



2024 PROPOSED OPERATING AND CAPITAL BUDGET



EXECUTIVE SUMMARY

The 2024 proposed Operating and Capital Budget for the City of Thunder Bay supports the *2023 – 2027 Maamawe, Growing Together Strategic Plan*, fostering an inclusive city focused on service excellence, collaboration, and providing opportunities for a high quality of life.

The City of Thunder Bay values accountability, transparency, and inclusiveness in its Budget process. The proposed Budget has been developed to effectively allocate the City’s financial, technological, and human resources to deliver key services in the City of Thunder Bay.

In order to compensate for inflationary cost pressures, and deliver a responsible Budget, mitigation strategies continue to be considered and implemented where appropriate. The strategies include line-by-line reviews, project prioritization, opportunities to increase revenues, and effective use of debt, reserves and reserve funds.

Overall, the City of Thunder Bay 2024 proposed Operating and Capital Budget includes total gross spending of \$538.3 million, an increase of \$23.5 million or 4.6% compared to the previous year.

Figure 1: 2024 Total Operating and Capital Budget

Operating and Capital Expenditures	2023 Budget \$	2024 Budget \$	Budget Change	
			Increase/ (Decrease) \$	%
Tax Supported	447,480,600	469,674,000	22,193,400	5.0%
Rate Supported	67,230,100	68,587,800	1,357,700	2.0%
Total Budget	514,710,700	538,261,800	23,551,100	4.6%

Budget Drivers

The proposed Operating Budget maintains core services while navigating fiscal, social, and legislative challenges. The City of Thunder Bay has established service levels in accordance with legislation, Council direction, or best practices. Where there has not been explicit direction, service levels reflect Administration's understanding of what residents have come to expect from the municipality. Changes to service levels are reflected in the budget process through expansions, reductions, user fees and one-time items. Key budget drivers for 2024 include:

Favourable Budget Impact

- Organization realignment and service level reductions (Corporate Report 196-2023) (\$2.6 million).
- User fee increases (\$1.2 million).
- Increase in TBayTel Dividend (\$1.0 million).
- Decreased insurance premiums (\$0.8 million).
- Commencement of interest payments from Synergy North Corporation (\$0.8 million).
- Increase in other revenue including administrative recoveries and Casino revenue (\$0.5 million).
- Increased in Ontario Municipal Partnership Fund allocation (\$0.2 million).

Unfavourable Budget Impact

- Thunder Bay Police Service budget request, due to increases in personnel services from phased in expansions from 2023, backfill coverage, 2024 expansions, and additional equipment maintenance (\$2.3 million).
- Continued implementation of approved Program and Services Review recommendations including expansions for the Human Resources Strategy, Digital Strategy, and other expansions including the Affordable Transit Pass Pilot Project, Recreation and Culture Affordable Access Pilot Project, Airport Rebate Program, and provincially mandated Organics Program (\$1.7 million).
- Outside and Local Boards increases (excluding Thunder Bay Police Service and Police Services Board) (\$1.6 million).

- Inflationary increases for materials and purchased services for parts, salt, paint, contracted repairs and maintenance, and snow removal (\$1.1 million). Inflationary increases, ongoing supply chain issues, and the interplay of supply and demand have impacted capital project estimates and timelines.
- One-time use of reserves and reserve funds in 2023 that were not offset by approved service level reductions (\$0.9 million).
- Thunder Bay Police Service Board increase (\$0.2 million).

Staffing

The staffing resources required to deliver the services covered in the 2024 proposed Budget are indicated in the Figure 2 below. The full-time equivalent (FTE) staff complement proposed in the 2024 budget, including one-time positions, is 2,188.9, a net increase of 6.3 FTE compared to the 2023 approved budget. The proposed 2024 staff complement includes 8.7 one-time FTEs with proposed financing from the Stabilization Reserve so there is no impact on the tax levy for these positions.

Figure 2: Proposed Full-Time Equivalent Staff Complement

Department	2023 Complement	2024 Proposed Complement	Increase/ (Decrease)	%
Mayor, Council & City Manager's Office	91.6	92.9	1.3	1.4%
Community Services	596.4	595.9	(0.5)	-0.1%
Corporate Services	365.9	371.9	6.0	1.6%
Infrastructure, Development & Operations - Tax	580.0	575.8	(4.2)	-0.7%
Infrastructure, Development & Operations - Rate	146.5	146.9	0.4	0.3%
Outside Boards (Police & CEDC)	402.2	405.5	3.3	0.8%
Total	2,182.6	2,188.9	6.3	0.3%

Municipal Tax Levy

The Municipal Tax Levy is the total amount that needs to be raised from property taxes to fund City services, including Community Service Partners (Local and Outside Boards), and to contribute to capital infrastructure programs. Net positive growth in the City’s assessment base in 2023 due to new construction, additions, and improvements is projected to provide \$1.2 million in new revenue (growth) that is available to the municipality. This will reduce the financial burden for existing taxpayers.

The Municipal Tax Levy required to support the 2024 proposed Budget is \$231.7 million (\$211.5 million Operating, \$20.2 million Capital), an increase of \$13.3 million or 6.1% compared to the previous year. After factoring in assessment growth, the net impact is 5.5%, which is in line with budget direction provided by City Council on July 24, 2023.

City Council has limited control over the tax supported levy increases established by Community Services Partners, as illustrated in Figure 3 below. Outside Boards – The District of Thunder Bay Social Services Administration Board (TBDSSAB), Thunder Bay District Health Unit (TBDHU), and Lakehead Region Conservation Authority (LRCA) – determine their budget requirements for the year and levy the City of Thunder Bay accordingly. The Thunder Bay Police Service also determines its budget requirements which are approved by its Board.

