

Tax Base Issue Papers

IP1-IP4

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ISSUE PAPER: Maintaining Existing Service Levels (Base) (IP1)

Related Budget Request(s):

- B1-B47

Issue/Background:

Base budget increases to maintain existing service levels are increases relating to inflationary costs, ongoing contributions to the reserves to support capital maintenance costs, and any additional resource needs resulting from a higher demand for services. This increased demand for services is primarily the result of growth in the population and as such, a portion of the assessment growth dollars is one of the funding sources for this change. This increase is also funded by a tax increase close to inflation, and offset by efficiencies from operations and any sustainable true ups between budget and actual expenditure levels.

The 2020 to 2022 budget includes a tax increase on average of 1.1% for each of the three years, for base budget increases to maintain existing service levels. The budget increases to maintain existing service levels are in the 6 main categories of:

- Increases associated with ratified labour agreements:** As the city is a service provider with over 740 full time equivalents (FTE) labour costs are the largest expense. In order to maintain current service delivery in to the future, additional costs determined by ratified agreements are included in the proposed budget.
- Contributions to Capital Infrastructure Reinvestment Reserve Fund (CIRRF):** The city's inventory of assets continues to grow either because of increasing population (paid for primarily through DCs) or because of changing needs and desires (paid for primarily by CRF and other non-DC reserves). The future rehabilitation or replacement of these assets (regardless of whether they were originally funded by DCs) is funded by the Capital Infrastructure Reinvestment Reserve Fund (CIRRF). Ongoing annual funding (30% of assessment growth) replenishes CIRRF in order to ensure the assets that are currently built or that will be built, will continue to exist in the community at a similar standard, hence maintaining service levels. In addition to assessment growth, the operating budget also

provides annual funding for inflation to CIRRF in order to ensure that the dollars budgeted are keeping pace with inflation so that intended project scopes and therefore service levels are not negatively impacted by rising costs of construction.

3. **Contributions to Capital Reserve Fund (CRF):** As our city grows (number of people) and changes (demographics), new assets are constructed and new services are delivered. While the one-time cost of building new assets on account of growth, is currently paid for primarily by development charges (DC), tax payers do contribute 10% towards discounted (soft services) such as parks, indoor recreation, libraries, cemeteries, and parking. This money comes from a combination of taxes & assessment growth, whereby 10% of assessment growth is transferred to CRF. Tax dollars are also allocated to CRF to keep pace with inflation so that intended project scopes are not negatively impacted by rising costs of construction.
4. **Conversion of contract to permanent:** Some services have been established on a temporary basis within the last few years, either because a pilot was conducted to determine the viability of the service/program or because the permanent funding was not available at the time. The proposed budget includes the conversion of several existing services/programs from temporary to permanent. For example; Asset Management Analysts, Procurement Specialist.
5. **Un-intended erosion of existing services** - Some services exist on a permanent basis but the funds allocated towards those services have not kept pace with the demand of a growing and changing city. As a result, as time goes on, the service is slowly eroded and a tipping point occurs when it becomes apparent that without additional funding, the original service level is compromised and cannot be maintained. For example; Traffic technician, Systems/Network Analysts, Supervisors of building maintenance, Supervisor of Parks.
6. **Contracted services with external parties** – For example, the City has an agreement with the K-W humane society to provide various services including; enforcing provisions of City's Animal Control By-law and Dangerous Dogs Designation By-law, promoting City's dog licensing program, administering a shelter service for lost or surrendered animals, providing pet adoption services, and participating in the delivery of responsible pet ownership education. As their costs to deliver the same service rises over time, the city budgets to fulfill the terms of the agreement accordingly.

Key Points:

- Funding to maintain existing service levels (base) into the future is a core element in the budget
- Funding is allocated to:
 - Fulfill internal labour and external contractual agreements
 - Rehabilitate existing assets and contribute to building new assets
 - Convert contract employees to permanent
 - Resolve historical funding shortfalls in base services
- A tax increase on average of 1.1% per year for the three years, relates to maintaining existing service levels.

