



**The Corporation of the
City of Sault Ste. Marie**

C O U N C I L R E P O R T

September 2, 2025

TO: Mayor Matthew Shoemaker and Members of City Council
AUTHOR: Carl Rumiell, Director of Engineering
Steve Facey, Manager of Finance
DEPARTMENT: Public Works and Engineering Services
RE: Capital Road Construction Program

Purpose

The purpose of this report is to address the Council resolution from May 12, 2025, which reads:

Whereas investments in our roads are critical because they are our lifeline; and

Whereas good roads are crucial for economic development, social access, and safety; and

Whereas municipal roads facilitate the movement of goods and people, connecting neighbourhoods and enabling access to essential services like healthcare, education, and employment; and

Whereas well-maintained roads contribute to safer driving conditions, reduce vehicle maintenance costs, and enhance overall quality of life; and

Whereas the increasing costs to maintain capital assets like roads can't be addressed through property tax alone and it is recognized that city staff continuously seek grants to cover the cost of repairing roads; and

Whereas it is important that the City of Sault Ste. Marie continue to carry out its responsibility to invest in core infrastructure such as roads,

Now Therefore Be It Resolved that staff be requested to report back at the August 11, 2025 Council meeting regarding the following;

- *Summarizing how much funding Council has allocated to the capital transportation budget for the last five years broken down between grants and non-grant funds;*
- *Specifying grants with amounts the City has received over the last years;*
- *Stating the percentage of roads considered to be high, medium and low risk of needing repair;*
- *Capacity of contractors for construction;*

- *Approximating how much of a dollar increase that would be per kilometre; and*
- *Outlining the best financial practices Council could consider at budget time to finance the goal of fixing a high portion of roads by a set year (i.e. issuing municipal bonds, incurring debt, etc.)*

Background

The yearly capital transportation budget, which includes road reconstruction and asphalt resurfacing, is brought to Council for approval with the annual budget in the fall after a capital priorities assessment is completed.

Capital road improvements for the City of Sault Ste. Marie are carried out under various programs including Capital Transportation Program, infrastructure improvement programs, and the Connecting Links program. The capital transportation program prioritizes reconstruction of arterial and collector streets, which are critical to the City's movement of traffic while at the same time attempting to address some of the numerous needs of local residential streets aged underground infrastructure as well as to make improvements to key areas of the community. The road resurfacing program is a reinvestment into maintaining existing arterial and collector roads through asphalt resurfacing.

Analysis

Prioritization for asphalt resurfacing and the Capital Transportation Program is based primarily on pavement condition index (PCI) scores, which are tabulated based on road condition in the Asset Management program. All road sections are evaluated and scored based on many factors, including surface condition, structure, drainage, etc. Age and condition of water mains, sanitary and storm sewers, level of maintenance, and traffic volumes are also considered when selecting a road section for reconstruction.

It is very important to note that annual amounts that are totalled in the Capital Transportation Program are not only directed to road surfaces. A large percentage is used for the replacement of storm and sanitary sewers as well, which are separate assets from roads. This report has removed the portions of the Capital Transportation Program that are not directed to the road surfaces; therefore, amounts for storm and sanitary sewers have been excluded. Costs for utility relocations, geotechnical investigations, and engineering are included and covered from the funding sources for road projects.

In recent years, there has been significant pressure to prioritize road funding for large projects that have had successful funding applications, such as People's Road and Sackville Road extension, in order to fund our share under the grant programs.

Further, community improvements to the downtown have required large allocations of the annual road budget.

The following subsections address specific points in the resolution:

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Funding Allocated by Council to Roads

The total spending, including the City portion known as Overall and Miscellaneous construction from the past five years can be summarized as follows. These amounts exclude storm and sanitary sewers.

Capital Summary					
	City Funding	% of Total	Grants	% of Total	Total Capital Spend
2026	4,072,044	19%	17,662,152	81%	21,734,196
2025	2,575,802	10%	22,023,013	90%	24,598,815
2024	4,667,943	31%	10,215,507	69%	14,883,450
2023	3,845,204	23%	12,851,677	77%	16,696,881
2022	2,049,000	14%	12,221,000	86%	14,270,000

Federal and Provincial Grants Directed to Roads

Below are the grant amounts that were received from the Provincial and Federal governments.

Grant Detail					
	OCIF	CCBF	Connecting Link	Housing Enabling Funds	NORDS
2026	4,518,000	4,856,092	3,000,000	5,288,060	-
2025	6,077,661	4,856,092	3,000,000	7,689,260	400,000
2024	5,284,923	4,530,584	-	-	400,000
2023	4,595,585	4,856,092	3,000,000	-	400,000
2022	4,518,000	4,653,000	2,250,000	-	800,000

The average total funding from City sources and government grants between 2022 to 2026 was \$18.4M. It should be noted that the Housing Enabling Funding programs for People’s Road and Sackville Road have considerably inflated the average funding amount. Without those grants the average amount would be approximately \$16M.

Current State of City Roads

The average PCI score in the City is currently 53/100. Scores in the 50s are in the “Fair” category; however, 33% of the road segments in the City are in the “Poor” to “Very Poor” category.