Figure 3: Breakdown of Proposed Levy Increase

	Increase	
	\$	%
City Services	7,957,700	3.6%
Community Service Partners	3,429,100	1.6%
Net increase to Capital financed by tax levy	1,917,500	0.9%
Total 2024 Municipal Tax Levy Increase	13,304,300	6.1%
Less: New taxation revenue sourced from 2023 net assessment growth	(1,241,200)	(0.6%)
Net Increase to Municipal Tax Levy (After Growth)	12,063,100	5.5%

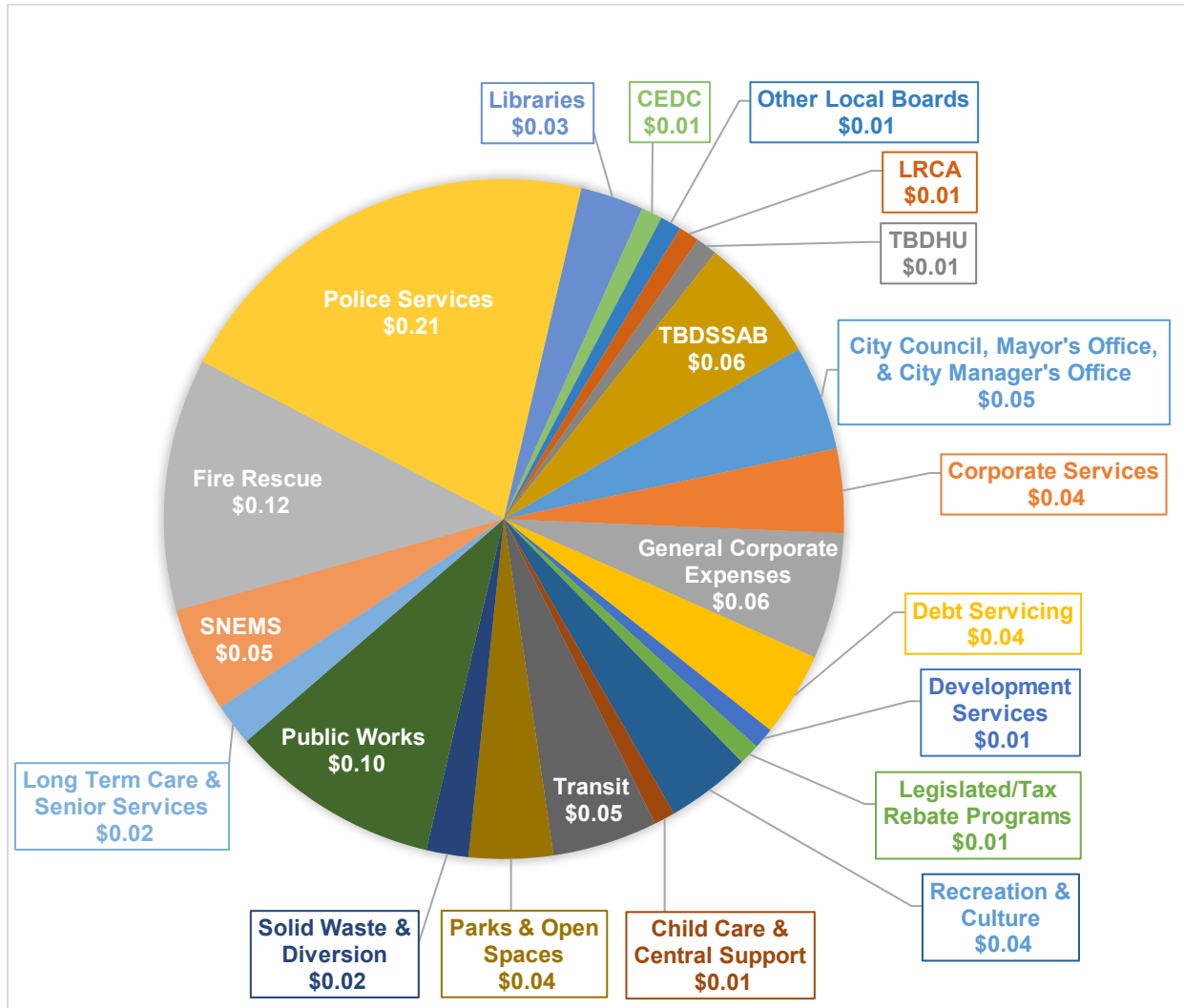


A tax levy increase of 5.5% does not impact all taxpayers equally. Assessment changes are also a factor in determining the increase each taxpayer will experience. The Municipal Property Assessment Corporation (MPAC), a provincial agency, is responsible for conducting property assessments in Ontario and preparing assessment rolls for municipalities on a Current Value Assessment (CVA) basis. The amount of property taxes payable on a property is determined by multiplying the CVA of the property by the applicable tax rate for that class of property, subject to any legislative or Council-mandated adjustments.

How Property Taxes Are Spent

In 2024, for every dollar of property tax collected, \$0.66 would go towards City Services, and \$0.34 would go to Community Service Partners. Figure 4 below highlights how each dollar of Tax Levy is spent.

Figure 4: How Each Tax Dollar is Spent



Tax Supported Operating Budget

Total proposed Tax Supported Operating Budget expenditures of \$389.8 million represents an increase of \$9.2 million or 2.4% over 2023. Figures 5 and 6 below illustrate how the 2024 proposed Tax Supported Operating Budget will be invested to deliver services, and the proposed sources of financing.

