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**Subject:** 2025 Capital Budget

**Report to:** Budget Review Committee of the Whole

**Report date:** Thursday, September 12, 2024

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## Recommendations

1. That the 2025 Capital Budget for Niagara Regional Departments and Agencies, Boards and Commissions and Special Levies of \$376,112,038 **BE APPROVED** to the projects in **Appendix 1** of Report CSD 46-2024, pending final By-law approval anticipated to be on December 12, 2024;
2. That the following incremental transfers as utilized in the Capital Budget and forecast **BE CONSIDERED** in the 2025 Operating Budgets;
  - a. General Capital Levy – \$12,075,960 or 2.5% of the levy
  - b. Water & Wastewater Capital Reserves – \$11,160,869 or 7.22% of the net Water & Wastewater requisition
  - c. Niagara Transit Commission (NTC) – \$2,166,667
  - d. NRPS - \$320,000
3. That \$290,900 for the incremental operating costs related to capital projects funded with the General Capital Levy as per **Appendix 2** of Report CSD 46-2024 **BE CONSIDERED** as part of the 2025 Operating Budget to be funded from Assessment Growth;
4. That financing in the amount of \$333,872,038 gross and \$174,157,666 net **BE INITIATED** upon approval of the 2025 Capital Budget and **BE ALLOCATED** to the projects as summarized in **Appendix 1** of Report CSD 46-2024.
5. That development charge (DC) funding for the Barrick Road Trunk Watermain **BE INCREASED** from 40% to 50% as per the Region's policy approach to identifying benefit to existing (BTE) for projects.
6. That the WTP Upgrade – Welland Upgrade – Phase 2 **BE FUNDED** 50% with DCs and 50% with non-DC sources as per the Region's policy approach to identifying BTE for projects.

7. That the necessary By-laws **BE PREPARED** and **PRESENTED** to Council for consideration to coincide with the approval of the operating budget.

## Key Facts

- The purpose of this report is to recommend the 2025 Capital Budget of \$376.1 million with 168 projects that have been prioritized through the Corporate Asset Management Resource Allocation (CAMRA) Model.
- The 2025 Capital Budget is supporting investment in our core services by allocating \$281.8 million or 75% in funding towards the sustainment of our assets.
- All recommended capital projects are supported by business cases included in the Budget Detail. As outlined in **Appendix 1**, 164 (\$333.9 million) of the 168 projects will be initiated concurrently with the approval of the 2025 Capital Budget and the remaining four capital projects (\$42.2 million) will be brought forward for initiation at a later date once external funding is confirmed.
- Capital funding was allocated to projects in alignment with the principles of the Capital Financing Policy and relies on a \$12.1 million (2.5%) increase in the levy budget, \$11.2 million (7.22%) increase on the water and wastewater rate and a \$2.2 million increase in the transit budget in accordance with the 2025 Budget Strategy report. The allocation also relies on a \$0.3 million increase in the NRPS budget. Should these amounts not be approved projects listed in **Appendix 3** would be removed from the budget.

## Financial Considerations

The proposed 2025 Capital Budget of \$376.1 million (\$152.8 million Levy Capital Budget, \$165.1 million Water and Waste Water Rate Capital Budget, \$2.9 million Waste Management Capital Budget and \$55.3 million Transit Capital Budget) is included in **Appendix 1**. The capital budgets by funding source for the General Tax Levy, Water and Wastewater Rates and Special levies for both the approved 2024 capital budget and proposed 2025 capital budget is outlined in the two tables below.

