the Thunder Bay District Social Services Administration Board (TBDSSAB) budget reduction of \$0.7 million.

The boards and agencies included in this category are the Thunder Bay Police Service Operations, Thunder Bay Police Services Board, TBDSSAB, Thunder Bay District Health Unit, Thunder Bay Public Library, Lakehead Region Conservation Authority, Thunder Bay CEDC, Parking Authority, Victoriaville Centre, Victoria Avenue BIA, and the Waterfront District BIA.

### Tax Supported Capital Budget

The 2020 proposed capital budget is presented at \$46,363,100 gross of which \$14,952,600 is funded by the tax levy. The following chart summarizes the components included in the 2020 capital budget compared to 2019.

	<b>2020 Proposed Budget</b>	<b>2019 Approved Budget</b>
Gross Capital – City Departments (excluding EIRP)	\$34,801,200	\$42,065,000
Add : Gross Capital – City Departments Enhanced Infrastructure Renewal Program (EIRP) Component	8,440,600	8,440,600
<b><i>Total Gross Capital – City Departments (including EIRP)</i></b>	<b><i>43,241,800</i></b>	<b><i>50,505,600</i></b>
Add : Gross Capital – Boards and Agencies	3,121,300	3,561,900
<b><i>Total Gross Capital Budget</i></b>	<b><i>46,363,100</i></b>	<b><i>54,067,500</i></b>
Less : Debenture funding	(7,284,400)	(7,284,400)
Less : Reserves, grants and other funding	(24,126,100)	(32,052,300)
<b><i>Net Capital Financed by the Tax Levy</i></b>	<b><i>14,952,600</i></b>	<b><i>14,730,800</i></b>

Gross capital for City departments decreased from \$50.5 million in 2019 to \$43.2 million in 2020 primarily relating to the inclusion of projects in 2019 for the Boulevard Lake Dam rehabilitation.

Gross capital requests from outside boards and agencies decreased from \$3.6 million in 2019 to \$3.1 million in 2020. The decrease mainly relates to 2019 Thunder Bay Police Service one-time requests for the building needs assessment and OIPRD recommendations.

Funding of capital is provided from debenture financing, reserves and reserve funds, grants, funding from third parties, and by the tax levy.

Debenture financing remains consistent with 2019 levels of \$7.3 million.

The recommended tax supported capital budget includes reserve and reserve fund financing of \$15.9 million (\$20.1 million in 2019). The most significant uses of reserve funds include the Federal Gas Tax reserve fund, Ontario Community Infrastructure Fund reserve fund, Dedicated

Gas Tax reserve fund and the EMS Vehicle and Equipment reserve fund. The capital budget also includes subsidies in the amount of \$6.7 million primarily comprised of the Investing in Canada Infrastructure Program (ICIP) Transit stream (\$6.3 million). This grant funding is unconfirmed and these projects will not proceed until funding sources are identified.

Other revenue totaling \$1.5 million is also included in the capital budget. Other revenue includes interdepartmental recoveries, user fees, and contributions from outside municipalities and organizations.

Contributions to capital reserve funds funded through the tax levy total \$1.3 million which is consistent with 2019 levels. These include provisions for Corporate Information Technology, Clean, Green and Beautiful, Community Partnership, General Capital, Recreation Trails and Renew Thunder Bay reserve funds. Contributions to obligatory reserve funds total \$12.0 million which is consistent with 2019 levels. These provisions are for the Ontario Community Infrastructure Fund and the Federal Gas Tax reserve funds.

### **2020 Rate Supported Operating Budget Highlights**

The rate supported operations include Waterworks, Wastewater (Sewer), Solid Waste (Landfill and Waste Diversion/Recycling) and Prince Arthur's Landing – Boater Services.

These operations (excluding Waste Diversion/Recycling) are supported by user fees rather than municipal taxation revenues. This is the final year of transitioning the waste diversion/recycling program to the tax supported budget.

#### **Waterworks**

The 2020 Waterworks operating budget is projected at gross expenditures of \$19,444,300 and net income of \$6,504,600, to be transferred to the Waterworks reserve fund.

