STAFF REPORT
Financial Planning & Purchasing

Title: Long Term Financial Plan – Staff Scenario
Report Number: CORP2018-011
Authors: Cassandra Pacey and Julie Koppeser
Meeting Type: Finance & Strategic Planning Committee Meeting
Council/Committee Date: April 16, 2018
File: NA
Attachments: Appendix A – FC-013 Use of Budgeted Assessment Growth
Appendix B – FC-003 Surplus Allocation Policy
Appendix C – FC-012 Capital Budget Policy
Appendix D – AMO’s Local Share Analysis
Appendix E – Consultant Scenario – Council Feedback
Appendix F – Alternative Levy Performance Graphs

Ward No.: All

Recommendation:
1. That Council receive CORP2018-011 and:
2. That Council approve the reallocation of reserve contributions identified in Section 3.1;
3. That Council approve the reserve policy recommendations identified in Section 4;
4. That Council approve the revised Financial Control Policies attached as
   a. FC-013 Use of Budgeted Assessment Growth Revenue policy attached as Appendix A;
   b. FC-003 Surplus Allocation Policy attached as Appendix B;
   c. FC-012 Capital Budget Policy attached as Appendix C;
5. That Council direct staff to refer the Long Term Financial Plan funding requirements to the 2020-2022 budget process including the consideration of the funding opportunities identified in section 2.4, grants and efficiencies.
A. Executive Summary

Long term financial plans (LTFP) are a tool for Councils and staff to consider future scenarios, to help the strategic planning process and help municipalities navigate challenges. A LTFP is the process of projecting revenues and expenditures over a long-term period while using assumptions relevant to the municipality.

The City of Waterloo has been engaged in creating a LTFP since Council’s approval of the City’s first Comprehensive Asset Management Plan (AMP) in November 2016 through IPPW2016-099. Staff have worked collaboratively with GM BluePlan (GMBP) since March 2017 to develop a 25 year comprehensive LTFP Model for the City. The model was completed in November 2017 and transferred to the City. Staff utilized the model to create scenarios for consideration by the LTFP Steering Committee. Three financial areas outlined in this report are funding strategies, reserve policy and financial policy recommendations. Staff are seeking Council’s approval for reserve policy and financial policy changes while funding strategies will be addressed through the 2020-2022 budget process. The overall purpose of this report is to outline the staff recommended scenario, the related assumptions and next steps.

The development and maintenance of a LTFP is complex and contains many interrelated decision making factors. With each update to the LTFP, the data and information will be refined to reflect the financial environment faced by the City at the time and projected for the future. For the City’s first LTFP, there were numerous items reviewed and considered throughout the process. The overarching themes of the LTFP were:

- Policy updates will be recommended for approval in April 2018;
- The LTFP model will be updated and maintained as decisions are made;
- The LTFP was developed using the City of Waterloo’s 2017-2018 approved operating and capital budgets as base information;
- The LTFP was projected for the 2017-2042 year planning horizon;
- The focus of asset management and future improvements is essential; and,
- Significant funding changes are recommended for implementation in 2020.

Due to the overall implications of the City’s first LTFP, there was significant internal consultation to ensure that all known factors could be considered. As a result, the staff recommended scenario as well as assumptions were reviewed by the Operational Leadership Team (OLT), Corporate Management Team (CMT) and the LTFP Steering Committee.
B. Financial Implications

As part of the LTFP modeling process, numerous assumptions and funding opportunities were considered. The following identifies the assumptions and strategies included in the LTFP along with the sections where more detail is outlined.

1. Funding Opportunities:
A decision on funding opportunities is not being requested through this report. Council approval of the funding opportunities identified in this report will be sought through the 2020-2022 budget process. Additional details of each of the funding opportunities can be found in the following sections:

- Section 2.4.1 – User Fees / Rate Models
- Section 2.4.2 – General Tax Levy
- Section 2.4.3 – Grants
- Section 2.4.4 – Waterloo North Hydro Investment Income Surplus
- Section 2.4.5 – Debt
- Section 2.4.6 – RIM Park Debt Charges
- Section 2.4.7 – Infrastructure Levy

2. Recommended Changes to Reserve Policies:
Through the LTFP, staff undertook a forward looking approach for reserve levels and contributions to address the City’s needs over the next 25 years. A number of key concepts were considered during the analysis as it related to reserve levels:

- The need to address both funding for growth and funding for rehabilitation needs and find an appropriate balance;
- The need to reconsider existing contribution levels, and whether current allocations are appropriate for future needs;
- The need to ensure that sustainable funding exists for reserves so that the need to access contingency funding is reduced; and,
- The need to minimize the pressure to the tax rate resulting from contribution level changes.

The recommended reserve policy changes are being tabled before Council for approval through this report. The sections where more detail is located are identified below:

- Section 3.1 – Sustainable Funding for:
  o Economic Development Reserve
  o OMB Hearings Reserve Fund
  o Winter Control Reserve
  o Winter Control Operating Budget
  o General Operating Contingency Reserve
- Section 4 – Recommended Reserve Target Level Changes
3. **Recommended Changes to Financial Control Policies:**
   As part of the LTFP approval process and this report, staff are recommending changes to three existing financial control policies. These changes have been reviewed by the Audit Committee and no concerns were identified.

   - Section 3.2.1 – FC-013 Use of Budgeted Assessment Growth
   - Section 3.2.2 – FC-003 Allocation of Surplus
   - Section 3.2.3 – FC-012 Capital Budget

**C. Technology Implications**
No technology implications are identified.

**D. Legal Considerations**
Staff did not consult legal.

**E. Link to Strategic Plan**
(Strategic Priorities: Multi-modal Transportation, Infrastructure Renewal, Strong Community, Environmental Leadership, Corporate Excellence, Economic Development)

Infrastructure Renewal
Corporate Excellence

**F. Previous Reports on this Topic**
- IPPW2016-099 Corporate Asset Management Plan, November 14, 2016
- CORP2017-033, Council Appointment to the Long Term Financial Plan Steering Committee – April 10, 2017
- CORP2017-090 Long Term Financial Plan Update, December 11, 2017
- CORP2018-001 Reserve and Reserve Funds Annual Update, January 22, 2018
- CORP2018-009 Long Term Financial Plan – Consultant Scenario, March 19, 2018

**G. Approvals**

<table>
<thead>
<tr>
<th>Name</th>
<th>Signature</th>
<th>Date</th>
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<tbody>
<tr>
<td><strong>Author:</strong> Cassandra Pacey</td>
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<tr>
<td><strong>Author:</strong> Julie Koppeser</td>
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<td><strong>Director:</strong> Filipa Reynolds</td>
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<td><strong>Commissioner:</strong> Keshwer Patel</td>
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<td><strong>Finance:</strong> Keshwer Patel</td>
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CAO
Long Term Financial Plan – Staff Scenario
CORP2018-011

The report is divided into 6 main sections with sub-sections beneath each one as follows:

1 General Information
   1.1 Background
   1.2 Sustainability Actions Taken by Council to Date
   1.3 Public Engagement – Our City/Our Way
   1.4 About the Long Term Financial Plan
   1.5 Consultant Scenario Differences

2 Long Term Financial Plan
   2.1 Long Term Financial Plan Model
   2.2 Key Assumptions
   2.3 Staff Recommended LTFP Considerations
   2.4 Funding Opportunities

3 Reserve & Reserve Fund Impacts
   3.1 Sustainable Funding
   3.2 Financial Control Policy Recommendations

4 Reserve & Reserve Fund Policy Recommendations
   4.1 General Operating Contingency Reserve
   4.2 Tax Rate Stabilization Reserve
   4.3 Capital Reserve Fund
   4.4 Economic Development Reserve
   4.5 Capital Infrastructure Reinvestment Reserve Fund
   4.6 Winter Control Reserve

5 LTFP Summary

6 Next Steps
   6.1 Funding Tools for Investigation
   6.2 Internal Process Improvements
1 General Information

1.1 Background

The City of Waterloo’s first Comprehensive Asset Management (AMP) was approved in November 2016 through IPPW2016-099. One of the “next steps” outlined in IPPW2016-099 included the creation of a Long Term Financial Plan (LTFP). In addition, the provincial Guide for Municipal Asset Management Plans identifies that, ultimately, the asset management plan “requires the development of a financial plan, which is the most critical step in putting the plan into action”. The LTFP project was initiated in March 2017.

Given the corporate nature of the project, a steering committee comprised of the CAO, Commissioners, Director of Financial Planning & Procurement and the Chair of the Finance Committee was created. The structure of the Steering Committee was approved by Council through CORP2017-033 in April 2017. The inclusion of this particular Council position was recommended for the steering committee recognizing the value provided previously through the creation of the asset management plan. In addition, there is a strong link between the AMP and the LTFP project.

In 2015, GM BluePlan Engineering Limited (GMBP) was engaged to assist in the creation of an asset management analytical system (AM System) and provide the information required for the development of the City’s first comprehensive AMP. The AM System enables staff to understand the impact of a set of planned capital expenditures on the performance of each asset class over a 25 year timeframe. It was critical that this innovative tool was considered and utilized during the creation of the LTFP Model. As a result, GMBP was engaged to ensure this aspect was considered and appropriately influence the plan. An important aspect of the LTFP Model is that it is not intended to replace existing processes for the city’s budget cycles (operating or capital), Development Charge By-Law reviews or assessment growth estimation processes.

The City has invested significantly into building infrastructure to support community growth over the past few decades. The same commitment and dedication will be necessary in the future in order to sustain existing and planned infrastructure. It is important to note that the identified funding gap existing today has evolved over time and it is acceptable and in fact, appropriate and prudent to be resolved over an extended period of time.
1.2 Sustainability Actions Taken By Council to Date
Council has instilled and supported the culture of improvement, efficiency and effectiveness within the City of Waterloo and has approved several capital projects focusing on infrastructure rehabilitation. In regards to efficiencies, they may not translate directly to budgeted savings but, rather, build capacity to deliver more work and/or improved quality of work as well as future cost avoidance.

Council has approved the following in recent years:

- **Capital Infrastructure Reinvestment Reserve Creation**
  As part of the 2008-2010 Operating Budget approval, Council created the Capital Infrastructure Reinvestment Reserve Fund (CIRRF). Council recognized the importance of allocating a sustainable stream of funding to CIRRF and as such, approved 20% of annual assessment growth being diverted to this reserve fund. Another source of funding approved by Council was the approval of the Surplus Allocation Policy where 25% was allocated to CIRRF.

- **Asset Management Plan**
  For a number of years municipalities all over the country have been identifying infrastructure deficits and creating asset management plans (AMP) as one method to assist in addressing their respective concerns. The City of Waterloo is no different and Council approved funding the City’s first Comprehensive AMP in November 2016.

- **Stormwater Enterprise**
  In June 2010, Council approved moving the Stormwater program from a property tax supported program to a user rate (utility) funded program. The user rate models provides a dedicated funding source, hence sustainability while providing an incentive program for property owners to reduce stormwater runoff and pollutant discharge.

- **Parking Enterprise**
  In June 2016, Council approved the development of a Parking Financial model that includes a growth rate to establish fees and charges as well as parking operating and capital expenditures. This is funded entirely by user fees. Council received a parking rate report utilizing this model in October 2017.