Figure 5: 2024 Proposed Tax Supported Operating Expenditures

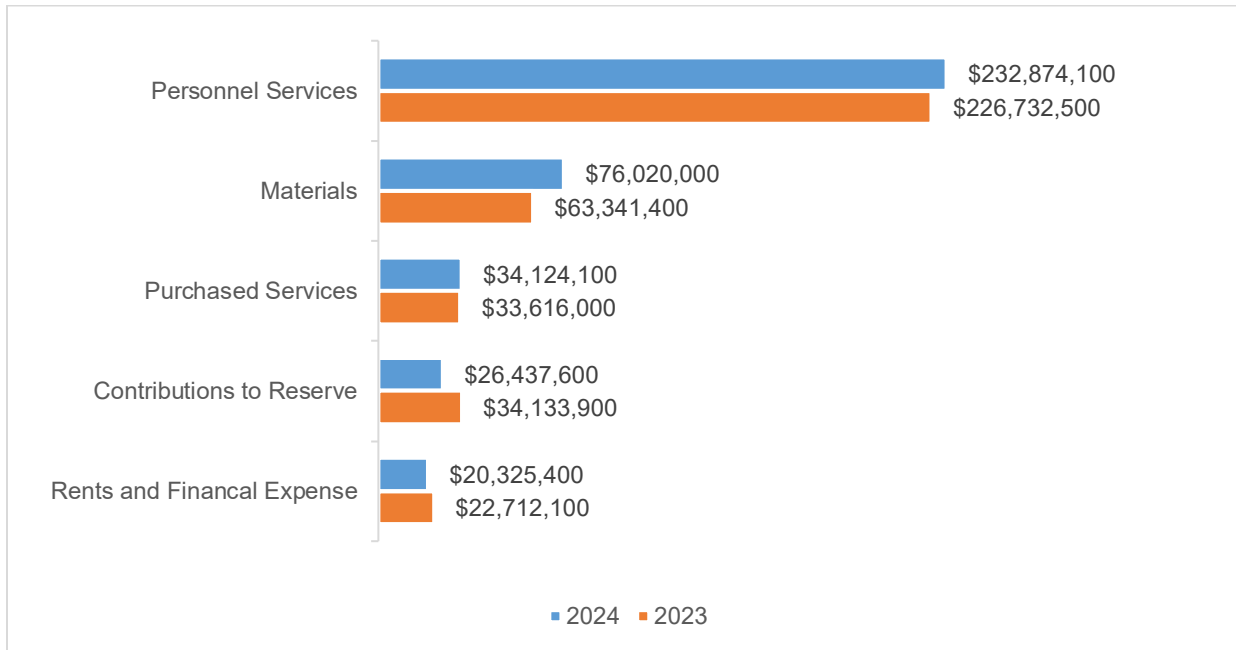
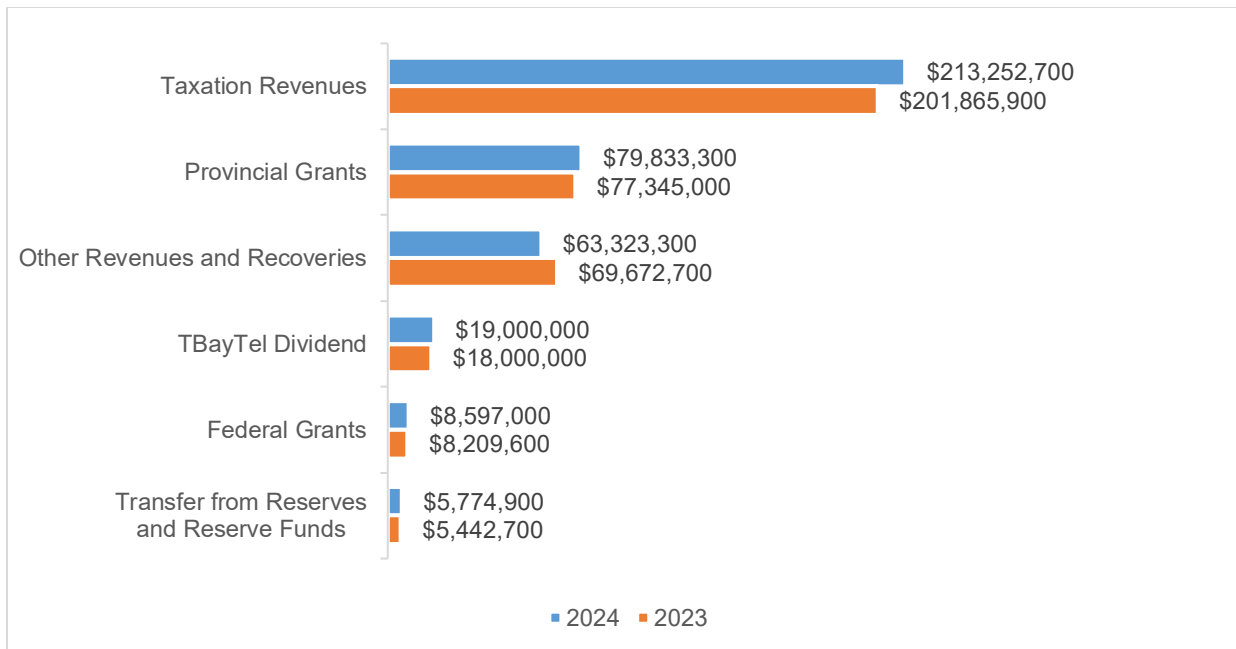