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ISSUE PAPER: Operating Funding to Support New Capital Assets & Growth (IP2)

Related Budget Request(s):

- G1-G18

Issue/Background:

Operating impact requests are the operating cost of capital projects and growth. The impacts of capital are generated as a result of previously approved capital projects or capital projects included within the capital budget that will have an impact to the operating budget. It also includes growth related operating costs. Examples include increased grass cutting and garbage collection at a new park, increased winter control cost related to adding a new bike lane as part of a road reconstruction project or the maintenance, electricity and custodial service required at a new recreation facility.

The proposed operating budget includes an investment of \$1.6M of annual funding by 2022 in support of capital projects and growth as summarized by Table #1 below.

Table #1: Operating Impact of Capital & Growth:

Budget Category	2020 Proposed Budget (\$)	2021 Proposed Budget (\$)	2022 Proposed Budget (\$)	TOTAL (\$)
Operating Impact of Capital & Growth	524,000	670,716	410,157	1,604,873

Operating Impacts of Cap & Growth Category Investments Highlights

G3 – East Side Branch Library Op Impacts - Use of Assessment Growth - \$172,440

On November 20, 2017, Council approved CORP2017-085 the East Side Branch Library (ESBL) Feasibility Study and approved in principle, the East Side Branch Library funding strategy. The funding strategy proposed that 50% of the estimated operating funding is funded through the allocation of assessment growth from 2018-2022 and the remaining 50% is generated from tax increases above inflation in 2020 through 2022 (S2).

Previously Assessment Growth allocations of \$230,000 in 2018 and \$90,000 in 2019 were approved. For 2020-2022 the ESBL Op Impacts - Use of Assessment Growth (G3) amounts are \$87,440 in 2021 and \$85,000 in 2022.

It should be noted that the dollars shown in the operating budget reflect the approach taken to raise the appropriate funds over a 4 year period in advance of the ESBL opening. The Operating Impact of Capital schedule in the capital budget book for Library reflects the funding being provided to the Library, based on the opening date and schedule. Hence the financial information will be different.

G4 – Waterloo Public Library Funding Agreement - \$517,447

On November 20, 2017, Council approved CORP2017-076, Library Funding Agreement between the Waterloo Public Library Board (WPL) and the Corporation of the City of Waterloo. The funding agreement is in effect for 10 years, from January 1, 2019 to December 31, 2028.

This agreement was the result of a collaborative effort by WPL and City staff to create one cohesive and comprehensive document that replaced two existing agreements. The funding agreement is intended to provide the necessary operating funds for the WPL to operate all the library locations although new branches or expansion of services will be submitted separately for consideration through the budget process.

For 2020-2022 the Waterloo Public Library Funding Agreement increases (G4) are \$172,742 in 2020, \$162,347 in 2021 and \$182,358 in 2022.

G5-G13, G15-G18 Op Impacts of Capital Various Projects - \$965,571

During the development of the 2016 AMP, a methodology was developed for the City to estimate operating impacts of capital. This approach was used for the 2020-2022 budget and allows staff to utilize a consistent approach to developing operating impacts of capital when preparing the individual project sheets. For 2020-2022, various capital projects contain operating impacts which have been incorporated into the proposed operating budget and can also be found under the Operating Impact of Capital schedule in the capital budget book. These include but are not limited to:

- Ref #123 - West Side Employment Lands Servicing (G6) – operating costs include for example, road maintenance, winter control, street light electricity and streetscape/shrub Mtce.
- Ref #235 - Splash Pad Construction (G8) - operating costs include for example, maintenance of area in/around the splash pad and bulk water purchase.
- Ref #251 - Waterloo Park Lake Frontage Reconstruction (G8) - operating cost include for example, park maintenance and landscaping.
- Ref #447 - Infrastructure Virtualization (G12) - operating costs include for example, annual software fees and virtualization server repairs and Mtce.
- Ref #551 - Excavation Fill Pile Clean-up & Storage Facility Construction (G15) - operating costs include for example, maintenance of the excavation fill pile and landfill tipping fees.
- Ref #631 - Station Area Planning Implementation (G17) - operating costs include for example, maintenance of new trails and Active Transportation infrastructure.
- 2019 Ref #341 (previously approved) - Waterloo Memorial Recreation Complex Addition and Repurposing (G10) - operating costs include for example, building maintenance, security, and utilities for the expanded WMRC being offset by increased programming revenue.