- **Reserve Consolidation**
  The separation of growth and rehabilitation directly at the funding source, through Council's approval of the new Capital Reserve Fund and Capital Infrastructure Reinvestment policies in January 2018 has simplified tracking and analysis. The new reserve policies approved also provide a clear distinction between growth and rehabilitation.
Examples of efficiencies undertaken in recent years include:

- **LED street lighting replacement**
  Reduction in maintenance costs. Energy savings have started to be realized by the Facilities and Fleet division. In addition, the Transportation division anticipates a savings in their annual maintenance expenditures as the infrastructure is new. Savings of $210,000 were incorporated in the 2018 budget. Staff are reviewing the potential for additional savings to be incorporated into the 2019 budget.

- **AutoVu Technology**
  Municipal Enforcement Services has implemented AutoVu technology. The new technology permits staff to more effectively enforce parking permits or time-limited zones, and conduct lot inventories. The AutoVu system captures licence plate characters, vehicle images, time stamps and GPS coordinates, decreasing the number of parking ticket disputes and increasing compliance resulting in increased productivity.

- **Assessment Base Management (ABM)**
  The City is taking an active role in all aspects of Assessment Base Management. This includes participation on all appeals determined to be material and/or present risk to the municipality. Real Property Tax Analysis (RPTA) software has been recently acquired to assist staff in effectively managing the appeal process and the assessment base. This is a significant change in the role of municipalities allowing participation in the appeal process and is expected to have a workload impact. The Revenue Services team has repurposed 1FTE previously engaged in managing tenant water bills to assist in assessment base management – thus avoiding the requirement to increase staffing levels as we take a proactive approach to Assessment Base Management.

- **Joint Services Initiatives**
  The City is active with all regional municipal partners and has implemented items such as: Regional Road Maintenance Agreement, After Hours Dispatch, Waterloo Region Economic Development Corporation (WREDC), Waterloo Regional Tourism Marketing Corporation (WRTMC), Water/Sanitary Rate Study.
1.3 Public Engagement – Our City/Our Way

In the spring of 2017, staff engaged the firm NATIONAL Public Relations to assist in developing the public engagement plan and communications strategy for four key asset classes. The engagement plan had a theme, Our City / Our Way and focused on assets that the public can see, touch and feel. These assets include roads, water services (water, sanitary and stormwater), parks and facilities.

The public engagement strategy was structured into two stages: public awareness campaign (December 2017); and, public engagement (January 2018). The results of the public engagement process are outlined in CAO2018-008, AMP & LTFP Public Engagement Update tabled before Council on April 16, 2018.

It is important to note that the public engagement process was underway at the same time as the LTFP development. As a result, the public engagement results will be incorporated into upcoming budget processes.

1.4 About the Long Term Financial Plan

Staff have worked collaboratively with GMBP to develop a 25 year comprehensive LTFP Model for the City. The model was completed in November 2017 and transferred to the City. Staff utilized the model to create scenarios for consideration by the LTFP Steering Committee. The purpose of this report is to outline the staff recommended scenario, the related assumptions and next steps.

The development and maintenance of a LTFP is complex and contains many interrelated decision making factors. With each update to the LTFP, the data and information will be refined to reflect the financial environment faced by the City at the time and projected for the future. For the City’s first LTFP, there were numerous items reviewed and considered throughout the process which included:

- The City’s financial environment, including factors that have influenced present financial performance and position;
- The City’s financial procedures and policies, which helps guide the City’s financial management as well as recommended changes to key financial policies;
- The City’s key assumptions for revenues, operating expenses, capital investment, and reserve and reserve fund contributions and withdrawals;

The financial plan was developed using the City of Waterloo’s 2017-2018 approved operating and capital budgets as base information and was projected forward over a 25 year planning horizon.
1.5 Consultant Scenario Differences

On March 19, 2018 Council approved CORP2018-009, Long Term Financial Plan – Consultant Scenario and directed staff to report back with a staff recommended version. There are two key differences between the consultant and staff scenario which have been identified below:

- **Infrastructure Levy**
  - The consultant scenario included the premise of implementing an infrastructure levy that would address the annual funding gap as well as the identified backlog. The staff scenario is taking a different approach and is recommending taking an extended timeframe to address the backlog. This follows the concept that since the funding gap evolved over time, resolving it over a longer period of time is reasonable and appropriate.

- **Level of Detail**
  - While the consultant scenario assumes various inflation rate increases and details for the infrastructure gap, staff utilized their business knowledge and experience to include more detailed analysis. This results in a “made in Waterloo” scenario to meet community needs.

1.6 Consultant Scenario - Council Feedback

On March 19, 2018 when considering CORP2018-009, Long Term Financial Plan – Consultant Scenario, Council indicated several areas of interest to be addressed in the staff scenario. Appendix E contains a follow up for Council’s reference.

2 Long Term Financial Plan

Long term financial plans are a tool to consider future scenarios, to help the strategic planning process and help municipalities navigate challenges. A LTFP is the process of projecting revenues and expenditures over a long-term period while using assumptions relevant to the municipality. These assumptions include operating revenue and expenditures, inflation rates, capital expenditures and the cost to operate new infrastructure.

The City of Waterloo has been engaged in developing a LTFP since March 2017. The LTFP is intended to provide insight into the City’s financial capacity in the future to maintain existing services levels while closing the existing infrastructure gap.

This report provides an update on the City’s LTFP for both tax base and rate supported budgets, as well as long-term revenue, expenditure and asset decisions. The report will outline assumptions, factors and recommendations to achieve long-term financial sustainability. The City faces challenges with accommodating growth and maintaining existing levels of service.
It is critical to note that these variables and drivers of the LTFP will continue to be refined and updated over time. It is anticipated that the LTFP will be maintained as decisions are made and an update provided to Council with each three year budget. This timing will coincide with the development and approval of the City’s AMP’s and Development Charge By-laws.

2.1 Long Term Financial Plan Model

The LTFP Model has been used to develop a range of scenarios demonstrating how increased/decreased operating and capital expenditures impact the city. In addition it also provides the following:

- Links infrastructure information within the AMP to the city’s long term financial needs.
- Allows the city to understand the impact of adjusting a range of variables related to revenues, operating and capital expenditures over a 25 year timeframe.
- Allows the city to develop financing strategies (e.g. debt, infrastructure levy) to provide sustainable funding for services, programs and infrastructure desired by residents and businesses.

2.2 Key Assumptions

In creating the City’s first LTFP a number of assumptions were made that reflect the past and future financial environment and trends for the City. Key assumptions considered throughout the process are identified in this section.

2.2.1 Recommended Funding Changes

Throughout the development of the asset management plan in 2014-2016, the City identified that changes to infrastructure funding levels would be tabled through the 2020-2022 budget process. As a result, the LTFP has been prepared with that assumption and any recommended funding increases occur starting in 2020. As a result, decisions regarding funding opportunities identified through this process will be referred to the next Council.

2.2.2 Financial Control Policy Changes

As the LTFP was being developed, staff recognized that there is an opportunity to provide sustainable funding to several reserves through two key policy changes. These policy change recommendations are being tabled before Council for approval through recommendation 4. Details on the policy changes are outlined in section 3.
2.2.3 Operating Budget Expenditures
It was recognized throughout the development of the LTFP that inflationary increases will assist in maintaining existing services levels. As a result, all operating budget lines include an inflationary increase of 1%-3% depending on the activity. For example, 3% was applied to budget lines that are used for preventative maintenance activities. It is anticipated that increased preventative maintenance will maintain assets in a better condition for longer and help delay rehabilitation requirements.

In addition to providing inflationary increases, staff recognized the winter control budgets in Transportation Services and Environment & Parks Services require an influx of funding. The intent of the additional funding is to reduce the risk of draws from the Winter Control Reserve. Staff are recommending through the LTFP that an operating budget increase of $115,000 is included in the 2019 budget process and funded through a reallocation of CRF funding. The decision to approve this approach will be referred to the next Council through the 2019 budget process. If approved, the reallocation of CRF funding will result in a more sustainable operating budget for Winter Control while maintaining the property tax levy.

2.2.4 Operating Budget Revenues
A review of operating budget lines revealed that many are reasonably static in nature and dependant on factors outside the City’s control. In light of this information, the LTFP inflationary factors for revenue lines include increases of 0%-2.5% starting in 2020. For example, no inflationary increase has been applied to interest revenue.

2.2.5 Property Tax Levy Changes
Property tax is the main revenue source for municipalities in Ontario and will generate an estimated $72 million for the City of Waterloo in 2018. As the main revenue source for the City, it will be necessary to consider increases to the property tax base in order to maintain existing service levels.

2.2.6 Water Services Financial Models
Water Services utility rates pay for the costs associated with providing high quality drinking water, collecting and treating sanitary wastewater and responsibly managing stormwater. Through these services, all residents and businesses within Waterloo receive a reliable supply of drinking water, sanitary sewer collection, protection of our source water, and a reduced risk from weather-related incidents like flooding.
Water Services generates all funds for operations, maintenance and capital projects from water, sanitary sewer, and stormwater rates and service charges (no revenue is generated from property taxes). Water Services works closely with Finance (Revenue & Accounting Services and Financial Planning & Procurement Services) on water utility billing and the preparation of budgets and 10 year rate forecasts. The models used for all three utilities are robust and has been used as key drivers of the LTFP for each area.

2.2.7 Enterprise Financial Models
The LTFP is a comprehensive overview of all city operations and includes enterprise units (e.g. Water Services, Cemetery, and Building Standards) throughout the city. Several enterprise divisions have comprehensive financial modeling tools that allow staff to consider the projected impacts of both operating and capital spending. These assist in decision making for user rates and operating and capital budget decisions. These models drive the LTFP as they are more detailed and contain specific information related to their enterprises.

2.2.8 Funding Strategies for LTFP
The LTFP is a holistic review of financial needs for the City and takes all known funding requirements into account. Funding requirements reviewed throughout the modeling process included infrastructure, non-infrastructure and operating budget requirements.

When the AMP was approved in November 2016 through IPPW2016-099, staff identified several funding strategies that would be considered throughout the analysis. These strategies included:

- Infrastructure levy
- Increasing the general tax levy
- Debt
- Grants
- User fees / rate models
- Redirection of Waterloo North Hydro Investment Income surplus
2.3 Recommended LTFP Considerations Proposed by Staff

Through CORP2018-009 on March 19, 2018, Council directed staff to report back to Council with a staff recommended scenario for the City’s first LTFP. This section outlines additional factors beyond the key assumptions identified in section 2.2 included in the recommended scenario.

2.3.1 New Services / Increased Levels of Services
For the purposes of the LTFP, staff concentrated primarily on maintaining existing levels of services and utilizing documentation (e.g. 2019-2026 Capital Forecast) received by Council. As a result of this approach, new services or increased levels of services will require additional levels of funding above the proposals included in the LTFP.

Although this was the general approach, staff was able to be fiscally prudent and identified potential funding in 2032, for Council to consider new services. This particular year was identified due to the nature of the funding source. In 2032, staff have included a 50% utilization of the RIM Debt charges that will be available. While the approach has been included in the LTFP, the formal approval process will be requested through 2032-2034 budget process. Additional information can be found in section 2.4.6.