**Table 1:** General Tax Levy and Water and Wastewater Rate Capital Funding Sources 2024 vs 2025 (in millions)

	General Tax Levy	General Tax Levy	Water and Wastewater Rate	Water and Wastewater Rate
	2024	2025	2024	2025
Regional Funding:				
Reserves	84.4	80.1	40.9	88.5
Debt	21.9	0	0	0
	106.3	80.1	40.9	88.5
External Funding:				
Municipalities (LAM)	4.3	2.4	2.2	24.2
Community Building Fund	10.8	18.3	4.0	0
Other External	19.3	2.7	0	10.7
	34.4	23.4	6.2	34.9
Development Charges	19.7	49.3	33.6	41.7
<b>Total</b>	<b>160.4</b>	<b>152.8</b>	<b>80.7</b>	<b>165.1</b>

**Table 2:** Special Levy Capital Funding Sources 2024 vs 2025 (in millions)

	Waste Management	Waste Management	Niagara Transit Commission	Niagara Transit Commission
	2024	2025	2024	2025
Regional Funding:				
Reserves	6.2	2.9	2.1	4.0
External Funding:				
Provincial Gas Tax	0	0	5.3	7.8
Other External	0	0	15.1	40.2
	0	0	20.4	48.0
Development Charges	0	0	0.5	3.3
<b>Total</b>	<b>6.2</b>	<b>2.9</b>	<b>23.0</b>	<b>55.3</b>

The Capital Financing Policy is a strategy for establishing adequate levels of funding for capital projects that address sustainment, growth and new strategic investments. This policy was utilized to allocate available funding to support the 2025 Capital Budget as outlined below.

- **Use of Reserves** – As per **Appendix 1**, \$175.7 million reserve usage for capital projects is made up of a combination of the reserve balance, new transfers from the operating budget, and closures or budget reductions of existing projects. The use of reserves is a balance between funding critical infrastructure and maintaining reserve balances to manage in-year and future price fluctuations.

The General Tax Levy Capital Reserve is forecasted to maintain a nominal reserve balance in order to progress towards reducing the backlog; however, the Water & Wastewater Rate Capital Reserves are projected to maintain approximately 1% of asset value in reserves in accordance with the Safe Drinking Water Act financial plan. For Waste Management, the capital reserve for open landfills is at its target balance, however, the landfill liability reserve is not adequately funded and the target balance is still under review. The Niagara Transit Commission has a similar strategy in progress to aim for a target balance to remain in reserves.

These reserves have been allocated to infrastructure renewal projects in accordance with the Capital Financing Policy. The 9-year forecast of capital reserve balances is included in **Appendix 4**.

- **Capital Reserve Strategy** – In addition to the existing reserves, a general tax levy increase of 2.5% (\$12.1 million), water and wastewater rate increase of 7.22% (\$11.2 million), Niagara Transit Commission increase of \$2.2 million and NRPS increase of \$0.3 million was recommended in the 2025 budget planning strategy. This is in order to support the infrastructure deficit in accordance with the Asset Management Plan and Capital Financing Strategy. If these increases are not approved, the capital projects in **Appendix 3** will be deferred to future year's budgets.
- **Debt** – Debt is recommended to be used for strategic or growth projects as identified within the Development Charge (DC) background study and in alignment with the Region's Capital Financing Policy. The Niagara Region has limited capacity to take on additional debt as per Infrastructure Ontario (IO)'s sector limit and impact on the Niagara Region's Standard & Poor's (S&P) bond rating detailed in CSD 37-2024. As a result, no new debt for the 2025 Capital Budget is being proposed.

In an effort to reduce the Regional debt burden and maintain the Region's current AA+ stable credit rating, staff are also proposing a debt substitution strategy as part of the 2025 Budget. There is approximately \$3.1 million in savings available from the levy debt charge budget to be transferred to the General Capital Levy Reserve. \$2.7 million will be used to substitute the unissued but approved debt for the low dollar

value debt funding projects listed in **Appendix 5**. The remaining funds will be left in the General Capital Levy Reserve to fund future capital projects.

The impacts to the debt metrics and trends are identified in **Appendix 6**. While Niagara is the highest compared to the average of comparable Regions in 7 debt metrics, it is still below the Municipal Act debt threshold of an annual repayment limit of 25% (2023 – 5.8%).

