4. LONG RANGE FINANCIAL PLAN IV – TAX SUPPORTED CAPTIAL

PLAN FINANCIER À LONG TERME IV – IMMOBILISATIONS FINANCÉES PAR LES TAXES

COMMITTEE RECOMMENDATIONS

That Council approve that the existing debt policies be continued while providing the required investment to maintain City assets in a state of good repair, and 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 within the year in accordance with Council's adopted target to limit debt service for tax supported debt to 7.5% of own source revenues;**

2. **To ensure capital funding is maintained and increased, starting in the 2013 budget year, the annual contribution from taxation for capital projects be increased by inflation (Construction Price Index) and by an additional $5.4 million per year for both the renewal of existing assets and the increase in the asset base, as a priority within Council's approved tax targets;**

3. **Starting in the 2015 budget year, the portion of the contribution to capital used to fund capital projects classified as strategic initiatives (new capital works) be maintained at $20 million per year and that priority be given, after the completion of the "Service Ottawa" project, to infrastructure investment;**

4. **Starting in the 2015 budget year, the enhancement component of any capital renewal project be identified and approved separately;**

5. **That the City of Ottawa Endowment Fund be maintained at $200 million and any excess continue to be directed to fund the capital program; and**

6. **That Council's priorities for the use of any future federal or provincial infrastructure funding programs be for the renewal of existing assets and transit related projects included in the Transportation Master Plan.**

RECOMMANDATIONS DU COMITÉ

Que le Conseil approuve de poursuivre les politiques actuelles en matière de dette, tout en investissant les fonds nécessaires pour permettre à la Ville de maintenir ses immobilisations en bon état, et que, afin de tenir compte de l'objectif de financement recommandé dans le rapport sur le programme de gestion intégrée des actifs, les stratégies de financement suivantes soient approuvées pour examen dans le cadre des futurs budgets :

1. **Que les dettes découlant des travaux d'immobilisations financés par les taxes continuent de correspondre aux dettes qui seront acquittées cette année-là, conformément à l'objectif du Conseil de limiter le service de la dette financée par les taxes à 7,5 % des recettes municipales;**

2. **Afin d'assurer le maintien et même l'augmentation du financement des immobilisations durant l'exercice budgétaire de 2013, que la contribution annuelle des recettes fiscales aux projets d'immobilisations soit augmentée en fonction de l'inflation (selon l'indice des prix de la construction) et de 5,4 millions de dollars supplémentaires par année, pour le renouvellement des infrastructures existantes et la construction de nouvelles infrastructures, et que cette mesure soit jugée prioritaire parmi les objectifs en matière de taxation approuvés par le Conseil;**

3. **Qu'à compter de l'exercice budgétaire 2015, la proportion des fonds réservés aux immobilisations utilisés pour financer les projets désignés comme initiatives stratégiques (nouveaux travaux d'immobilisations) soit maintenue à 20 millions de dollars par année et que la priorité soit accordée, après la réalisation du projet *Service Ottawa*, à l'investissement dans l'infrastructure;**

4. **Qu'à compter de l'exercice budgétaire de 2015, le volet « amélioration » des projets de renouvellement des immobilisations soit établi et approuvé séparément;**

5. **Que le fonds de dotation de la Ville d'Ottawa soit maintenu à 200 millions de dollars et que tout excédent continue de servir au financement du programme d'immobilisations;**

6. **Que les priorités du Conseil concernant tout futur programme fédéral ou provincial de financement des infrastructures soient le renouvellement des immobilisations existantes et les projets de transport en commun compris dans le Plan directeur des transports.**

DOCUMENTATION

1. City Treasurer's report dated 25 September 2012 (ACS2012-CMR-FIN-0039).

2. Extract of draft Finance and Economic Development Committee minutes dated 2 October 2012

Report to/Rapport au :

Finance and Economic Development Committee
Comité des finances et du développement économique

and Council / et au Conseil

September 25, 2012
le 25 septembre 2012

Submitted by/Soumis par : Marian Simulik, City Treasurer/Trésorière municipale

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CITY WIDE / À L'ÉCHELLE DE LA VILLE — Ref N°: ACS2012-CMR-FIN-0039

SUBJECT: **LONG RANGE FINANCIAL PLAN IV - TAX SUPPORTED CAPITAL**

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

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee recommend that Council approve that the existing debt policies be continued while providing the required investment to maintain City assets in a state of good repair, and 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 within the year in accordance with Council's adopted target to limit debt service for tax supported debt to 7.5% of own source revenues;**

2. **To ensure capital funding is maintained and increased, starting in the 2013 budget year, the annual contribution from taxation for capital projects be increased by inflation (Construction Price Index) and by an additional $5.4 million per year for both the renewal of existing assets and the increase in the asset base, as a priority within Council's approved tax targets;**

3. **Starting in the 2015 budget year, the portion of the contribution to capital used**

to fund capital projects classified as strategic initiatives (new capital works) be maintained at $20 million per year and that priority be given, after the completion of the "Service Ottawa" project, to infrastructure investment;

4. **Starting in the 2015 budget year, the enhancement component of any capital renewal project be identified and approved separately;**

5. **That the City of Ottawa Endowment Fund be maintained at $200 million and any excess continue to be directed to fund the capital program; and**

6. **That Council's priorities for the use of any future federal or provincial infrastructure funding programs be for the renewal of existing assets and transit related projects included in the Transportation Master Plan.**

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique approuve de poursuivre les politiques actuelles en matière de dette, tout en investissant les fonds nécessaires pour permettre à la Ville de maintenir ses immobilisations en bon état, et que, afin de tenir compte de l'objectif de financement recommandé dans le rapport sur le programme de gestion intégrée des actifs, les stratégies de financement suivantes soient approuvées pour examen dans le cadre des futurs budgets :

1. **Que les dettes découlant des travaux d'immobilisations financés par les taxes continuent de correspondre aux dettes qui seront acquittées cette année-là, conformément à l'objectif du Conseil de limiter le service de la dette financée par les taxes à 7,5 % des recettes municipales;**

2. **Afin d'assurer le maintien et même l'augmentation du financement des immobilisations durant l'exercice budgétaire de 2013, que la contribution annuelle des recettes fiscales aux projets d'immobilisations soit augmentée en fonction de l'inflation (selon l'indice des prix de la construction) et de 5,4 millions de dollars supplémentaires par année, pour le renouvellement des infrastructures existantes et la construction de nouvelles infrastructures, et que cette mesure soit jugée prioritaire parmi les objectifs en matière de taxation approuvés par le Conseil;**

3. **Qu'à compter de l'exercice budgétaire 2015, la proportion des fonds réservés aux immobilisations utilisés pour financer les projets désignés comme initiatives stratégiques (nouveaux travaux d'immobilisations) soit maintenue à 20 millions de dollars par année et que la priorité soit accordée, après la réalisation du projet *Service Ottawa*, à l'investissement dans l'infrastructure;**

4. **Qu'à compter de l'exercice budgétaire de 2015, le volet « amélioration » des projets de renouvellement des immobilisations soit établi et approuvé séparément;**

5. **Que le fonds de dotation de la Ville d'Ottawa soit maintenu à 200 millions de dollars et que tout excédent continue de servir au financement du programme d'immobilisations;**

6. **Que les priorités du Conseil concernant tout futur programme fédéral ou provincial de financement des infrastructures soient le renouvellement des immobilisations existantes et les projets de transport en commun compris dans le Plan directeur des transports.**

EXECUTIVE SUMMARY
Consistent with Council's strategic plan, and in keeping with sound financial planning practices, this report establishes a long range financial plan (LRFP) for property tax supported capital investment needs with a focus on 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. This is a companion report to the *Comprehensive Asset Management Program* which proposes an asset management program and policy that applies the right intervention, on the right asset, at the right time in a manner that considers affordability and risk.

Budget 2012 took action to accelerate capital spending, moving forward several years of planned capital rehabilitation so that it is accomplished over the next three years. As part of Budget 2012 Council approved the *Ottawa on the Move* initiative to address the need to increase capital renewal of City assets for the remainder of this term of Council and takes advantage of the historically low borrowing rates. Consequently, the majority of capital funding strategies discussed in this report focus on the strategies needed to support infrastructure renewal starting in 2015.

Current capital budgets and forecasts show that the City will spend approximately $80 million per year on the renewal of the tax supported assets of roads, bridges, buildings and parks. The *Comprehensive Asset Management Program* report identifies a need to increase the tax supported funding for renewal of these assets to a level of $165 million per year by the year 2022.