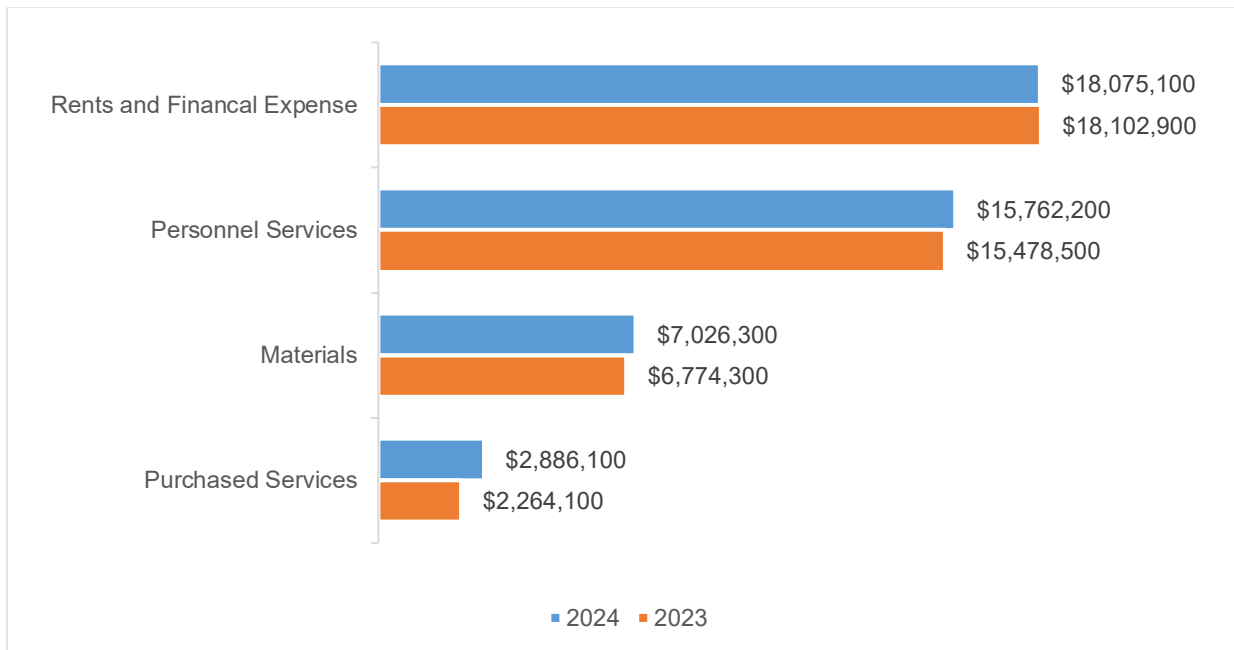
Figure 6: 2024 Proposed Sources of Financing



Rate Supported Operating Budget

Total proposed Rate Supported Operating Budget expenditures of \$43.7 million represents an increase of \$1.1 million or 2.7% over 2023. Rate supported programs include Waterworks, Wastewater (Sewer), Solid Waste (Landfill), and Prince Arthur's Landing – Boater Services. Figure 7 below illustrates how the 2024 proposed Rate Supported Operating Budget will be invested to deliver these programs.

Figure 7: 2024 Proposed Rate Supported Operating Expenditures



User fees and services charges are established and approved by City Council annually to support financially sustainable services. Rate supported user fees and service charges are discussed below.

Waterworks

Water rate increases are in accordance with the long-term Water Authority Financial Plan (Plan update to be provided to City Council in January 2024). The Financial Plan has been prepared in accordance with provincial legislation and maintains the City's water rates at affordable levels overall and provides a sustainable water system that will deliver safe drinking water today and into the future. For 2024, the water rate increase is 3.0% over 2023 rates.

For the average household using 200 cubic meters of water in a year, the water rate increase represents an annual increase of \$21.09, with the daily cost for water services averaging \$2.01 a day.

Wastewater (Sewer)

Wastewater surcharges will remain at 90% of the total water fixed and volumetric charge consistent with the Wastewater System 20-Year Financial Plan that was updated in 2022. For 2024, the wastewater surcharge increase is 3.0% over 2023 rates. For the average household with sewer service, the surcharge increase represents an annual increase of \$18.98, with the daily cost averaging \$1.81 per day.

Thunder Bay water and wastewater rates remain affordable. As illustrated in Figure 8, for the average Thunder Bay household, the proposed total cost for sewer and water averages \$1,395 for 2024, or approximately 1.5% of median household income. The industry standard suggests that rates are considered affordable when a combined water/sewer bill is no more than 4.5% of median household income.

Figure 8: 2024 Proposed Water and Wastewater Rate Compared to 2023

Average Residential Household - consumption@ 200 m3 per year					
Program		2023 \$	2024 \$	Average Annual Increase \$	Average Cost Per Day \$
Waterworks	Fixed Rate (\$/yr)	324.12	333.61	9.49	0.91
	Volumetric (\$/200m3)	388.80	400.40	11.60	1.10
	Total Water	712.92	734.01	21.09	2.01
Wastewater (Sewer)	90% Sewer Surcharge	641.63	660.61	18.98	1.81
Total Water & Wastewater		1,354.55	1,394.62	40.07	3.82

