

<p>8. LONG RANGE FINANCIAL PLAN V – TAX SUPPORTED CAPITAL  PLAN FINANCIER À LONG TERME V – IMMOBILISATIONS FINANCÉES PAR LES TAXES</p>
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### COMMITTEE RECOMMENDATIONS

That Council approve that in order to address the funding target as recommended in the *Comprehensive Asset Management Program* report, the following funding strategies be approved for consideration as part of future budgets:

1. That the use of debt for tax supported capital works continue to correspond to the amount of debt retiring and funded from the City Wide property taxation;
2. That the contribution from taxation for the renewal of existing assets be increased by inflation (Construction Price Index) and an additional \$10.5 million in the 2018 budget , as a priority within Council’s approved tax targets;
3. That the annual contribution from taxation for the renewal of existing assets be increased annually by inflation and an additional \$7.8 million per year starting in the 2019 budget for 9 years as outlined in this report;
4. That staff continue to pursue permanent stable funding from the federal and provincial governments for the renewal of existing assets.

### RECOMMANDATIONS DU COMITÉ

Que le Conseil approuve pour permettre l’atteinte de l’objectif de financement recommandé dans le rapport sur le *Programme de gestion intégrale des actifs*, les stratégies suivantes soient prises en compte dans le cadre des prochains budgets.

1. **Que les dettes découlant des travaux d'immobilisations financés par les taxes continuent de correspondre à celles qui seront acquittées et financées par la taxe foncière prélevée sur l'ensemble du territoire municipal;**
2. **Que la contribution des recettes fiscales au renouvellement des infrastructures soit augmentée en fonction de l'inflation (selon l'indice des prix de la construction) et d'un montant supplémentaire de 10,5 millions de dollars dans le budget de 2018, et que cette mesure soit jugée prioritaire parmi les objectifs en matière de taxation approuvés par le Conseil;**
3. **Que la contribution annuelle des recettes fiscales aux projets d'immobilisations soit augmentée en fonction de l'inflation et d'un montant supplémentaire de 7,8 millions de dollars par année, à compter du budget de 2019 et pour une durée de 9 ans comme le précise le présent rapport;**
4. **Que le personnel continue de solliciter auprès des gouvernements fédéral et provincial des fonds stables et permanents pour le renouvellement de ses infrastructures.**

#### DOCUMENTATION/DOCUMENTATION

1. City Treasurer's report, Corporate Finance, dated 29 May 2017 (ACS2017-CSD-FIN-0017)

Rapport de la Trésorière municipale, Finances municipales, daté le 29 mai 2017  
(ACS2017-CSD-FIN-0017)

2. Extrait de l'ébauche du procès-verbal, Comité des finance et du développent économique, le 6 Juin 2017

Extract of draft Minutes, Finance and Economic Development Committee, 6 June 2017.

**Report to  
Rapport au:**

**Finance and Economic Development Committee  
Comité des finances et du développement économique  
6 June 2017 / 6 juin 2017**

**and Council  
et au Conseil  
14 June 2017 / 28 juin 2017**

**Submitted on May 29, 2017  
Soumis le 29 mai 2017**

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**Ward/Quartier : CITY WIDE / À L'ÉCHELLE DE LA VILLE**

**File Number/N° de dossier : ACS2017-CSD-FIN-0017**

**SUBJECT: LONG RANGE FINANCIAL PLAN V – TAX SUPPORTED CAPITAL**

**OBJET: PLAN FINANCIER À LONG TERME V – IMMOBILISATIONS FINANCÉES  
PAR LES TAXES**

## **REPORT RECOMMENDATIONS**

**That the Finance and Economic Development Committee recommend that  
Council approve that in order to address the funding target as recommended in**

the *Comprehensive Asset Management Program* report, the following funding strategies be approved for consideration as part of future budgets:

1. That the use of debt for tax supported capital works continue to correspond to the amount of debt retiring and funded from the City Wide property taxation;
2. That the contribution from taxation for the renewal of existing assets be increased by inflation (Construction Price Index) and an additional \$10.5 million in the 2018 budget , as a priority within Council's approved tax targets;
3. That the annual contribution from taxation for the renewal of existing assets be increased annually by inflation and an additional \$7.8 million per year starting in the 2019 budget for 9 years as outlined in this report;
4. That staff continue to pursue permanent stable funding from the federal and provincial governments for the renewal of existing assets.

#### RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil d'approuver pour permettre l'atteinte de l'objectif de financement recommandé dans le rapport sur le *Programme de gestion intégrale des actifs*, les stratégies suivantes soient prises en compte dans le cadre des prochains budgets.

1. Que les dettes découlant des travaux d'immobilisations financés par les taxes continuent de correspondre à celles qui seront acquittées et financées par la taxe foncière prélevée sur l'ensemble du territoire municipal;
2. Que la contribution des recettes fiscales au renouvellement des infrastructures soit augmentée en fonction de l'inflation (selon l'indice des prix de la construction) et d'un montant supplémentaire de 10,5 millions de dollars dans le budget de 2018, et que cette mesure soit jugée prioritaire parmi les objectifs en matière de taxation approuvés par le Conseil;
3. Que la contribution annuelle des recettes fiscales aux projets d'immobilisations soit augmentée en fonction de l'inflation et d'un montant supplémentaire de 7,8 millions de dollars par année, à compter du budget de 2019 et pour une durée de 9 ans comme le précise le présent rapport;
4. Que le personnel continue de solliciter auprès des gouvernements fédéral et provincial des fonds stables et permanents pour le renouvellement de ses infrastructures.

## **BACKGROUND**

Long range financial plans (LRFP) are a hallmark of good financial planning. These plans are updated at regular intervals to reflect new information such as changed priorities, adjusted pricing and any new legislated requirements. This is the fifth long range financial plan since amalgamation.

The last Long Range Financial Plan IV (2012) identified a need to increase the amount of tax supported funding for capital renewal projects. At the time, the increase (in 2012 dollars) was estimated to be \$800 million over a ten year period. Strategies to address the funding gap included;

- maintain funding provided for in existing capital budget forecasts increased by inflation (Construction Price Index);
- added funding of \$4.5M annually to support capital asset renewal for existing assets from the City's tax target. In addition \$1.0 million on a yearly basis was added to account for growth in the asset base;
- redirect \$15M per year from strategic initiatives to the renewal program;
- to seek \$25 million in permanent annual funding senior governments, and in the absence of such new funding implementing an infrastructure levy at the rate of one quarter of one percent.

This is the second report in a series of long range financial plan reports prepared during this term of Council that taken together, are considered as the fifth long range financial plan (LRFP V). Council has considered the Transit Long Range Plan along with the Stage 2 Light Rail Implementation and will receive the Rate Long Range Plan update in September of this year. With these financial strategies, Ottawa will be able to maintain its critical transportation, community infrastructure, and water and wastewater infrastructure, while continuing to undertake a major change in how it delivers transit services through the light rail transit.

The funding strategies identified in this report are consistent with the principles regarding the use of debt adopted by Council in the 2007 Fiscal Framework. These principles are as follows:

- Council has established a limit of 7.5 % of the amount raised from taxes and fees that can be used for the repayment of principal and interest (debt servicing). This

criteria applies to debt service costs funded from taxation, user fees and transit fares.

- The term of the debt should match the useful life of the related asset. This ensures that the generations that benefit from the use of the asset share in paying for its cost. Also, since longer debt terms mean more interest is paid, any flexibility that exists to shorten the term of the debt is considered and made at the time of each debt issue. The City has debt terms that range from 10 to 40 years in keeping with the various useful lives of assets.

The objective of this report is to present a ten year outlook of the property tax supported capital requirements for the delivery of City services. In particular, this report focuses on the funding strategies that are required to provide for the renewal and maintenance of the City's existing asset base in a state of good repair, as discussed in the *Comprehensive Asset Management Program* report. The objective of the proposed asset management program and policy is to apply the right intervention, on the right asset, at the right time in a manner that considers affordability and risk.