The principles guiding the financing strategies presented in this report are as follows:

- 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 low and well below the actual borrowing capacity of the city;
- The target annual funding level required to maintain the existing road, bridge, building and park assets in a good state of repair of $165 million should be achieved by the end of the 10 year planning period ;

- 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;
- Incremental tax increases required to support any capital renewal funding gaps will only be required if senior governments fail to provide permanent funding to assist municipalities with funding infrastructure renewal needs.

A funding strategy to achieve the $165 million (in 2012 dollars) targeted annual tax supported funding level for the renewal of the assets in the Comprehensive Asset Management Strategy by the year 2022 requires the following:

- $80 million already provided for in existing capital budget forecasts be maintained;
- $45 million cumulative ($4.5 M per year) from within Council's tax target, added to support capital asset renewal for existing assets. In addition $1 million on a yearly basis be added to account for growth in the asset base;
- $15 million per year starting in 2015 in incremental funding for the renewal program by redirecting funding that was allocated to the capital envelope for strategic initiatives;
- $25 million in permanent annual funding to be secured from senior governments through their Infrastructure Funding plans. In the absence of such new funding, a dedicated infrastructure tax levy equal to a one half of one percent increase to the tax levy starting in 2016 would achieve the required funding level by 2022. Alternatively, a more gradual implementation of an infrastructure levy implemented at the rate of one quarter of one percent would achieve the required funding level by 2024. Should senior governments fail to come to the table, this levy could be applied or offset through further, yet to be identified, reductions in spending in other areas of city operations.

This is the final report in a series of Long Range plan updates. During the past year, Council has considered various reports regarding the funding needs and strategies for the provision of municipal services over the long term. With these strategies, Ottawa will be able to maintain its critical transportation, water and wastewater infrastructure. At the same time, the City will have the financial capacity to undertake a major change in how it delivers transit services through the light rail transit project. The *Ottawa on the Move* project will provide for new and renewed infrastructure in advance of the start of Light Rail construction.

Ottawa is in s strong financial position with relatively low debt burden compared to other major Canadian municipalities. The City's debt is currently $1.4 Billion for assets purchased or built at a cost of $15 Billion. This is the equivalent of having a $30,000 mortgage on a $300,000 home. The City has been able to increase the amount of debt issued while not significantly increasing the amount required for debt servicing by matching the term of the debt to the life of the asset and as a result of declining interest rates. In the year 2000 when the issued debt was $400 million, the cost of debt on the average tax bill was $162, while in 2012 the amount is $174. With fixed interest rates the City is not vulnerable to future interest rate increases on the debt already issued.

In the municipal context the most significant measure for debt is how much of the City's budget is required to repay the debt, and will that constrain future budgets. Council has adopted limits on debt servicing that are more restrictive that those established by the Province. Currently 5.3% of the City's annual own source revenues are used to pay for interest and principal on debt, significantly below Council's 7.5% limit and far below the province's limits on total debt allowed. Future projections show that debt servicing will be maintained at manageable levels. In 2022, own source debt servicing will be maintained under 7.5%. Total debt servicing will remain under 10%, less than half the limit applied under provincial rules. As the City grows, the total debt issued will remain far below the debt limit restrictions imposed by the Province and by the City. At the end of 2011 the City's annual Provincial debt limit would allow an additional $5 billion in long term debt to be issued.

In order to ensure that there is continued fiscal flexibility in the future, this report recommends that the City of Ottawa Endowment fund balance continues to be maintained at $200 million and any excess continue to be directed to fund the capital program.

Council will review and adopt the operating and capital budgets on an annual basis. Future plans will reflect Council's annual reviews.

Financial Implications
Financial implications are identified within the report.

Public Consultation/Input
The public consultation process will be incorporated with the review process for the annual budgets.

RÉSUMÉ
Conformément au plan stratégique du Conseil, ainsi qu'aux bonnes pratiques de planification financière, le présent rapport offre un Plan financier à long terme (PFLT) pour répondre aux besoins d'investissement dans les immobilisations subventionnées par les impôts fonciers. Le plan met l'accent sur les stratégies de financement nécessaires afin de pourvoir au renouvellement et à l'entretien adéquat des infrastructures existantes de la Ville. Le présent rapport accompagne le document intitulé « POLITIQUE DE GESTION INTÉGRÉE DES ACTIFS», lequel propose un programme et une politique de gestion des immobilisations fondés sur le concept d'une bonne intervention, au bon endroit et au bon moment, de façon à tenir compte de l'abordabilité et des risques.

Le budget de 2012 prévoit des mesures pour accélérer les dépenses en immobilisations. Il devance de plusieurs années la date prévue pour la remise en état des immobilisations, qui sera plutôt accomplie au cours des trois prochaines années. Dans le cadre de ce budget 2012, le Conseil a approuvé l'initiative *Ottawa, on se déplace*, pour répondre au besoin d'accroître le renouvellement des immobilisations municipales pour la durée restante du mandat du Conseil et profiter des taux d'intérêt plus bas que jamais. Par conséquent, la majorité des stratégies de financement abordées dans le présent rapport se concentrent sur le besoin de soutenir la rénovation des infrastructures, à compter de 2015.

Les prévisions et les budgets d'immobilisations actuels démontrent que la Ville dépensera environ 80 millions de dollars par année pour le renouvellement des immobilisations financées par les taxes, tels les routes, les ponts, les bâtiments et les parcs. Le rapport « Comprehensive Asset Management Program » révèle également le besoin d'augmenter le financement fiscal des projets de renouvellement de ces infrastructures pour le faire passer à 165 millions de dollars par année d'ici 2022.

Les principes derrière les stratégies de financement présentées dans le présent rapport sont les suivantes :

- Il faudrait maintenir la stratégie conservatrice en matière de dette approuvée par le Conseil et faire respecter le taux limite de dépenses en principal et intérêts pour qu'il ne dépasse pas 7,5 % des recettes annuelles, afin que le seuil d'endettement reste bas et de loin inférieur à la capacité d'emprunt réelle de la Ville;
- Le taux de financement visé pour l'entretien adéquat des routes, des ponts, des bâtiments et des parcs, soit 165 millions de dollars, devrait être atteint d'ici la fin de la période de planification de 10 ans.
- Le financement fiscal pour le maintien en bon état des immobilisations devrait avoir priorité sur les exigences des budgets d'immobilisations et de fonctionnement pour la construction ou l'amélioration des infrastructures.
- Les ordres supérieurs de gouvernement devraient mettre en place une source de financement permanente afin de soutenir les municipalités dans le renouvellement de leurs infrastructures.
- Des augmentations de taxes supplémentaires servant à compenser un écart de financement ne devraient être nécessaires que si les ordres supérieurs de gouvernement n'établissent pas cette source permanente de financement pour répondre aux besoins financiers des municipalités en matière de renouvellement des infrastructures.

Une stratégie visant un taux annuel de financement fiscal de 165 millions (en dollars de 2012) pour le renouvellement des infrastructures_d'ici 2022, dans le cadre de la Stratégie générale pour la gestion des actifs, devra comporter les éléments suivants :

- Le maintien de la somme de 80 millions de dollars déjà comprise dans les prévisions du budget d'immobilisations;

- Une somme cumulative supplémentaire de 45 millions de dollars (4,5 millions par année) tirée de l'objectif fiscal du Conseil, pour soutenir le renouvellement des immobilisations existantes, et 1 million de dollars de plus par année, pour compenser l'expansion des infrastructures;
- Un financement supplémentaire de 15 millions de dollars par année à compter de 2015 pour le programme de renouvellement, obtenu en transférant des fonds alloués à l'enveloppe d'immobilisations pour les initiatives stratégiques;
- Un financement permanent de 25 millions de dollars par année accordé par les ordres supérieurs du gouvernement, dans le cadre de leurs plans de financement des infrastructures. Si ce financement supplémentaire n'est pas accordé, une augmentation de l'impôt pour les immobilisations de 0,5 % à compter de 2016 permettrait d'atteindre le taux nécessaire de financement d'ici 2022. Autrement, une augmentation plus graduelle des impôts pourrait se faire au rythme de 0,25 %, ce qui suffirait pour atteindre cet objectif d'ici 2024. Si les ordres supérieurs du gouvernement refusent de négocier, cette augmentation pourrait être mise en œuvre ou compensée par d'autres mesures de réduction des dépenses (à déterminer) dans d'autres secteurs des opérations municipales.

Le présent rapport est la dernière d'une série de mises à jour sur le plan à long terme. Au cours de la dernière année, le Conseil a pris connaissance des divers rapports concernant les besoins de financement et les stratégies de prestation à long terme des services municipaux. Grâce à ces stratégies, la Ville d'Ottawa sera en mesure d'entretenir ses importantes infrastructures de transport, d'eau et d'égouts. En même temps, la Ville disposera des fonds nécessaires pour entreprendre un changement majeur dans sa prestation de services de transport en commun, par la réalisation du projet de train léger. L'initiative *Ottawa, on se déplace* permettra aussi de renouveler les infrastructures existantes et d'en construire de nouvelles avant le début des travaux de construction pour ce projet de train léger.