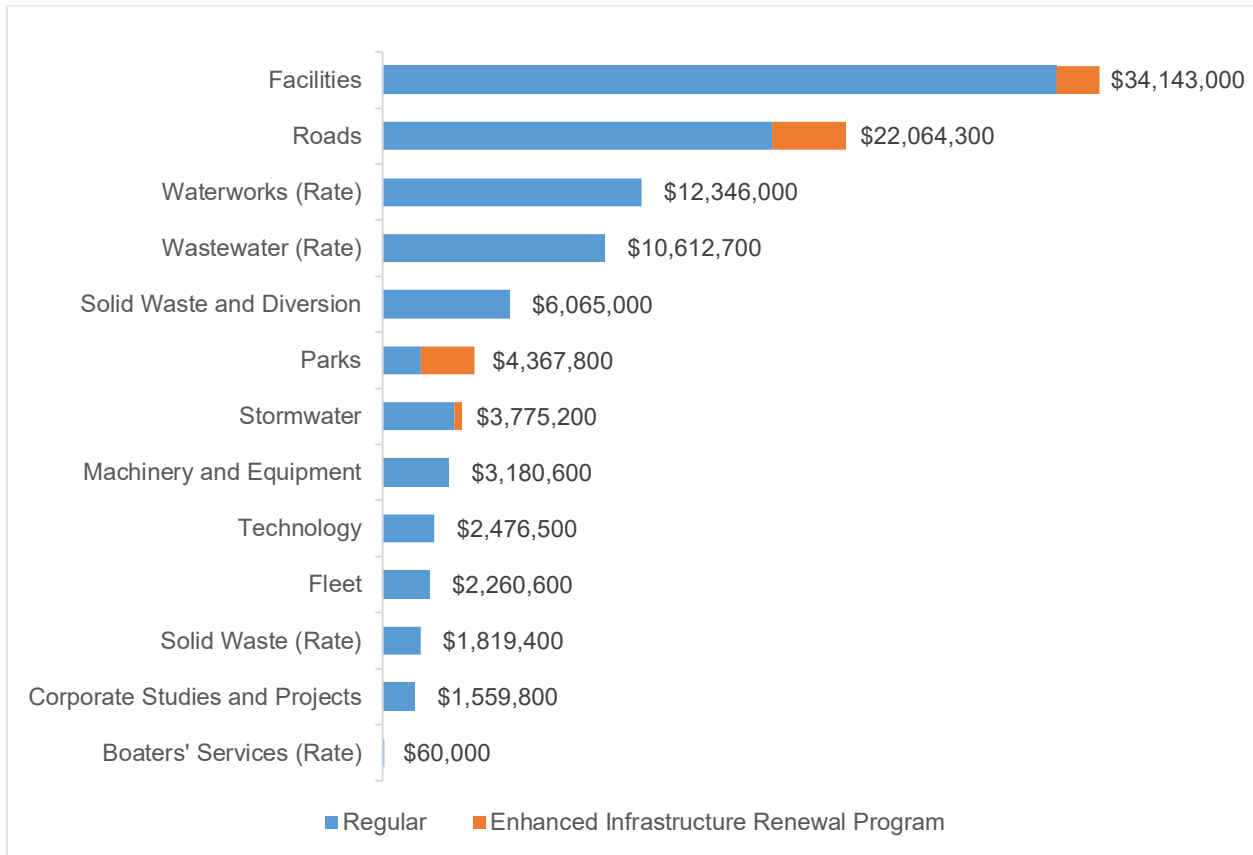
Solid Waste (Landfill)

The minimum charge for a trip to the Landfill remains at \$10 and is applicable on loads up to 120kg. Tonnage charge for loads over 120kg will increase 3.0% to \$89.21/tonne. A 200kg load of waste will cost \$0.21 more than in 2023.

Tax and Rate Supported Capital Budget

The 2024 proposed Capital Budget is developed strategically to prioritize projects and achieve long-term sustainability of corporate assets. Figure 9 below illustrates how the planned investment of \$104.7 million is to be invested, including the City's Enhanced Infrastructure Renewal Program (EIRP).

Figure 9: 2024 Proposed Capital Expenditure by Category



Figures 10 and 11 below illustrate how the 2024 proposed Tax Supported and Rate Supported Capital Budgets will be financed. Total Capital financed from the tax levy (\$20.2 million) is 10.5% higher than the previous year. This amount includes a portion (\$1.5 million) of the net debt servicing cost savings related to the retirement of the Homes Debenture.

Figure 10: 2024 Proposed Capital Plan Financing – Tax Supported

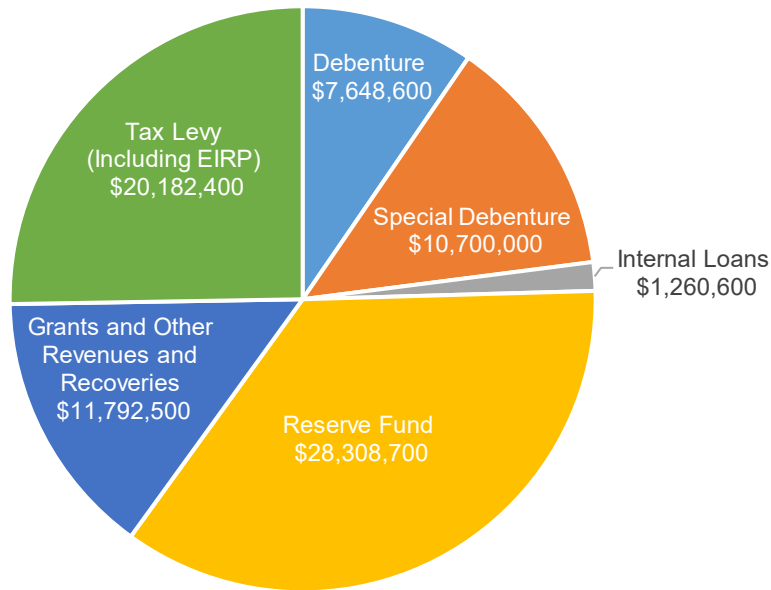
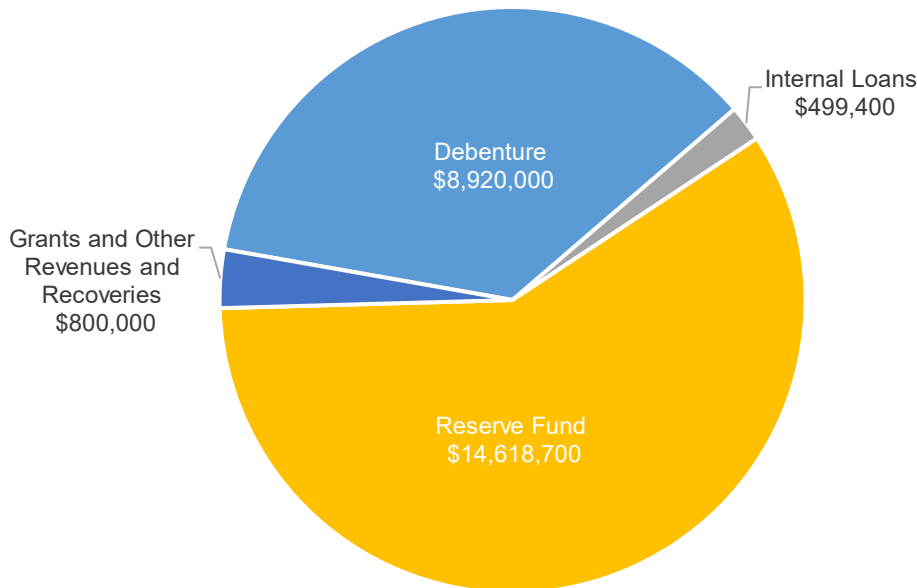