- **Local Area Municipality (LAM)** – Contributions from LAM's of \$26.6 million are used to fund capital projects in which Niagara Region projects incorporate some element of LAM owned infrastructure. As per Table 3 below, \$24.2 million of this total relates to the Port Colborne East Employment Lands projects.
- **Canada Community Building Fund (CCBF)** – Formerly known as Federal Gas Tax, the CCBF is an annual allocation from the Federal Government and is provided to the Region to fund infrastructure projects in accordance with the transfer payment agreement. The 2025 allocation was confirmed as \$15.7 million. Excess funds of \$2.6 million which were accumulated as result of project closures and annual interest allocations were also used to fund the 2025 Capital Budget. Total of \$18.3 included in the 2025 recommended capital program.
- **Other External** – Confirmed contributions from third parties, provincial and federal governments for capital projects are leveraged and budgeted where possible but only initiated when confirmed. \$53.4 million of other external funding is included in the 2025 recommended capital program.
- **Development charges** - \$94.3 million is recommended in accordance with the current Development Charge (DC) background study for growth related projects. Due to changes in project scope DC funding as outlined in the DC Background Study related to the Barrick Road Trunk Watermain and WTP Update-Welland Update – Phase 2 are recommended to be updated. The current DC Background Study includes the Barrick Road Trunk Watermain as being funded 40% with DCs and 60% from non-DC sources. The DC background study does not include any DC funding for the WTP Update-Welland Update-Phase 2. The scope of these projects have changed and due to this change these projects will service a greater proportion of growth. Appendix F, section F.2, page F-8 of the DC background study outlines the Region's policy approach to identifying benefit to existing (BTE) for projects. In review of this information, due to the change in scope of these the totality of the project will address growth and existing issues. Therefore, for the Barrick Road

Trunk Watermain it is recommended that overall BTE for this project would be reduced from 60% to 50% and funding from DCs is recommended to increase from 40% to 50%. For the WTP Update-Welland Update – Phase 2 it is recommended that this project now be funded with 50% DCs.

## **Capital Budget Trend**

**Appendix 7** provides the trend in total capital budgets approved since 2021. These budgets have incorporated significant strategic investments. Highlighted in the purple bars for 2021 to 2022 are the consolidated costs for the South Niagara Waste Water Treatment Solution (SNWWTS) and the Long-Term Care Redevelopments. The five-year average of capital budgets excluding strategic projects is \$228.5 million and \$342.19 including strategic projects. The 2025 increase is recommended to address the backlog and projects identified in the Asset Management Plan.

## **Operating costs of capital**

Operating costs of capital include both financing as well as the costs of operating assets. The Budget Planning By-law outlines that the approval of capital projects that result in a change in operating costs are to be budgeted in the year the project is approved. Some common examples of asset operating costs are incremental licensing, maintenance and staffing costs. This information is reported on the capital business cases within the Budget Detail. Operating impacts are summarized in **Appendix 2**.

The operating costs of the levy capital projects are recommended to be funded through assessment growth. Preliminary estimates of assessment growth revenue amount to 1.50% or \$7.2 million. Assessment growth revenue will be allocated based on the Budget Planning Bylaw's methodology when the operating budget is presented to the Budget Review Committee of the Whole in December. The assessment growth will be recommended for the projected 2025 operating costs of capital related to projects funded with General Capital Levy of \$290,900. Special levy and rate supported programs will need to accommodate operating costs of capital in their operating budgets.

The above costs exclude the \$1,000,000 in incremental operating expenses resulting from the South Niagara Emergency Shelter capital project which was approved in-year in COM 29-2024, the report recommended that the incremental operating expenses related to the shelter be considered in the 2025 budget. The incremental funding required will be included in the 2025 Operating Budget submission to Council.