New services or increased level of services desired by Council will require funding increases above and beyond the proposed increases developed through the LTFP model. Examples of service changes that may be presented to Council include:

- Neighbourhood Strategy
- Asset Management Staff
- Ball Diamond Strategy / Waterloo Park Programming
- Fire Station Needs Assessment
- Operating Impacts of Assets Assumed from Developers

2.3.2 Operating Impacts of Capital
A key component of the LTFP Model is the ability to input the forecasted increases to operating expenditures that are expected to be incurred as a result of the City building new infrastructure (e.g. new facility, splash pad or park). As part of the Infrastructure Asset Management Analysis Phase 3 Report prepared by GMBP in 2016, a methodology was outlined for the City to estimate operating impacts of capital. This approach allows staff to have a consistent approach to developing operating impacts of capital from project to project. Staff are starting to utilize this approach within their current budget and resources. The approach will be utilized in subsequent budget processes.
For the purposes of the LTFP, staff analyzed the 2019-2026 Approved Capital Forecast and estimated the operating impact of capital for new assets that the City has proposed. Based on that analysis, the operating impacts of capital that has been included in the LTFP are outlined in Table 1:

**Table 1: Estimated Operating Impacts of Capital (000’s)**

<table>
<thead>
<tr>
<th>Area</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027-2042* (average annual)</th>
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<tbody>
<tr>
<td>Tax Base</td>
<td>703</td>
<td>770</td>
<td>957</td>
<td>228</td>
<td>3,776</td>
<td>637</td>
<td>92</td>
<td>570</td>
</tr>
<tr>
<td>% Tax Increase</td>
<td>0.91%</td>
<td>0.94%</td>
<td>1.12%</td>
<td>0.26%</td>
<td>3.94%</td>
<td>0.64%</td>
<td>0.09%</td>
<td>0.54%</td>
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<tr>
<td>Water Services</td>
<td>66</td>
<td>92</td>
<td>129</td>
<td>82</td>
<td>81</td>
<td>93</td>
<td>86</td>
<td>100</td>
</tr>
<tr>
<td>Other Enterprises</td>
<td>195</td>
<td>582</td>
<td>40</td>
<td>42</td>
<td>471</td>
<td>63</td>
<td>0</td>
<td>139</td>
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<tr>
<td><strong>Total Op Impacts of Capital</strong></td>
<td>964</td>
<td>1,444</td>
<td>1,126</td>
<td>352</td>
<td>4,328</td>
<td>793</td>
<td>178</td>
<td>809</td>
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*Note: 2027-2042 is based on an average of 2020-2026 operating impacts excluding major anomalies (e.g. Fire Station 5). This information will be updated as capital forecasts for those years are developed.

Examples of tax base projects with operating impacts of capital for the 2020-2024 timeframe are outlined in Table 2:

**Table 2: Examples of Tax Base Projects with Operating Impacts of Capital (000’s & in 2017 dollars)**

<table>
<thead>
<tr>
<th>Project</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
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<tr>
<td>Action Sports Facility - AMCC</td>
<td>23</td>
<td></td>
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<td></td>
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<tr>
<td>Alexandra Park Expansion</td>
<td>73</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Beaver Creek Rd &amp; Conservation Drive Reconstruction</td>
<td></td>
<td>126</td>
<td>64</td>
<td></td>
<td></td>
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<tr>
<td>Consolidated Dispatch</td>
<td></td>
<td></td>
<td>250</td>
<td></td>
<td></td>
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<tr>
<td>Corporate Relational Database Management System</td>
<td></td>
<td></td>
<td></td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>Fire Station #5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,500</td>
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<tr>
<td>Northdale Parkland &amp; Public Space Redevelopment</td>
<td>87</td>
<td>89</td>
<td></td>
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<tr>
<td>Park Strategy Implementation</td>
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<td>PSoft – Phase 1-4</td>
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<td>Splash Pads</td>
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<td>Voice Radio</td>
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<td></td>
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<td>Waterloo Park - New East/West Park Crossing</td>
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<td>Waterloo Park Festival Area</td>
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<td>Waterloo Park Master Plan Implementation</td>
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<tr>
<td>West Side Employment Land Servicing</td>
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<tr>
<td>WMRC Addition &amp; Space Conversion</td>
<td>200</td>
<td></td>
<td></td>
<td>(75)</td>
<td>(75)</td>
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</table>
Advancing or delaying the construction of new assets included in the 2019-2026 Approved Capital forecast during the 2019 budget process will change the forecasted operating impacts of capital. The operating impacts of capital included in the LTFP will be refined with each budget process and reflect the approved and forecasted capital projects approved by Council.

2.3.3 Staff Resources
When the AMP was approved in November 2016, it was anticipated that additional staff would be required as capital reinvestment increases. For the purposes of the staff recommended LTFP, 3 - 4 positions have been included in each council term over the twenty five year planning horizon. These resources are intended to assist with the implementation of additional capital reinvestment activities. Funding of the additional resource requirements for the increased capital reinvestment activities is funded from the proposed infrastructure levy (details are in section 2.4.8) and a portion of the reallocation of the annual CIRRF transfer from operating (details are in section 2.3.6).

Increased staff resources may include, however are not limited to, project management, operational, administrative, procurement, asset management, information technology and finance. In addition to staff resource requirements for capital reinvestment activities, it is anticipated that other resources may be required. The exact needs will be refined by management throughout each budget process and tabled at that time for Council’s consideration.

2.3.4 Inflation Increase Applied to Capital Projects
When staff are preparing projects to be included in the capital budget, they prepare the project costs based on current year dollars (e.g. 2016). When the projects are entered into the capital budget, staff index the capital funding to reflect future projects costs.

Development charge (DC) expenditures included in the capital budget are adjusted according to the annual non-residential building construction price index. City funded expenditures (e.g. CRF, CIRRF, WAT) are indexed by 2% however this indexing has not kept pace with the actual cost of construction. As a result, staff are recommending that City funded expenditures are increased at the same index level as DC expenditures. Council approval of the revised FC-012 Capital Budget Policy is requested through CORP2018-011. If approved, the index will change from 2% to 2.96% for the 2019 budget process.
2.3.5 Operating and Capital Funding Rebalancing

The LTFP includes a rebalancing of $1.6 million annually from the Capital Reserve Fund (CRF) to the operating budget beginning in 2020. The rebalancing will: 1) defer construction of new capital assets or new studies, 2) provide additional funding for preventative maintenance, and 3) address increased operational needs/costs while reducing the requirement for a corresponding tax rate increase. The proportion of the rebalancing related to preventative maintenance will increase from approximately $0.4 million in 2020 to $1.4 million by 2023.

Traditionally, preventative maintenance activities have been included in the operating budget. However, over the past few decades, maintenance funding has increased more slowly than the growth of new infrastructure assets. As a result, the funding gap has increasingly widened, and infrastructure assets have experienced a lower level of preventative maintenance than ideal. The above funding reallocation will begin to help address this gap, further position the City to satisfy the provincial asset management requirements as well as reduce risk and liability associated with maintaining assets. In summary, the rebalancing of CRF funding to assist in funding preventative maintenance and other operational costs while aligning the capital budget to undertake more rehabilitation or replacement activities. Council’s approval of this approach will be sought through the 2020-2022 budget process.

2.3.6 Increased Capital Rehabilitation Activities

Through CORP2018-001, Council approved the consolidation of several reserves into the Capital Infrastructure Reinvestment Reserve Fund (CIRRF). The consolidation has reorganized existing funding and reallocated annual contributions into one reserve. This provides increased funding flexibility and transparency for capital rehabilitation funding, while aligning capital reinvestment with the AMP. Staff have included the consolidated funding into the LTFP and allowed for additional capital rehabilitation expenditures as outlined in Table 5.

Table 5: Additional CIRRF Expenditures

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Amount (000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>0</td>
</tr>
<tr>
<td>2021</td>
<td>2,000</td>
</tr>
<tr>
<td>2022</td>
<td>3,000</td>
</tr>
<tr>
<td>2023-2026</td>
<td>12,000</td>
</tr>
<tr>
<td>2027-2042</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Total Increased CIRRF Expenditures (over 22 years)</strong></td>
<td><strong>77,000</strong></td>
</tr>
</tbody>
</table>
2.3.7 Enterprise Divisions
As indicated in section 2.2.7, four enterprise divisions have comprehensive financial models to assist the Director in their decision making process as they are detailed to their respective enterprises. Areas with these types of models are Water, Sanitary, Stormwater and Parking.

There are four enterprises that have financial models that are limited in scope. As a result, the LTFP model is driving information for these enterprises and based on this information, the enterprises need additional financial and operational review. Staff will develop a comprehensive financial modeling tools for the four enterprises that would benefit from having one. These models will be developed by December 2019 in order to allow the models to drive the 2020-2022 budget cycle and the next iteration of the LTFP. The enterprise units that would benefit from a comprehensive financial model are Cemetery Services, Rental Housing, Comprehensive Business Licensing and Building Standards.

2.4 Funding Opportunities
Through IPPW2016-099, 2016 Asset Management Plan, Council approved the investigation into several key potential funding strategies as part of the LTFP development. This section will outline the opportunities considered and those included in the LTFP.

2.4.1 User Fees / Rate Models
The City has operated several divisions under a ‘User Fee/Rate Model’ for many years. The intention of this model is to operate under the principles of a full cost recovery operation and to mitigate the impact to the tax based operations.

Tax Base Operations:
For tax base operations, user fees applied based on the principles of a full cost recovery for services residents choose to participate in. Examples include user fees for community space rentals in facilities, sport field rental fees. While the user fees are based on full cost recovery principles, the fees are monitored and compared against the market and neighbouring municipalities. As a result, user fees are market driven and generally cannot be full cost recovery.

The concept that inflation for expenditure lines is increasing faster than the inflation for revenues was brought to Council's attention through section 3.3 of report CORP2015-047, 2016-2018 Budget Strategy, tabled on August 10, 2015. This type of methodology results in an inherent pressure that in the past, has been absorbed however results in operational decisions resulting in lower services levels or decisions that impact infrastructure assets.
Through the development of a LTFP driven by staff expertise, it was re-confirmed that many tax base user fees will increase at or below inflation in response to their respective markets. As a result, a modest inflation increase of 0.5% has been applied to revenue lines generated through user rates. This information will be reviewed and updated throughout each LTFP update.

Rate Base Operations:
The rate based budget philosophy results in the development of realistic and adequate resource alignment to meet the Council approved level of service within a specific division; and associated user fee is generally applied as the revenue source. Once adopted, within the parameters of Council policy guidelines, these divisions operate with anticipated revenues and expenditures and balance minor annual fluctuations through the use of a reserve fund. Of significant value to this concept is the ability for the division to plan on a 10 year cycle; while at the same time allowing latitude for addressing unexpected changes to operations.

As noted earlier, the Water, Sanitary, Stormwater and Parking rate models are comprehensive in nature and are being used to drive revenue projections within the LTFP. The remaining enterprise division’s revenue lines were kept static at 2018 budget due to information and recommendations approved by Council. This information will be reviewed and updated throughout each LTFP update.

2.4.2 General Tax Levy
Increasing the general property tax revenues through higher annual increases to the tax levy was an option considered through the LTFP development. This approach has the potential to provide more flexibility for determining how the additional revenue is allocated between additional contributions to reserves versus increases to the operating expenditures. While potentially more flexible, this approach limits the ability to report on the positive actions that Council has undertaken to reduce the City’s infrastructure deficit. As a result, staff have developed the LTFP to utilize increases to the general tax levy as a methodology to fund operational activities.