The Police Services Board, Library Board and Housing Authority will prepare separate capital plans for the assets under their mandates. The renewal component of library facilities is funded from City Wide tax and is included with the CAM report.

## **DISCUSSION**

The *Comprehensive Asset Management Program* report identified the challenge the City of Ottawa faces to bring its investment in tax supported capital assets to a good state of repair level. This is a challenge being faced by all other Canadian municipalities. The following examples identify the size of the challenge and strategies a few other cities are adopting.

- Mississauga: Identified a \$275 million infrastructure gap based on replacement cost as a result of aging infrastructure. Council has approved a 2% infrastructure levy and a forecast showing a similar requirement for the next 10 years. The use of debt was also approved.
- Winnipeg: The Financial Management Plan adopted by Council showed a \$3.5 billion current infrastructure deficit forecast to grow to \$7.4 billion over 10 years. The largest portion of deficit relates to existing and new unfunded road infrastructure. The report indicates that incremental debt issuance will likely be required to fund

renewal but will be managed by setting targets for debt servicing and total debt issued.

- Hamilton: The 2017 Capital Budget shows a current infrastructure gap is estimated at \$195 million per year, Council endorsed a 0.95% Capital Levy. Other strategies include strategically allocating the balance of funding not used for rehabilitation of assets, including debt capacity, towards those growth projects which leverage assessment growth and other City-building qualities.

The City currently owns assets that cost \$19.4 billion to build or purchase, with a depreciated value of \$14.5 billion at the end of 2016. It is estimated that these assets have a replacement value close to \$42 billion.

The capital works that are funded either in whole or in part by property taxation include the following:

- Renewal of transportation infrastructure, buildings and parks as detailed in the Comprehensive Asset Management Program report;
- Renewal of other City assets such as equipment and technology infrastructure;
- The City's share of growth supported works funded from property tax that are included in the Development Charge Background study;
- Strategic Initiative projects that implement the various City master plans or enhance services currently provided to residents, implement new legislative requirements, and respond to changes in demand for service.

The details of the growth related capital program are contained within the DC Background study and the category is not examined in significant detail in this report as the DC by-law is updated every five years and considers affordability in the Transportation Master Plan that precedes the DC study. The next DC by-law update is in 2019 and at that time any difference in the City funding required, from what is included in this report, will be identified and funding strategies presented.

Council has established its priorities for the funding of strategic initiatives for the period 2015 to 2018. Funding for Strategic Initiatives projects will be determined in the next Term of Council Priorities report.

Current capital budgets and forecasts show that the City will spend approximately \$125 million per year on the renewal of the tax supported assets, an increase of \$51 million since 2012 as detailed in the table 1 below:

Table 1 Increase to Annual Contribution from 2013 to 2017

Increase to Annual Contribution (\$Millions)	2013	2014	2015	2016	2017	Total
Annual increase within tax target	4.5	4.5	4.5	4.5	4.5	22.5
Growth in asset base	0.9	0.9	0.9	0.9	0.9	4.5
SI re-allocation	-	-	15.0	-	-	15.0
Permanent funding from other levels of government	-	-	-	-	-	-
<b>Total Increase net of inflation</b>	<b>5.4</b>	<b>5.4</b>	<b>20.4</b>	<b>5.4</b>	<b>5.4</b>	<b>42.0</b>
Inflation	1.6	2.0	2.0	1.8	1.6	9.0
<b>Total increase with inflation</b>	<b>7.0</b>	<b>7.4</b>	<b>22.4</b>	<b>7.2</b>	<b>7.0</b>	<b>51.0</b>

The *Comprehensive Asset Management Program* (CAM) report identifies a need to increase the funding for renewal of tax supported assets to a level of \$224 million per year in 2017. The \$224 million includes \$29 million of Rate funded spending on infrastructure in the Integrated Roads, Water & Sewer Program. This spending has been removed for the purposes of developing a Long Range Financial Plan for tax and will be presented with the Long Range Financial Plan for the Water and Sewer Rate Supported Programs in September 2017. Table 2 below identifies the need by major asset category for tax supported assets:

Table 2 Major Asset Category for Tax Supported Assets

Renewal Requirement by Asset Category (\$Millions)	Need	Current Funding
<b>Transportation Infrastructure</b>		
Roads	91.7	
Structures	32.0	
Buildings	40.3	



Renewal Requirement by Asset Category (\$Millions)	Need	Current Funding
Parks	12.0	
Sub Total	176.0	109.0
<b>Other Assets</b>		
Other Facility/Park assets (field houses, salt domes, parks, etc)	3.7	
Emergency & Protective Services equipment (Fire, Paramedic, Bylaw & Emergency Management)	5.3	
Transportation equipment (street lighting, traffic monitoring & controls)	5.4	
Technology infrastructure	4.6	
Sub Total	19.0	16.0
<b>Total</b>	<b>195.0</b>	<b>125.0</b>

There is an average annual funding gap of \$70 million for the renewal of tax-supported capital based on the current need identified in the most recent CAM report. In developing strategies that would address this funding target the following principles were used:

- Maintain Council's approved conservative debt strategy and enforce the limits on principal and interest expenses at 7.5% of annual revenues to keep debt within the actual borrowing capacity of the city;
- The target annual funding level, from tax supported funding sources, required to maintain City assets in a good state of repair of \$195 million should be achieved by the end of the 10 year planning period;
- The City will continue to provide for inflation on capital contributions each year set at the rate of inflation in the infrastructure construction price index.
- Tax funding for renewal at the "good state of repair" level should take priority over new or enhanced capital and operating budget requirements;

- Senior Governments should provide for a permanent source of funding to assist municipalities with infrastructure renewal; and,
- Other “non-financial” strategies should be explored to reduce the overall need for additional funding.

### **Senior Government Funding for Infrastructure**

The federal and provincial governments have been making some exciting new investments in municipal infrastructure and services. In addition to the federal gas tax funds, both the federal and provincial governments have announced new one-time program funding for transit, for water and wastewater and for housing.

These funds enable the City to move forward on Council’s long-term plans and address some unforeseen, immediate needs. For example, Ottawa has received commitments for \$227.3 million in new or enhanced transit projects, \$115.3 million in water and wastewater projects, and \$35.4 million in affordable and social housing projects – all of which must be completed by the end of March 2018.

These new funding streams have been welcome, but it is important to note that the priorities for the funding reflect those of the government funder which is generally not for asset renewal and sometimes require staff to realign priorities to optimize funding for all of the City’s projects and priorities. In order to improve overall planning and make the largest impact municipalities continue to ask for permanent and predictable funding for renewal programs from the two senior levels of government.

### **Funding Strategies:**

The funding strategy to achieve the \$195 million (in 2017 dollars) targeted annual tax supported funding level for the renewal of existing tax supported assets in the Comprehensive Asset Management Program by the year 2027 requires the following:

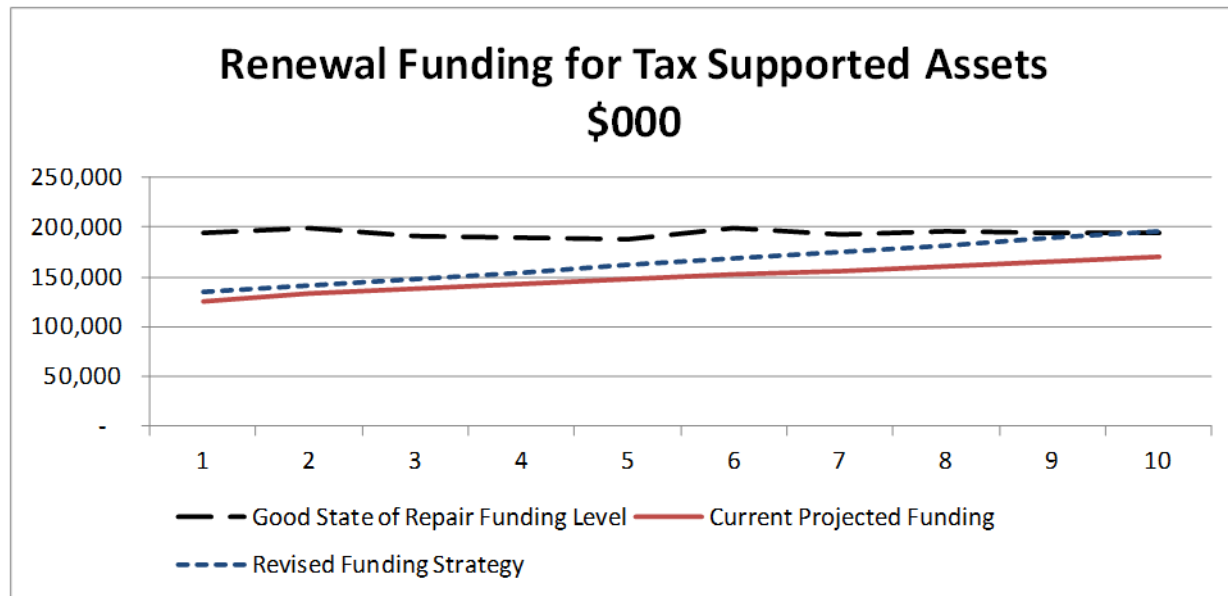
- \$125 million already provided for in existing capital budget forecasts be maintained;
- \$4.5 million on a yearly basis from within Council’s target tax continue to be added to support capital asset renewal for existing assets;
- \$5 million in 2018 from strategic initiatives to be redirected to the renewal program;
- \$2.3 million per year added to the continuing \$4.5 million increase from within Council’s tax target, beginning in 2019.

In order to help reduce the pressure of increased funding each year, other non-financial strategies should also be considered including but not limited to asset rationalization and renewal strategy effectiveness analysis. These non-financial strategies will be presented to Council next term, as recommended in the CAM report. The Long Range Financial Plan will be updated to reflect the financial impact of implementing any of the recommended non-financial strategies, after they are implemented.

As the amount identified in the *Comprehensive Asset Management Program* was only for the assets that the city owns at this time, an amount should also be added to the contribution to capital to reflect the growth in the asset base. An asset management approach directs more cost effective investments to assets that are in fair condition in order to extend the life of the assets before more costly interventions are required. Analysis of asset growth by year and asset class along with the timing of cost effective interventions would establish what an appropriate contribution should be. This report is recommending \$1 million be maintained every year for growth in the asset base. When the next LRFP is presented there will be more information available to quantify the appropriate level of contribution.

Increasing the contribution to capital within the tax targets Council by \$4.5 million in 2018 and \$6.8 million starting in 2019 combined with the redirection of \$5 million from Council Priorities in 2018, will ensure that the targeted funding level of \$195 million is reached by year 10 (2027), as shown in Figure 1:

Figure 1 Funding Strategy with Tax Target Allocations and the Council Approved Priority funding