Key Points:

- The proposed budget includes \$1.6M annual investment (by 2022) for operating cost of capital projects and growth
- This additional investment equates to an increased tax impact of 0.7% in 2020, 0.8% in 2021 and 0.5% in 2022

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ISSUE PAPER: Service Level Changes (IP3)

Related Budget Request(s):

- S1-S8

Issue/Background:

Service level changes are those that are brought about by changing needs and desires in the community, which in turn propel a change in the service offerings/programs delivered by the City. Council has developed priorities for their remaining term of Council as identified within the strategic plan. In some cases, additional funding is required in order to deliver on Council's priorities.

The proposed operating budget includes an investment of \$1.1M of annual funding by 2022 in the strategic pillars of 1) Equity, inclusion and a sense of belonging and 2) Healthy community & resilient neighbourhoods. In order to increase service levels in these areas, which are priorities of Council, additional funding is required as follows:

Equity, inclusion and a sense of belonging: \$249,000

- S3 – Director of Equity and Innovation
- S6 – Diversity, Equity & Inclusion Community Support Resources
- S7 – Truth and Reconciliation Action Plan Implementation

Healthy community & resilient neighbourhoods: \$813,000

- S1 – Canada Day Programming Event
- S2 – East Side Branch Library (ESBL) operating Impacts – portion above inflation
- S5 – Neighbourhood Strategy Implementation
- S8 – AMCC Part-time Customer Service

Supporting the Strategic Plan: \$50,000 S4 – Part-time Associate City Solicitor – Prosecutor

This additional investment of \$1.1M equates to a total tax increase of 1.5% by 2022. Specifically, the proposed budget includes \$789,000 of funding in the first year (2020) for all initiatives listed above. The AMCC Part-time Customer Service position (summer months), is identified for funding only in 2021, following the completion of building the actions sports park and splash pad at the facility. Also in 2021 is an additional small contribution for the neighbourhood strategy and the remainder of the phased funding for the ESBL in both 2021 and 2022. The ESBL operating impact is funded 50% from tax increases above inflation and 50% from assessment growth. Report CORP2017-085 outlines the Council approved operating funding strategy for the ESBL.

Key Points:

- The proposed budget includes \$1.1M annual investment (by 2022) to increase service levels in equity, inclusion and sense of belonging, as well as healthy community and resilient neighbourhoods
- This additional investment equates to an increased tax impact of 1.5%
- Specifically, there is \$789,000 allocated in the first year of the budget (2020) in order to signal the importance and move forward on these priorities

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ISSUE PAPER: Increased Infrastructure Investment (IP4)

Related Budget Request(s):

- I1-I7

Issue/Background:

Increased Infrastructure Investments are related to addressing the current infrastructure funding gap along with providing related staffing resources and increased preventative maintenance funding. The City's annual estimated infrastructure funding gap was recently confirmed to be \$20 to \$23 million for all infrastructure asset classes (\$17 million for Tax Base) as per report CAO2019-032 Asset Management Update.

In accordance with the City's first Long Term Financial Plan (LTFP) report which directed staff to consider increased infrastructure funding as part of the 2020-2022 budget process, the proposed 2020-2022 budget includes measured increased infrastructure reinvestment funded through tax increases above inflation and through a portion of the Waterloo North Hydro dividend revenue being directed to CIRRF. The 2020 to 2022 budget includes a tax increase on average of 1.2% for each of the three years, for increased infrastructure investments. This is summarized below in Table #1.