Ottawa fait bonne mine financièrement, et son fardeau de la dette est relativement faible, comparativement à celui d'autres municipalités canadiennes. Il s'élève actuellement à 1,4 milliard de dollars pour des immobilisations achetées ou construites au prix de 15 milliards de dollars. C'est l'équivalent d'une hypothèque de 30 000 $ sur une maison de 300 000 $. De plus, la Ville a pu augmenter la dette contractée sans accroître de beaucoup ses versements, en faisant concorder l'échéance de la dette et la durée de vie de l'actif et en tirant profit du taux d'intérêt en baisse. En 2000, lorsque la dette contractée s'élevait à 400 millions de dollars, le coût de l'endettement par facture d'impôt était en moyenne de 162 $, tandis qu'en 2012, il est de 174 $. Puisque la Ville profite de taux fixes, elle ne court aucun risque d'augmentation des intérêts pour la dette actuelle.

Dans le contexte municipal, la mesure la plus exacte de la dette est la proportion du budget réservé au remboursement de la dette et la mesure dans laquelle cette obligation limitera les budgets à venir. Le Conseil s'est fixé des limites plus restrictives pour le service de la dette que celles de l'Ontario. À l'heure actuelle, 5.3 % des recettes municipales annuelles servent à rembourser le principal et les intérêts de sa dette, pourcentage bien inférieur à sa limite de 7,5 % et de loin inférieur à la limite d'endettement totale de la Province. On prévoit maintenir le taux de service de la dette à un niveau raisonnable. En 2022, la proportion des recettes municipales consacrée à cette fin sera maintenue sous les 7,5 %. Le service total de la dette restera sous les 10 %, soit moins de la moitié du pourcentage maximal, selon les règles provinciales. Au fur et à mesure que la Ville grandira, la dette encourue restera bien en dessous des restrictions de la Province et de la Ville. À la fin de 2011, la limite d'endettement annuelle de l'Ontario pour la Ville d'Ottawa permettrait d'effectuer un emprunt supplémentaire à long terme de 5 milliards de dollars.

Pour assurer le maintien de la flexibilité fiscale de la Ville, le présent rapport recommande que le solde du fonds de dotation de la Ville d'Ottawa reste de 200 millions de dollars et que tout excédent continue de servir au financement du programme d'immobilisations.

Le Conseil examinera et adoptera chaque année les budgets de fonctionnement et d'immobilisations, lesquels influenceront les plans financiers futurs.

Répercussions financières
Le rapport aborde le sujet des répercussions financières.

Consultation publique et commentaires
Le processus de consultation publique fera partie de l'examen annuel des budgets.

<u>BACKGROUND</u>
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 fourth long range financial plan since amalgamation.

The last Long Range Financial Plan III (2007) identified a need to increase the amount of tax supported funding for capital renewal projects. At the time, the increase (in 2007 dollars) was estimated to be $1 billion over a ten year period. Strategies to address the funding gap included the use of special capital tax levies and the recommendation to fund renewal as the first priority, in advance of any strategic initiative funding. As a result of that plan Council approved a three year dedicated tax levy which resulted in the base contribution to capital increasing by $32 million.

This is the final report in a series of long range financial plan reports prepared during this term of Council that taken together, are considered as the fourth long range financial plan (LRFP IV). Council has previously considered the following long range financial plans:

- Long Range Financial Plan IV (Part 1) (May 2011) : Council adopted the 2012 to 2014 operating budget strategy and established that the increase in the municipal portion of the property tax bill will be a maximum of 2.5% per year during the Council term;
- Long Range Financial Plan Transit (July 2011): An affordability model for transit projects was prepared which looked at the cost of everything planned in the transit capital plan for the next 37 years to ensure the resources are in place to not only construct but run the system envisioned in the Transportation Master Plan. Tough tests were put in place to ensure the plan was affordable without increasing taxes beyond the target and without affecting the other critical capital envelopes. The report concluded that the City can afford to invest and operate the transit system as detailed in the Transportation Master Plan, including the first increment of the Light Rail Transit system. The analysis showed that the plan is affordable with the continued contributions from senior levels of government and with transit taxes and fares increasing at the rate of transit's inflation;
- Long Range Financial Plan IV – Water and Sewer Rate Supported Programs (February 2012): Utility rate increases required to provide for the renewal of water and sewer infrastructure were identified. This funding plan moves the City's required investment in these assets towards the state of good repair objective. The capital investment needs identified in that 10 year plan for the integrated road, water and wastewater projects are used as a foundation for this report since a portion of the funding for the road component relies on property taxation revenue.

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 and as updated through the LRFP IV for Water and Sewer Rate supported programs. 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.
- For water and sewer rate supported debt, the limit is 15% of rate revenues, in conjunction with a policy that states that the water and sewer reserves maintain balances equal to one year's debt servicing charges.
- 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 30 years in keeping with the various useful lives of assets.

Council has adopted a budget strategy and priorities for the term of Council which include maintaining the City's assets in a good state of repair. As part of the 2012 tax and rate supported budgets Council approved the $340 million *Ottawa on the Move* initiative which advanced the reinvestment in the City's road, water and sewer pipe infrastructure in preparation for the construction of the City's new light rail project. This large infrastructure renewal project addresses the need to increase the investment in capital renewal projects for the remainder of this term of Council. Consequently, the majority of capital funding strategies discussed in this report start in 2015.

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.

This report also presents a consolidated ten year outlook of the City's fiscal situation, taking into account all of the long range plans adopted this term.

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 included with the CAM report.

DISCUSSION

The *Comprehensive Asset Management Program* report tabled at committee on September 19, 2012 identified the challenge the City of Ottawa faces to bring its investment in tax supported capital assets to the 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 for 2012 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 in March 2011 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. Strategies included the development of an Asset Management Plan (triple bottom line) to prioritize investments. 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 2012 Capital Budget shows a current infrastructure gap is estimated at $195 million per year. Council endorsed a 0.5% Capital Levy increase. Strategies being discussed are that the City must maximize its own source funding, keep lobbying the senior levels of government for additional infrastructure repair subsidies and strategically direct these funds to priority projects.

Staff has reviewed funding strategies proposed and/or used by other municipalities in the context of the recommendations being made in each of the Long Range Financial Plans. Document 1 contains a chart summarizing these strategies and whether they are recommended for Ottawa.

The City currently owns assets that cost $15 billion to build or purchase, with a depreciated value of $11.5 billion at the end of 2011.These assets and their values are shown in the following table. It is estimated that these assets have a replacement value of more than $32 billion.

Table 1: Historical Cost of Assets by functional area

Tangible Capital Assets in Consolidated Financial Statements	**2011 Value**
Historical Cost (Gross Book Value):	**($Millions)**
Roads, structures, buildings, parks	4,656
Water and Wastewater	5,620
Transit	1,189
Solid Waste and recycling	121
Corporate Vehicles	247
Social Housing	482
Police	109
Public Health	8
Total GBV excluding land	**12,432**
Land	2,570
Total GBV of Tangible Capital Assets	**15,002**
Accumulated amortization (depreciation)	3,652
Depreciated Value of Tangible Capital Assets	**11,350**

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 information technology and equipment;
- 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. The next DC by-law update is in 2014 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.

The City builds and maintains its capital assets from a yearly tax funded contribution to capital and earnings from the Endowment fund. Debt that is raised and then repaid from taxation also contributes to fund the capital program. The annual funding from these sources provides $136 million. Currently, this funding is allocated as follows:

- $60 million for renewal of transportation infrastructure, buildings and parks, as identified in the *Comprehensive Asset Management Program* report;
- $30 million for renewal of all other City assets such as information technology and equipment;
- $11 million for growth related projects identified in the Development Charge Background study;
- $35 million for Strategic Initiatives projects.

Funding Requirement for Renewal of Transportation Infrastructure, Buildings and Parks (CAM)

The *Comprehensive Asset Management Program* report recommends that Council set a target to achieve a level of renewal funding for transportation infrastructure, buildings and parks that will allow assets to be maintained in a state of good repair. The report indicates that an annual investment level of $165 million (in 2012 dollars) would be required to achieve this level.

Current capital budgets and forecasts show that for the period 2012 to 2015, the City will spend approximately $80 million per year on the renewal of these assets. Approximately $60 million per year is funded from property tax sources and $20 million from water and wastewater rate revenues as part of the integrated program.

