Media Release: Friday, June 10, 2016, 4:30 p.m.

Regional Municipality of Waterloo

Administration and Finance Committee

Agenda

Tuesday, June 14, 2016

Approximately 11:30 a.m. (Immediately following Planning & Works Committee)

Regional Council Chamber

150 Frederick Street, Kitchener

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1. Declarations of Pecuniary Interest under the "Municipal Conflict Of Interest Act"

2. Presentations

2.1 Amanda McDougall, Regional Manager and Jon Hebden, Account Manager, Municipal Property Assessment Corporation (MPAC):

- Delivering the 2016 Assessment Update
- 2016 Assessment Update - The Residential Experience
- How can I Learn More About my Assessment
- Enhancing Municipal Engagement
- Preliminary Residential Market Trends

Consent Agenda Items

Items on the Consent Agenda can be approved in one motion of Committee to save time. Prior to the motion being voted on, any member of Committee may request that one or more of the items be removed from the Consent Agenda and voted on separately.

3. Request to Remove Items from Consent Agenda

4. Motion to Approve Items or Receive for Information

4.1 **COR-FFM-16-06**, Voice Radio System Replacement Update 4

Recommendation:

That the Regional Municipality of Waterloo approve additional consulting fees of $120,000 plus applicable taxes for CIMA+ for design, specification, evaluation, and negotiation of the Waterloo Region Voice Radio System replacement Request for Proposal as set out in report COR-FFM-16-06 dated June 14, 2016;

And that report COR-FFM-16-06 be forwarded to the Waterloo Region Police Services Board and all area municipality councils for information.

4.2 **COR-FSD-16-14**, Periodic Financial Report – Year End Projections Based on Financial Results to April 30, 2016 (Information) 11

4.3 **COR-TRY-16-59**, Property Assessment Issues (Information) 27

Regular Agenda Resumes

5. Reports

5.1 **COR-FFM-16-08**, Multi-Site Lighting Program – Additional Consulting Fees 34

Recommendation:

That the Regional Municipality of Waterloo take the following action with respect to the Multi-Site Lighting Program as set out in report COR-FFM-16-08 dated June 14, 2016:

1. Approve additional Multi-Site Lighting Program consulting fees for Walter Fedy at an upset limit of $120,000, for a total upset limit of $374,120, inclusive of a contingency amount of $15,000, plus all applicable taxes; and

2. Approve in principle changes to the Multi-Site Lighting Program subject to approval of the 2017-2026 Capital Program.

5.2 **COR-FSD-16-15**, Capital Financing Principles 37

Recommendation:

That the Region of Waterloo approve the Capital Financing Principles as set out in report COR-FSD-16-15 dated June 14, 2016.

5.3 **COR-FSD-16-16**, 2017 Budget Process & Timetable 47

Recommendation:

That the Regional Municipality of Waterloo take the following action with respect to the 2017 Budget:

1. Approve the 2017 Budget timetable as set out in Schedule B to Report COR-FSD-16-16 dated June 14, 2016;
2. Forward a copy of Report COR-FSD-16-16 to the Waterloo Region Police Services Board.

6. Information/Correspondence

6.1 Council Enquiries and Requests for Information Tracking List 66

7. Other Business

8. Next Meeting

9. Adjourn

Report: COR-FFM-16-06

Region of Waterloo

Corporate Services

Facilities and Fleet Management

To: Chair Sean Strickland and Members of the Administration and Finance Committee

Date: June 14, 2016 **File Code:** A20-20

Subject: Voice Radio System Replacement Update

Recommendation:

That the Regional Municipality of Waterloo approve additional consulting fees of $120,000 plus applicable taxes for CIMA+ for design, specification, evaluation, and negotiation of the Waterloo Region Voice Radio System replacement Request for Proposal as set out in report COR-FFM-16-06 dated June 14, 2016;

And that report COR-FFM-16-06 be forwarded to the Waterloo Region Police Services Board and all area municipality councils for information.

Summary:

The Voice Radio System Replacement Request for Proposal (RFP) is expected to be issued to the prequalified proponents in July 2016 with completion of the project and user migration by the end of 2018. To address some issues identified during RFP preparation the Region and stakeholders have developed a new system responsibility and governance model for implementation in 2018. The new model will transfer system responsibility to Waterloo Regional Police Services with a formal oversight committee established to represent all users. This new responsibility and governance model has been endorsed by all of the system stakeholders and will be recommended for approval by the Police Services Board and Regional Council prior to the award of the RFP at the end of the year. Consulting fees relating to RFP changes during this process have been negotiated at an additional $120,000 plus applicable taxes.

Report:

Background

The Waterloo Regional Voice Radio System (WRVRS) provides reliable public-safety grade two-way voice radio communications for Waterloo Regional Police Service (WRPS), all municipal Fire Departments, all Regional Departments (principally Grand River Transit and Roads Operations) and various area municipality operations departments within the Region. It serves as the primary link between 911 dispatch and Police and Fire personnel for all day-to-day communications and provides critical interoperability between all users in the event of a Region-wide emergency.

The original analog system was installed in 1994 and has undergone several minor upgrades and one major upgrade in 2009/2010 to ensure optimum performance and coverage. The 2009/10 upgrade addressed typical end of life cycle concerns including difficulty in obtaining replacement parts and effective support services as well as improving system coverage and in-building penetration in the Cambridge area by adding one new tower to the system. The system currently has 6 towers operating as a simulcast ring infrastructure with approximately 2,500 user radios working on the network.

Replacement parts and support services for the radio system are becoming difficult to obtain and the next evolution of the voice radio system is required by the end of 2018 to ensure system reliability. The Region is in the process of planning a full radio system replacement which will take advantage of the improvements associated with a digital system and provide added functionality. The new system will comply with the radio transmission standard produced by the Association of Public-Safety Communications Officials (APCO) called Project 25 (P25) which is currently the North American standard for public safety communication.

In February 2014, a consultant (CIMA+) was selected to assist with preparation of the Request for Proposals (RFP) documentation. Since that time, the consultant has been working closely with Regional staff, system stakeholders and technical representatives of all system users to identify the detailed system requirements to be included in the system RFP.

A prequalification to identify qualified proponents for the system RFP was conducted in late 2014. As a result Harris Canada Systems, Inc. and Motorola Solutions Canada Inc. have been selected to move forward to the next step in the RFP process (COR-FFM-15-01, dated January 13, 2015).

Voice Radio System Replacement Update

As the development of the RFP document was nearing completion at the end of 2015 it became apparent that, despite ongoing consultation with all stakeholders, the document did not fully reflect the needs of all systems users. In order to ensure that those issues were addressed appropriately, the project governance structure and the RFP have been revised over the last six (6) months. These changes addressed three key issues:

- Changes in leadership in a number of key system stakeholder organizations had led to new system requirements which were not fully identified through the initial stakeholder consultation process.
- The operation of the new system requires a level of integration between user gear and system infrastructure that is not well supported by the current model of Regional responsibility for the infrastructure.
- Effective system decision making was complicated by the number of stakeholders and lack of a clear decision making framework.

To address these issues, Regional staff worked with key system stakeholders to develop a new system responsibility and governance model which has since been endorsed by all system stakeholders.

New System Responsibility & Governance Model

A review of other P25 Voice Radio systems in Ontario and elsewhere showed some common themes for system responsibility and governance. In most instances, the systems are operated by a Public Safety agency (typically the Police Service) rather than by Regional government to reflect how critical the Voice Radio system is to Public Safety operations. To ensure all agency needs are met, significant decision making for those systems is generally the responsibility of a small committee representing various stakeholders rather than by the single agency responsible for the system or by the consensus of all stakeholders. Based on this review changes to responsibility and governance of the Region of Waterloo Voice Radio System have been put in place to effectively implement the new P25 system. A formal governance committee has been established to represent all system users and make critical project decisions. The composition of this committee is as follows:

- Chief of Police, WRPS – Chair
- Inspector, Operational Support Command, WRPS – representing the user needs of Police
- Fire Chief, Cambridge – representing the user needs of all Fire Services
- Director, Transit Services, ROW – representing all Public Works users
- Director, Facilities Management & Fleet Services, ROW – representing system infrastructure responsibility and transition planning for WRPS responsibility.

To ensure that the system replacement project is completed by the end of 2018, before significant issues arise with the existing system, the immediate priority of this committee is to move forward with the RFP. This committee has acted over the last few months to resolve the outstanding issues required to issue the RFP. Over the coming months the same group will review and approve the recommendation of the Evaluation Committee involved in the RFP evaluation process and will begin the detailed planning required in recommending an approach to transferring system responsibility to the WRPS. A recommendation to transfer responsibility of the system to WRPS will be brought to Regional Council and the Police Services Board prior to award of the RFP at the end of the year.

Request for Proposal Updates

As a result of the work of the new oversight committee, the critical elements of the RFP have been amended to better reflect the needs of the stakeholders. The RFP has been adjusted to include:

- an increased level of radio system coverage for the Public Safety users,
- flexibility to expand the system to groups outside the Region,
- a procurement process utilizing a negotiated RFP format,
- additional system requirements for interoperability outside the Region,
- migration of all users to the P25 system within a normal phased transition process;
- pricing for user gear and fire station alerting systems,
- long term maintenance agreements for the life of the system.