### Port Colborne East Employment Lands

The Barrick Road Trunk Watermain (20000623) and East Side Sewage Pumping Station (20000711) projects were prioritized for funding in 2025 in response to the announcement of Asahi Kasei’s investment in an Electric Vehicle (EV) battery separator plant in Port Colborne. Both projects were originally included in the 2026 multi-year budget and were ultimately critical with or without Asahi Kasei’s investment.

The announcement of Asahi Kasei’s investment has placed additional growth pressures on development of the Port Colborne East Employment lands. This has resulted in scope changes associated with three water/wastewater projects the Barrick Road Trunk Watermain, WTP Update-Welland Update-Phase 2 and Seaway WWTP Influent Channel. These scope changes have resulted in a review of the DC funding allocation for these projects. As previously mentioned, the Region uses a policy approach to identifying BTE for projects. Per review of the project details and policy as outlined in the DC background study it was determined that the totality of the projects will address growth and existing issues and therefore should be funded 50% with DCs and 50% with non-DC sources. Through PW 23-2024 Council approved a gross capital budget increase related to the Seaway WWTP Influent Channel Upgrade and corresponding change in DC funding percentage from 40% to 50%. This report seeks to obtain similar approval for the Barrick Road Trunk Watermain project to increase DC funding percentage from 40% to 50% and from 0% to 50% for the WTP Update-Welland Update-Phase 2.

**Table 3:** Port Colborne East Employment Lands Project Budgets (in millions)

	<b>Barrick Road Trunk Watermain</b>	<b>East Side Sewage Pumping Station</b>	
	<b>Water</b>	<b>Wastewater</b>	<b>Total</b>
Regional Funding:			
Reserves	24.6	16.0	40.6
Development Charges	24.6	0	24.6
IO Provincial Funding*	0	10.6	10.6
Subtotal – Regional Cost	49.2	26.6	75.8
Port Colborne - Cost Sharing	0	24.2	24.2

	<b>Barrick Road Trunk Watermain</b>	<b>East Side Sewage Pumping Station</b>	
	<b>Water</b>	<b>Wastewater</b>	<b>Total</b>
<b>Total Cost</b>	<b>49.2</b>	<b>50.8</b>	<b>100.0</b>

\*Investing in Ontario Fund

## 9 Year Forecast Financing Strategy

**Appendix 8** provides the 10-year capital program is \$5.3 billion (\$4.3 billion 2024) with an estimated funding deficit of \$2.7 billion (\$1.9 billion 2024). The 10-year capital program increased by \$979 million of which \$380 million relates to the Emergency Medical Services (EMS) Master Plan and \$109 million relates to the Long Term Care Future Campus. The capital forecast changes every year due to the timing of projects, new funding assumptions as well as any incremental transfers to reserves that may be approved in the budget. Assumptions used in the 10-year capital forecast include:

- Use of development charges in accordance with the 2022 DC Bylaw and Background Study.
- Reserve assumptions are based on the requested 2025 contributions and do not include the on-going recommended increases for the balance of the 10 years. Increase will be incorporated as approved.
- No new debt is recommended in the forecast in alignment with S&P guidance and to manage the approved but unissued debt of \$135M for Linhaven and Gilmore Lodge Long Term Care homes as well as \$242.8M for the South Niagara Waste Water Treatment Solution. Outstanding debt as of June 30, 2024 is \$358.7 million and the projects noted above almost double the debt level.
- The Housing Master Plan and detailed corresponding financial strategy is being prepared. In the interim, the forecast includes an estimate of \$95.6 million in total for housing development which is an average of \$9.6 million per year.

## Analysis

### Corporate Prioritization Process

The capital project risk-based prioritization process known as the Corporate Asset Management Resource Allocation (CAMRA) was again executed by the departments in



preparation for the 2025 Capital Budget. The methodology utilizes risk calculated return on investment, total risk reduced from the project, alignment to Council/corporate priorities and other risks and externalities (legal commitments, industry standards, best practice, etc.) as the means for prioritizing projects. The available financial resources are then allocated to each of the above categories based on the Capital Asset Management Steering Team approved distribution.