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 low and well below the actual borrowing capacity of the city;
- The target annual funding level, from tax supported funding sources, required to maintain road, bridge and building assets in a good state of repair of $165 million should be achieved by the end of the 10 year planning period;
- 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;
- Incremental tax increases (or spending reductions) required to support any capital renewal funding gaps will only be instituted if senior governments fail to provide permanent funding to assist municipalities with funding infrastructure renewal needs.
- The City will continue to provide for inflation on capital contributions each year set at the rate of inflation in the construction price index.

Senior Government Funding for Infrastructure

Recently, both the Federal and Provincial governments have recognized that municipalities alone cannot solve the infrastructure challenges. The Province recently announced its *Building Together: Municipal Infrastructure Strategy* and a Municipal Infrastructure Investment Initiative (MII) which requires municipalities to develop asset management plans prior to seeking provincial capital funding.

The federal government has announced its commitment to working with its partners and stakeholders, including municipalities, to develop a long-term plan for public infrastructure that extends beyond the expiry of the Build Canada plan in 2014. With budget 2012, the federal government committed to exploring broad directions and priorities for a new plan that will focus on investments in infrastructure. Consultations are presently underway. The funding envelope for the new program has not yet been announced and it is expected that it will take a few years to develop the program.

Consequently, the funding strategies being presented at this time do not recommend a City of Ottawa infrastructure tax levy as there is some indication that senior levels of government are moving to assist municipalities in this regard. In order to ensure that any new infrastructure funding programs from the senior levels are available for use in renewing existing infrastructure, this report recommends that Council establish infrastructure renewal as the City priority along with the need for continued senior government support for transit projects approved as part of the Transit Long Range Financial Plan.

Funding Strategies:

The funding strategy to achieve the $165 million (in 2012 dollars) targeted annual tax supported funding level for the renewal of the assets in the Comprehensive Asset Management Program by the year 2022 requires the following:

- $80 million already provided for in existing capital budget forecasts be maintained;

- $4.5 million on a yearly basis from within Council's target tax be added to support capital asset renewal for existing assets ;

- $15 million per year starting in 2015 in incremental funding for the renewal program by redirecting funding that had been allocated to strategic initiatives (new works):

- $25 million in permanent annual funding to be secured from senior governments through their Infrastructure Funding plans. In the absence of such new funding, a dedicated infrastructure tax levy equal to a one half of one percent of a tax increase starting in 2016 would achieve the required funding level by 2022. Alternatively, a more gradual implementation of an infrastructure levy implemented at the rate of one quarter of one percent would achieve the required funding level by 2024. Should senior governments fail to come to the table, this levy could be applied or offset through further, yet to be identified, reductions in spending in other areas of city operations.

If Council wanted to accelerate the increase in the contribution to get to $165 million over a five year period, an additional 1% would have to be added to the City wide tax levy starting in 2013. This is not being recommended as it goes beyond the Council approved tax targets for this term.

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. Without several years of history to establish what an appropriate contribution should be this report is recommending $1 million be added 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.

The funding plan assumes the following with respect to funding levels for programs not included in the CAM report:

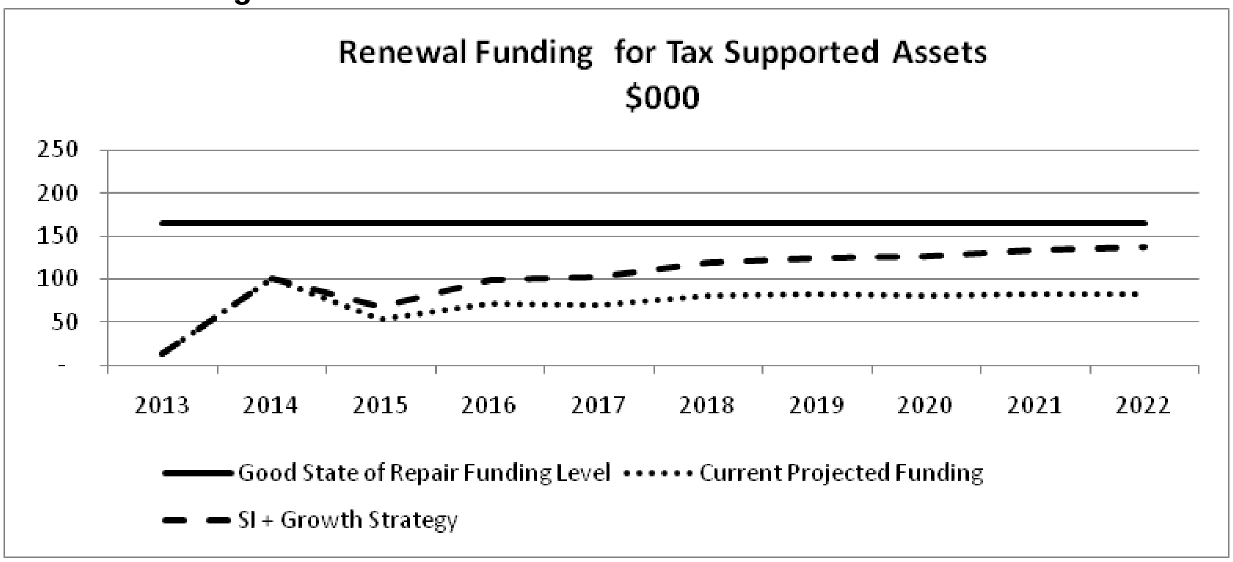
- Renewal of other City assets such as information technology and equipment will be maintained at the existing annual allocation of $30 million per year;

- Growth: the City's share of growth supported will be maintained at the existing annual allocation of approximately $11 million per year. The 2014 update of the Development Charges will be identify any differences from this allocation and present funding strategies at that time;

- Strategic Initiatives: Council has established its priorities for the funding of strategic initiatives for the period 2012 to 2014. The current annual funding plan allows for some $20 million to be directed to various City strategic initiatives along with $15 million toward the multi-year Service Ottawa technology improvement initiative. This report recommends that $20 million be maintained but that the balance of the funding, which will be freed up from the Service Ottawa component, be redirected to fund infrastructure renewal.

The results from the adoption of an increased contribution to capital found within the tax targets Council establishes plus the redirection of funds from Strategic Initiatives are shown in Figure 1. The results of these two strategies increase the annual funding level to close to $140 million by year 10 (2022). The objective of meeting the targeted $165 million funding level in 10 years will not be achieved with these strategies alone.

Figure 1- Funding Strategy with Increase Allocation and Redirection of Strategic Initiative funding



Figures 2 and 3 show that in the absence of permanent funding sources from senior government levels, the targeted funding level of $165 million could be reached by 2022 with an infrastructure tax levy equal to one half of one percent on the tax bill, and by 2024 with an infrastructure levy equal to one quarter of one percent.

Figure 2 – Funding Plan showing Incremental Revenues with a Dedicated tax levy equal to a one half of one percent tax increase