Figure 11: 2024 Proposed Capital Plan Financing – Rate Supported



Asset Management Plan

The City of Thunder Bay is developing an Asset Management Plan in compliance with *Ontario Regulation 588/17: Asset Management Planning for Municipal Infrastructure* under the *Infrastructure for Jobs and Prosperities Act, 2015*. The requirement to have an Asset Management Plan is not only a responsibility that the City of Thunder Bay must meet, the Plan will also help to prioritize investments in the infrastructure that the

City owns and maintains. The continual improvement and implementation of the City's Asset Management Program will result in long term savings over the life of the City's assets.

The Future Ready Roadmap

The Future-Ready Roadmap (Roadmap) was designed to guide the City of Thunder Bay through the Asset Management Plan's continual improvement process. The Roadmap includes the vital areas of Asset Management: Inventory and Assessment of Assets, Levels of Service, Community Engagement, Financial Strategy and Decision Making. However, none of these areas stand alone, and the Asset Management Plan requires significant input and participation from City Administration, City Council, and citizens.

Infrastructure Deficit

The infrastructure deficit is the shortfall between historical funding levels and the required annual funding to sustain current service levels, including replacement over the life of an asset. The deficit calculation is based on the best information available and is subject to change based on additional inventory, new or more objective condition data, updated replacement values, and refined lifecycle event costing.

Asset Management Plan: Phase One

Phase One of the Asset Management Plan was approved by City Council in December 2021. Phase One of the Plan focused on core assets including roads, bridges and culverts, water, wastewater, and stormwater. For each of these categories, information such as replacement costs, conditions, asset ages, levels of service, lifecycle activities, and climate considerations were provided. The annual infrastructure deficit for core assets outlined in Phase One of the Plan was over \$13.0 million.

Asset Management Plan: Phase Two

Phase Two of the Asset Management Plan will be presented to Council in Q2 2024. Phase Two of the Plan will include information on all assets including core assets reported in Phase One, and will also report on facilities, fleet, land improvements, machinery, and equipment. Staff across the Corporation continue to collect data for all assets including the age, replacement costs, conditions, levels of service metrics, and lifecycle activities. This information will allow for a more accurate calculation of the full infrastructure deficit.

Asset Management Plan: Phase Three

Phase Three of the Asset Management Plan will include a financing strategy to fund the Asset Management Plan at a proposed level of service to be established by City Council and informed through public consultation. Phase Three of the Plan will be completed prior to July 1, 2025 in compliance with the requirements of the Regulation.

Debt Management

The City of Thunder Bay traditionally finances a portion of its annual capital program using debentures. The proposed Tax Supported debenture target of \$7.6 million is 5% higher than the previous year, consistent with the debt management strategy. A special debenture of \$10.7 million is proposed to finance the Victoriaville Demolition and Streetscaping – Phase II project. The timing and ultimate amount of debentures issued are subject to change based on various factors including market conditions, project costs, and scheduling.

Principal and interest payments projected for 2024 are presented in Figure 12 below. The City of Thunder Bay has adopted debt service ratio targets calculated as principal and interest cost as a percentage of own source revenue. With the exception of Solid Waste, the City of Thunder Bay is within its established debt-service targets. Solid waste is expected to meet its target debt service ratio in 2031.

Figure 12: 2024 Principal and Interest Payments

Program	Principal \$	Interest \$	Total \$	Debt Service Ratio	
				2024	Target
Tax Supported	8,740,000	2,169,700	10,909,700	4.2%	7.5%
Waterworks	6,430,000	2,100,000	8,530,000	24.4%	26.0%
Wastewater (Sewer)	5,551,800	1,894,200	7,446,000	26.3%	30.0%
Solid Waste (Landfill)	386,500	127,900	514,400	22.9%	16.0%
Subtotal	21,108,300	6,291,800	27,400,100		
Tbaytel (paid by Tbaytel)	3,250,000	1,070,800	4,320,800		
Overall	24,358,300	7,362,600	31,720,900	6%	10%

The City of Thunder Bay's overall target is well below the overall Debt and Financial Obligation Limit established for Municipalities by the Ministry of Municipal Affairs and Housing which prescribes a maximum limit of 25%.

The 2024 proposed Capital Budget also includes Internal Loan financing for Solid Waste and Parking Authority capital projects that are not eligible for external debenture (Figure 13). These Internal Loans are borrowed against the City's reserves and reserve funds with interest charged at 0.5% above the average investment rate in the year the loan is issued.