Based on the analysis undertaken through the LTFP modeling process, it is projected that the general tax levy will require increases as noted below in Table 6:

**Table 6: Proposed Property Tax Levy**

<table>
<thead>
<tr>
<th>Type of Increase</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023 – 2026 (average annual increase)</th>
<th>2027 – 2030 (average annual increase)</th>
<th>2031 – 2042 (average annual increase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Levy</td>
<td>1.5%</td>
<td>3.5%</td>
<td>2.6%</td>
<td>3.0%</td>
<td>1.6%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>
Council approval of the increases noted in Table 6 will be requested through the City’s budget processes in the future. The increases are subject to change based on decisions made by future Councils. It is important to note that the proposed tax levy is significantly influenced by the timing of capital projects and the related operating impacts of capital as noted in section 2.3.2 and Tables 1 and 2.

Figure 1 outlines the property tax rates included in the LTTP and includes the assumptions included in section 2.3 and the major driver of the increase noted for 2024 is the operating impacts of possible construction of a fifth fire station. Approval of the information included in Figure 1 is not being requested through CORP2018-011.

**Figure 1: Projected Tax Levy Increase by Year**
An alternative scenario considered through the LTFP modeling process was the concept of smoothing the tax levy increase. The primary driver of this alternative was to reduce the impact of the potential construction and operation of a fifth fire station. This methodology would require deposits into and draws from the Tax Rate Stabilization (TRS) reserve throughout the 2022 – 2026 timeframe. The smoothing impact to the tax levy is shown in Figure 2.

**Figure 2: Projected Tax Levy Increase by Year – Smoothed**

![Graph showing smoothed tax levy increase by year.]

### 2.4.3 Grants

Both the Ontario and Federal governments have established substantial programs to help fund the rehabilitation or replacement of municipal infrastructure. While traditionally grants are awarded through an application program to fund specific projects, annual formula-based funding programs (funding transfer grants) have been initiated (e.g. Federal Gas Tax, Ontario Community Infrastructure Fund). In 2018, the City of Waterloo will receive over $5.4 million from funding transfer grants.

The City of Waterloo has benefited from increased Ontario Community Infrastructure Fund (OCIF) formula funding allocations due to program changes in 2016. While the 2016 Census revealed that the City’s population (excluding students) passed the 100,000 threshold and therefore made the City ineligible for OCIF, the Province of Ontario has confirmed their original commitment of providing funding until 2019. Based on that commitment, the City has an approximately $4.2 million to include as part of the 2020-2022 budget cycle.
An example of the positive impact a grant can have on asset performance is the impact of the Clean Water and Wastewater Fund (CWWF). The City was awarded $3.9 million and together with $1.3 million of City funding, will improve the asset performance of 9 stormwater management ponds in 2018.

Figure 3 shows the asset performance based on the 2016 Asset Management Plan. While Figure 4 shows the anticipated performance as a result of the CWWF funded projects. The impact of the CWWF funding awarded to the City is evident in 2018 as the percentage of assets in very poor condition decreased from almost 80% to approximately 55%.

Figure 3: Stormwater Management Asset Performance per 2016 AMP
The City has benefited from approximately $9 million in grant funding applied for over the 2012-2017 timeframe. These grants largely targeted municipalities with a population of 100,000 or less. Based on the 2016 Census, the City has a population of 104,986 and it is uncertain if the Ontario and Federal governments will announce grant programs that the City will be apply for. As a result, for the purposes of the LTFP, the Gas Tax Funding Transfer grant was the only grant considered as a viable funding option. As grant funding is awarded to the City, staff will update the LTFP model.
2.4.4 Redirection of Waterloo North Hydro Investment Income Surplus

The use of the Waterloo North Hydro (WNH) investment income surplus was deferred to the LTFP process when identified as a potential funding strategy in IPPW2016-99, 2016 Asset Management Plan. WNH investment income has an operating budget amount of $1.7 million with a surplus of $1.5 million in 2015 and $1 million in 2016.

While WNH investment income has exceeded budget in recent years, the staff recommend maintaining the current operating budget of $1.7 million. This is a conservative approach that maintains status quo without increasing risk to the operating budget by being dependent on additional investment income. In addition, staff recommends the allocation of WNH Investment Income surplus is maintained with 75% of surplus allocated to CRF and the remaining 25% to CIRRF. The overall methodology may be revisited in future iterations of the LTFP.

2.4.5 Debt

Similar to residents or business’s debt is borrowed money that is paid back over time and incurs interest charges. Debt at the municipal level cannot be used to fund operating expenditures (e.g. salaries) however can be an important capital financing tool. Municipalities may consider debt as a logical choice when financing infrastructure assets while spreading the cost of the project over a longer period of time.

For the City of Waterloo, there is a Council approved policy, FC-009 Debt Management Policy that outlines Council’s commitment to demonstrating financial leadership and sustainability. The policy provides a defined and transparent process for the City’s management of debt. Within FC-009, the City has made a strategic decision to provide several limits such as a tax base funded projects are limited to 30% or less of the project value being funded by debt and that debt is amortized over 10 years.

Debt may be a viable option if interest rates are lower than the rate of inflation as the cost to complete the project may be higher if delayed under a pay-as-you-go financing plan. The current projected interest rate for a AAA rated municipality such as the City of Waterloo is 2.8%-2.9% for a 10 year term. This is approximately the same as the inflation index recommended within CORP2018-011 and higher than the interest earned in the City’s high interest savings accounts. Based on this information, staff believe it is more cost effective to incorporate debt for new assets and maintain a pay-as-you-go approach for rehabilitation projects. It is important to consider the urgency of the project proposed to be funded by debt. If there is insufficient time due to urgency, debt may the best funding strategy.
In consideration of this information and the state of the City’s infrastructure, staff believe that the City will be in a fiscally sound position and does not currently require the use of debt if the opportunities outlined in the LTFP are implemented. Debt is a recommended funding strategy to consider for new infrastructure (e.g. Waterloo Memorial Recreation Complex Facility Addition and Space Conversion, Main Library Expansion). As a result, the LTFP excludes the use of additional debt beyond the debt included in the 2016-2018 Approved Capital Budget, 2019-2026 Capital Forecast.

2.4.6 RIM Park Debt Charges
The final debt payment incurred by the City to build RIM Park will be paid in 2031 allowing Council to redirect the operating budget of $3.6 million in 2032. As this falls within the LTFP timeframe, staff considered this within the modeling activities although Council approval will be sought as part of the 2032-2034 budget cycle.

The proposal included in the LTFP model is to recommend that Council plan to reallocate 50% of the budget to CIRRF. This will allow the City to address more infrastructure funding gaps and improve the level of service offered by the City’s capital assets. It is also proposed that the balance remaining be allocated for Council to increase the operational level of services or add new services for the community without increasing taxes. While this is proposed through this LTFP, each iteration of the LTFP will review this proposal and make any recommendations relevant to the economics at that time.

2.4.7 Infrastructure Levy
Instituting a property tax levy dedicated to fund infrastructure renewal activities is one of the best strategies to fund the additional contributions to tax based reserves. This approach provides a more direct line of sight from the taxes that residents pay to the services/infrastructure that it funds.

In 2015, AMO sponsored a study by Public Sector Digest and a report that provided a model showing the impact of a 1% annual increase in municipal taxes on the infrastructure gap. While the report outlines that the impact of this type of increase will vary from municipality to municipality, the Figure 5 provides a high-level overview of the potential impact of increasing taxes by 1% annually. The shortfall identified in Figure 5 is representative of information for 94 municipalities in Ontario.
It is important to know that the City of Waterloo is not alone in having an infrastructure funding gap as municipalities in Ontario, in Canada and throughout the world are having similar concerns. In Ontario, AMO has identified a $6 billion annual funding gap over the next 10 years as identified in Appendix D.

Analysis performed through the LTTP modeling process suggests that an infrastructure levy in the range of 1.5% is optimal for the City of Waterloo. An infrastructure levy of 1.5% annually for 11 years will provide annual tax base funding of approximately of $15 million. The infrastructure levy throughout the 2020-2042 has been outlined in Table 7. This level of funding meets the identified funding gap through the 2016 Asset Management Plan of $14 million -$17 million. The estimated annual household impact of a 1.5% infrastructure levy ranges from $20 to $23.

---

Table 7: Proposed Infrastructure Levy

<table>
<thead>
<tr>
<th>Type of Increase</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023 – 2026 (average annual increase)</th>
<th>2027 – 2030 (average annual increase)</th>
<th>2031 – 2042 (average annual increase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Staff recommend that the levy funding be directed to the CIRRF reserve for tracking and allocation purposes. If approved, the 1.5% infrastructure levy will improve the performance of tax base assets. Enterprise assets will continue to be funded by their respective reserves and will be excluded from receiving levy funding.

The impact to the CIRRF reserve has been shown in Figure 6. This graph outlines several items as information. The first is the projected contributions (red bars) to the reserve which increase every year as a result of the percentage of assessment growth and the infrastructure levy. More information on the assessment growth funding source is provided in section 3. The second piece of information is the projected capital expenditures (blue bars). The projected expenditures are noted as increasing as the funding increases and the City addresses the infrastructure gap. The last piece is the projected ending balance (green line) of CIRRF in each year. For the purpose of the LTFP, staff targeted the concept of maintaining a minimum balance of $2 million. Additional details on the rationale for the target has been included in section 4.5 of this report.
To provide additional context with respect to the potential impact on asset performance, staff have provided two performance graphs. The first is Figure 7 and represents the anticipated asset performance based on the 2016 Asset Management Plan while Figure 8 represents the anticipated impact of a 1.5% infrastructure levy.
The impact of a 1.5% infrastructure levy is an increased asset performance. A notable difference is that under the existing budget almost 60% of the City’s infrastructure assets will be in poor or very poor condition by 2042. With the additional funding provided by the proposed infrastructure levy, the City is projected that by 2042, that approximately 42% of assets will be in poor or very poor condition. This is a projected improvement of approximately 18% compared to the projection in Figure 7.
Alternatives Considered:
In addition to investigating a 1.5% levy, staff also reviewed the merits of a 1% or 2% levy. If a 1% infrastructure was implemented and targeting the generation of $15 million, the levy would be required annually for 15 years. This timespan may result in an improvement in the quality of assets being delayed. With the additional funding provided by a 1% infrastructure levy, it is projected that by 2042, that approximately 45% of the City’s assets will be in poor or very poor condition. This is a projected improvement of almost 15% compared to the AMP projection in Figure 7.
On the other end of the spectrum, a 2% levy would generate $15 million in approximately 9 years. This timeframe would have the potential to increase the quality of assets and maintain service levels. There is a risk that the City, consultants and contractors do not have sufficient resources (e.g. staff, equipment) to manage and implement rehabilitation activities, especially considering that all municipalities have similar issues and may be increasing capital rehabilitation funding as well. The additional funding provided by a 2% infrastructure levy, it is projected that by 2042, that approximately 40% of the City’s assets will be in poor or very poor condition. This is a projected improvement of almost 20% compared to the AMP projection in Figure 7.

Projected asset performance graphs for both alternative scenarios have been included in Appendix F.