In co-ordination with the principles of the Capital Financing Policy, the model optimized the allocation of available funding to projects with the highest scores in each category.

### **Health Equity Informed Planning**

A cross sectional interdepartmental team of staff have been guiding the Health Impact Assessment (HIA) process at the Niagara Region. This is aligned with the Health Equity Informed Planning (HEIP) project, part of the Council Strategic Priority, an equitable region. This project involves incorporating HIA's into planning processes at the Region. The initial stages of an HIA involves screening projects for information to aid in the understanding of what social determinants of health (SDOH) the capital project may have. Four projects were selected for screening based on the following criteria:

- Projects in design/planning phases that can address potential HIA recommendations.
- Projects with large budget impacts.
- Projects that provide a new/incremental level of service.

These SDOH summarized with their positive/negative impacts are in **Appendix 9**. This appendix highlights potential health considerations for projects that will be discussed in depth through the completion of a full HIA. The recommendations from a full HIA will amplify positive health impacts of a project and mitigate negative health outcomes.

### **Capital Financing Sustainability and Asset Management Plan**

On June 23, 2022 Council approved Report CSD 7-2022 - 2021 Asset Management Plan (AMP). The AMP is a plan to improve asset utilization, manage asset life cycle risk, adhere to compliance and legislative requirements and improve accuracy of inventory. This plan has updated the replacement value of all Region's assets to \$9.8 billion (2016 - \$7.4 billion) and the backlog of projects to \$2.4 billion (2016 - \$0.5 billion). The AMP also provides funding targets known as the Annual Average Renewal Investment (AARI), which is the basis for developing a capital financing strategy. The AARI is

calculated as the average annual capital expenditures required to achieve sustainability over a specified time horizon. The 2021 AMP provides a 10, 50, and 100-year AARI.

For the purposes of the 2025 Capital Budget staff proposes that we continue with the levy strategy adopted in 2023 of using the 50 year AARI time horizon rather than the AMP recommended 10 year AARI due to the need to balance sustainability with affordability. For rate departments, staff proposes that we adopt the 10 year AARI for 2025 which requires an increase of 7.22% on the combined rate requisition. The operational risk and impacts of not maintaining these asset types in a state of good repair are significant. Staff have begun working on the 2025 AMP revisions and early indications show a continued decline in the state of these assets along with increased renewal costs since the previous 2021 plan. The requirement to continue to increase investment to adequately sustain the water and wastewater system are real and present. A summary of the recommended Capital Financing Strategy contributions is illustrated below.

**Table 4:** Capital Financing Strategy Contributions (in millions)

Program	Current State (2025 Proposed Budget)	10-year AARI + Backlog Strategy	50-year AARI Strategy
<b>General Tax Levy</b>	\$55.0	\$269.0	\$158.0
<b>Water/ Wastewater Rates</b>	\$64.7	\$164.0	\$122.0
<b>Waste Management Special Tax Levy</b>	\$1.8	\$5.0	\$10.0
<b>Transit Special Tax Levy</b>	\$4.4	\$6.0	n/a
<b>Total</b>	<b>\$125.9</b>	<b>\$444.0</b>	<b>\$290.0</b>

The AMP will be updated in 2025, and revised estimates will be reflected in future budgets, in tandem with Councils approval of the new proposed levels of service and financing strategies by July 1, 2025 (per legislation).

For the waste management budget, no separate increases are required as the current capital contributions adequately fund the current capital forecast for open landfills. However, commitment to the multi-year budget and reserve strategy adopted in 2021 continues to be required to achieve sustainability in alignment with the landfill liability reserve needs.

For NTC, the Commission will continue with the sustainability capital strategy which called for three years of incremental capital contribution of \$2.2 million, 2025 being the second year.