The 2020 Waterworks capital budget totals \$10,503,000 gross with financing of \$6,303,000 from the Waterworks reserve fund and debenture financing of \$4,200,000. Debenture financing is consistent with the Water Authority Financial Plan approved by Council in July 2018.

Effective April 1, 2020, all water fixed and volumetric charges are recommended to increase by 4.0% to meet future financial requirements as per the Water Authority Financial Plan. Other program charges will also increase by 4.0% consistent with water rate changes.

#### **Wastewater (Sewer)**

The 2020 Wastewater (Sewer) operating budget is projected at gross expenditures of \$14,105,200 and a net income of \$5,683,800 to be transferred to the Sewer Rate reserve fund.

The 2020 Wastewater capital budget totals \$8,761,800 gross with financing of \$4,105,300 from the Sewer Rate reserve fund, debenture financing of \$3,932,500 and Disaster Mitigation & Adaptation grant funding of \$814,000. Debenture financing is within levels set out in the Wastewater Financial Plan approved by Council in March 2015.

The sewer rate surcharge is proposed to continue at 90% of water rates.

For the average Thunder Bay household, one that consumes 200m<sup>3</sup> of water per year, the combined cost for sewer and water services will increase from \$1,186 to \$1,235 annually or \$3.37 per day (an overall increase of \$49 per year or 4.0% compared to 2019). For customers only connected to the water system, the cost to consume 200m<sup>3</sup> of water per year will increase annually by \$26 from \$624 to \$650 or \$1.78 per day.

### **Solid Waste (Landfill and Waste Diversion/Recycling)**

The 2020 Solid Waste (Landfill and Waste Diversion/Recycling) operating budget reflects gross expenditures of \$6,464,100 and a net income of \$1,258,000 to be transferred to the Solid Waste reserve fund. The 2020 proposed budget reflects the final year of the phased approach to move waste diversion/recycling costs from the rate supported budget to the tax supported budget. A total of \$2.9 million in waste diversion/recycling costs have been transferred to the tax supported budget since 2017.

The 2020 Landfill capital budget totals \$3,025,000 gross with financing of \$425,000 from the Landfill reserve fund and debenture financing of \$2,600,000. Debenture financing is consistent with the 20 year Solid Waste (Landfill) Financial Plan approved by Council in September 2019.

The minimum charge for a trip to the landfill remains at \$10 applicable on loads up to 130kg. Tonnage charges for loads over 130kg will increase 3% to \$79.26/tonne from 2019 rates of \$76.95/tonne. A 200 kilogram load of waste will cost \$0.46 more than in 2019. The effective date for the proposed fee increases is April 1, 2020.

### **Prince Arthur's Landing (Waterfront Park) – Boater Services**

The 2020 Prince Arthur's Landing - Boater Services operating budget reflects gross expenditures of \$312,900 and a net income of \$90,000 to be transferred to the Marina (Boater Services) reserve fund.

The 2020 Prince Arthur's Landing – Boater Services capital budget totals \$60,000 gross and will be funded from the Marina (Boater Services) reserve fund.

Included in the 2020 Prince Arthur's Landing – Boater Services budget are proposed user fee increases of 5% effective April 1, 2020.

### **Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09**

Section 290 of the Municipal Act requires municipalities to prepare balanced budgets which include estimates of all sums required during the year for the purposes of the municipality.

Regulation 284/09 permits municipalities to exclude the following expenses from their municipal budgets:

- Amortization expenses on tangible capital assets;
- Post-employment benefits expenses; and
- Solid waste landfill closure and post-closure expenses.

These expenses were not included in the City’s proposed budget for 2020. The City of Thunder Bay, like most municipalities, continues to prepare budgets on the traditional fund basis where revenue and expenditures for operating and capital budgets are balanced. Accordingly, on a fund basis, there is no projected impact to the City’s accumulated surplus. Regulation 284/09 requires a municipality to identify the impact of the 2020 proposed budget on the City’s accumulated surplus after converting the 2020 proposed budget and assumptions to include the excluded expenses. The City must also estimate the impact of the excluded expenses on the future tangible capital asset funding requirements.