**Comparator Levies**
Several municipalities within the Province of Ontario have implemented infrastructure levies as a funding strategy to address their infrastructure gap. Table 8 outlines a sample listing of municipalities, their levy and whether the levy was new for 2018, or an existing policy/practice. A comprehensive listing of municipalities with infrastructure levies has not been created and Table 8 reflects information that staff have gathered.

**Table 8: Comparator Levies**

<table>
<thead>
<tr>
<th>Municipality</th>
<th>% for 2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mississauga</td>
<td>2.00%</td>
</tr>
<tr>
<td>Burlington</td>
<td>1.25%</td>
</tr>
<tr>
<td>Barrie</td>
<td>1.00%</td>
</tr>
<tr>
<td>Oakville</td>
<td>1.00%</td>
</tr>
<tr>
<td>Brampton</td>
<td>2.00%</td>
</tr>
<tr>
<td>Newmarket</td>
<td>0.70%</td>
</tr>
<tr>
<td>Kingston</td>
<td>1.00%</td>
</tr>
<tr>
<td>Woolwich</td>
<td>1.50%</td>
</tr>
<tr>
<td>Centre-Wellington</td>
<td>2.00%</td>
</tr>
<tr>
<td>Guelph</td>
<td>1.00%</td>
</tr>
</tbody>
</table>

*Information obtained from the respective municipalities website.
Targeted levies have also been introduced in municipalities for purposes other than strictly infrastructure reinvestment. The City of Kitchener, for example, introduced a 10 year levy in 2004 to develop an Economic Development Investment Fund, which enabled Kitchener to undertake various projects to stimulate economic growth, residential intensification and employment, such as the School of Pharmacy in the downtown core. While this example is not isolated to infrastructure, it demonstrates how impactful a targeted levy can be for a municipality.

2.4.8 Funding Summary
In summary, staff have identified the funding opportunities and will table these before the next Council for approval through the 2019 and 2020-2022 budget processes:

- **Reallocation of CRF Funding to Winter Control Operating Budgets**
  - The reallocation of CRF funding in 2019 will provide increased winter control operating budget funding without an impact to the property tax levy.

- **General Tax Levy**
  - The intent within the LTFP modeling process is that the general tax levy will be responsible for managing operational activities and existing service levels.
  - The anticipated tax increase over the twenty-five year horizon is outlined in Table 6 in section 2.4.2.

- **Debt**
  - That new debt outside the 2016-2018 Approved Capital Budget, 2019-2026 Capital Forecast target new capital assets.

- **RIM Park Debt Charges**
  - The final payment is in 2031 and it is projected that $3.6 million will be available in the operating budget for Council to redirect.
  - That 50% of the $3.6 million be redirected to CIRRF for capital reinvestment activities.
  - That the other 50% be allocated for new services or increased levels of services.

- **Infrastructure Levy**
  - That a 1.5% infrastructure levy is initiated in 2020 and increased by 1.5% annually for 11 years. This will assist in the City addressing the infrastructure gap as identified in the 2016 Asset Management Plan.
As noted in section 2.4.1, revenues are increasing at a lower inflation rate than expenditure lines. As a result, the inherent pressure has been absorbed in the past however this process results in operational decisions that result in lower services levels or impact infrastructure assets. To address this concept, property tax increases in the LTFP have been developed to prevent operational decisions being deferred that impact services levels or the infrastructure spending.

The revenue generated through the general tax levy and the proposed infrastructure levy are shown in Figure 9.

**Figure 9: Property Tax Revenues from 2017-2042**
3 Reserve & Reserve Fund Impacts

Through CORP2018-001, the annual reserve update report, on January 22, 2018 Council approved the consolidation of a number of the City’s Reserves and Reserve Funds. This approval provided a basis on which staff could begin a forward looking review of reserve levels and contributions to address the City’s needs over the next 25 years, through the LTFP. The three sections that follow address the results of that analysis. A number of key concepts were considered during the analysis as it related to reserves levels:

- The need to address both funding for growth and funding for rehabilitation needs and find an appropriate balance
- The need to reconsider existing contribution levels, and whether current allocations are appropriate for future needs
- The need to ensure that sustainable funding exists for reserves so that the need to access contingency funding is reduced
- The need to minimize the pressure to the tax rate resulting from contribution level changes

3.1. Sustainable Funding

The development of the LTFP-staff scenario provided the opportunity to review existing reserve contribution levels with a forward focus, to determine whether changes were needed in order to meet the needs identified under the model.

As a result, staff are recommending that sustainable operating contributions be added to four reserve and reserve funds. It is recommended that the funding is provided through a reduction to an existing contribution in another reserve fund and therefore there is no impact to the tax rate. Council approval of this approach is requested through recommendation 2. Table 10 outlines the reserve, rationale and contribution adjustment that staff are recommending.
### Table 10: Reserve Adjustment Recommendations

<table>
<thead>
<tr>
<th>Reserve/Reserve Fund</th>
<th>Rationale</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development Reserve</td>
<td>No current ongoing source</td>
<td>$325,000</td>
</tr>
<tr>
<td></td>
<td>Economic growth is a priority</td>
<td></td>
</tr>
<tr>
<td></td>
<td>YE surplus is not sustainable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contribution recommendation based on average contributions from surplus since 2012.</td>
<td></td>
</tr>
<tr>
<td>OMB Hearings Reserve Fund</td>
<td>Reinstatement of contribution that was temporarily halted during the last budget cycle</td>
<td>$70,000</td>
</tr>
<tr>
<td></td>
<td>Legal and administrative costs generally rise over time</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Potential trend toward more hearings as more development occurs in established areas</td>
<td></td>
</tr>
<tr>
<td>Winter Control Reserve</td>
<td>Council approved the reserve to remain stand alone</td>
<td>$150,000</td>
</tr>
<tr>
<td></td>
<td>Ongoing contribution will make reserve sustainable, and would be revisited each budget cycle</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Minimize need to be topped up from Tax Rate Stabilization Reserve</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operating pressure for winter control will still need to be addressed for 2019-2022</td>
<td></td>
</tr>
<tr>
<td>Winter Control Operating Budget</td>
<td>Sustainable operating budget funding for winter control in Transportation and Environment &amp; Parks Services</td>
<td>$115,000</td>
</tr>
<tr>
<td></td>
<td>Additional information can be found in Section 2.2.3 Operating Budget Expenditures</td>
<td></td>
</tr>
<tr>
<td>General Operating Contingency Reserve</td>
<td>Ongoing contribution will make reserve sustainable, and would be revisited each budget cycle</td>
<td>$100,000</td>
</tr>
<tr>
<td>Capital Reserve Fund</td>
<td>Finance analysis has determined that a significant portion of budgeted funding is not spent in the year it is budgeted</td>
<td>($760,000)</td>
</tr>
<tr>
<td></td>
<td>Opportunity to cash flow/project funding more accurately, and resulting in reduced annual contribution needs</td>
<td></td>
</tr>
<tr>
<td>Net Impact</td>
<td></td>
<td>$0</td>
</tr>
</tbody>
</table>

#### 3.2. Financial Control Policy Recommendations

Staff are recommending changes to three existing financial control policies. These changes have been reviewed by the Audit Committee, as per the new terms of reference approved on January 29, 2018 through CORP2018-006. The Audit Committee asked questions were addressed by staff. There were no concerns with the policy changes moving forward to Council for consideration. Council approval of these policy changes is requested through recommendation 4.

The asset management plan has helped the City to quantify the rehabilitation needs and to start to plan to address those needs. In 2017 the Development Charges Background Study was undertaken also, to try to quantify growth and the need for new assets; however the timing of that growth and the subsequent demand is difficult to predict. The need to address funding for both growth and rehabilitation needs, and to find the appropriate balance between the two, is a complex issue. With this in mind, staff are recommending an update to three policies, to better align reserve contributions with identified needs, and to update policies for changes previously approved by Council.
3.2.1 FC-013 Use of Budgeted Assessment Growth
FC-013 is the Use of Budgeted Assessment Growth Revenue Policy. Under the current policy, the City allocates Assessment Growth revenue as follows:

- 20% to Capital Reserve Fund
- 20% to Capital Infrastructure Reinvestment Reserve Fund
- 60% to Operating

Staff is recommending that in order to work towards addressing our rehabilitation needs, this policy (Appendix A) be updated to reflect the following new allocation split:

- 10% to Capital Reserve Fund (New/Growth/Studies)
- 30% to Capital Infrastructure Reinvestment Reserve Fund (replacement and rehabilitation)
- 60% to Operating

3.2.2 FC-003 Allocation of Surplus
FC-003 is the Surplus Allocation Policy. Under the current policy, the City allocates year end surplus as follows:

1. That the required amount of the final reported surplus be allocated to the reserves and reserve funds as requested in the annual Reserve and Reserve Fund Report.
2. That an annual amount of $200,000 be allocated to the RIMPK Investment reserve.
3. That 50% of the remaining reported surplus will be allocated to the Tax Rate Stabilization Reserve for future one time expenditures;
4. That 25% of the remaining reported surplus will be allocated to the Capital Infrastructure Reinvestment Reserve.
5. That 25% of the remaining reported surplus will be allocated to the Economic Development Reserve.

Staff is recommending that as Economic Development Reserve would receive an ongoing operating allocation going forward, this policy (Appendix B) be updated to reflect the following new allocation split:
1. That the required amount of the final reported surplus be allocated to the reserves and reserve funds as requested in the annual Reserve and Reserve Fund Report.

2. That an annual amount of $200,000 be allocated to the RIMPK Investment reserve.

3. That 50% of the remaining reported surplus will be allocated to the Tax Rate Stabilization Reserve for future one time expenditures;

4. That 50% of the remaining reported surplus will be allocated to the Capital Infrastructure Reinvestment Reserve.

3.2.3 FC-012 Capital Budget
The Capital Budget Policy was last updated in August of 2015 and since that time Council has approved a number of improvements and updates to policies and procedures as they relate to capital. Examples would include the routine/non-routine project reporting criteria, and the reserve consolidations. Staff are therefore recommending that the Capital Budget policy be updated to reflect these changes, before the start of the next budget cycle. The updated policy has been included as Appendix C.

4 Reserve & Reserve Fund Policy Recommendations

Through the LTFP modelling, staff have conducted a forward looking review of contribution levels, and minimum, target, and maximum standards for some key reserves and reserve funds. Council approval of these policy changes is requested through recommendation 3.

The changes that staff are recommending be implemented for the 2019 budget cycle are looking ahead to how best to manage needs over the next 25 years, and it is not the intention that the target or max levels will be reached within the immediate future.
4.1 General Operating Contingency Reserve

- **Minimum**
  $500,000 – this is the highest potential charge per incident by the Ministry of Labour under the Occupational Health & Safety Act, section 66. This amount is recommended to be held in reserve at all times.

- **Target**
  3% of the Net Tax Levy (currently approximately $2 million) – this target is in line with the minimum requirement of costs to be incurred in order to qualify for assistance under the Municipal Disaster Recovery Program. While the reserve can drop below this amount, the intent would be to target to maintain a balance within range of this figure, to be used as a gauge for the sustainability of the reserve. Under the LTFP model, this target is estimated to be reached in 2018, assuming no draws on the reserve in the interim.