Asset Management Plan Recommended Reinvestment

The City’s most recent Asset Management Plan, published in 2025, includes updated asset inventories, desired levels of service, and financial strategies. The plan outlines strategies for maintaining and upgrading assets, including the “Current Budget Scenario” and the “Unlimited Budget Scenario”. The Unlimited Budget reflects the highest service levels and addresses all immediate needs. Staff recognize that may not be achievable.

Based on the Unlimited Budget Scenario, the average annual reinvestment required for the City's road assets is estimated at approximately \$33 million over the next 10 years, or roughly \$331 million over the same period. This scenario addresses immediate concerns and leads to a significant improvement, achieving 100% of assets in fair or better condition by 2026 and maintaining that level through 2034.

Therefore, following the highest service level of \$33M per year reinvested into roads, there is a current funding gap of approximately \$11M per year to get roads to a condition of "Fair" or better. Council may decide to set a lower goal somewhere between current funding and unlimited funding levels.

Capacity of Contractors

Local contractors specializing in road building have the capacity to take on more work locally. Particularly in asphalt resurfacing, recent competitive resurfacing tenders indicate that local contractors could pave more City roads annually.

Alternatives for Funding Through Debt

The City's use of debt has been fairly minimal over the last decade. Year over year, the City of Sault Ste. Marie's debt is relatively low compared to other municipalities. For example, a financial indicator from the BMA Study 2025 that can be analyzed is the Total Debt Outstanding per Capita. The study highlights that the City has \$281 of debt outstanding per capita. When looking at northern comparators, Thunder Bay has \$1,752, North Bay has \$1,763, and Sudbury has \$1,841. Securing additional debt will adversely impact this metric, as well as other affordability metrics should the levy be impacted significantly. The City's affordability metrics, such as the municipal tax burden which currently sits at low within the same BMA study.

This indicator, along with other provincial regulations, such as the Annual Repayment Limit, simply highlights that debt is available as a funding source for capital initiatives should Council wish to go down that path. The City has a debt management policy that also governs alternatives such as this. Within the scope of the policy, it states that 'Long-term debt is to be used to assist in financing the City's portion of increased infrastructure requirements due to growth, emerging capital needs to support corporate priorities, and approved strategic plans. It may also be used for non-tax supported projects, such as the wastewater system, where the debt will be repaid by the revenues of the activity.'

Debt is primarily used for new, non-recurring requirements, such as an expansion to a new asset, such as the Northern Community Centre, or entirely new investments, such as the Biosolids initiative. One of the main advantages of debt financing is the ability to smooth the impact on the tax rate, rather than spikes in capital spending, as it spreads the cost of these non-recurring and unusually high asset expenditures over several years to avoid short-term tax increases.

Debt is one of the many tools for funding capital initiatives. Others include reserves and reserve funds, development charges, grants or transfers from other levels of government, donations, and public-private partnerships. The City is currently more

in line with a pay-as-you-go model. Annual allocations to the capital program and reserves make up most of the funding if external funding, such as grants, is not available.

The City adopted a 'Pay As You Go' model for capital road infrastructure in 1995. The strategy was adopted at that time mainly to avoid annual interest payments and utilize the tax revenue fully for capital expenditures. For example, a \$1 million debenture with 5% interest will incur \$605,850 in additional costs for interest over 20 years.

Debt projections for the City included in the 2025 budget reflect long-term debt to peak in 2027 at \$129 million with debt servicing of \$11 million, which exceeds the current debt servicing limit per the Debt Management Policy of \$10.7 million. Debt capacity will be updated for the 2026 budget and will reflect updated information with respect to grants received for the West End Plant Phase 2. Corporate asset management needs and funding requirements will be assessed and prioritized with a recommendation to Council.

Utilizing debt to fund the average lifecycle budgets, such as the ongoing nature of capital roads, will not smooth the impact of the budget, but merely postpone the impact to future budgets and increase the overall costs of the assets. The 1995 recommendation noted that the City could not depend on large future assessment increases to finance the debt servicing of ongoing capital for road repair and reconstruction. The 'Pay As You Go' strategy, though, does limit the capital expenditures to the annual allocation.

Given the gap reflected within this report, additional investment is recommended in the City's roads. Debt is a tool that the municipality may use to address a backlog that will be paid over time. The City may also choose to increase the annual allocations, as it's clear that the annual spending, based on the Asset Management Plan, is insufficient – the Plan calls for an increase in spending.

Based on the funds required and timing, it may be more prudent to address these issues over time and increase annual allocations accordingly. Analysis of these strategies will continue and be brought to the Council's attention for decisions in future budgets.

The Engineering Division will be requesting a \$500k increase to the asphalt resurfacing annual allocation during the 2026 budget deliberations as a start to working towards a well-funded asset management plan. Other asset management plans will also require additional funding and will be brought forward with an overall corporate funding strategy in 2026.

Financial Implications

There are no immediate financial implications associated with this report. The 2026 budget and future budgets will require additional resources allocated in order to maintain all of the corporate assets.

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Strategic Plan / Policy Impact / Climate Impact

Asset management strategies for roads are linked to the infrastructure area of the strategic plan.

Recommendation

It is therefore recommended that Council take the following action:

Resolved that the report of the Director of Engineering and Manager of Finance dated September 2, 2025 concerning Capital Road Construction Program be received as information.

Respectfully submitted

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Respectfully submitted

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