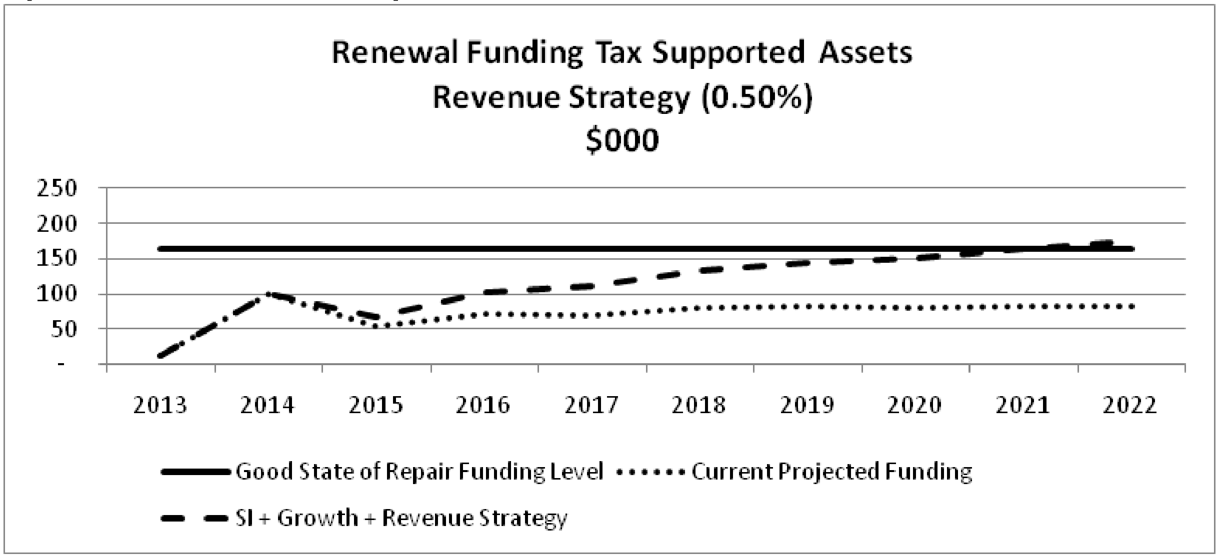
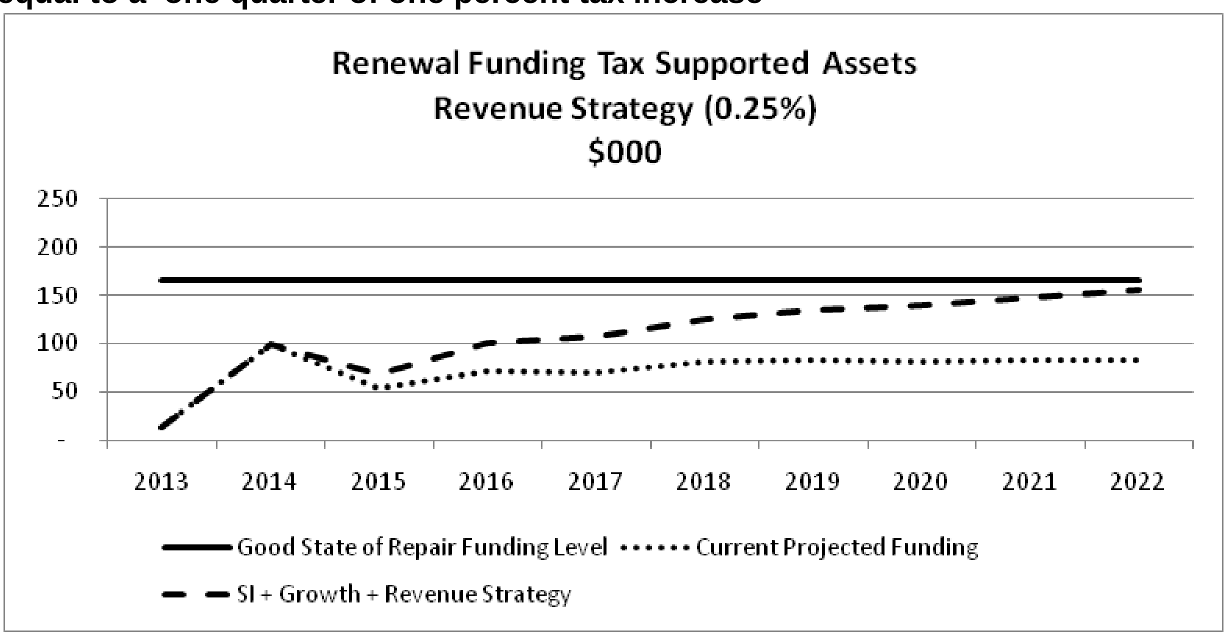


Figure 3 – Funding Plan showing Incremental Revenues with a Dedicated tax levy equal to a one quarter of one percent tax increase



Enhancements Combined with Renewal

The City's current practice is to coordinate road repair and reconstruction works with enhancements such as new cycling facilities, expanded or new sidewalks and streetscaping when cost effective to do so as part of road reconstruction projects. It is estimated that these initiatives can add approximately 5% to the cost of the renewal work. Over a ten year period, the value of these enhancements could add $90 million to the funding required for renewal projects. This report recommends that starting in the 2015 budget year, the enhancement component of any capital renewal project be identified and approved separately by Council. With this additional level of information, Council will be in a better position to prioritize the allocation of funding for capital projects.

Financial Profile - LRFP Tax Supported services in the context of all other funding needs and strategies

During the past year, Council has considered two other long range plans that deal with the funding needs and strategies for capital works used to provide municipal services. With the adoption of these strategies, the City will be able to maintain its critical transportation, water and wastewater infrastructure. At the same time, the City will have the financial capacity to undertake a major change in how it delivers transit services through the light rail transit project.

The following section discusses the funding strategies for renewal works within each of the three capital components of the Long Range Financial Plan IV update. A profile of the City's existing and future debt is also presented, taking into consideration all of these plans.

<u>Transit Long Range Plan:</u>
The 37 year Transit Long Range Plan showed that the current Transit plan is affordable within the existing contribution levels maintaining taxes and fares at inflation. Transit has traditionally been a shared capital item with senior orders of government and it is assumed that this partnership will continue over time. Future transit investments included in the planning horizon include the $2.1 Billion first phase of the Light Rail Project (Tunneys to Blair) as well as subsequent phases. In order to test overall affordability the transit LRFP used very conservative assumptions with respect to revenue growth.

The level of investment in the Transit LRFP for capital renewal was set at the good state of repair level. Transit has dedicated sources of funding not available to other City services, so renewal works can be funded from federal and provincial gas taxes in addition to the dedicated transit levy and transit fares.

The debt profile included in this analysis for transit projects is taken from the Transit LRFP plan up to the year 2022 which includes the full forecast for the LRT project. Council will receive a report later this year that details the final plan to finance this project when a proponent is selected.

Water and Waste Water Long Range Plan
In 2012, Council approved a ten year spending and debt issue plan that allowed for an increase in the maintenance of these assets. Revenue increases from water rates and sewer surcharge rates to support the plan were 6% in 2012, 7% in 2013 and 2014, 6% in 2015 and 2016 and 5% every year thereafter. In order to ensure that needed work can be undertaken the amount of debt to be issued was increased. The limit on debt servicing charges was adjusted to a maximum of 15% of the annual $300 million water and wastewater budget. At the same time reserve balances would be increased to ensure one year of debt servicing is maintained as a balance.

Tax Supported Services Long Range Plan:
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 Lansdowne. This is consistent with Council's approved debt principles.

Net tax supported debt servicing (principal and interest) for capital assets included in the *Comprehensive Asset Management Program* will remain at approximately $80 million per year including debt issued for Lansdowne Park and for *Ottawa on the Move.* The City will issue new tax supported debt for the capital program as debt is retired. Unissued tax supported debt will be reduced over time but due to the three year lag between when debt is authorized and when it is issued, the unissued amount will never be eliminated.

Summary of Renewal Requirements and funding strategies

Each of the previously discussed long range plans includes funding for new assets and also for the maintenance (renewal) of existing assets. The following table shows the total annual cost of the renewal (maintaining) assets component in each of these plans and the strategies for those investments.

Table 2 - Annual Renewal Costs

Plan	Asset Type	($Millions)	Funding Strategy
Tax supported	Roads, buildings, structures, parks	165	$80 M included in existing budget revenues $60 M by reprioritizing existing spending $25 M from new revenue sources , including senior levels of government
Tax supported	Other Renewal	30	Existing tax sources
Rate supported	Water and sewer pipes, treatment facilities	260	Water and Wastewater rate increases Debt service allowed to reach 15 percent
Transit	Vehicles, facilities, equipment	70	Existing capital contributions from transit taxes to be increased with the rate of inflation
Total		525	

Debt Profile

Long-term debt for municipalities is restricted by the Municipal Act. The City cannot borrow to pay for operating expenses. Long term debt can only be used to fund capital works, and the City is limited in how much debt servicing (repayment of principle and interest) it can take on by the provincially established Annual Debt Servicing Limit. The annual debt servicing limit is 25% of own source revenues, which is defined as all revenues other than those provided by the senior levels of government or from development charges.

The provincial limit applies to all debt, regardless of the source of repayment. The City repays debt from various sources including water rate revenues, taxation, transit fares, Provincial and Federal Gas taxes and development charge revenues. In order to control the amount of debt that would be repaid by citizens, Council established a limit of 7.5% of taxes and fees to repay principal and interest (debt servicing). This limit applies to debt service costs funded from taxation, user fees including water and sewer rates, and transit fares. Less than 6% of the City’s taxes and fees are used annually to pay for interest and principal on debt. Total debt servicing costs are currently just under 7% of own source revenues when measured on the Provincial debt limit scale of 25%.

When debt is issued, interest rates are locked in for the full term of the debt issue. As a result there is no interest rate exposure from future interest rate increases. As City debt is for fixed term and rate, there is no uncertainty as to what the payments are for the life of the debt.

Council approves new debt issues (authorized debt) with each capital budget and with specific capital reports received during the year. The debt for a capital project is typically issued 3 years after the project is authorized. At any time, the total net issued debt plus the authorized but unissued debt represents the value of debt that has been approved to construct, purchase or renew municipal assets.