Table #1 - Increased Infrastructure Investments:

Category	Ref #	Budget Request Name	Net Annual Impact 2020 (\$)	Net Annual Impact 2020 (%)	Net Annual Impact 2021 (\$)	Net Annual Impact 2021 (%)	Net Annual Impact 2022 (\$)	Net Annual Impact 2022 (%)	2020-2022 Total Impact (\$)	FTE
Infrastructure Investment	I1	Asset Management Analyst	-	0.0%	54,851	0.1%	-	0.0%	54,851	1.0
	I2	Data Management Analyst	54,851	0.1%	-	0.0%	-	0.0%	54,851	1.0
	I3	Increased Preventative Mtc Funding for Env & Parks	135,000	0.2%	-	0.0%	-	0.0%	135,000	
	I4	Increase Preventative Maintenance Funding for Facilities	-	0.0%	-	0.0%	145,000	0.2%	145,000	1.0
	I5	Procurement Specialist Position	92,806	0.1%	-	0.0%	-	0.0%	92,806	1.0
	I6	Increased Infrastructure Funding as per LTFP (CIRRF)	601,993	0.8%	721,832	0.9%	1,211,536	1.5%	2,535,361	
		Increased Infrastructure Funding as per LTFP (WNH Div)	(374,825)	-0.5%	-	0.0%	-	0.0%	(374,825)	
	I7	Increased Preventative Mtc Funding for Transportation	-	0.0%	140,000	0.2%	-	0.0%	140,000	1.0
Infrastructure Investment Total			509,825	0.7%	916,683	1.2%	1,356,536	1.6%	2,783,044	5.0

1. Increased Infrastructure Funding as per LTFP (CIRRF) (I6):

The proposed 2020-2022 budget has been prepared with measured increased infrastructure investment funded through tax increases above inflation and through a portion of Waterloo North Hydro (WNH) Dividend revenue being directed to CIRRF. This is recommended via budget request (I6) Increased Infrastructure Funding as per LTFP and if approved would see a net increase for CIRRF of \$2.5 million by 2022 annually.

For 2020, a 0.8% increase in infrastructure funding (allocated to CIRRF) is being recommended with 0.3% funded from a tax increase above inflation and 0.5% funded through a portion of Waterloo North Hydro Dividend revenue being directed to CIRRF. For 2021 a 0.9% increase and 2022 a 1.5% increase in infrastructure funding (allocated to CIRRF) is being recommended both funded from a tax increase above inflation.

Based on current funding levels, just over 30% of the City's tax base funded infrastructure assets are currently in poor or very poor condition, but more importantly, it is estimated that without infrastructure funding increases, in 25 years, approximately 75% of the assets will be in poor or very poor condition. With approval of the proposed 2020-2022 recommended increased infrastructure funding (I6), it is estimated that projected asset conditions will improve slightly over the current projections and is projected to result in 70% of the assets being in poor or very poor condition in 25 years (versus 75%).

It is important to note that this improved projected condition only includes the proposed increased infrastructure funding that is contained within this budget approval window (2020-2022). It does not include any additional infrastructure increases (2023 onwards) as those future increases are outside the current budget approval window and Council term. As outlined in report CORP2019-075 – Long Term Financial Plan Update, the proposed increase to infrastructure funding will need to continue as part of future budget cycles for Council's approval in order to set the City of Waterloo on a path towards achieving the long term increased infrastructure funding target level by 2032.

2. Staff Resources Related to Infrastructure (I1, I2, I5):

The 2016 AMP approved by Council, included 3-4 positions per Council term in order to assist with the implementation of additional capital reinvestment activities. Funding for these additional staff resources is recommended to come out of the increased infrastructure investment funding. Increased staff resources may include, however are not limited to, project management, operational, procurement, asset management, information technology and finance.