System coverage, and especially in-building coverage, is one of the most critical elements of the system. To stay in line with rapid changes in technology and the latest industry best practice within Ontario, the method of testing for system coverage will be different with the new system. Whereas previously the testing happened outside a building and in-building coverage was determined through theoretical building penetration factors, in the new system the testing will occur inside a representative sample of buildings to ensure the 97% coverage is actually obtained behind the first exterior wall. The vendor will design the system and select building penetration factors to ensure that the system is able to meet that criterion. This change in the responsibility for establishing the penetration factors and testing indoors has been reported to result in an overall increased level of radio coverage in other systems that have implemented it.

Stakeholders have requested that optional pricing be included to potentially allow other municipal groups outside of the Region to obtain pricing for infrastructure and maintenance. The flexibility to expand the Region’s voice radio system to these groups would take advantage of better pricing and sharing of some services with these groups.

The sharing of services would result in lower overall operating costs for the Region and increased co-operation and interoperability with these groups.

Pricing options have also been included for procurement of specialized user gear for fire services and of a long term maintenance agreement for the system.

The RFP changes are nearing completion and the RFP is expected to be issued by July 2016. As noted above, two proponents have been prequalified to submit proposals.

Evaluation of Submitted Proposals

The procurement process to be used in this RFP is a negotiated RFP which allows a transparent negotiation phase with the top-ranked proponent or proponents. Proponent submissions will be evaluated based on the information contained in the proposal submission, and proponents will be invited to meet with Regional staff to clarify aspects of their proposal. Based on these clarifications, one or both short-listed proponents will be asked to submit a final technical and financial proposal for re-evaluation. This is similar to the processes provided for in the Region's Light Rail Transit procurement and the Community Homelessness Initiative Project. The Region is choosing to use the negotiated RFP process for this project for the following reasons: avoidance of tender compliance issues due to the ability to seek clarification, the flexibility to negotiate if over budget, proponents will be able to submit innovative solutions, and the ability to fine tune legal terms and conditions. Negotiated RFP's have been used successfully by other municipalities in recent voice radio procurements, and is becoming more the standard for RFP's rather than the traditional RFP which is structured similar to that of a tender.

A highly structured and rigorous RFP Evaluation Framework is being developed to describe and outline the process to evaluate the submissions from the two short-listed Proponents and select the Preferred Proponent. The Region will form an Evaluation Committee to evaluate the proposals submitted. The evaluation methods will be similar to the prequalification evaluation process where the individual team members review the proposals and team discussion occurs leading to finalization into a consensus score. The Evaluation Committee will evaluate based on the information contained in the proposal submission and one or both proponents will be invited to meet with Regional staff to clarify aspects of their proposal. Based on these clarifications, one or both proponents will be asked to submit a final technical and financial proposal for re-evaluation. The Evaluation Committee will present the recommended Preferred Proponent to the Voice Radio formal governance committee, the Administration and Finance Committee, and ultimately to Regional Council for approval.

Consulting Fees

In February 2014 the Region entered into an agreement with CIMA+ Canada Inc. for consulting services for writing the RFP for Voice Radio System Replacement for a lump sum fee of $160,000 plus applicable taxes. The RFP documents were nearing completion before changes outlined above were identified. Many of those changes required significant revisions to the RFP documents as well as the supporting information collected by CIMA+. In particular:

- The voice radio infrastructure required and the size and scope of the project increased.
- The future operating model, including maintenance options for the future system, required a needs assessment, scope development and integration into the RFP.
- The negotiated RFP procurement format introduced a new purchasing template that required the design work and specifications completed up to that point to be modified.
- The negotiated RFP process requires increased consulting effort during the evaluation and negotiation process.

In addition, the consultant has been providing supporting information and examples during the governance review process undertaken by the stakeholders. Staff negotiated consulting fees of $120,000 (excluding HST) for this portion of the revised scope. The scope of work increases have been reviewed by Facilities Management staff and are considered reasonable and appropriate for the additional consulting work performed. The total consulting design fees are less than 1.5% of the project cost.

Corporate Strategic Plan:

The project supports the 2015-2018 Corporate Strategic Plan objective to ensure regional programs and services are efficient, effective and provide value for money under Strategic Focus Area 5, Responsive and Engaging Government Services, and specifically to look for opportunities to streamline service delivery with area municipalities.

Financial Implications:

The approved 2016-2025 Capital Program includes $22.5 million for replacement of the voice radio infrastructure, to be funded from property taxes (through the issuance of debentures) and development charges. Debt servicing costs to be reflected in future operating budgets are projected to be $2,604,100 annually over a period of 10 years based on an estimated cost of borrowing of 2.75%.

An increase to the consulting fees of $120,000 is requested. These additional consulting fees can be accommodated within the established budget.

Other Department Consultations/Concurrence:

This report was prepared with input from Finance staff and system stakeholders through the oversight committee.

Attachments: Nil

Prepared By: Ellen McGaghey, Director, Facilities and Fleet Management

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Report: COR-FSD-16-14

Region of Waterloo

Corporate Services

Financial Services and Development Financing

To: Chair Sean Strickland and Members of the Administration and Finance Committee

Date: June 14, 2016 **File Code:** F11-30

Subject: Periodic Financial Report – Year End Projections Based on Financial Results to April 30, 2016

Recommendation:

For Information

Summary:

Regional Council passed the Financial Management By-law (By-law 05-008) to establish the financial management framework for the Region. The By-law requires that a report to Administration and Finance Committee be prepared periodically on the Budget to Actual variances within the Operating Budgets.

The following table outlines the projected year end financial position for operating budgets based on financial results to April 30, 2016:

Projected 2016 Year End Operating Budget Variances $ thousands (+/-)	Exp.	Rev.	Net	% of Tax / User Rate Revenue
Property Tax Supported*	1,162	(311)	851	0.3%
Water Supply	117	(1,663)	(1,546)	(2.8%)
Wastewater Treatment	189	791	980	1.4%
Retail Water Distribution	(68)	(61)	(129)	(6.1%)
Retail Wastewater Collection	(30)	(2)	(32)	(2.8%)

* excludes Waterloo Regional Police Services and Library Services

A modest surplus is projected for Tax Supported operations. On the user rates side, a shortfall in the Water Supply budget and a surplus in the Wastewater Treatment budget are projected. However, these projections could be reversed in the event of a minimal rainfall over the remainder of the year.

Any year end surplus or shortfall will be allocated to or funded from reserves and reserve funds in accordance with Council policy.

Report:

Regional Council passed the Financial Management By-law (By-law 05-008) to establish the financial management framework for the Region. The By-law requires that a report to Administration and Finance Committee be prepared periodically on the Budget to Actual variances within the Operating Budgets. Projected year end results are presented in this report in order to provide Council with an earlier indication of how the current fiscal year is progressing relative to annual budget estimates. This report is based on results to the end of April 2016, providing year end estimates and variance projections to the end of 2016.

1. Tax Supported Operating Budget

The Region's projected year end actual vs. budget position for Property Tax Supported programs (excluding Waterloo Regional Police Services and Library Services) is a surplus of approximately $0.9 million. This represents 0.3% of the approved property tax levy for these programs. The following table provides an overview of variances by department:

Projected 2016 Year End Tax Supported Operating Budget Variances			
	$ thousands (+/-)		
Department/Program	**Exp.**	**Rev.**	**Net**
Elected Office	30	-	30
Chief Administrator's Office	-	-	-
Corporate Services	(28)	(65)	(93)
Human Resources and Citizen Service	60	(45)	15
Planning, Development and Legislative Services	210	(258)	(48)
Transportation and Environmental Services	1,090	(1,173)	(83)
Community Services	(343)	251	(92)
Public Health and Emergency Services	38	-	38
Subtotal Regional Programs	**1,057**	**(1,290)**	**(233)**
Waterloo Region Crime Prevention Council	-	-	-
Associated Agencies	-	-	-
Corporate Financial	105	-	105
Supplementary Taxes and PIL Revenue	-	979	979
Subtotal Direct Regional Tax Supported Programs	**1,162**	**(311)**	**851**

Certain areas have presented budget challenges in the past and some may present significant impacts on current operating positions and projections. The following section provides an update on items of significance to the property tax supported budget and Appendix A provides further detail on variances and their underlying causes by division.

1.1. POA and red light camera revenue

In 2014, Provincial Offences Act (POA) revenues experienced a $1.5 million shortfall and the 2015 Budget for these revenues was adjusted downward by $750,000 (i.e. 50% of the 2014 shortfall). In 2015, POA revenues exceeded the budget estimate by $51,000 and there was $54,000 of minor under spending. The 2016 POA revenue budget was increased by $264,000, partially offset by increased adjudication fees of $104,000. Year to date POA revenues are $129,000 in excess of budget due to several large fine collections and higher than anticipated Red Light Camera revenues. The projected yearend position for POA revenue is a surplus of $100,000.

1.2. Airport revenue

In March of this year, Nolinor Air ceased operations at the Region of Waterloo International Airport. As a result, airport revenues are expected to fall short of budget estimates by $350,000.