- **Maximum**
  4% of the Net Tax Levy (currently approximately $2.5 million) – once funding levels reached this maximum level, funds would be redirected to the Tax Rate Stabilization Reserve. Under the LTFP model, this maximum is estimated to be reached in 2030, assuming no draws on the reserve in the interim.

- **Annual Contribution**
  With the $100,000 contribution as outlined in section 3.1, along with the redirected contributions resulting from the Reserve consolidations, the ongoing contribution to the General Operating Contingency Reserve will be approximately $200,000.

4.2 Tax Rate Stabilization Reserve

- **Minimum**
  1% of the Net Tax Levy (currently approximately $700,000) – This amount is recommended to be held in reserve at all times.

- **Target**
  3% of the Net Tax Levy (currently approximately $2 million) – This target would provide enough flexibility to potentially address more than one contingency in a given year. While the reserve can drop below this amount, the intent would be to target to maintain a balance within range of this figure, to be used as a gauge for the sustainability of the reserve. Under the LTFP model, this target is estimated to be reached in 2026, assuming no draws on the reserve in the interim.

- **Maximum**
  5% of the Net Tax Levy (currently approximately $3 million) – Once funding levels reached this maximum level, funds would be redirected to the Capital Infrastructure Reinvestment Reserve Fund. Under the LTFP model, this maximum is not estimated to be reached within the scope of the LTFP modelling horizon of 25 years.
• **Annual Contribution**
  At this time, Staff are not recommending any changes to the ongoing contribution to the Tax Rate Stabilization Reserve, which is currently funded via step gapping. Staff will continue to monitor the usage of the fund and contribution levels and report to Council annually.

4.3 **Capital Reserve Fund**

• **Minimum**
  Remain Positive - This reserve is intended to be used for new items, the City funded portion of growth related projects, and studies. As this will be significantly tied to the capital program, funds should be available for the planned projects, but no minimum will be established, to allow the flexibility to move projects between years as priorities are updated. This is consistent with the current minimum level for this reserve fund.

• **Target**
  $5 million – This target would provide enough flexibility to potentially address a significant new priority, or allows funds to be accumulated over a number of years towards a larger project. While the reserve can drop below this amount, the intent would be to target to maintain a balance within range of this figure. Under the LTFP model, this target is not estimated to be reached within the scope of the LTFP modelling horizon of 25 years

• **Maximum**
  $10 million – This maximum is intended to reflect the growth of the capital program over time, and is not estimated to be reached within the scope of the LTFP modelling horizon of 25 years. It does provide flexibility however to accumulate funds over multiple years towards a larger project. Once funding levels reached this maximum level, funds would be redirected to the Economic Development Reserve.

• **Annual Contribution**
  The contribution to the Capital Reserve Fund fluctuates annually depending on assessment growth projections, inflation, and current debt levels. In addition the reallocation outlined in section 3.1, the recommended change in the assessment growth policy, and the redirected contributions resulting from the Reserve consolidations will impact this figure. It is estimated that the ongoing contribution to the Capital Reserve Fund will average between approximately $6 and $7 million annually over the 10 year projection. Staff will continue to monitor this contribution level both through the annual reserve monitoring, as well as through each budget process.
4.4 Economic Development Reserve

- **Minimum**
  Remain Positive-This reserve is intended to be used for strategic items, to enhance economic growth in Waterloo. Funds should be available for the planned projects, but no minimum will be established, to allow the flexibility to move projects between years as priorities are updated, or to access funding for unplanned initiatives. This is consistent with the current minimum level for this reserve fund.

- **Target**
  $1.5 million – This target would provide enough flexibility to potentially address a significant new priority, or allows funds to be accumulated over a number of years towards a larger project. While the reserve can drop below this amount, the intent would be to target to maintain a balance within range of this figure. Under the LTFP model, this target is not estimated to be reached within the scope of the LTFP modelling horizon of 25 years, assuming average draws of $300,000 per year, the average since the reserve was established in 2012.

- **Maximum**
  $5 million – This maximum is intended to reflect growth over time, and is not estimated to be reached within the scope of the LTFP modelling horizon of 25 years. It does provide flexibility however to accumulate funds over multiple years towards a larger project. Once funding levels reached this maximum level, funds would be redirected to the Tax Rate Stabilization Reserve.

- **Annual Contribution**
  As previously outlined in section 3.1, it is recommended that the Economic Development Reserve receive an annual allocation of $325,000.
4.5 Capital Infrastructure Reinvestment Reserve Fund

- **Minimum**
  $2 million - This reserve is intended to be used for the replacement or rehabilitation of all tax-assets. While the majority of the usage of the reserve fund should be planned, an unplanned need to replace or rehabilitate an asset could arise. This minimum would allow for these unplanned items, minimizing the need to access Tax Rate Stabilization Reserve. Under the LTFP model, this minimum is estimated to be reached in 2020, assuming no additional projects outside of those planned for in the capital program.

- **Target**
  $5 million – This target would provide enough flexibility to potentially address a significant unplanned need, allows funds to be accumulated over a number of years towards a larger project, and provides the flexibility to move projects between years as priorities are updated. While the reserve can drop below this amount, the intent would be to target to maintain a balance within range of this figure. Under the LTFP model, this target is estimated to be reached in 2020.

- **Maximum**
  As the purpose for this reserve has been expanded to include all tax-based infrastructure assets, staff recommend that a maximum be reviewed in conjunction with future iterations of the LTFP and annual reserve and reserve fund reports.

- **Annual Contribution**
  The contribution to the Capital Infrastructure Reinvestment Reserve Fund fluctuates annually depending on assessment growth projections. In addition the recommended change in the assessment growth policy, and the redirected contributions resulting from the Reserve consolidations will impact this figure. It is estimated that the ongoing contribution to the Capital Infrastructure Reinvestment Reserve Fund will average between approximately $5 and $7 million annually over the 10 year projection. Staff will continue to monitor this contribution level both through the annual reserve monitoring, through each budget process and the inclusion of any future funding increase (e.g. infrastructure levy).
4.6 **Winter Control Reserve**

- **Minimum**
  
  25% of the 5-year average winter maintenance cost – The recommended minimum balance is equal to be 25% of the 5-year average winter maintenance costs. Based on 2012-2016 data, the minimum is $500,000.

- **Target**
  
  50% of the 5-year average winter maintenance costs – This target would provide enough flexibility to potentially address a significant winter event. Based on 2012-2016 data, the target equals $1 million. While the reserve can drop below this amount, the intent would be to target to maintain a balance within range of this figure. Under the LTFP model, this target is estimated to be reached in 2021.

- **Maximum**
  
  $2 million – This reserve is intended to be used fund winter maintenance in the event of a shortfall in the Winter Control Operating Budgets. The Reserve aids in minimizing the financial implications resulting from extreme winter conditions. Once funding levels reach this level, funds would be redirected to the Tax Rate Stabilization Reserve. Under the LTFP model, this maximum is estimated to be reached in 2028, assuming no draws on the reserve in the interim.

- **Annual Contribution**
  
  As outlined in section 3.1, it is recommended that the Winter Control Reserve receive an annual allocation of $150,000.

5 **LTFP Summary**

The City of Waterloo's Council Approved 2018 budget reflects $211 million in operating expenses (including contributions to reserves) and $144 million in capital expenditures. In order to finance these outlays, in 2018, the City is projected to levy approximately $72 million in property taxes, with grants, user fees and reserve contributions accounting for the remaining revenue sources.

By 2042, the City’s operating expenses (including contributions to reserves) is projected to increase to $430 million annually in total for both the tax base and enterprise (e.g. water, wastewater and building standards) areas. The tax base operating budget can be seen in Figure 10 while the enterprise operating budget is shown in Figure 11. Both figures also include the annual operating impact of capital as the addition of new capital is specifically impacted by Council decisions. By 2042, the City’s annual municipal levy will be $175 million including the proposed levy and represents an average annual property tax increase of 2.1% between 2020 and 2042.
Figure 10: Projected Tax Base Operating Budget

Figure 11: Projected Enterprise Operating Budget
Figure 12 shows the year over year changes to the tax base operating expense lines. The base budget is impacted by increases related to inflation and through building in operating impacts of capital after the initial impact.

**Figure 12: Projected Tax Base Operating Expense Changes**

Figure 13 represents a similar chart for the Enterprises throughout the city although a fairly significant difference exists for this chart. The Water, Sanitary and Stormwater enterprises flow the impact of capital through the operating budget which can cause significant changes from year to year. When the approach of having a rate stabilization reserve for the three utilities is implemented for the 2020-2022 budget process, it is anticipated that capital flowing through the operating budget will be discontinued. This will stabilize the transfers to capital line for future LTFPs.
Based on the LTFP modeling, it is anticipated that $2 billion in capital expenditures will occur over from 2018-2042. Of the $2 billion, it is projected that almost $252 million will be funded through an infrastructure levy over the planning horizon. Figure 14 outlines the projected annual capital expenditures for 2017-2042.
Figure 15 identified two types of information based on the modeling undertaken for the LTFP. The first item is the bar chart identifying the proposed tax levy increase through the blue columns while the red columns represent the proposed infrastructure levy. On the other axis, the average annual impact per household is identified. This chart assumes that assessment is increased consistently with the balance of the assessment base.

Figure 15: Average Increase in Municipal Levies and Residential Taxes per Household

The development of the LTFP has followed the implementation stages identified below:

1. LTFP Model Development
2. Consultant Reserve Consolidation Recommendations
3. Staff’s Reserve Consolidation Recommendations
4. Consultant’s Target LTFP Scenario
5. Staff LTFP Scenario
   - Funding Scenarios including an infrastructure levy
   - Sustainable Reserve Funding
   - Policy Updates
6 Next Steps

One of staff’s key considerations in the development of the LTFP model and related plan is that the process needed to be useable and therefore repeatable. The model created through a combination of efforts from GMBP and staff meets that goal. This is a “made in Waterloo” model that is a living document that staff will be able to update the LTFP as decisions are made. Staff intend on updating the LTFP with each three year budget. This timeline will allow staff to align the LTFP updates with updates to the City’s AMP and Development Charges By-Law.

As staff update the LTFP model to reflect current information and decisions by Council, there are items that have come to light and will be investigated. These items are being identified as next steps and may be short term goals or longer term goals requiring more investigation and detail. There are two categories of next steps, funding tools for investigation and improvements to internal processes. Both are outlined below although they are not listed in any particular order:

6.1 Funding Tools for Investigation

6.1.1 Capital Overhead and Policy Review
FC-018 is a financial control policy that defines overhead, the corresponding overhead rate charged to capital projects and where the overhead will be recovered in the operating budget. Finance has initiated a comprehensive review of the policy and potential changes to the policy/procedure.

6.1.2 Water Services Contribution to Road Reconstruction Projects
Staff will investigate the potential opportunity of Water and Sanitary budget or reserves assisting in funding significant road reconstruction projects. A neighbouring municipality has utilized this approach for several years. The City of Waterloo had applied a version of this approach during the 2008-2010 budget process however the methodology became cumbersome and difficult to implement. Staff will consider alternative methodologies during the investigation stage.