The City's debt is rated by external agencies who review all of the debt plans and the City's financial management. Moody's Investors Service has given the City its highest rating, Aaa/Stable and Standard and Poor's have given the City its second highest rating of AA+/Stable. These ratings have been re-confirmed during the past few months and have not changed since amalgamation. Rating agencies look to a variety of factors when rating the municipality, including debt levels, the economy and regulatory environment, as well as the City's fiscal capacity. A summary of the current ratings, together the rating agencies' comments on the City's financial management, is appended as Document 2 to this report.

Ottawa is in a strong financial position with relatively low debt burden compared to other major Canadian cities. The following table uses work prepared by the Dominion Bond Rating Service using data from the 2011 financial statements, and the City's profile using the DBRS methodology. The results show that on a per capita basis Ottawa had the second lowest net tax supported debt of the six cities and the second lowest total debt per capita.

Table 3 – Debt Comparison with Major Canadian Cities

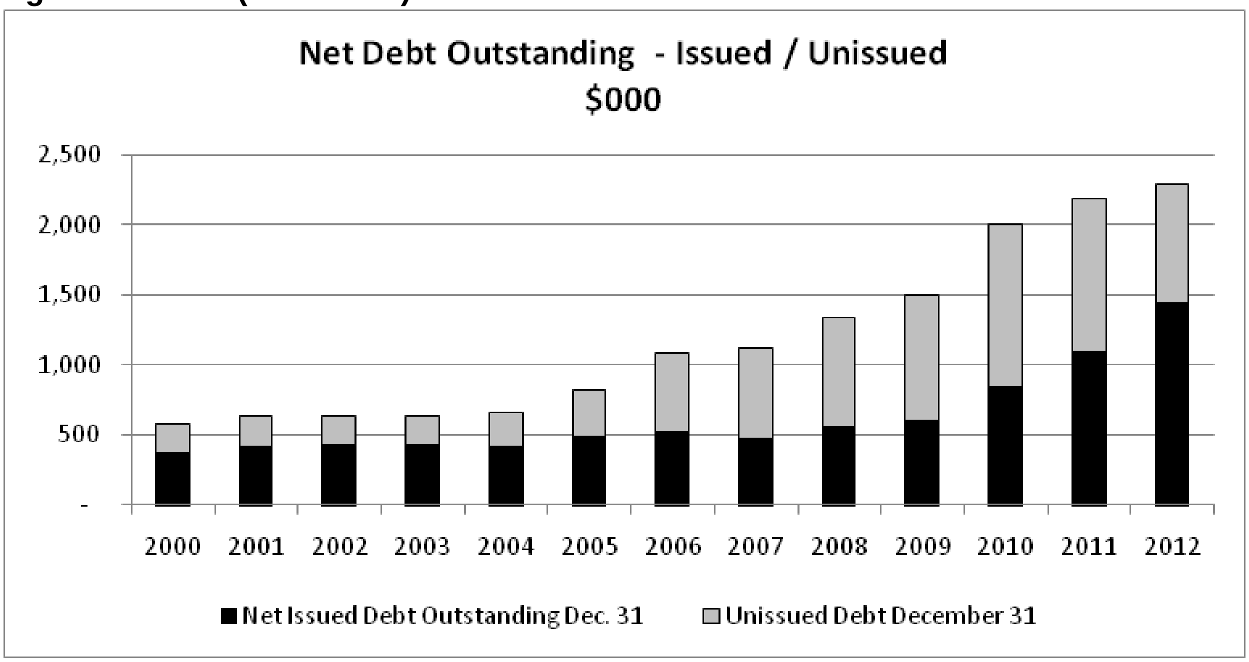
2011 Year-end Debt Comparison						
	Ottawa	Toronto	Vancouver [3]	Calgary	Edmonton	Montreal
Net tax supported debt[1] ($000)	926,421	3,264,000	1,651,101	893,114	1,265,890	3,819,000
Net Total Debt [2] ($000)	1,424,774	4,037,600	2,176,610	3,961,764	2,150,522	5,520,000
Population	927,118	2,790,200	643,000	1,090,969	812,000	1,950,000
Net tax debt per capita ($)	999	1,170	2,568	819	1,559	1,958
Net total debt per capita ($)	1,537	1,447	3,385	3,631	2,648	2,831
1 - Calculated by DBRS – Ottawa, Toronto and Edmonton calculated using DBRS methodology						
2 - Calculated by DBRS includes rate and mortgage debt						
3 - 2010 year end values, as 2011 not yet available						

Current total issued debt is $1.4 billion. These funds were used to purchase or repair assets that cost $15 billion. City issued debt is therefore equivalent to having a $30,000 mortgage on a $300,000 home.

When the City was formed in 2001 it had outstanding debt and other debt that had been approved by previous Councils but was not yet issued. The following chart shows the history of debt issuance and debt approvals since amalgamation. The low interest rate environment, together with a policy of matching debt term to the underlying assets, has allowed the City to maintain its debt servicing costs at almost the same level as at amalgamation. In 2000 with issued debt of $400 million the cost of debt was $162 on an average tax bill of $2,000. In 2012, that cost of debt is $174 on a $3,000 average tax bill but the issued debt is more than tripled.

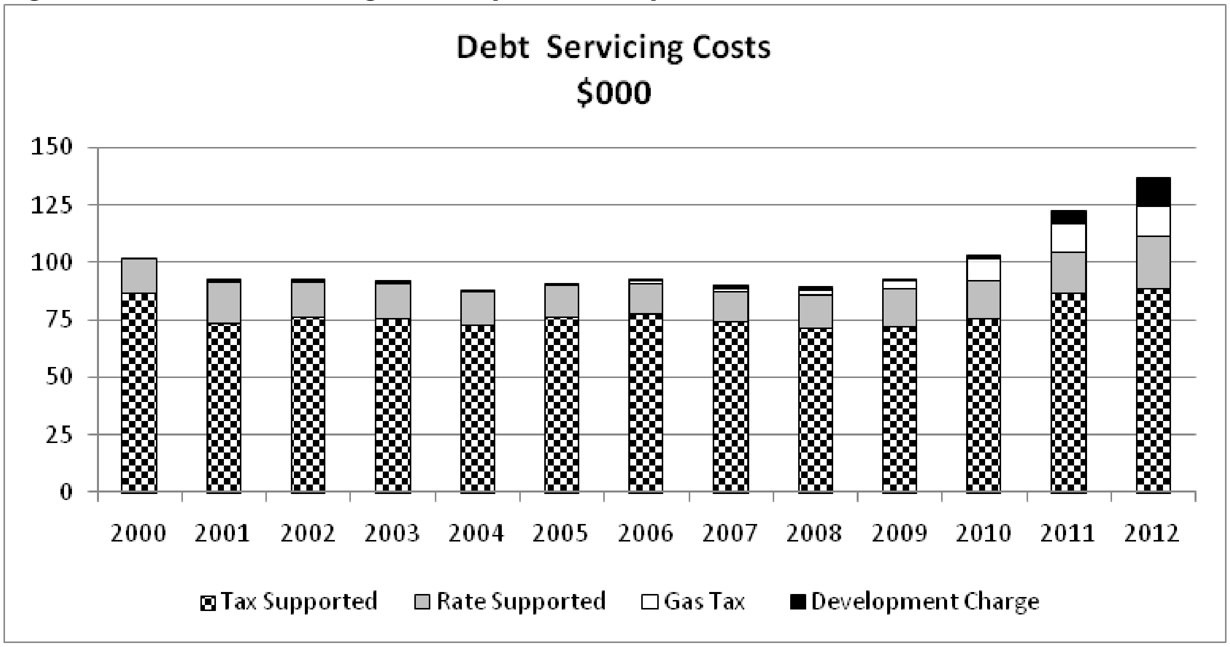
Between 2007 and 2010, the City approved an increase of $800 million in debt. The increase was primarily associated with the $400 million Stimulus program and an acceleration of spending on transit related initiatives.

Figure 4 – Debt (2000-2012)



The corresponding principal and interest costs are shown in the following chart. As can be seen the debt servicing now includes the use of federal and provincial gas taxes and increasingly from development charges.