1.3. Transit fare revenue

Transit Services conventional fare revenue year to date is trending approximately 5% below 2016 budgeted levels, resulting in a potential revenue shortfall of $1.2 million. Decreases in transit ridership are occurring in communities across Canada for a number of reasons including lower fuel prices, increases in the use of shared ride services, and more active transportation choices. In Waterloo Region, the impact of ION construction detour routing is also likely contributing to the decreased number of transit riders. It is noted that a GRT fare increase will come into effect on July 1, 2016. A number of adjustments were made to the 2016 GRT fare revenue budget as shown below:

2015-2016 Budgeted GRT fare revenue analysis ($000's)					
2015 fare Budget	Plus: annualization of 2015 service expansion	Plus: annualization 2015 fare increase	Plus: proposed 4% fare increase on July 1, 2016	Less: adj. to reflect 2015 revenue variance	2016 fare revenue budget
$32,539	$552	$450	$600	($1,250)	$32,891

1.4. Waste Management tipping fees and tonnage

The Waste Management program is projecting a net positive variance of $454,000 at year-end. Revenues are projected to exceed the budget by $420,000 largely due to tipping fee revenue related to a fire at a private transfer station facility in fall of 2015. This facility is currently being rebuilt and is expected to be operational by late 2016. Expenditures are projected to be close to budget.

1.5. Ontario Works allowances & benefits

The Ontario Works Allowances & Benefits budget is being uploaded by the Province and will be fully uploaded by 2018. Since 2010, the Region has used the Tax Stabilization Reserve Fund (TSRF) to fund the property tax impact of increased caseload costs. This strategy has allowed the Region to avoid increasing the property tax levy to fund these increased costs as the upload is progressing.

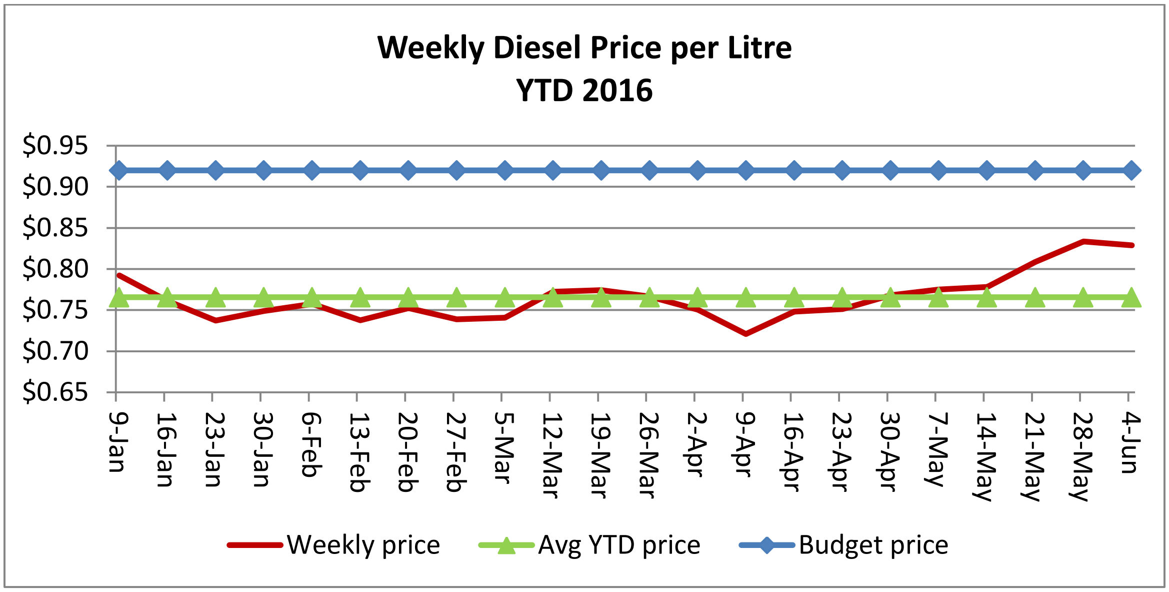
Ontario Works Allowances are projected to exceed budget by $166,000 (3.9%). The April 2016 caseload (8,792) remains 40% higher than pre-recession levels, and is 2.1% higher than April 2015. Some of the increase in caseload may be related to complications associated with the introduction of the new province-wide Social Assistance Management System (SAMS) technology for OW case management.

By year end, it is projected that the transfer from the TSRF will be $166,000 greater than budget due to increased caseload. Additional information and analysis on the TSRF will be provided during the 2017 budget process.

As reported in CSD-EIS-16-04 dated June 14, 2016, it is projected that the Ontario Works Discretionary Benefits (OWDB) program expenditures will exceed its 2016 budget by approximately $600,000. However, this report also recommends changes effective July 1, 2016 to the OWDB program which will reduce this projected variance to $300,000. The year end projection provided in this periodic financial report for OWDB takes these staff recommendations into account.

1.6. Fuel costs

The 2016 operating budget was approved using a fuel price strategy whereby the price of fuel was set at $0.92/L for both diesel and gasoline (from a standardized fuel price of $1.07625/L in 2014). The strategy provided that 50% of the savings associated with the budgeted price decrease was reflected in a reduced 2016 property tax levy and 50% of the savings was redeployed as a transfer to the GRT Bus Replacement reserve. This approach was taken to mitigate fluctuations in the fuel price and reduce the risk of a deficit if and when prices climb back to 2014 levels. The 2016 year to date average price of fuel is $0.77/L, resulting in an approximate projected year end variance of $1.2 million. Any fuel price variances beyond what has been anticipated in the budget have been treated in accordance to the provisions of the approved fuel price strategy. It is important to note that fuel prices have been climbing sharply in recent weeks, as indicated in the following graph:



1.7. Transportation and winter control costs

Based on information currently available, the projected year end position for winter control is a favourable variance of $283,000. This variance is predominantly due to winter control costs incurred in January to March of 2016 being less than anticipated and, to a lesser extent, due to staffing vacancies. The final year-end variance will depend primarily on the number of snow events in November and December. The winter maintenance reserve currently has a balance of $832,000.

1.8. Housing revenues

The 2015 and 2016 Waterloo Region Housing (WRH) revenue budgets were increased by $584,000 and $175,000 respectively as a result of increasing rental revenues over the past few years. WRH rental revenues are currently trending on budget and are expected to remain so in 2016.

1.9. Community Housing move-in/move-out costs

Move-in/move-out costs (flooring and painting) are projected to be higher than budget by $286,000 by year end. This increase is in large part due to efforts to better align unit occupancy, size, and configuration with current client needs, updated for changes in life circumstances, i.e., family size, economic need, etc.

1.10. Property taxes

- **Supplementary taxes**

Supplementary tax runs are scheduled for May, August, and October of 2016. Preliminary information from Municipal Property Assessment Corporation (MPAC) indicates that the Region's share of supplementary taxes to date is $2.7 million and that, to date, MPAC has added 31% of the assessment forecasted to be added in 2016. If MPAC meets their forecast, the Region could expect supplementary tax revenue of approximately $8.7 million.

- **Payments in lieu**

Payments in lieu (PIL) of taxes are anticipated to be $79,000 above the 2016 budget estimate. PIL revenue will be finalized during the year end process.

2. User Rate Operating Budgets

Appendix B provides a year end projection of user rate revenue, expenditure and contributions to the capital reserves for the Water and Wastewater budgets along with detailed variance explanations. The following summary outlines projected year end user rate variances:

Projected 2016 Year End User Rates Operating Budget Variances

	$ thousands (+/-)		
Division	**Exp.**	**Rev.**	**Net**
Water Supply	117	(1,663)	(1,546)
Wastewater Treatment	189	791	980
Retail Water Distribution	(68)	(61)	(129)
Retail Wastewater Collection	(30)	(2)	(32)

2.1. Water Supply

There is a minor Water revenue shortfall to the end of April of $560,000. Actual water flows over the first four months of 2016 are 1.7% lower than in the same period in 2015. If water revenues continue at this pace, a revenue shortfall of approximately 3% (approximately $1.7 million) may result at year end. Depending on summer weather conditions, the water flows could change significantly to year end. The reported variance in water supply expenditures of $117,000 is due to temporary vacancies and under spending on utilities.

2.2. Wastewater Treatment

As of the end of April, wastewater flows are slightly higher than budget for this period resulting in a positive year to date variance of $350,000. If wastewater revenues continue at this pace, a revenue surplus of approximately 1% may result at year end. That being said, a repeat of last year's hot dry summer could result in a revenue shortfall. In 2015, the Region experienced a $6.9 million Wastewater Treatment revenue shortfall, and the Wastewater capital reserve balance has dropped to $11.0 million. Depending on summer and fall conditions, the wastewater flows could change significantly to year end. The under spending in wastewater expenditures of $189,000 is due to temporary vacancies.

The approved 2016 Wastewater Capital Program included a budget of $33 million in 2016 for Kitchener Wastewater Treatment Plant process upgrades. The construction schedule for contracts 3 and 4 is progressing faster than anticipated. The revised 2016 estimated spending forecast is $72.5 million in 2016. Overall this multi-year project is expected to be within budget, although 2016 spending has been accelerated. Staff will provide a status update in early fall on this project and should the 2016 capital budget and debenture authority require amending, approval will be sought at that time. The approved 2016 capital budget for this project is financed by the Wastewater capital reserve ($12 million), and debentures supported by Wastewater rates ($12 million) and development charges ($9 million).

