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**Date:** November 27, 2017

**To:** Mayor and Council

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**RE:** Municipal Services 5-Yr Capital Forecast

**Report No.:** MS 2017-56

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## **AIM**

To obtain Council's endorsement the 5 year capital forecast developed by the Municipal Services Department for years 2018-2022.

## **BACKGROUND**

In Canada, we are in a deficit. The deficit involves the deterioration of our infrastructure, the roads and bridges we drive on, the water treatment facilities we depend on for clean drinking water, and the sewer systems that take away tainted water. Most Canadian Municipalities are struggling to maintain existing infrastructure under current tax and rate levels. Municipalities are facing a growing need to maintain and renew aged infrastructure, without the tax base to do so. In 1962, 22 cents of every dollar was spent on infrastructure by the Federal Government and by 2002, only 12 cents. Public infrastructure has suffered from decades of extensive neglect and overuse. In Canada, it is estimated that the average infrastructure deficit runs in excess of \$10,000 per person. Much of this infrastructure deficit is found in the major urban centers, but the National deficit will double over the next 10 years as projects undertaken in the 1950's/1960's reach their projected lifespan.

A Long-Term Capital Plan is a framework to guide the Town of Kingsville in planning, decision-making, and measures the municipality's financial capacity to meet the overall strategic and capital works plans. A Long-Term Plan creates a purposeful approach to long-term infrastructure management and helps to align short-term actions with long-term strategies. The goal is to ensure that the Town is in a sound infrastructure position to sustain the level of service the public has come to expect. The Long-Term Capital Works plan helps to identify and understand the implications that today's decisions have on future budgets.

The Town of Kingsville continues to face significant fiscal challenges similar to other Municipalities of its size. The Town, like other municipalities in Ontario, fund the programs and services it provides within a limited funding framework with relatively flat revenue streams and limited ability to modify the services it provides. New regulatory responsibilities, escalating operating costs as well as aging infrastructure and the ever-growing infrastructure deficit has provided a certain challenge in balancing the requirements of replacing aging infrastructure while aiming to fulfill the need to grow new infrastructure for future population. It is a challenge to balance the needs of the community, maintain acceptable service levels, to repair and replace existing infrastructure, to address community health, safety, and environmental risks and implement strategic initiatives and community priorities.

At the regular meeting of Council on June 26<sup>th</sup>, 2017, Council was presented with report FS 2017-009 (resolution 450-2017). This report on long term financial planning and capital budgeting outlined the deficit in municipal infrastructure that Kingsville is experiencing. It was recommended that Council adopt a dedicated annual tax rate increase to address asset management as follows:

*That Council approves in principle a 10-year plan to fully fund the infrastructure deficit in Kingsville which amounts to a 2.9% annual levy increase dedicated to lifecycle reserve contributions.*

## **DISCUSSION**

The task of creating an official Municipal Services capital forecast was identified by the CAO as a major need for the municipality. The Municipal Services staff has spent a considerable amount of resources and effort to publish this document with the goal of receiving Council's endorsement.

The 5-year capital plan was developed using the Town's current studies and investigation by Municipal Services to validate the information in the studies. The studies included in the analysis are as follows:

- Road Needs Study
- Bridge and Culvert Needs Study
- CWATS Master Plan
- Kingsville's Active Transportation Master Plan
- Asset Management Plan (AMP)
- Transportation Master Plan
- Development Manual

Timelines for reconstruction or rehabilitation were taken directly from the study to which each asset was investigated. Making more sustainable decisions when it comes to infrastructure planning and spending will improve Kingsville's infrastructure grades listed in the 2013 Kingsville Asset Management Plan (AMP) found in the appendix.

These studies are continually being updated to ensure that capital funds are being spent as efficiently as possible, which makes the 5 year capital forecast a working document. The capital forecast will be reassessed every year and updated accordingly.