Figure 13: 2024 Proposed Internal Loans

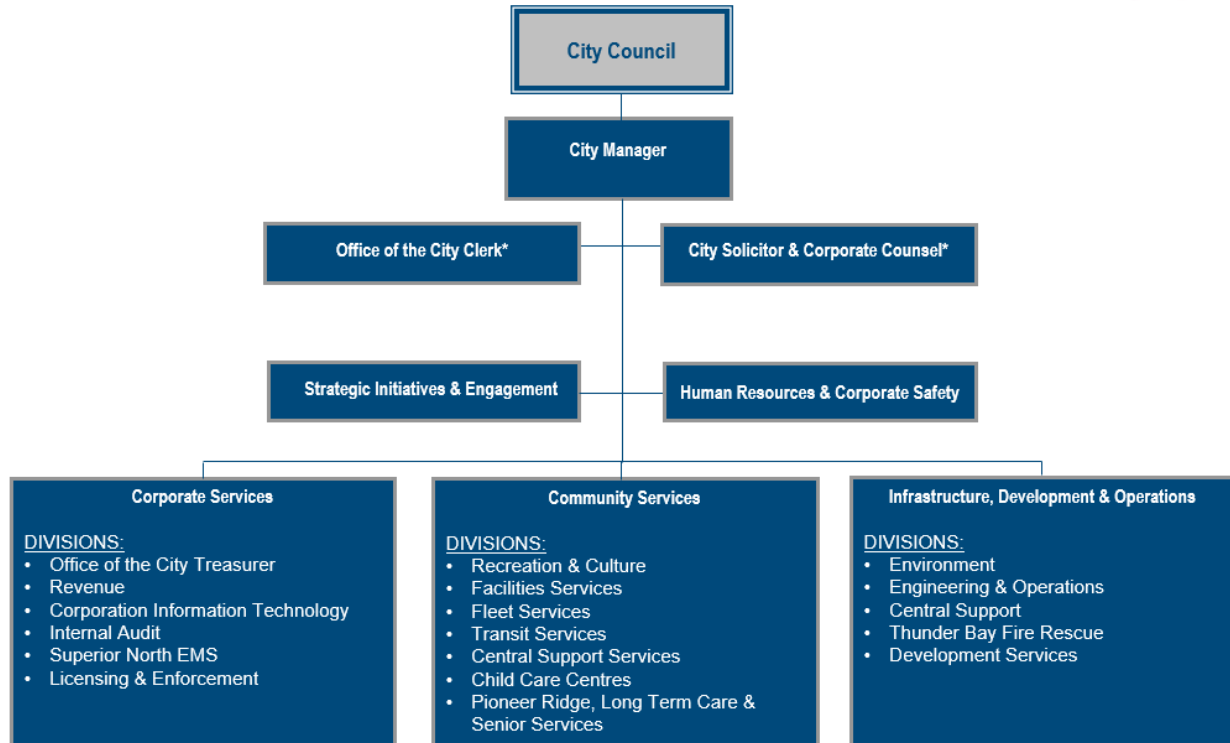
Program	Amount \$
Solid Waste (Landfill)	499,400
Parking Authority	1,260,600
Total Internal Loans	1,760,000

BACKGROUND INFORMATION

Organizational Structure

In 2023, the City of Thunder Bay implemented a corporate realignment, consolidating four (4) Departments into three (3). The current organizational structure is provided in Figure 14 below.

Figure 14: Corporate Organizational Structure



*Report to Council for statutory purposes and to City Manager for administrative purposes

Common Terms

Tax Supported Budget

The portion of the City's budget which is funded through property taxes and funds a variety of services that contribute to the health, safety and quality of life in the City of Thunder Bay such as:

- Roads
- Parks and Open Spaces
- Emergency Services (Thunder Bay Police, Thunder Bay Fire Rescue, Superior North Emergency Medical Service)
- Recreation and Culture
- Planning Services
- Pioneer Ridge, Long Term Care and Senior Services

Rate Supported Budget

The portion of the City's budget that is fully funded by fees that are only applied to the users of the service. These rates are separate from the property tax bills. The rate supported budget includes Waterworks, Wastewater, Solid Waste (Landfill), and Prince Arthur's Landing – Boater Services.

Net Taxable Assessment Growth

The additional taxation revenue the City receives from new assessment generated by construction activity (expansions and new buildings) less lost assessment from demolitions and successful assessment appeals.

Capital Budget

The City's plan to purchase, build, maintain, repair and replace assets including infrastructure such as roads, vehicles/equipment, parks, sidewalks, trails, streetlights, playgrounds and buildings. Capital budget can also include budgets for projects that span multiple years.

Capital Financed by the Tax Levy

The portion of the Capital Budget that is paid for by property taxes as opposed to grants, transfers from reserves or other funding sources.

Enhanced Infrastructure Renewal Program (EIRP)

A special component of the Capital Budget that is paid for by property taxes as opposed to grants, transfers from reserves or other funding sources. EIRP was introduced in 2011 as an incremental strategy to address the infrastructure deficit through increased capital out of revenue funding. EIRP is restricted only for capital renewal and replacement of existing assets in the following categories: Pavement rehabilitation, road network improvements, bridges and culverts, streetlights, sidewalks, storm sewers, parks and facilities.

Annual Infrastructure Deficit

The gap between capital funding required to maintain the assets in accordance with asset management plans and the current Capital Budget.

Debenture Debt

A type of long term loan used as partial financing for major capital projects. The debt, including interest, is repayable over 10 to 25 years. Debenture debt spreads the project costs and related tax or user fee increase over a number of years and ensures that future taxpayers/ratepayers pay their fair share of capital projects being completed today.

Municipal Tax Levy

The total of all municipal expenditures funded by property taxes.

Municipal Tax

The tax amount and payment-in-lieu of taxes that is calculated using the applicable general and special area tax rates. The general tax rate is applied to all properties to fund the services required to operate the municipality as determined in the budget process. Special area tax rates are applied to properties within areas that benefit from additional services. Municipalities are responsible for setting both the general and special area tax rates to fund all provided services. Municipal taxes do not include education taxes.