Corporate Strategic Plan:

This report aligns with Focus Area 5.4 – to ensure regional programs are efficient, effective and provide value for money.

Financial Implications:

The following table summarizes the Region's projected year end actual vs. budget position and surplus (shortfall) as a % of tax/user rate revenue:

Projected 2016 Year End Operating Budget Variances		
	$000s Net (±)	**% of Tax / User Rate Revenue**
Property Tax Supported Programs*	$851	0.3%
Water Supply	($1,546)	(2.8%)
Wastewater Treatment	$980	1.4%
Retail Water Distribution	($129)	(6.1%)
Retail Wastewater Collection	($32)	(2.8%)

*excludes Police Services & Region of Waterloo Library

A modest surplus is projected for tax supported operations. On the user rates side, a shortfall in the Water Supply budget and a surplus in the Wastewater Treatment budget are projected. However, these projections could be reversed in the event of a minimal rainfall over the remainder of the year.

Any year end surplus or shortfall will be allocated to or funded from reserves and reserve funds in accordance with Council policy. The next periodic financial report will be in October, 2016 based on financial results to August 31, 2016.

Other Department Consultations/Concurrence:

All departments have reviewed the financial information for the reporting period and provided input to this report.

Attachments:

Appendix A – Periodic Financial Report – Operating Budget Property Tax Supported Programs

Appendix B – Periodic Financial Report – Operating Budget for User Rates Programs

Prepared By: **Cheryl Braan**, Manager, Budgets & Performance Measurement

Approved By: **Craig Dyer**, Commissioner, Corporate Services/Chief Financial Officer

APPENDIX A

Region of Waterloo
Periodic Financial Report - Operating Budget
For the period ended April 30, 2016

PROPERTY TAX SUPPORTED BUDGET

$ thousands note: All budget and actual figures reflect program expenditure net of program revenue and all projections are based on best estimates.	2016 Annual Budget	2016 Year End Projection	Projected Year End Variance ± (note) $	% of Budget	April Year to Date Actuals YTD Actuals	% of Budget Spent
Corporate Governance and Support						
Elected Office	$ 1,346	$ 1,316	**$ 30**	**2.2%**	**$ 433**	**32%**
Chief Administrator's Office	1,258	1,258	**-**	**- %**	**416**	**33%**
Corporate Services						
Commissioner of Corporate Services	314	314	**-**	**- %**	103	33%
Information Technology Services	6,507	6,358	**149**	**2.3%**	2,078	32%
Facilities & Fleet Management	6,587	6,786	**(199)**	**(3.0%)**	2,264	34%
Treasury Services	2,236	2,326	**(90)**	**(4.0%)**	709	32%
Financial Services & Development Financing	3,470	3,423	**47**	**1.4%**	1,077	31%
Subtotal Corporate Services	$ 19,114	$ 19,207	**$ (93)**	**(0.5%)**	$ 6,231	33%
Human Resources & Citizen Service						
Commissioner of Human Resources & Citizen Service	754	706	**48**	**6.4%**	188	25%
Talent Management & Employee Services	1,963	1,983	**(20)**	**(1.0%)**	635	32%
Citizen Service	3,605	3,617	**(12)**	**(0.3%)**	1,234	34%
Employee Relations	1,518	1,519	**(1)**	**(0.1%)**	478	31%
Subtotal Human Resources & Citizen Service	$ 7,840	$ 7,825	**$ 15**	**0.2%**	$ 2,535	32%
Subtotal Corporate Governance and Support	$ 29,558	$ 29,606	**$ (48)**	**(0.2%)**	$ 9,615	33%

Projected Year End Variance Explanations (+/- $250,000 or 10%)

Facilities & Fleet Management

	Exp.	Rev.	Net
Budget	8,569	(1,982)	6,587
Actual	8,852	(2,066)	6,786
Variance	(283)	84	(199)
%	(3.3%)	4.2%	(3.0%)

Repair and maintenance costs are anticipated to exceed budget, particularly for Sunnyside, Supportive Housing and Child Care Centres, partially offset by temporary vacancies. Higher than anticipated Solar Photovoltaic (SPV) revenues will be transferred to the SPV reserve.

Note: positive variances indicate a surplus; negative variances indicate a shortfall

APPENDIX A

Region of Waterloo
Periodic Financial Report - Operating Budget
For the period ended April 30, 2016

PROPERTY TAX SUPPORTED BUDGET

$ thousands note: All budget and actual figures reflect program expenditure net of program revenue and all projections are based on best estimates.	2016 Annual Budget	2016 Year End Projection	Projected Year End Variance ± (note) $	% of Budget	April Year to Date Actuals YTD Actuals	% of Budget Spent
Planning, Development & Legislative Services						
Commissioner of Planning, Development & Legislative Services	$ 729	$ 685	**$ 44**	**6.0%**	$ 222	30%
Economic Development	2,629	2,499	**130**	**4.9%**	916	35%
ROW International Airport	5,393	5,743	**(350)**	**(6.5%)**	1,750	32%
Community Planning	3,145	3,131	**14**	**0.4%**	995	32%
Council & Admin Services	2,134	2,148	**(14)**	**(0.7%)**	685	32%
POA	(4,186)	(4,274)	**88**	**2.1%**	(1,464)	35%
Legal Services	546	526	**20**	**3.7%**	163	30%
Cultural Services	9,157	9,137	**20**	**0.2%**	3,175	35%
Subtotal Planning Development & Legislative Services	$ 19,547	$ 19,595	**$ (48)**	**(0.2%)**	$ 6,442	33%

Projected Year End Variance Explanations (+/- $250,000 or 10%)

Planning, Development & Legislative Services

ROW International Airport

	Exp.	Rev.	Net
Budget	9,537	(4,144)	5,393
Actual	9,537	(3,794)	5,743
Variance	-	(350)	(350)
%	- %	(8.4%)	(6.5%)

Airport revenues are expected to fall short of budget estimates by $350,000 for 2016 due to Nolinor ceasing operations in March 2016.

Note: positive variances indicate a surplus; negative variances indicate a shortfall

APPENDIX A

Region of Waterloo
Periodic Financial Report - Operating Budget
For the period ended April 30, 2016

PROPERTY TAX SUPPORTED BUDGET

$ thousands note: All budget and actual figures reflect program expenditure net of program revenue and all projections are based on best estimates.	2016 Annual Budget	2016 Year End Projection	Projected Year End Variance ± (note) $	% of Budget	April Year to Date Actuals YTD Actuals	% of Budget Spent
Transportation & Environmental Services						
Commissioner of Transportation & Environmental	$ -	$ -	**$ -**	**- %**	$ (8)	- %
Design & Construction	-	-	**-**	**- %**	-	- %
Transportation	48,545	48,262	**283**	**0.6%**	12,453	26%
Waste Management	38,162	37,708	**454**	**1.2%**	13,117	34%
Transit Services	53,938	54,758	**(820)**	**(1.5%)**	17,623	33%
RTMP Reserve Transfer	30,338	30,338	**-**	**- %**	10,113	33%
Subtotal Transportation & Environmental Services	$ 170,983	$ 171,066	**$ (83)**	**(0.0%)**	$ 53,298	31%

Projected Year End Variance Explanations (+/- $250,000 or 10%)

Transportation & Environmental Services

Transportation

	Exp.	Rev.	Net
Budget	66,220	(17,675)	48,545
Actual	65,937	(17,675)	48,262
Variance	283	-	283
%	0.4%	- %	0.6%

The projected year end position anticipates a favourable variance of $283,000, predominantly due to winter control costs incurred in January to March of 2016 being less than anticipated and, to a lesser extent, due to staffing vacancies. The final year-end variance will depend primarily on the number of snow events in November and December.

Waste Management

	Exp.	Rev.	Net
Budget	51,757	(13,595)	38,162
Actual	51,723	(14,015)	37,708
Variance	34	420	454
%	0.1%	3.1%	1.2%

Revenues are projected to exceed the budget by $420,000 largely due to tipping fee revenue related to a fire at a private transfer station facility in fall of 2015. Expenditures are projected to be close to budget.

Transit Services

	Exp.	Rev.	Net
Budget	112,333	(58,395)	53,938
Actual	111,560	(56,802)	54,758
Variance	773	(1,593)	(820)
%	0.7%	(2.7%)	(1.5%)

GRT is currently projecting a transit ridership revenue shortfall of approximately $1.2 million. Possible explanations include fuel prices, increases in the use of shared ride services,more active transportation choices, and ION construction detour routing. This revenue shortfall is somewhat mitigated by projected fuel savings resulting from favourable pricing relative to budgeted costs.