Figure 5 – Debt Servicing Costs (2000-2012)



<u>Future Debt Profile</u>

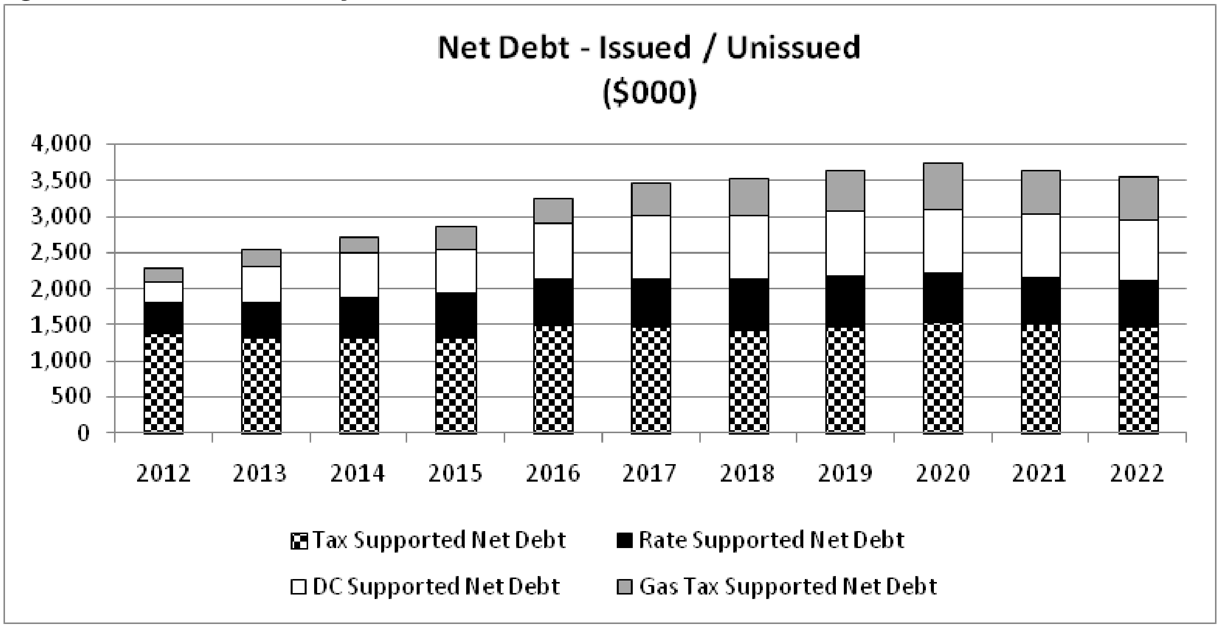
While the gross amount of debt issued will increase over the next ten years debt servicing will continue to be within manageable levels.

The following forecasts have been prepared using all current debt issuance plans including debt issue plans for the Ottawa on the Move project, all transit projects including the first phase of the LRT and for the City's share of the Lansdowne Park redevelopment project. The debt projections shown in this report for the period to 2015 are consistent with the 2012 to 2015 projections that are included with the approved 2012 budget document.

For purposes of estimating debt servicing impacts conservative interest rates have been used. For example 5.5 percent for 20 year debt has been used when current rates are closer to 3.5 percent. The City's property tax revenue base is assumed to grow at 3.5 percent through a combination of tax increases in line with inflation and a modest growth in tax assessment. The City's asset base will also continue to grow from today's $15 billion cost to an estimated $22 billion by 2022 as new transit, transportation and water/wastewater infrastructure is constructed.

Figure 6 shows that the growth in debt for all services from the current combined issued and unissued debt of $2.3 billion ($1.4 billion in issued debt and $0.9 billion in unissued debt). Tax supported debt includes Transit and Police.

Figure 6 – Net Debt Projections



Total debt in absolute dollars will grow over the period, however during that same period, the City's asset base will also grow. During the next ten years, the City's assets are expected to grow by an estimated $7 billion. This includes $2.1 billion for the first phase of light rail, plus the growth in other transit, transportation and water infrastructure. In 2022, the $3.5 debt level shown in figure 6 will represent 15 percent of the projected total value of the City's assets at that time. This is similar to today's debt as a percentage of asset value. Even though the quantum of debt increases the use of debt is not increasing significantly from what is used today.

Future Debt Servicing Costs

Figure 7 shows the cost of principal and interest payments for debt (debt servicing) over the next 10 years. The debt servicing funded from property tax supported revenues will remain fairly constant over the 10 year period. As per the LRFP water rate supported debt costs will rise gradually over the period. Total debt servicing will increase during the 2017 to 2022 period but primarily for development charge and gas tax supported debt.

Figure 7 – Forecasted Debt Servicing Costs

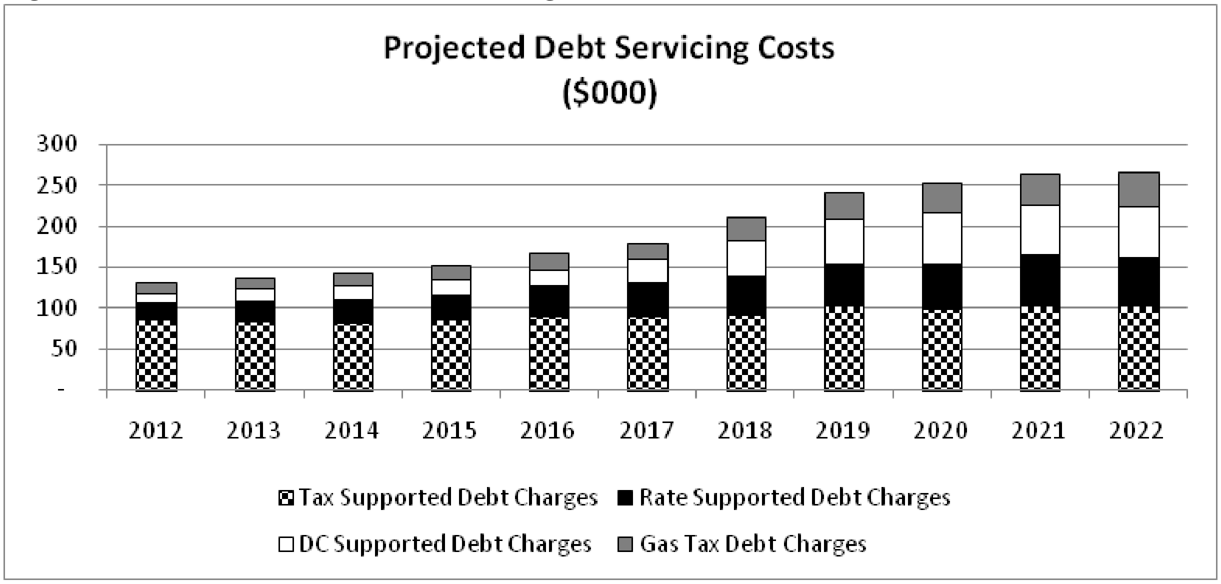
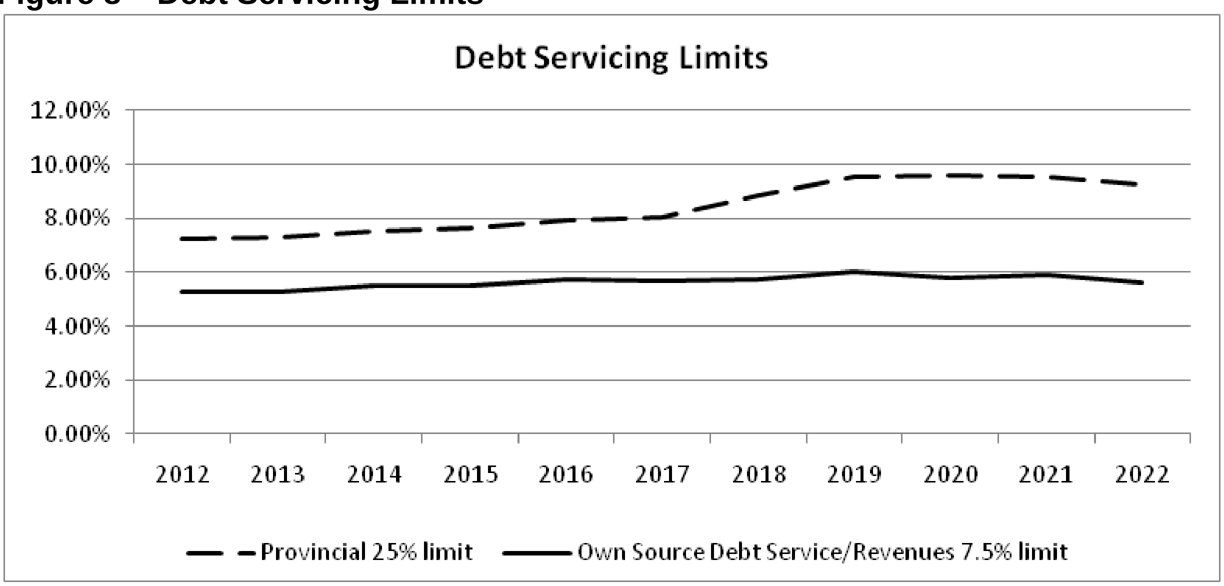


Figure 8 shows the forecasted debt servicing costs against the limits imposed by the Province and by Council. The total cost of principal and interest payments (debt servicing) funded from own source revenues (property taxes, rates and fees) as measured against Council's stated policy of no more than 7.5 %, which is at 5.3% in 2012 will continue to stay below 6%.