The implementation of a 5-year capital forecast fits directly into the province's approach to making infrastructure more sustainable. This is an integral step toward the Town developing a strategic asset management policy by the January 1, 2019 deadline, mandated by the Province of Ontario. In addition, the capital forecast would provide the current Level of Service (LoS) for Town infrastructure and help identify the revenue that should be dedicated to capital financing.

Year	Current Funding	<i>Estimated Capital Cost</i>	
		Initial Draft	Final Draft
2017	\$2,508,404	\$2,508,404	\$2,508,484
2018	\$2,508,404	\$8,091,448	\$2,867,305
2019	\$2,508,404	\$11,734,590	\$4,838,175
2020	\$2,508,404	\$9,559,322	\$5,368,155
2021	\$2,508,404	\$9,521,107	\$6,414,934
2022	\$2,508,404	\$10,610,222	\$6,748,576
<b>Total</b>	<b>\$12,542,020</b>	<b>\$49,516,689</b>	<b>\$26,237,144</b>

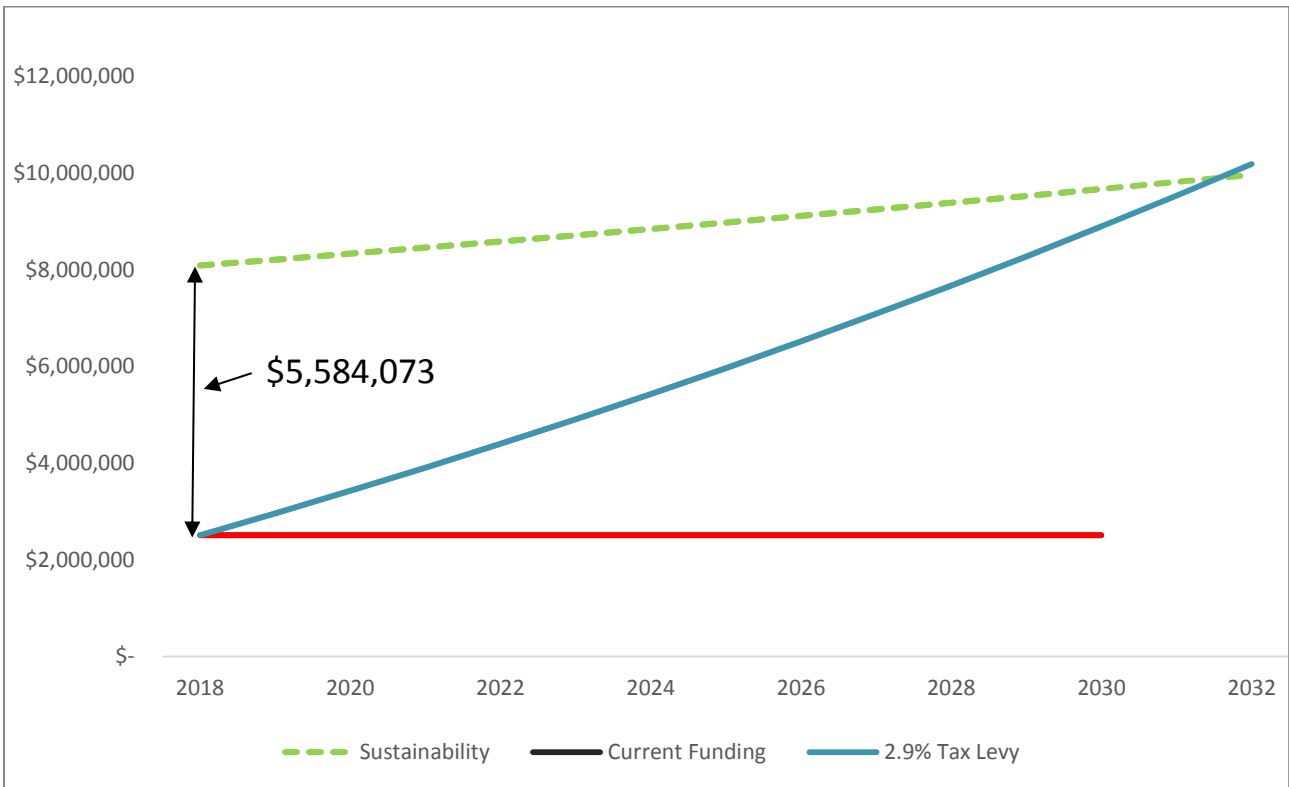
**Table 1: Change in Annual Capital Cost Allocation**