Note: positive variances indicate a surplus; negative variances indicate a shortfall

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Region of Waterloo
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For the period ended April 30, 2016

PROPERTY TAX SUPPORTED BUDGET

$ thousands note: All budget and actual figures reflect program expenditure net of program revenue and all projections are based on best estimates.	2016 Annual Budget	2016 Year End Projection	Projected Year End Variance ± (note) $	% of Budget	April Year to Date Actuals YTD Actuals	% of Budget Spent
Community Services						
Commissioner of Community Services	$ 633	$ 633	$ -	- %	$ 191	30%
Housing Services	37,097	36,860	**237**	**0.6%**	12,186	33%
Children's Services	7,789	7,790	**(1)**	**(0.0%)**	2,553	33%
Seniors' Services	9,631	9,659	**(28)**	**(0.3%)**	3,183	33%
Employment & Income Support Administration	13,094	13,094	-	- %	4,365	33%
Ontario Works Allowances & Benefits	5,037	5,337	**(300)**	**(6.0%)**	1,877	37%
Subtotal Community Services	$ 73,281	$ 73,373	**$ (92)**	**(0.1%)**	$ 24,355	33%

Projected Year End Variance Explanations (+/- $250,000 or 10%)

Community Services
Ontario Works Allowances & Benefits

	Exp.	Rev.	Net
Budget	81,865	(76,828)	5,037
Actual	82,280	(76,943)	5,337
Variance	(415)	115	(300)
%	(0.5%)	0.1%	(6.0%)

Based on a revised program recommended to Council, it is projected that the Ontario Works Discretionary Benefits (OWDB) program will exceed its 2016 budget expenditure by $300,000 due to increased program subscription. The remaining $115,000 increase in expenditure relates to increased caseloads for Employment and Income Support programs and these expenditures are offset 100% by increased Provincial subsidy and funding from the Tax Stabilization Reserve Fund.

Note: positive variances indicate a surplus; negative variances indicate a shortfall

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Region of Waterloo
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For the period ended April 30, 2016

PROPERTY TAX SUPPORTED BUDGET

$ thousands note: All budget and actual figures reflect program expenditure net of program revenue and all projections are based on best estimates.	2016 Annual Budget	2016 Year End Projection	Projected Year End Variance ± (note) $	% of Budget	April Year to Date Actuals YTD Actuals	% of Budget Spent
Public Health & Emergency Services						
Central Resources/Medical Office/Emergency Management Office	$ 1,484	$ 1,565	**$ (81)**	**(5.5%)**	$ 576	39%
Health Protection & Investigation	1,305	1,274	**31**	**2.4%**	403	31%
Infectious Disease, Dental & Sexual Health	2,320	2,277	**43**	**1.9%**	731	32%
Healthy Living	1,920	1,914	**6**	**0.3%**	634	33%
Child & Family Health	1,094	1,067	**27**	**2.5%**	337	31%
Paramedic Services	13,001	12,989	**12**	**0.1%**	4,319	33%
Subtotal Public Health & Emergency Services	$ 21,124	$ 21,086	**$ 38**	**0.2%**	$ 7,000	33%

Projected Year End Variance Explanations (+/- $250,000 or 10%)

Note: positive variances indicate a surplus; negative variances indicate a shortfall

APPENDIX A

Region of Waterloo
Periodic Financial Report - Operating Budget
For the period ended April 30, 2016

PROPERTY TAX SUPPORTED BUDGET

$ thousands note: All budget and actual figures reflect program expenditure net of program revenue and all projections are based on best estimates.	2016 Annual Budget	2016 Year End Projection	Projected Year End Variance ± (note) $	% of Budget	April Year to Date Actuals YTD Actuals	% of Budget Spent
Waterloo Region Crime Prevention Council	$ 691	$ 691	**$ -**	**- %**	$ 210	30%
Associated Agencies	6,826	6,826	**-**	**- %**	2,275	33%
Corporate Financial	3,774	3,669	**105**	**2.8%**	1,857	49%
Property Tax Write-offs and Rebates	5,900	5,900	**-**	**- %**	4,425	75%
Subtotal above	17,191	17,086	**105**	**0.6%**	8,767	51%
Direct Regional Services	331,684	331,812	**(128)**	**(0.0%)**	109,477	33%
Property Tax Revenue						
Tax Revenue (Direct Regional portion)	(317,391)	(317,391)	**-**	**- %**	(35,265)	11%
Supplementary Taxes	(7,800)	(8,700)	**900**	**11.5%**	(1,267)	16%
Payments in Lieu	(6,493)	(6,572)	**79**	**1.2%**	(2,164)	33%
Total Property Tax Revenue	(331,684)	(332,663)	**979**	**0.3%**	$ (38,696)	12%
Net Regional Levy	$ -	$ (851)	**$ 851**		$ 70,781	22%
Surplus (shortfall) as a % of Tax Revenue			**0.3%**			

Projected Year End Variance Explanations (+/- $250,000 or 10%)

Supplementary Taxes

	Exp.	Rev.	Net
Budget	-	(7,800)	(7,800)
Actual	-	(8,700)	(8,700)
Variance	-	900	900
%	- %	11.5%	(11.5%)

Preliminary information from Municipal Property Assessment Corporation (MPAC) indicates the Region's share of supplementary taxes to date is $2.7 million and that 31% of the assessment forecasted to be added in 2016 has been completed. If MPAC meets their forecast, the Region anticipates annual supplementary tax revenue of $8.7 million.

Note: positive variances indicate a surplus; negative variances indicate a shortfall

APPENDIX B

Region of Waterloo
Periodic Financial Report - Operating Budget
For the period ended April 30, 2016

USER RATES BUDGETS

$ thousands	2016 Year End Projection				Year to Date April 30, 2016			
note: all actuals and projections are based on best estimates	Budget	Projected Actuals	Variance	% of budget	Budget	Actuals	Variance	% of budget
Water Supply								
Expenses	36,408	36,291	117	0.3%	12,136	11,950	186	1.5%
Capital Financing	18,468	18,468	-	- %	5,111	5,111	-	- %
Revenue	(54,876)	(53,213)	(1,663)	(3.0%)	(17,247)	(16,722)	(525)	(3.0%)
Net	**-**	**(1,546)**	**(1,546)**	**(2.8%)**	**-**	**(339)**	**(339)**	**(2.0%)**
Wastewater Treatment								
Expenses	42,588	42,399	189	0.4%	14,196	13,970	226	1.6%
Capital Financing	29,689	29,689	-	- %	10,409	10,409	-	- %
Revenue	(72,277)	(73,068)	791	1.1%	(24,605)	(24,955)	350	1.4%
Net	**-**	**980**	**980**	**1.4%**	**-**	**576**	**576**	**2.3%**
Retail Water Distribution								
Expenses	1,709	1,777	(68)	(4.0%)	555	551	4	0.7%
Capital Financing	416	416	-	- %	126	126	-	- %
Revenue	(2,125)	(2,064)	(61)	(2.9%)	(681)	(622)	(59)	(8.7%)
Net	**-**	**(129)**	**(129)**	**(6.1%)**	**-**	**(55)**	**(55)**	**(8.1%)**
Retail Wastewater Collection								
Expenses	926	956	(30)	(3.2%)	320	356	(36)	(11.3%)
Capital Financing	210	210	-	- %	44	44	-	- %
Revenue	(1,136)	(1,134)	(2)	(0.2%)	(364)	(366)	2	0.5%
Net	**-**	**(32)**	**(32)**	**(2.8%)**	**-**	**(34)**	**(34)**	**(9.3%)**

Projected Year End Variance Explanations (+/- $250,000 or 10%)

Water Supply	Actual water flows over the first four months of 2016 are 1.7% lower than in the same period in 2015 and if this trend continues, a projected revenue shortfall of $1.7 million is anticipated. The reported variance in water supply expenditures of $117,000 is due to temporary vacancies and underspending on utilities.
Wastewater Treatment	Wastewater flows are slightly higher than budget year to date and if this trend continues, Wastewater revenues are projected to exceed budgeted by $791,000 at yearend. The under spending in wastewater expenditures of $189,000 is due to temporary vacancies.

Note: positive variances indicate a surplus; negative variances indicate a shortfall

Report: COR-TRY-16-59

Region of Waterloo

Corporate Services

Treasury Services

To: Chair Sean Strickland and Members of the Administration and Finance Committee

Date: June 14, 2016 **File Code:** F22-00

Subject: Property Assessment Issues

Recommendation:

For information

Summary:

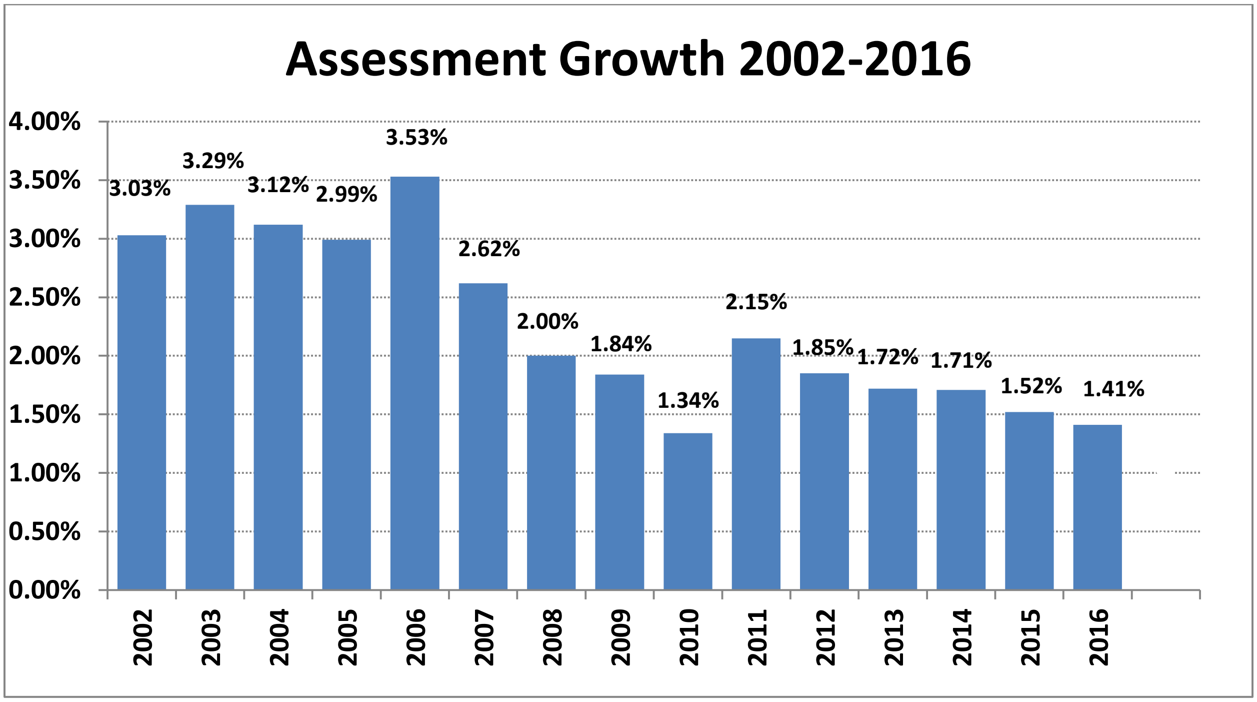
The purpose of this report is to provide Committee with high level information on how assessment growth is determined and some of the issues that may impact assessment growth in 2016 and subsequent years. These same issues will impact the amount of supplementary taxes and tax write-offs in 2016, which impacts the Region's overall year end financial position.

Report:

All properties in Ontario are assessed and classified by the Municipal Property Assessment Corporation (MPAC) in compliance with the Assessment Act and regulations set by the Provincial Government. Property assessment is significant as the assessment base is a key component in determining municipal tax rates and budget and property tax impacts.

Each year, through the budget process, Budget Committee is kept informed of the percentage increase in weighted assessment growth for the year. Budget increases that exceed weighted assessment growth essentially result in a tax increase.

It should be noted that building activity and building permit growth are not a true gauge of assessment growth. While strong building activity may indicate robust assessment growth, that is just one factor affecting the assessment base. Other factors, including reductions to the assessment base, also impact overall net growth. The following chart shows weighted assessment growth for the years 2002 to 2016.



Despite moderate to strong building activity in recent years, assessment growth in the last 2-3 years has been the lowest since 2002 with the exception of 2010. As noted above, the assessment base is impacted by more than building activity. Assessment growth is a net position after accounting for the various factors that impact the assessment base. The following table identifies the "pluses and minuses" that determine assessment growth.

Starting Point:	Plus:	Minus:	Plus/Minus:	End Point:	Returned Roll for Next Year:
Returned Roll for the start of the year used to calculate weighted assessment	New Properties Improved Properties	Requests for Reconsideration Assessment Review Board (ARB) Appeals Demolitions	Class Changes Legislative Changes Changes in valuation methodology	Year end assessment used to determine weighted assessment growth for the year	Year end assessment adjusted for assessment phase-in

A number of issues that may impact assessment growth in 2016 and subsequent years as well as in-year supplementary taxes and tax write-offs include: changes in valuation methodology for landfills; Ontario gravel pit appeals; tax exemptions for non-profit long-term care homes; valuation of billboards and Province-wide appeals for banner or big-box stores. Each of these issues is discussed briefly below.

Landfill Valuation

The valuation methodology for landfill sites has been under review by MPAC for the past several years with the original intention of making changes for the 2013 taxation year. Historically, landfill valuations were based on the land use and depreciated costs of assessable improvements. The review by MPAC led to valuation models that would have increased taxation on public and private landfill sites with a negative impact on many Ontario municipalities and residents. The valuation models include a cost approach which values landfill sites based on remaining capacity and a fixed rate developed based on landfill sales; an income approach which recognizes expected future income based on the estimated life of the landfill site and a regulated cost approach which values land based on the value of nearby industrial land and acreage rates. The Deputy Premier at the time intervened and as a result, the existing valuation methodology was maintained while MPAC engaged in more detailed consultation with landfill operators and representatives of the municipal community. A number of interest parties including the Ontario Waste Management Association, the Regional Public Works Commissioners of Ontario, the Municipal Finance Officers Association (MFOA) and the Association of Municipalities of Ontario (AMO) have been part of the consultation.

In order to resolve the issue, the Ministry of Finance, through a competitive procurement process, selected Pricewaterhouse Coopers (PwC) to be a Reviewer to provide recommendations on an appropriate valuation methodology to assess landfills for the 2016 reassessment. As part of that review, PwC utilized the expertise of former Ontario Cabinet Minister John Wilkinson. Mr. Wilkinson’s report with recommendations is complete and is currently being reviewed by the Ministry of Finance. A decision on the recommended methodology and timing is expected in the near future. Until the recommended valuation methodology is known, it is difficult to estimate potential impacts to the Region of Waterloo. Valuation methods based on the estimated life of the landfill site are likely to have the greatest impact on the Region as the Waterloo landfill site has approximately 15 years of capacity remaining.

Gravel Pit Appeals

A large number of gravel pits have been under appeal with the ARB for the 2008 and 2012 base years. In 2008, the Provincial government amended legislation to reinforce MPAC's historic practice of assessing active pits and associated areas based on industrial land rates. Despite the amendment, property owners challenged the assessment on the basis that the land values that MPAC had applied include a value on the actual gravel (aggregate) in the pit. The gravel industry's position is that the land should be valued on residential and farm rates and should not include an assessment of the gravel in the taxable assessment. MPAC retained an independent appraisal firm to conduct an appraisal of a test case and ensure that the assessed value did not include gravel in the taxable assessment. The independent appraiser aligned with the position taken by the pit owner that an amount for gravel was included in the taxable assessment.

Consequently, MPAC has been working on a resolution of the outstanding appeals with the goal to resolve the appeals and build consensus on key valuation parameters for the 2016 reassessment with adjustments impacting the 2017 taxation year. These appeals will result in a tax write-off, likely in 2016. The impact to the Region is expected to be $141,200 for the 2008 and 2012 base year appeals that have been settled to date plus 6 appeals where a settlement has been reached but not yet signed off. Additionally, there are 14 gravel pit appeals from 2016 to be settled which are also expected to result in write-offs in either 2016 or 2017. The gravel pits, appealed and outstanding, are located in the City of Kitchener and the Townships of North Dumfries, Wilmot and Woolwich. The resolution of the key valuation parameters that MPAC has been working on could impact the reassessment and the 2017 assessment base.

Tax Exemptions for Non-Profit Long Term Care Homes

In December, 2015, the Minister of Finance filed Regulations that exempts from taxation land that is used as a non-profit long-term care home. To qualify for the exemption, the land must be:

- Owned by a licensee of a non-profit long-term care home; or
- Leased by a licensee of a non-profit long-term care home if:
  - the land would be exempt if it was occupied by the owner of the land; or
  - the land was used as a non-profit long-term care home on January 1, 2016.

Exemptions do not apply to any portion of the land that is occupied by a commercial tenant. MPAC identified two non-profit long-term care homes in the Region, both in the City of Kitchener, that qualify for the exemption and will issue a Special Amended Notice (SAN). The impact to Region is a reduction of $153,500 in Regional taxes in 2016 which will be treated as a write-off in 2016 and will be a reduction to the assessment base for 2017 and future years.

Billboard Valuations

Legislative changes that took effect January 1, 2014 require MPAC to assess billboards with an aggregate sign face area of 25 square feet or greater. The impacted signs are considered commercial property and are assessed based on the cost approach (replacement cost new less depreciation). Only the billboard is assessed. The value and classification of the land on which the sign is located is not affected.

Billboard valuations will increase the assessment base and property taxation however the impact in this Region is not yet known. MPAC is currently working on Omitted Notices and/or SANs which will be sent out later this year and will update municipalities once the information is fully available.

Centralized Property Appeals – Banner Stores Across Ontario

Property appeals are sometimes grouped together by MPAC and/or the ARB where there is common ownership or property attributes to ensure that the properties are handled efficiently and that centralized issues are treated consistently. A number of centralized appeals for banner stores including Wal-Mart, Sears, Lowes, Rona, and Sobey's are significantly advanced while others such as Costco, Home Depot, Shopper's Drug Mart, Canadian Tire, and Tim Horton's are not. Where the appeals have been significantly advanced, settlements are imminent or pending. Settlement details and Minutes of Settlement will be produced for consideration and execution at the area municipal level. Where the appeals are not significantly advanced, further work will be done to determine if settlements are possible. The impact to the Region arising from the centralized property appeals will depend on the resulting Minutes of Settlement. Minutes of Settlement that are completed and signed off before November 2, 2016 would be reflected in 2016 write-offs and in the net assessment growth at 2016 year end, for the 2017 taxation year.