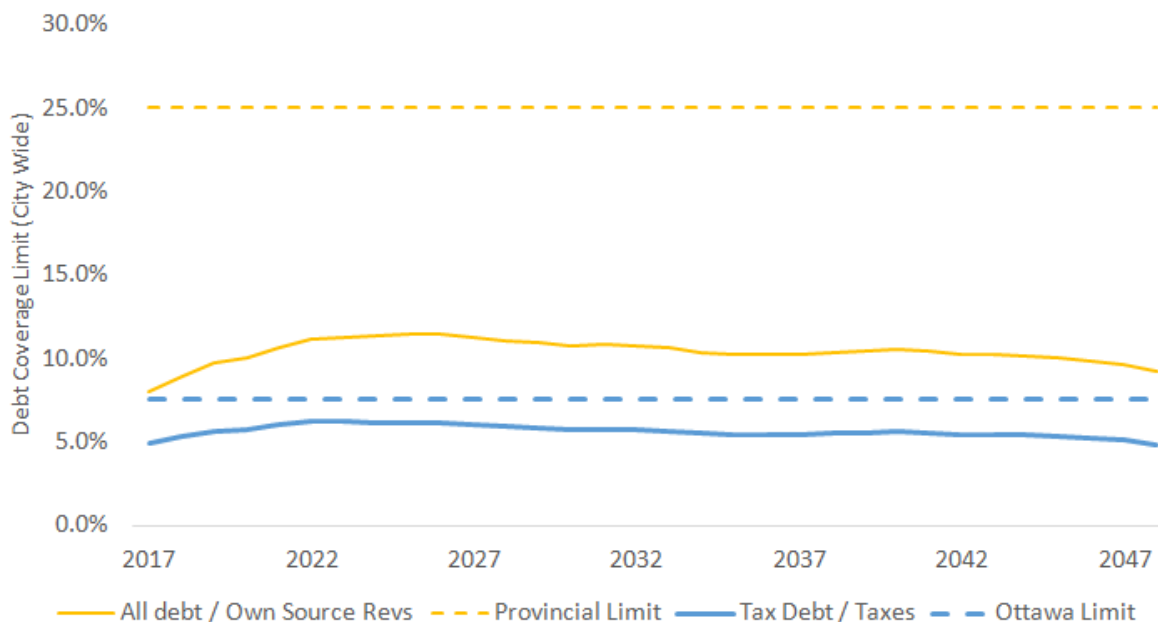
### Future Debt

This report recommends that the funding of capital renewal works be made from increased contributions to capital from taxation and that the debt limits for tax supported capital works continue to be limited to the amount of debt retiring within the year. Council should reserve the use of incremental debt for what has been defined as legacy projects. Legacy projects are considered one of a kind and contribute towards the quality of life in the city over many generations, such as the New Central Library. This is consistent with Council’s approved debt principles.

Figure 2 shows the forecasted debt servicing costs against the limits imposed by the Province and by Council. Council has previously received a similar assessment of the debt profile against the Provincial debt servicing limits in the March 2017 Transit LRFP and since this Tax LRFP recommends limiting debt be limited to the amount of debt retiring within the year, the Tax LRFP does not add any additional debt pressure than what was report in March. The Transit LRFP provided an assessment of the impact of the transit plan including Stage 2 Light Rail, on the total debt profile of the City and concluded that debt servicing was still within manageable levels. The results in the figure below show that the debt issued for all city programs reaches a maximum of 11.9% of own source revenues compared to the 25% provincial limit. The figure also

shows that the debt servicing funded from taxation, including transit, reaches a maximum of 6.1% compared to Council's 7.5% limit.

**Figure 2 Debt Servicing Limits**



## **RURAL IMPLICATIONS**

This report applies to City-wide assets. Transportation infrastructure, buildings and parks are important assets serving the City's rural area.

## **CONSULTATION**

The public consultation process will be incorporated with the review process for annual budgets.

## **COMMENTS BY THE WARD COUNCILLOR(S)**

This is a City-wide report.

## **ADVISORY COMMITTEE(S) COMMENTS**

Not applicable

## **LEGAL IMPLICATIONS**

There are no legal impediments to approving the recommendations in this report.

## **RISK MANAGEMENT IMPLICATIONS**

There are no risk management implications.

## **ASSET MANAGEMENT IMPLICATIONS**

The recommendations documented in this report are based on the background and updated needs assessment documented in the Comprehensive Asset Management Program Update report tabled June 6, 2017. The requirements are consistent with the City's Comprehensive Asset Management (CAM) Program (City of Ottawa Comprehensive Asset Management Program) objectives

## **FINANCIAL IMPLICATIONS**

Financial implications are identified in the report.

## **ACCESSIBILITY IMPACTS**

Maintaining assets in a good state of repair supports all accessibility objectives of the City.

## **TECHNOLOGY IMPLICATIONS**

Funding requirements associated with technology are identified during the annual budget cycles.

## **TERM OF COUNCIL PRIORITIES**

Recommendations in this report support priority FS2 to implement a strategy to address the asset renewal funding gap identified in the Long Range Financial Plan IV in order to maintain the City's assets in a good state of repair.

## **DISPOSITION**

Information contained in this report will be utilized during the annual budget setting process.