For NRPS, the Service will continue with the strategy approved by the Board in 2022 which called for an incremental \$0.3 million contribution per annum until a \$5.6 million contribution is reached in 2029.

### **Supporting Growth**

In the 2025 Capital Budget, \$94.3 million or 25% (2024 - \$53.7 million or 20%) of the gross request is growth related, therefore eligible to be financed through DCs. This is reflective of the continued investment in growth. Support for future growth capital projects is contingent on collection of development charges and directly impacted by the 2022 Development Charge By-law.

### **Alternatives Reviewed**

As the Rate, Special Levy, ABC and Operating Budgets continue to be considered by Budget Review Committee, Council will have the opportunity to consider the required incremental budget funding. If the incremental funding is not approved the projects identified in **Appendix 3** would be deferred. The risk associated with not funding these increased capital contributions may be increased maintenance costs due to potential asset failures and is not in line with the AMP.

### **Relationship to Council Strategic Priorities**

Projects proposed are in alignment with master plans, the asset management plan and growth strategies. The 2025 Capital Budget aligns with the Niagara Region's 2023 – 2026 Council Strategic Plan with 66% supporting an effective region, 13% supporting a green and resilient region, 12% supporting a prosperous region and the remaining 9% supporting an equitable region.

### **Other Pertinent Reports**

[CSD 07–2022-2021 Asset Management Plan](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=26dba92f-aa45-4497-b245-07dde32d7a94&Agenda=Merged&lang=English>)

[CSD 29-2024 -2025 Budget Strategy](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=5ea2c44e-e03a-4ef1-91b8-f5f6a188db45&Agenda=Agenda&lang=English>)  
RDCPTF – C 7-2022 -Regional Development Charges and Proposed By-law

(Report available upon request)

[PDS 17-2022 - Niagara Official Plan](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=92ff3518-4a22-46e4-94c8-3f1cb4b1f745&Agenda=Merged&lang=English>)

CAO 10-2023 -2023-2026 Council Strategic Priorities

(Report available upon request)

[CSD 34-2024 - Health Equity Informed Planning Update](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=5ea2c44e-e03a-4ef1-91b8-f5f6a188db45&Agenda=Agenda&lang=English>)

PW 23-2024 - Gross Budget Increase for Seaway Wastewater Treatment Plan Influent Channel Upgrade

(Report available upon request)

[CSD 37-2024 - Debt Strategy Update](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=5ea2c44e-e03a-4ef1-91b8-f5f6a188db45&Agenda=Agenda&lang=English>)

[CSD 38-2024 - Investing in Ontario Fund Update](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=5ea2c44e-e03a-4ef1-91b8-f5f6a188db45&Agenda=Agenda&lang=English>)

[COM 29-2024 - South Niagara Shelter Expansion](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=e3fc6604-2535-403e-9bf7-4a86812072d8&Agenda=Merged&lang=English>)

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**Prepared by:**

Beth Brens  
Associate Director, Budget Planning &  
Strategy  
Corporate Services

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**Recommended by:**

Dan Carnegie  
Acting Commissioner/Treasurer  
Corporate Services

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**Submitted by:**

Ron Tripp, P.Eng.  
Chief Administrative Officer

This report was prepared in consultation with Dorothy Szymkow, Senior Budget Analyst, Pamela Hamilton, Supervisor Corporate Budgets and reviewed by Melanie Steele, Associate Director, Reporting and Analysis.

**Appendices**

Appendix 1	2025 Capital Recommended
Appendix 2	Operating Impacts of 2025 Capital Budget
Appendix 3	Projects Allocated Incremental Operating Budget Funding
Appendix 4	Forecasted Capital Reserve Balances
Appendix 5	Debt Substitution Projects
Appendix 6	Debt Information
Appendix 7	2021-2025 Capital Budget Trend
Appendix 8	2025 Capital Budget and 9-Year Forecast
Appendix 9	Health Equity Informed Planning