Class Changes

Property class changes can have positive and negative impacts on the weighted assessment base and the amount of property taxes collected. Property classes have different tax ratios and weighted assessment is calculated based on current value assessment and the tax ratio for the property class. When properties move to a class with a lower tax ratio, there is a reduction in the weighted assessment base and the amount of property taxes to be paid. Examples of such class changes include a multi-residential property that becomes a residential property through either a reduction in the number of rental units to less than 7 or by converting to a condominium as the tax ratio for residential property is 1.0000 while the tax ratio for multi-residential property is 1.9500. Another example is the sale of some of the former Blackberry properties, which were taxed at the commercial / industrial rate with a tax ratio of 1.9500. Some of the properties were acquired by the University of Waterloo and used for university purposes and subsequently classified as exempt from taxation. Properties that move from exempt to taxable status, such as a church that becomes a residential or commercial development or properties that move to a class with a higher tax ratio, such as a residential property converting to a commercial use, will increase the weighted assessment base and the amount of property taxes to be paid. It should be noted that changes between the industrial and commercial classes do not affect the weighted assessment base or the amount of municipal property taxes collected, as both the industrial and commercial property classes have the same tax ratio in this Region.

Protecting the Assessment Base

The Region and more significantly the Area Municipalities, with their detailed knowledge of properties in their municipality and their direct contact with the tax payer, are actively involved in managing and protecting the assessment base. The Region and the Area Municipalities work directly with MPAC staff to ensure that new properties and improved properties are added to the assessment roll as quickly as possible. Area Municipal staff share important information directly with MPAC on the issuance of building permits, zoning change and information related to occupied and vacant properties. The Region and the Area Municipalities may file a Request for Reconsideration on any property that they own. Additionally, the Region and the Area Municipalities can file a third party appeal on any property in their respective municipality that they feel is under assessed with notification to the property owner.

Assessment Base and Reassessment

A province-wide reassessment is currently underway to update property values to reflect January 1, 2016 market conditions as noted in report COR-TRY-16-37 tabled at the April 12th Administration and Finance Committee meeting. As noted in the table on page 2, the returned roll is the starting point for in-year assessment growth. In year adjustments are made (pluses and minuses) resulting in year end assessment and determination of assessment growth. Reassessment or assessment phase-in is then applied to the year end assessment to establish the returned roll for the next taxation year. It is important to note that reassessment and phase-in impacts are separate from and not part of the determination of assessment growth.

Corporate Strategic Plan: Nil

Financial Implications:

Assessment growth is a net position after accounting for the various factors that impact the assessment base including new and improved properties, Requests for Reconsideration, ARB Appeals and demolitions as well as class changes, legislative changes and changes in valuation methodologies. The 2016 operating budget includes $7.8 million for supplementary taxes and $3.8 million for the Region's share of write-offs. For 2017, a 1% increase in assessment growth equates to approximately $4.8 million of revenue.

Other Department Consultations/Concurrence: Nil

Attachments: Nil

Prepared By: **Angela Hinchberger**, Director, Treasury Services/Deputy Treasurer

Approved By: **Craig Dyer**, Commissioner, Corporate Services/Chief Financial Officer

Report: COR-FFM-16-08

Region of Waterloo

Corporate Services

Facilities and Fleet Management

To: Chair Sean Strickland and Members of the Administration and Finance Committee

Date: June 14, 2016 **File Code:** A20-20

Subject: Multi-Site Lighting Program – Additional Consulting Fees

Recommendation:

That the Regional Municipality of Waterloo take the following action with respect to the Multi-Site Lighting Program as set out in report COR-FFM-16-08 dated June 14, 2016:

1. Approve additional Multi-Site Lighting Program consulting fees for Walter Fedy at an upset limit of $120,000, for a total upset limit of $374,120, inclusive of a contingency amount of $15,000, plus all applicable taxes; and

2. Approve in principle changes to the Multi-Site Lighting Program subject to approval of the 2017-2026 Capital Program.

Summary: Nil

Report:

Background

In 2014, the Region developed a 10 year Corporate Energy Plan which identified strategic opportunities to manage its operating costs with net environmental benefits. The Corporate Energy Plan builds on a history of excellence in energy management, and raises the bar by challenging traditional approaches to project development.

Conventional project planning rolls out multi-year energy conservation initiatives over long term budget plans. The Corporate Energy Plan identified that by consolidating and bringing forward key energy projects, the resulting energy savings are realized sooner, saving the Region operating and maintenance costs much earlier and with greater long term benefits. One key energy project opportunity is the upgrading of older lighting systems to new LED lighting technology. In addition to greater energy savings, many other benefits are realized through using LED technology. These include a 20+ year life expectancy, lower temperatures at the lights, reduced maintenance time and costs required by staff and reduced greenhouse gas emissions due to the reduction in energy use.

LED Lighting Program

In 2014, the Facilities Management Energy Conservation Office began implementation of a significant program to upgrade lighting to LED technology across 85 facilities over a two year period, in lieu of the initial plan to complete each building as a separate project over a 10 year period. The overall goal was to implement the projects sooner in order to save money earlier through reduced energy and maintenance costs associated with LED technology.

On March 31, 2015, Walter Fedy was awarded (by way of a CAO award in accordance with delegated authority under the Purchasing bylaw) a Multi-Site Lighting Retrofit consulting contract at a cost of $254,120 plus applicable taxes for audit, design and contract administrative work. This consulting contract covers construction work up to a maximum construction value of $1,800,000. The consulting contract is approximately 14% of the construction cost, which is considered to be in line with industry standards.

Implementation in selected facilities will occur through an audit phase and three construction phases in 2016. Once construction is complete, most of the lights throughout each selected facility will be upgraded to LED and are anticipated to last 20+ years. Under the current consulting contract, an estimated $270,000 in energy costs savings is anticipated each year, resulting in an estimated payback of 8.4 years.

Benefits of this program are already evident in the first construction phase. For example, at 150 Frederick Street most of the council chambers lights have been upgraded to LED technology. As a result, energy and maintenance savings are immediately being accrued. Additionally, lower temperatures associated with LED lighting will result in reduced cooling costs and increased comfort for staff and Councillors, particularly under the centre circle of lights.

New Opportunity

Based on results gathered in the audit process of the 85 buildings, there are more LED lighting upgrades (and associated savings) possible than originally estimated. The audit has identified potential energy savings of up to $816,300 each year if all recommended facilities are retrofitted, resulting in an anticipated overall payback period of less than 7 years. Increasing the construction scope to include all potential savings will require adjustments to the 2017 and 2018 energy capital budgets. It is recommended that the design work for all recommended upgrades be completed in 2016 in parallel with the original project. Additional consulting fees of up to $120,000 (plus applicable taxes) will be required for engineering and contract administration fees which would increase the scope of construction to a maximum value of $5,540,000. The revised total for consulting would be $374,120 (exclusive of applicable taxes) resulting in a consulting percentage of construction costs of 6.8%. Subject to Committee approval, the 2017 and 2018 capital budgets for this project will be adjusted accordingly during development of the 2017-2026 capital plan.

Corporate Strategic Plan:

Implementation of the Multi-Site Lighting Program meets the 2015-2018 Corporate Strategic Plan and supports Focus Area 5, Responsive and Engaging Government Services to ensure Regional programs and services are efficient, effective and provide value for money.

Financial Implications:

The Region's approved Facility Asset Renewal Capital Program includes a budget of $4,069,000 in 2016 & 2017 for Energy Management Upgrades to Major Buildings (project #90053) to be financed from debentures. To date, $918,300 has been spent or committed for the lighting project. The recommended increase in consulting fees of $120,000 plus applicable taxes can be accommodated within the current 2016 energy capital budget. Savings associated with the LED and controls upgrade program will be reflected in future Facilities Management building operating budgets. Additional capital costs of $3,740,000 associated with the increased construction scope for lighting retrofits will be considered as part of the 2017 budget process. In the absence of federal infrastructure funding or sufficient reserve balances, the additional $3,740,000 will be debenture financed. The resulting debt servicing costs to be reflected in future Facilities Management operating budgets are projected to be $432,900 annually over a period of ten years based on an estimated cost of borrowing of 2.75%. Utility cost savings will continue to accrue to the Region well beyond the term of proposed borrowing.

Other Department Consultations/Concurrence:

Staff from Finance has been consulted in the preparation of this report.

Attachments: Nil

Prepared By: Joanne Leeson, Sr. Project Manager, Facilities & Fleet Management

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

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Report: COR-FSD-16-15

Region of Waterloo

Corporate Services

Financial Services and Development Financing

To: Chair Sean Strickland and Members of the Administration and Finance Committee

Date: June 14, 2016 **File Code:** F01-01

Subject: Capital Financing Principles

Recommendation:

That the Region of Waterloo approve the Capital Financing Principles as set out in report COR-FSD-16-15 dated June 14, 2016.

Summary:

Nil

Report:

On February 2, 2016 the Administration & Finance Committee received for information report COR-FSD-16-04 Long-term Financial Sustainability Initiatives. Through that report staff identified a number of initiatives underway designed to enhance the Region's long-term financial sustainability, including:

- Development Charges Background Study for Transit and Waste Management
- Annual Adequacy of RDC Collections Review
- Capital Financing Principles
- Various Master Plans and Business Plans
- Reserve and Reserve Fund Policy Update
- Corporate Asset Management Program
- Optimization of Water Services Capital Program Delivery

The outcomes of these initiatives will be reflected in future 10 year capital forecasts presented to Council on an annual basis. The purpose of this report is to seek approval of the attached Capital Financing Principles, which will provide clear direction to staff in the preparation of such forecasts.