Education Tax

A tax, collected by a municipality as part of the property tax, that is used to fund the cost of elementary and secondary school education. The Ministry of Finance sets the education rates for all property classes annually. The municipality forwards the education taxes levied to applicable school boards using a formula established by the province.

Special Service Area Tax Rates (or Urban Service Area Tax Rates)

A tax rate associated with a service or activity of the municipality that is not being provided or undertaken generally throughout the municipality, or is being provided or undertaken at different levels or in a different manner in different parts of the municipality. The City has a special area rate for garbage, public transportation (transit), sewage and drainage (storm water), and street lighting.

Full Service Tax Rate

A percentage rate that is applied to the current value assessment (CVA) of a property to determine the taxes payable. The term Full Service Tax Rate includes the municipal and education tax rates. The municipality sets the municipal tax rates. The municipal tax rates includes the general rates and the special area tax rates. The Minister of Finance sets the education tax rates.

Property Class

A category assigned to each type of use that occurs on a property. Descriptions are set out in provincial legislation to identify the criteria for residential, new multi-residential, multi-residential, commercial, industrial, pipeline, farm, and managed forests property classes. A municipality may adopt optional classes (office building, shopping centre, parking lots and vacant land, residual commercial, large industrial, professional sports facility and resort condominiums) by by-law. Thunder Bay currently has adopted the New Multi-Residential and Large Industrial property classes.

Tax Ratios

Indicators of the mathematical relationship between the municipal tax rate for the residential class and the tax rates for other property classes. As the residential class is the basis for comparison for other classes, its tax ratio is always 1.0. That means that if the tax ratio for a class has a value of 2.0, the tax rate for the class when measured against the residential rate is two times more. Municipal Councils have the ability to change tax ratios to some extent within parameters established by the province.

Threshold Ratios

In 2001, the Province introduced “threshold ratios” for Multi-Residential, Commercial, and Industrial property classes. If the commercial or industrial tax ratio is above the threshold ratio, only 50% of the property classes’ share of the general municipal levy increase can be passed on to that class. The other property classes must assume the remaining 50% of the tax increase that is not permitted to flow through. If the multi-residential tax ratio is above the threshold ratio, a full 100% levy increase restriction applies. This restriction does not apply to urban/special service levy increases.

Gross Operating Budget

Expenditures (e.g. wages/benefits, supplies, contracted services, utilities, payments of legislative levies, debt payments etc.) required to deliver day to day City services.

Net Operating Budget

Expenditures required to deliver day to day City services less certain revenues received by the City (e.g. user fees, specific grants, building permit fees etc.) and transfers to/from reserve funds.

Reserves/Reserve Funds

Monies set aside for specific purposes, including both operating and capital budget items. There are two types of reserve/reserve funds:

Statutory/Obligatory – municipalities are required by legislation to establish certain reserve funds (e.g. Canada-Community Building Fund)

Discretionary – can be established by City Council for a specific purpose (e.g. Tax Assessment Appeals, Recreation Trails).

Base Budget

Status quo budget with the same staffing, service levels, and user fees as previous years. However, the base budget will differ from the previous year's budget as it reflects increases/decreases in costs for existing staff and services as well as revenue trends.

One Time Items

Budgeted expenses and revenues that are temporary in nature (e.g. pilot program, one time grant).

User Fee Changes

Portion of budgeted revenues that relate to a change to the rate of a user fee (not related to change in consumption/up-take of user fee).

Expansion

An increase in budgeted staffing levels or expansion of service not related to a one time item.

Reduction

A reduction in budgeted staffing levels or reduction of service not related to a previous one time item.

Full-Time Equivalent (FTE)

An FTE is the hours worked by one employee on a full-time basis (for example 1820 hours). The concept is used to convert the hours worked by several part-time employees into the hours worked by full-time employees. When a business employs a significant number of part-time staff, it can be useful to convert their hours worked into full time equivalents, to see how many full-time staff they equate to.

How Reassessment Affects the City's Budget

While assessment is the responsibility of the Municipal Property Assessment Corporation (MPAC), the rules and regulations about assessment are set by the Province of Ontario. Reassessments are completed every four years, with assessment increases phased in equally over the four year period. Due to the pandemic, the scheduled 2020 reassessment was postponed. Properties are currently valued based on January 1, 2016 values and these values will remain for 2024.

Impact on the City – The City does not get any additional tax revenue as a result of reassessment (i.e. it is revenue neutral). The first step each year is to lower/increase the existing Municipal Tax Rate to reflect the fact that the City now has a higher/lower assessment base.

Impact on Individual Taxpayer – Taxpayers may see an assessment related increase or decrease, depending on their assessment increase/decrease relative to the City's average. The Province has mandated that assessment related increases be phased-in equally over four years, while assessment related decreases are granted immediately.

How Tax Rates Are Calculated

The following is a simplified explanation of the complicated process of calculating property tax rates:

Step 1) Calculate the Total Municipal Tax Levy Requirement

- Base Budget
- + One Time Items
- +/- User Fee Changes
- Reductions
- + Expansions
- +/- Change in Provincial Funding and Other Revenues
- + Capital Financed by the Tax Levy
- = Total Municipal Tax Levy Requirement

Step 2) Calculate the Amount to be Raised by Taxation

- Total Municipal Tax Levy Requirement
- Taxation Revenue not based on Assessment (Example: Railway or Airport Levy)
- = Amount to be Raised by Taxation

Step 3) Update Tax Ratios

All property classes have a defined ratio, relative to the Residential Class which is set at 1.000. By comparison, the ratio for the Commercial class in 2023 was 1.98. Tax policy refers to changing a non-residential ratio, which transfers the tax burden to other property classes.

Step 4) Tax Rate Calculation

Total Amount to be Raised by Taxation
Total Assessment x Tax Ratios