There have been many drafts and reiterations of the Municipal Services capital forecast. The initial review of the studies revealed large total capital expenses in the amount of \$49,516,689 for the 2018-2022 period. The summary of the capital expenses are displayed in Table 1. It should be noted that these values are only considering “visible” municipal infrastructure such as roads, sidewalks, active transportation trails, streetlights, traffic signals, bridges and culverts. Similar analysis will be completed for underground infrastructure when up to date studies have been completed.

After review of the initial draft with the CAO and the realization of limited funding sources, the capital forecast was revised to produce the final draft summarized in Table 1, a detailed listing is attached. The final draft was created to reduce the amount of spending required every year in order to avoid an extremely large increase to the tax levy. The yearly increases required to the municipal services capital budget for the final draft is shown in Table 2.

Year	Capital Cost	Increase from Previous Year
2017	\$2,508,484	
2018	\$2,867,305	\$358,821
2019	\$4,838,175	\$1,970,870
2020	\$5,368,155	\$529,980
2021	\$6,414,934	\$1,046,779
2022	\$6,748,576	\$333,642

**Table 2: Yearly Capital Increases**



**Figure 1: Projection of 2.9% Tax levy Increase**

Figure 1 provides a visualization of the deficit that the “visible” municipal infrastructure is in. The line representing sustainability reflects the annual level of spending required to maintain the Town’s visible infrastructure in good to excellent condition. According to the 2013 Asset Management plan, the sustainable level of spending in 2013 was approximately \$7,512,000 per year for the “visible” municipal infrastructure. This level of spending has increased by approximately 1.5% per year, due to inflation.

As illustrated in Figure 1, the 2017 level of infrastructure spending of \$2,508,484 falls short of the sustainable spending target by approximately \$5,584,073. If the municipality commits to increasing taxation by 2.9% per year, for the purposes of infrastructure spending, the municipality should reach sustainability in 2032.

From the information herein, it should be recognized that if the Town intends to allocate funds at the same rate it has historically, municipal infrastructure will continue to fall into disrepair as shown in our infrastructure report card attached as part of the Town’s AMP. Further postponement of these projects will result in even larger capital expenses in the future. As we have experienced, the costs for construction have been steadily increasing from year to year. If the Town does not act, we will fall further behind in our strategic goal to become a leader in sustainable infrastructure renewal and development as per this years draft the Town’s strategic plan.

## LINK TO STRATEGIC PLAN

To become a leader in sustainable infrastructure renewal and development.

## FINANCIAL CONSIDERATIONS

Financing the proposed 5-year capital forecast is contingent on the following three key factors:

- The commitment from council to increase the tax levy by a minimum of 2.9% each year, with this increase dedicated to infrastructure spending and / or reserve contributions, as identified in our strategic plan.
- The support from council for the adoption of the development charges as proposed in the study currently under review.
- The continuation of federal and provincial government funding through the Gas Tax & OCIF (formula based) programs at or near the existing levels.

Without development charges, the capital projects identified in the Municipal Services 5-year forecast would require a minimum average annual tax levy increase of 5.5%. This would be in addition to any increases required to fund changes in operating or non-infrastructure capital spending. In addition, this does not cover underground infrastructure such as sewer and watermain.

## CONSULTATIONS

Municipal Services  
Chief Administrative Officer  
Financial Services  
Planning and Development Services

## RECOMMENDATION

That Council receives the Municipal Services capital forecast for the 2018-2022 period with the understanding that these projects will make up part of the Municipal Services capital budgets.

Respectfully Submitted,

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