6.2 Internal Process Improvements

6.2.1 LTFP Model Refinement
As new processes are developed, they are developed based on current and available information. As the City evolves and updates processes as well as information, the LTFP Model will continue to be refined and updated to meet the city’s needs. One of the first initial needs is the creation of PeopleSoft reports as they will assist in the updates made to budget information.
6.2.2 Preventative Maintenance
The LTFP has included an inflationary increase of 3% for preventative maintenance activities. If this inflationary increase is approved by the next Council through the 2020-2022 budget process and beyond, staff will need to review their preventative maintenance plans to reflect the additional funding. It is anticipated that increased preventative maintenance will maintain assets in a better condition for longer and help delay rehabilitation requirements.

6.2.3 Capital Project Sheet Update
The capital project sheet has evolved over time and staff are recognizing that a more significant update is required. One example of a change being proposed is the inclusion of asset ids to facilitate a simplified tracking process, as well as an easier reconciliation process between the project sheets and the AM System.

6.2.4 Development Charges By-Law Alignment
The alignment of the Development Charges Background Study with the three year budget development in 2020-2022, and every four years thereafter, which will provide and the opportunity to consider and prioritize growth and rehabilitation needs at the same time.

6.2.5 Development of Financial Models for Enterprise Units
The financial models that exist for Water, Sanitary, Stormwater and Parking are comprehensive in nature and are used to drive the information within the LTFP. An observation made through the LTFP development process is that the remaining four enterprise units (Building Standards, Cemetery, Rental Housing and Comprehensive Business Licensing) would benefit in having a comprehensive financial model. A model similar in nature to the existing financial models will assist the respective Directors in making operational and capital decisions with the best information available. In addition, these models would allow for a 10 year planning horizon that will drive rate recommendations and the LTFP.

6.2.6 Assessment Growth Project
Revenue Services has been working on a project that will assist staff in estimating assessment growth projections. It is anticipated that the project will be complete in August 2018. Updates to the LTFP model and including the updated projection methodology will occur at that time.

6.2.7 Annual Review of Asset Management Planning Progress
The Province of Ontario has enacted legislation O.Reg. 588/17: Asset Management Planning for Municipalities in December 2017. A component of the regulation is a requirement for Council to conduct an annual review of its asset management process on or before July 1 in each year. This requirement becomes fully required starting the year after the City approves an asset management plan is completed after July 1, 2024. While the requirement begins in 2024, staff will investigate reporting possibilities that can occur starting in 2019.
Appendix A

CORPORATE POLICY

Policy Title: Use of Budgeted Assessment Growth Revenue
Policy Category: Financial Control
Policy No.: FC-013
Department: Corporate Services
Approval Date: April 20, 2009
Revision Date: April 16, 2018
Author: Julie Koppeser
Attachments: Related Documents/Legislation: Ontario Municipal Act Regulation 403/02

Key Word(s): Assessment Growth

POLICY STATEMENT:
The Council for the City of Waterloo is committed to demonstrating financial leadership and sustainability. This policy assists in formalizing a defined and transparent process for providing sustainable funding.

PURPOSE:
The purpose of this policy is to outline the procedures and steps undertaken to ensure the City of Waterloo plans allocates assessment growth appropriately.

DEFINITIONS:

Assessment
The dollar value assigned to a property by MPAC for purposes of measuring applicable taxes. It is the price placed on a home by the corresponding government municipality to calculate property taxes.

Assessment Growth
The increased assessed property value as determined by MPAC. MPAC is the organization that provides province-wide property assessment system using current value assessment.

Capital Reserve Fund (CRF)
The capital reserve fund is the primary source of funding for capital projects.

**Capital Infrastructure Reinvestment Reserve Fund (CIRRF)**

The Capital Infrastructure Reinvestment Reserve Fund funds rehabilitation or replacement of capital infrastructure.

**SCOPE:**

This policy applies to all members of the City’s organization including members of Council, full, part-time and contract staff.

**POLICY COMMUNICATION:**

Council will receive this policy for approval. If approved, the policy will be posted on the city’s intranet. Staff will be advised of the policy via distribution to the Operational Leadership Team and Corporate Management Team.

**POLICY:**

**Assessment Growth Allocation**

- 10% of Assessment Growth is allocated to CRF
- 30% of Assessment Growth is allocated to CIRRF.
- 60% of Assessment Growth is allocated to the operating budget.

**COMPLIANCE:**

In cases of policy violation, the City may investigate and determine appropriate corrective action.
Policy Title: Surplus Allocation Policy
Policy Category: Financial Control
Policy No.: FC-003
Department: Finance
Approval Date: June 26, 2006
Revision Date: April 16, 2018
Author: Julie Koppeser
Attachments: Related Documents/Legislation:
FS2012-024, CORP2018-011
Key Word(s): Surplus, Allocation

POLICY STATEMENT:
Annual Allocation of Operating Surplus.

PURPOSE:
1) Provide a funding source for unanticipated one-time extraordinary expenditures (Tax Rate Stabilization Reserve)
2) Provide a funding source for reserve that are below their recommended balance as recommended by the annual Reserve and Reserve Fund Report to Council.
3) Ensure surpluses are not spent until they are realized

DEFINITIONS:
N/A

SCOPE:
All Departments.

POLICY COMMUNICATION:
N/A

Mandatory Policy, Municipal Act: No
Policy Administration Team, Review Date:
Corporate Management Team, Review Date:
POLICY:

1) That the required amount of the final reported surplus be allocated to the reserves and reserve funds as requested in the annual Reserve and Reserve Fund Report.

2) That an annual amount of $200,000 be allocated to the RIMPK Investment reserve.

3) That 50% of the remaining reported surplus will be allocated to the Tax Rate Stabilization Reserve for future one time expenditures;

4) That 50% of the remaining reported surplus will be allocated to the Capital Infrastructure Reinvestment Reserve.

5) No use or allocation of the surplus shall occur until the final surplus is reported to Council by staff.

COMPLIANCE:

In cases of policy violation, the City may investigate and determine appropriate corrective action.
POLICY STATEMENT:
The Council for the City of Waterloo is committed to demonstrating financial leadership and sustainability. This policy assists in formalizing a defined and transparent process for the development and funding of capital projects.

PURPOSE:
The purpose of this policy is to govern the items that will assist in creating the capital budget.

DEFINITIONS:
Capital Project:
A capital project is an item identified and funded through the Council Approved Capital Budget or an item funded through the Financial Requests Outside the Budget Process.

Overhead:
A fee applied via a percentage to reimburse the operating for internal resource support.
Internal Resource Support:
Internal Resource Support can include but is not limited to: design services, project management, contract administration, review of reports.

SCOPE:
This policy applies to all members of the City’s organization including members of Council, full, part-time and contract staff.

POLICY COMMUNICATION:
Council will receive this policy for approval. If approved, the policy will be posted on the city’s intranet. Staff will be advised of the policy via distribution to the Operational Leadership Team and Corporate Management Team.

POLICY:
1. That projects appearing in the Capital Budget adhere to the minimum balance threshold identified in the Council approved policy, Definition of Capital (FC-010).
2. Projects will be reviewed and use the criteria below to determine to assist in the decision making of identifying which reports would be automatically funded post Budget Approval and which reports would need to return to Council with a report before funding is released:
   a. Financial Materiality
      i. Projects receiving funding greater than $5M over the 3 year period
   b. Non-routine in nature
      i. e.g. construction of a City facility, development of a Community Improvement Plan (CIP)
   c. High Public/Council Interest
      i. e.g. Mary Allen Park, King Street Streetscape
   d. Request by Council
3. That all reserve funds financing capital expenditures must, at a minimum, have a positive balance, with the exception of Development Charges reserve funds which are permitted to carry a negative balance to be recouped over the course of Background Study projection.
4. That expenditures in the capital budget funded through the Capital Reserve Fund or Capital Infrastructure Reinvestment Reserve be inflated according to the third quarter, Toronto construction price index and updated with each budget process.
5. That all non-routine fleet replacement & expansion expenditures be submitted to Council for approval prior to proceeding.
6. That transfers from the Operating Budget include the following;
   a. That an annual amount of $62,000 be set aside in the Operating Budget for the purpose of purchasing Environmentally Sensitive Lands.
b. That an annual contribution of $20,000 from the Operating Budget be set aside in the General Operating Contingency Reserve for the purpose of environmental cleanup.

c. Each year as part of the approved budget strategy, Assessment Growth will be allocated as per the Use of Budgeted Assessment Growth policy (FC-013).

d. That the contribution to the Capital Infrastructure Reinvestment Reserve Fund from the City Centre Operating Budget is $191,436 and the Contribution to the Operating Budget from the Capital Infrastructure Reinvestment Reserve Fund is $171,000.

e. The Capital Infrastructure Reinvestment Reserve Fund ("CIRRF") will receive annual funding of $311,000 from the Fire Services Operating Budget.

f. That the Capital Reserve Fund will receive an annual contribution of $165,000 from the Operating Budget for new assets or studies.

g. That the Capital Infrastructure Reinvestment Reserve Fund will receive an annual contribution of $55,000 from the Operating Budget for rehabilitation of existing assets.

7. All proposed capital expenditures accessing Industrial Land Account (ILA) funding are subject to a staff report request to Council and Council approval, prior to commencement of the project, unless approved as Routine.

8. For Capital Project Overhead charges related to projects, refer to the Capital Overhead policy (FC-018).

COMPLIANCE:

In cases of policy violation, the City may investigate and determine appropriate corrective action.
<table>
<thead>
<tr>
<th>Item #</th>
<th>Council Feedback</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Be cautious about the impact of ramping up capital as it relates to staff capacity as well more importantly to the community’s construction fatigue.</td>
<td>See section 2.3.5 and 2.3.6</td>
</tr>
<tr>
<td>2.</td>
<td>Add Context of Sustainability Actions Undertaken to Date by Council.</td>
<td>Council has approved the implementation of several sustainability actions in recent years. Examples have been included in section 1.2.</td>
</tr>
<tr>
<td>3.</td>
<td>Build in Efficiencies</td>
<td>The LTFP model is a “living document” that will be maintained as decisions are made. Efficiencies undertaken by the City will be updated in the LTFP model to ensure they are captured in future LTFP iterations. Examples of historical efficiencies approved by Council are identified in section 1.2.</td>
</tr>
<tr>
<td>4.</td>
<td>Transferring Assets to the Region (e.g. Columbia St)</td>
<td>Discussions around asset transfers will be investigated.</td>
</tr>
<tr>
<td>5.</td>
<td>Levers to Impact the Budget</td>
<td>The LTFP is a series of moving parts that includes various levers that can be adjusted. Examples of levers are capital inflation index, preventative maintenance inflation index and timing of capital projects.</td>
</tr>
<tr>
<td>6.</td>
<td>Levy Options</td>
<td>Alternative levies investigated include 1% annually for 15 years and 2% annually for 9 years. Projected Asset Performances graphs can be found in Appendix F.</td>
</tr>
<tr>
<td>7.</td>
<td>Capital Project Deferral</td>
<td>The LTFP process is not intended to replace the budget process and decisions to defer capital projects would take place either through the budget process or DC Bylaw update.</td>
</tr>
<tr>
<td>8.</td>
<td>Clarify the Relationship between the Levy and Enterprise Rate</td>
<td>The levy will provide additional funding for tax base assets. Enterprise areas (e.g. water, stormwater) will continue to fund the rehabilitation and replacement of infrastructure assets. Additional information is included in section 2.4.7</td>
</tr>
<tr>
<td>9.</td>
<td>Consider these Funding Options: Grants, WNH Investment, Debt, RIM Debt Charges</td>
<td>See section 2.4.3, See section 2.4.4, See section 2.4.5, See section 2.4.7</td>
</tr>
</tbody>
</table>
Snapshot of the Local Share Analysis

Municipal governments provide many critical daily services. Across Ontario, municipal costs and responsibilities are growing, and municipal revenue isn’t keeping pace. Based on in-depth financial analysis and outreach, the AMO Board of Directors is seeking the input of municipal elected officials on a proposed new 1% sales tax, dedicated to local infrastructure investment. This 1% would help close the municipal fiscal gap, reduce pressure on property taxes and create more stable funding.