Figure 8 – Debt Servicing Limits



Compared to the 25 percent Provincial limit, total debt serviced from all revenue sources (taxes, fees, gas taxes and development charges) will remain below 10%

during the 10 year planning period, less than half the limit applied under provincial rules. Council has previously received a similar assessment of the debt profile against the Provincial debt servicing limits in the July 2011 Transit LRFP. That report provided an assessment of the impact of the transit plan, in light of the total debt profile for the City and concluded that debt servicing was still within manageable levels.

While the amount of debt will increase over the next ten years the City will not be nearing any of the debt limits set by the Province or by Council. Figures 9 and 10 show the City's debt capacity during this time period. Debt capacity is the amount of debt issued or approved and what could still be approved within the existing limits. Debt capacity grows as the City's revenues increase as the result of inflation or organic growth.

Figure 9 – Total Debt level compared to 25% Provincial Debt Capacity Limit

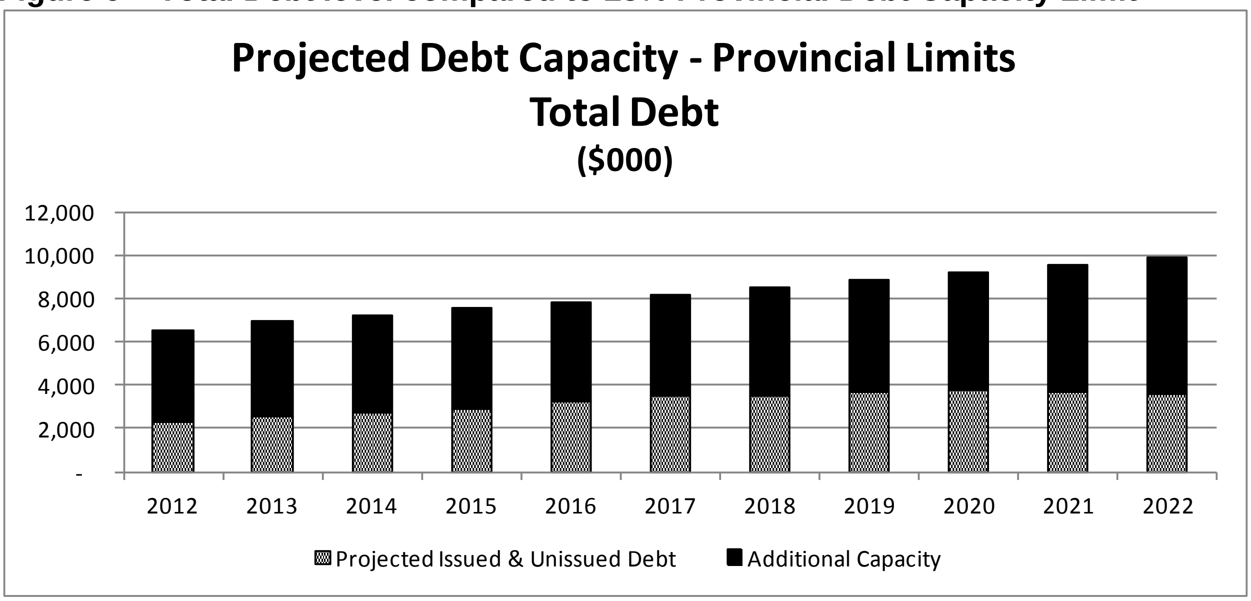
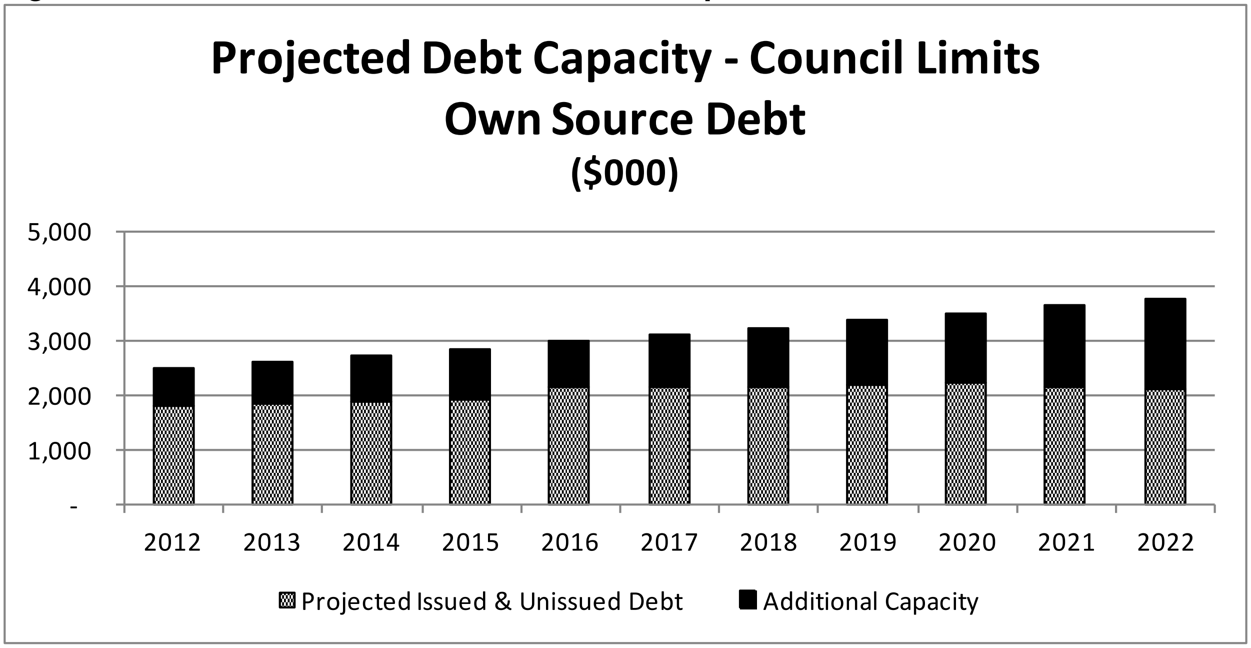


Figure 10– Own Source funded Debt level compared to 7.5 % Council Limit



Both figures show that as the City grows, the total debt issued will remain far below the debt limit restrictions imposed by the Province. At the end of 2011 the City's annual Provincial debt limit would allow an additional $5 billion in long term debt to be issued.

Reserves and Fiscal Flexibility

The City's current cash and investment balances at year end 2011 were $1.1 billion. Debt rating agencies look to the total cash and investment balances when assessing ratings as they want to ensure the continued ability to service debt obligations. It is therefore important to maintain a level of liquidity to protect the City's credit ratings.

The City's reserves and cash balances include $200 million from the Endowment Fund; $600 million in deferred revenues (including $400 million in Development Charge revenues) and $350 million in various City operating and capital reserves. In order to ensure that there is continued liquidity in the future, this report recommends that the City of Ottawa Endowment fund balance continues to be maintained at $200 million and any excess continue to be directed to fund the capital program.
The Endowment Fund was established from the proceeds received from Hydro Ottawa when it completed its refinancing in 2005. The Province allowed the creation of an endowment fund with a broadened scope of eligible investments including Canadian equities and corporate bonds, and requires the Fund to be managed by external professional investment managers.

On June 14, 2006 Council adopted the investment policy and procedures for the Endowment Fund which set the target rate of return at 6.5% and established the

Endowment Fund Investment Committee to oversee the operation of the Fund. Earnings from the Fund are directed to the capital program. Ontario Regulation 655/05 permits the City to reduce the principal component of the fund starting in 2014.

This report recommends that the City continue to maintain assets in this fund at the original $200 million level in future years in order to continue to maintain sufficient reserves on hand. Maintaining assets in this fund gives the City the opportunity to increase earnings through participation in the equity markets.

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 the annual budgets.

COMMENTS BY THE WARD COUNCILLOR(S)
This is a City-wide report.

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

RISK MANAGEMENT IMPLICATIONS
There are no risk management implications.

FINANCIAL IMPLICATIONS
Financial implications are identified within the report.

ACCESSIBILITY IMPACTS
Funding requirements associated with accessibility are identified during the annual budget cycles.

ENVIRONMENTAL IMPLICATIONS
Not applicable.

TECHNOLOGY IMPLICATIONS

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

TERM OF COUNCIL PRIORITIES

The development of a Long Range Financial Plan is identified as a term of Council priority.

SUPPORTING DOCUMENTATION

Document 1 – Strategies Used by other Municipalities
Document 2 – Summary of Credit Ratings

DISPOSITION

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