For 2020-2022, three positions are being included in the proposed operating budget partially funded by the increased infrastructure investment and also have a proposed Enterprise contribution based on the estimated level of support that will be provided to the Enterprise areas.

Asset Management Analyst (I1)

Securing a permanently funded and dedicated Asset Management Analyst is important to successfully operationalize and sustain asset management activities and information. This position is responsible for working with subject matter experts throughout the city to confirm asset inventory data and providing asset needs analysis to assist fact based decision making throughout the City. Permanent funding will provide for cross training opportunities amongst the AM section, provide additional flexibility to respond to information requests as well as provide an important resource to gather the information and data necessary for meeting the various legislative requirements outlined in Ontario Regulation 588/17. Without this position, updates for inventory and condition data within the City's decision support system (DSS) will be delayed thereby impeding the City's progress towards complying with Ontario Regulation 588/17 timelines and requirements.

Data Management Analyst (I2)

The Data Management Analyst position is critical to successfully operationalize and sustain asset management activities and information. This position is responsible for the programming and data modeling aspects of the system while providing system generated quality assurance processes. This work ensures the DSS is maintained with the best available asset information for fact based decision making. Without this position, programming and modelling will require the assistance of a consultant and will result in delays that will impact the 2020 asset management plan and progress towards complying with Ontario Regulation 588/17 timelines and requirements.

Procurement Specialist Position (I5)

The procurement team facilitates the purchase of goods, services and construction in support of essential City services and projects. In addition to spending public funds responsibly in a manner that is fair, open and transparent, a strong procurement team needs sufficient skilled team members to deliver strategic value to the procurement process. Procurement team members are required to understand project requirements and effectively communicate them to internal stakeholders and external suppliers. Having insufficient resources to support the procurement activities restricts the team to performing transactional administrative procurement tasks only, which causes delays in the procurement process, affects project schedules and increases the risk to the City.

It also limits the ability of the procurement team to provide strategic support through the introduction of new technologies and initiatives, such as a Social Procurement Program that would leverage city spending to integrate social value through the procurement process and supplier performance management.

3. Increased Preventative Maintenance Activities (I3, I4, I5):

Traditionally, preventative maintenance activities have been included in the operating budget. However, over the past few decades, maintenance funding has increased slower 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 required. The LTFP Steering Committee identified the need to include annual increases to preventative maintenance accounts to help assets reached their intended useful life (avoiding premature asset failure).

As such as part of the 2020-2022 proposed operating budget, increases to preventative maintenance activities have been included. The strategy identified was to increase preventative maintenance funding at the same inflation rate (2.94%) as applied to CRF & CIRRF as per policy FC-018.

A line by line operating budget analysis was prepared by Finance and Asset Management staff identifying the City's current preventative maintenance accounts. Across all division, the City budgets \$8.03M in preventative maintenance activities with the tax base preventative maintenance portion being \$4.6M. Applying this 2.94% inflationary rate to current preventative maintenance accounts, the recommended increase is \$135,000-\$145,000 annually in tax base preventative maintenance funding for 2020-2022. Each of the three major asset classes (Parks, Roads & Sidewalks and Facilities) were provided with 1/3 of the proposed funding during the next years as summarized as per Table 2.

Table #2 – Increased Preventative Maintenance Funding:

Ref #	Division	Budget Request Name	2020 (\$) Amount	2021 (\$) Amount	2022 (\$) Amount
I3	Environment & Parks	Increased Preventative Mtc Funding for Env & Parks	135,000	-	-
I4	Fac Design & Mgmt	Increase Preventative Maintenance Funding for Facilities	-	-	145,000
I7	Transportation Services	Increased Preventative Mtc Funding for Transportation	-	140,000	-

Key Points:

- Increased infrastructure investments are needed to addressing the current infrastructure funding gap along with providing increased infrastructure related staffing resources and increased preventative maintenance funding
- A tax increase on average of 1.2% per year for the three years, relates to increased infrastructure investments.