**Property Taxes Represent the Largest Revenue Source for Ontario Municipalities**

Revenue Sources as Percentage of Total Revenues (2009-2013 Average)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>45%</td>
</tr>
<tr>
<td>Transfer Payments</td>
<td>27%</td>
</tr>
<tr>
<td>User Fees and Service Charges</td>
<td>15%</td>
</tr>
<tr>
<td>Development Charges</td>
<td>1%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>10%</td>
</tr>
</tbody>
</table>

As a starting point, property taxes and transfers from the provincial and federal governments account for almost three-quarters of municipal revenue, sector wide.

**Future spending need over 10 years**

Municipal operating costs are growing at $1 billion annually, just to maintain current services. Costs are driven by factors such as rising insurance and electricity rates, increased demand for services, provincial legislation and areas like policing. We own two-thirds of all public infrastructure, which is also a significant cost driver over the next 10 years.

<table>
<thead>
<tr>
<th>Estimated Need in Next 10 Years</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Operating Expenditures</td>
<td></td>
</tr>
<tr>
<td>Annual Growth of $1 billion (trend)</td>
<td>$55 billion</td>
</tr>
<tr>
<td>Increase in Capital Expenditures</td>
<td>$60 billion</td>
</tr>
<tr>
<td>$6 billion required each year for municipalities to close the estimated $60 billion infrastructure gap over 10 years (PMFSDR)</td>
<td></td>
</tr>
<tr>
<td>Social Housing Repair Backlog</td>
<td>$1.5 billion</td>
</tr>
<tr>
<td>(HSC Estimate) Repair existing only, funds no new units</td>
<td></td>
</tr>
<tr>
<td>Social Housing 10-Year Plan to Expand Supply</td>
<td>$8 billion</td>
</tr>
<tr>
<td>1/3 of Waitlist (57,000 units, est.)</td>
<td></td>
</tr>
<tr>
<td>Arenas, Libraries, Recreation Facilities</td>
<td>$7.5 billion</td>
</tr>
<tr>
<td>(AMO) In the absence of consolidated information on municipal budgeting intentions, $750 million annually based on accounting values</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$132 billion</td>
</tr>
<tr>
<td>Or $13.2 billion per year in addition to 2015 spending</td>
<td></td>
</tr>
</tbody>
</table>
What is the gap?

Property taxes and user fees will generate $2.9 billion per year on average for 10 years, with increases for inflation at 1.8%. Another $5.3 billion will be generated annually, assuming that the provincial and federal governments uphold current funding commitments – like cost share programs, uploads and infrastructure – into the future. The remaining gap is estimated to be $4.9 billion annually for the next 10 years to maintain current service levels and finance infrastructure needs.

**Average Annual Change Over 2015 (2016-25)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Unfunded Gap</th>
<th>Federal Government</th>
<th>Provincial Government</th>
<th>Property Tax</th>
<th>User Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$0.9B</td>
<td>$0.0B</td>
<td>$0.0B</td>
<td>$0.0B</td>
<td>$0.0B</td>
</tr>
<tr>
<td>2020</td>
<td>$2.0B</td>
<td>$2.7B</td>
<td>$2.6B</td>
<td>$4.9B</td>
<td>$0.9B</td>
</tr>
<tr>
<td>2025</td>
<td>$4.9B</td>
<td>$2.6B</td>
<td>$2.0B</td>
<td>$2.7B</td>
<td>$0.9B</td>
</tr>
</tbody>
</table>

Can property taxes and user fees close the gap?

If higher property taxes and user fees are the only revenue option, municipal property tax bills and user fees might need to double by 2025. That represents a revenue increase of at least 8% each year for the next decade to bridge the $4.9 billion annual gap.
Debt and deficits

Increases in provincial and federal support is subject to both governments own fiscal challenges and spending priorities, which can change regularly. Forecasts by the Financial Accountability Office of Ontario over the last two years suggest that a return to a balanced provincial budget may be short-lived. Ontario’s accumulated debt was $341 billion for 2017-18. In both the 2016 and 2017 Provincial Budgets, the highest annual growth expense was “Interest on Debt.” The Province notes that its contribution to municipal governments is $4 billion, factoring in the value of the uploads and funding programs.

Municipal governments have been taking on more debt. However, debt can only finance capital projects, not operational costs. Not all municipalities, especially those with limited fiscal capacity, can afford to take on debt. The right balance of intergenerational equity is another key consideration. Balancing budgets can mean service cuts, which are unpopular and difficult to do.

Municipal Debt is Growing

![Graph showing municipal debt growth from 2009 to 2014](chart)

New revenue and tax tool options

AMO reviewed more than 40 possible new revenue tools that could help municipal governments achieve financial sustainability. All potential revenue options were evaluated against the following criteria:

1. **Sufficiency**  
   - To what extent does the option address the fiscal gap?

2. **Public Accountability**  
   - Is there a rationale for the new tax that is consistent with how funds will be used? Does it provide a measure of public accountability?

3. **Impacts: Geographic, Economic, Social**  
   - Geographic: Does it benefit all regions and types of municipalities with fairness and equity?  
   - Economic: Will it impact the competitiveness of the province?  
   - Social: Does it change people’s behaviour? Are protections available for lower income Ontarians?

4. **Administrative Efficiency**  
   - Is it efficient in terms of implementation and collection?

5. **Municipal Role**  
   - Would municipal government have authority to create and manage the new tax?
Many of the options were not useful province-wide or did not generate enough revenue to make substantial progress against the gap. The sales tax option rated well against a range of criteria and would not put additional pressure on the province’s treasury.

### Criteria Scoring Chart for Some of the 44 Options

<table>
<thead>
<tr>
<th>Option</th>
<th>Estimated Revenue</th>
<th>Sufficiency</th>
<th>Public Accountability</th>
<th>Impacts: Geographic</th>
<th>Impacts: Economic</th>
<th>Impacts: Social</th>
<th>Administrative Efficiency</th>
<th>Present Municipal Role?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1% HST Increase</td>
<td>$2.5B</td>
<td>High</td>
<td>Yes</td>
<td>No</td>
<td>Some</td>
<td>Some</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Municipal Fuel Tax</td>
<td>$200M - $2B</td>
<td>High</td>
<td>Yes</td>
<td>Yes</td>
<td>Some</td>
<td>Some</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Income Tax</td>
<td>$1.4 - $2.9B</td>
<td>High</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Land Transfer Tax*</td>
<td>$480M - $1.3B</td>
<td>Moderate</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Vehicle Registration Fee*</td>
<td>$409-$819M</td>
<td>Limited</td>
<td>Yes</td>
<td>Yes</td>
<td>Some</td>
<td>Some</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Alcoholic Beverages Tax*</td>
<td>$375M</td>
<td>Limited</td>
<td>Yes</td>
<td>Yes</td>
<td>Some</td>
<td>Some</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Tobacco Tax*</td>
<td>$236M</td>
<td>Limited</td>
<td>Yes</td>
<td>Yes</td>
<td>Some</td>
<td>Some</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

*These are Toronto's tax tools and assuming the province transferred them, their use would be dependent on a municipal decision to implement them. The estimated revenue reflects implementation if done province-wide.

A 1% HST increase meets the criteria better than all other options. The 1% would be added to the provincial portion (8%) of the existing 13% Harmonized Sales Tax (HST) rate in Ontario. After adjustments for collection, administration, and providing tax credit allowances for low income Ontarians, it could generate $2.5 billion.

### What could this mean for you?

There are countless possible allocation options. Some are simpler, such as population and household, and some have very complicated formulas based on numerous variables. To better understand the potential help a 1% dedicated sales tax might mean for individual municipalities, AMO used a per household formula, based on a sliding scale. The results of this allocation method for your municipal government is reflected in your letter. In situations where households are located within a two-tier municipality, the current share of upper tier revenue was used as the basis for sharing the dollars. The methodology achieves a base line for all communities and reflects the service role that households (both permanent and seasonal) place on municipal governments and acknowledges economies of scale for municipalities of different sizes.
Province-wide, this 1% HST proposal would achieve new revenue that is on average 14% of a municipal government’s own-source revenues. From a regional lens, the allocation methodology demonstrates that an equitable distribution is possible across the province. It would provide a meaningful infusion of new revenue to fix, expand and build new infrastructure across Ontario’s 444 municipal governments.

**Regional Distribution**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Inside the Greater Toronto and Hamilton Area (GTHA)</td>
<td>$9,424,700,916</td>
<td>$1,108,898,818</td>
<td>$381,453,583</td>
<td>6,954,041</td>
</tr>
<tr>
<td>Percentage of the Provincial Total</td>
<td>52%</td>
<td>45%</td>
<td>52%</td>
<td>52%</td>
</tr>
<tr>
<td>Outside the GTHA (Rest of the Province)</td>
<td>$8,684,284,872</td>
<td>$1,369,774,081</td>
<td>$358,648,820</td>
<td>6,403,156</td>
</tr>
<tr>
<td>Percentage of the Total</td>
<td>48%</td>
<td>55%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>Provincial Total</td>
<td>$18,108,985,788</td>
<td>$2,478,672,899</td>
<td>$740,102,403</td>
<td>13,357,197</td>
</tr>
</tbody>
</table>

**Current sales tax rates in Canada**

Sales tax rates across Canada vary according to provincial taxation policies. A 1% increase to the provincial portion of the HST would move the HST to 14%, a combined rate Ontario has seen previously. Five other provinces would continue to have higher sales tax rates than Ontario, including Quebec.

**Applicable Sales Tax in Canada**

- Prince Edward Island: 15%
- Nova Scotia: 15%
- Newfoundland and Labrador: 15%
- New Brunswick: 15%
- Quebec: 15%
- Ontario: 13%
- Manitoba: 13%
- British Columbia: 12%
- Saskatchewan: 11%
- Yukon: 5%
- Northwest Territories: 5%
- Alberta: 5%

**Now what?**

Municipal governments need a variety of dependable revenue sources to meet the needs of the future. A new 1% sales tax dedicated to municipal infrastructure could help fund critical municipal services like roads, bridges and transit, and community facilities including social housing. It could help reduce the upward pressure on property tax bills, diversify local funding, and provide a regular additional source of revenue. It would offer a significant means to fix chronic under-investment in municipal infrastructure across Ontario. It is also a highly efficient method of taxation.

For a full copy of the Report, please visit [www.amo.on.ca/localshare](http://www.amo.on.ca/localshare).
Appendix F – Alternative Levy Scenarios

Alternative 1 – 1% Infrastructure Levy

Alternative 2 – 2% Infrastructure Levy