The estimated effect on the 2020 ending surplus due to the excluded expenses and change in reporting is anticipated to be a net increase of \$2.9 million, summarized as follows:

	<u>(\$000’s)</u>
Post-employment benefit expenses	\$1,916
Solid waste landfill closure and post closure costs	\$(145)
Amortization expenses on tangible capital assets	\$(45,733)
Acquisition of tangible capital assets	<u>\$46,890</u>
	\$2,928

The changes to accounting and reporting requirements under the Public Sector Accounting Board (PSAB) are a financial accounting treatment only and do not affect operating surpluses. This difference is one of financial statement presentation only.

#### Employee Future Benefits / Post-Employment Benefits

Employee future benefits include benefits which are earned by the employee in the current period but are not paid for by taxes or rates until a future period. These benefits include sick leave, vacation pay, health and dental care, life insurance and Workplace Safety and Insurance Board (WSIB) payments.

The impact (change) of employee future benefits expense is an increase to the accumulated surplus and is estimated to be \$1.9 million in 2020.

#### Solid Waste Landfill Closure and Post-Closure Liability

Under the Ontario Environmental Protection Act, the City is required to provide for the closure and post-closure care of its solid waste landfill site. The costs related to these obligations are provided over the estimated remaining life of the landfill based on usage (currently estimated at 21 years). The impact (change) of landfill closure and post-closure costs is a decrease to the accumulated surplus and is estimated to be \$0.1 million in 2019.

### Amortization Expenses on Tangible Capital Assets

Annual financial statements include amortization expenses on tangible capital assets as required by PSAB standards.

Although the City's proposed 2020 budget does not include amortization expense on tangible capital assets, provisions are made for contributions to capital and transfers to/from capital reserves to fund capital expenses.

The estimated 2020 impact on tangible capital assets is a net increase of \$1.2 million to the accumulated surplus.

### Impact on Future Tangible Capital Asset Funding Requirements

The inclusion of tangible capital asset information in the financial statements can assist in understanding the obligation to maintain, renew and replace assets. The amount provided in the proposed 2020 budget for tangible capital asset purposes (\$46.9 million) can be compared to the 2020 estimated amortization of \$45.7 in order to determine whether the City has adequately provided for its capital needs.

However, even if amortization is fully funded, other factors will need to be examined to quantify the City's capital funding requirements. It would be beneficial to compare existing capital funding levels to required future funding levels. Amortization is based on costs when assets were built or purchased and is not necessarily the cost to repair or replace the asset in today's dollars and using current standards (accessibility, climate change, etc.). Some assets may need to be replaced before the end of their amortization period. Consideration is also required for new and growth related assets.

Accounting and reporting on the tangible capital assets will provide information, but it will not provide financial planning, set appropriate rates and fees, or supply information on the condition of assets.

### ***FINANCIAL IMPLICATION***

The 2020 proposed budget is presented with a 3.17% municipal tax levy increase before growth and 2.32% net of growth. The proposed budget maintains current programs and services and contributions to local boards and agencies, includes expansions primarily relating to Thunder Bay Police Services, Next Generation 911 and the final year of transitioning the waste diversion/recycling program to the tax supported budget. It also incorporates savings identified during the budget preparation process. The proposed 2020 tax supported capital funding has been increased by \$0.2 million over 2019 levels.

### ***CONCLUSION***

It is concluded that City Council should approve the 2020 Operating and Capital Budget as proposed.

**BACKGROUND**

None.

**REFERENCE MATERIAL ATTACHED:**

2020 Budget Package including:

- 2020 Budget Executive Summary
- 2020 Tax Supported Operating and Capital Budget
- 2020 Rate Supported Operating and Capital Budget

**PREPARED BY: LAUREN PARADIS, MANAGER, BUDGETS AND LONG TERM PLANNING**

THIS REPORT SIGNED AND VERIFIED BY:  Linda Evans, GM Corporate Services and Long Term Care, City Treasurer	DATE:  December 19, 2019
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