The Region's Capital Program

The Region's 2016-2025 Capital Program, as amended, anticipates expenditures totalling almost $3.5 billion over the next 10 years, as shown in the following table.

2016-2025 Capital Expenditure ($ millions)		
Water and Wastewater	$	1,152.9
Transportation		948.6
Rapid Transit		411.4
Transit Services		226.6
Corporate Services Facilities and Fleet		225.5
Waste Management		131.4
Planning, Development & Legislative Services		112.2
Community Services (Housing, Children's, Seniors')		111.4
Other		135.0
Total Expenditure	**$**	**3,455.0**

Such expenditures relate to both the renewal and rehabilitation of existing infrastructure and new infrastructure required to deliver services to a growing community.

The sources of funding available for the capital program are limited to property taxes, user rates, Regional development charges (RDC) and grants/subsidies/recoveries (when available). Regional funding sources (taxes, user rates and RDCs) can be accessed in the form of current year revenue collections, reserves and reserve funds, and long term borrowing. Just over one-third (approx. $1.2 billion) of the Region's 2016-2025 capital program is planned to be debt-financed, with the resulting debt servicing costs to be funded by a combination of future property taxes, user rates and development charges. The anticipated funding and financing sources are set out in the following table.

2016-2025 Sources of Funding and Financing ($ millions)		
Grants/Subsidies/Recoveries	$	566.2
Development Charges		
Reserve Funds*		634.4
Debentures		392.7
Property Taxes		
Reserves*/Contributions from Operating		545.7
Debentures		664.6
User Rates		
Reserves*		539.2
Debentures		112.1
Total Funding and Financing	**$**	**3,455.0**

*includes current reserve balances and future contributions

Staff regularly explores strategies to manage the anticipated level of long term borrowing and enhance long-term financial sustainability and fiscal flexibility.

Capital Financing Principles

The purpose and benefits of adopting capital financing principles are to:

- Promote long term corporate financial sustainability; and
- Identify appropriate sources of funding and financing for capital works.

Establishing principles relating to the financing of capital projects will help ensure capital projects are financed appropriately from reserves, current year operating budget contributions, and long term borrowing. Additionally, use of these principles will assist in preparing accurate profiles of projected long term borrowing requirements, debt outstanding, debt servicing costs and reserve/ reserve fund balances.

In most cases the principles simply formalize practices that have been used in previous regional budgets. Specifically, recent budgets have incorporated strategies designed to migrate the Region from a reliance on long term borrowing for vehicle/equipment replacement projects and facility lifecycle/renewal projects to a more sustainable method of financing (i.e. current year revenues and reserves/reserve funds).

The recommended principles are attached as Schedule A and among other things identify and provide direction to staff regarding the use of long term borrowing, as set out below:

a) Debenture financing will normally not be considered for projects in administrative support areas (one recent exception has been the Service First Call Centre). The following table shows debt outstanding for such areas:

Program area	Debt outstanding as of Dec. 31, 2015 ($ million)	Year in which all existing debt will be retired
Information Technology Services	$ 0.8	2019
Finance	$ 0.3	2023
Human Resources & Citizen Service	$ 6.1	2024

b) The Region will work towards becoming debt free for certain program areas, as identified in the following table:

Program area	Debt outstanding as of Dec. 31, 2015 ($ million)	Year in which all existing debt will be retired
Roads Rehabilitation	$6.4	2020
Retail Water & Wastewater	0.3	2020
Airport	11.2	2022
Paramedic Services	3.5	2024

For the above programs, debenture financing will be considered on an as required basis, particularly in the event a major investment is required and reserve balances are insufficient. The Region has not issued debt for roads rehabilitation since 2010 and is on track to retire all such debt by 2020. Progress towards a debt free status for the Airport in the 2015 and 2016 budgets has been assisted by the repurposing of 50% of Airport debt servicing cost savings (as debt retires) as a transfer to the Airport Capital Reserve, which in turn is used to finance capital investments.

c) Vehicle and equipment replacement and asset renewal/lifecycle projects should be financed through reserves and current year revenues from property tax and user rate sources, and not through long term borrowing. The use of debentures to finance such capital investments will be phased out, subject to annual budget approval and available funding. Implementing the Building Lifecycle provision in 2014 is one way in which Council is making progress towards this goal. This approach provides a source of financing for renewal projects at Regional facilities and Housing units in lieu of debenture financing. In addition, repurposing Transit debt servicing cost savings as a transfer to the Bus Replacement Reserve has been a good step toward the goal of financing 100% of bus replacements from reserves in lieu of debenture financing. The Region is currently at approximately 50% of this goal.

The following table sets out the level of funding required in the annual operating budget for certain program areas as a contribution to reserve in order to finance capital renewal works and vehicle replacements in the 2016-2025 capital plan without the need for long term borrowing:

$millions

Program Area	Required annual level of funding	Current level of funding	Additional annual funding required
Corporate facilities renewal	$14.3	$2.0	$12.3
Housing facilities	8.4	0.9	7.5
Waste Management	11.0	0.0	11.0
Bus replacements	10.0	5.1*	4.9
Fleet vehicle replacements	4.0	4.0	0.0

* includes reallocation under the fuel price strategy of $0.9 million

It is noted that there currently is no annual funding provision for Waste Management (WM) renewal capital projects. Through Report TES-WMS-16-03 dated April 12, 2016 with respect to the Curbside Waste Collection Policy Changes Implementation Plan, staff advised that a 2017 Budget Issue Paper will be submitted recommending that the net waste collection contract savings be repurposed as a source of funding for the WM Capital Program. The 2016-2025 WM Capital program totals $131.4 million, and is almost entirely financed by the issuance of property tax supported debentures. This repurposing approach has the potential to reduce 10 year borrowing requirements for WM by approximately $25 million dollars, thereby avoiding an estimated $5 million in associated interest costs all while moving toward a "pay-as-you-go" strategy for funding capital renewal works. It is noted that a small amount of development charging funding for capital works could be collected subject to Council approval of a waste management development charge later this year.

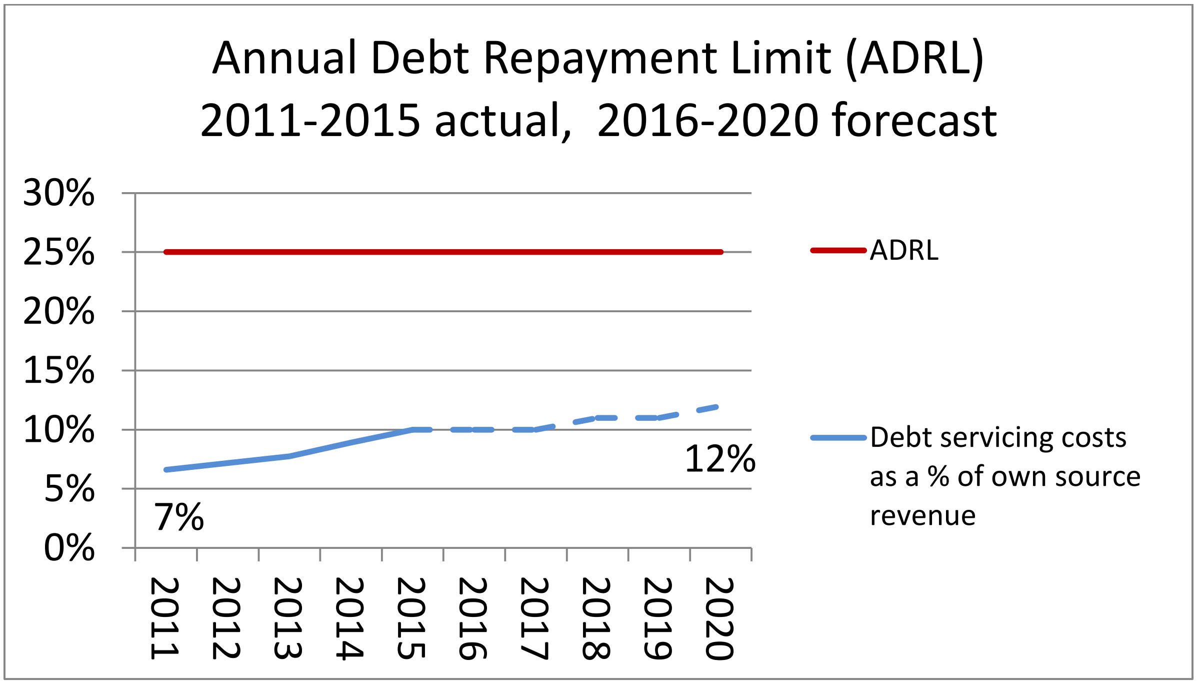
d) Long term borrowing will generally be limited to significant growth related projects, property acquisition, and other major facility and fixed infrastructure projects. This includes new Water & Wastewater, Transportation, Waste Management, and Public Transit infrastructure, new facilities (e.g. Corporate buildings, Children's Centres, Long Term Care Homes, Housing revitalization and Cultural Sites), related property acquisition, and significant asset replacement (e.g. major bridge rehabilitation). Debenture financing will typically be used for capital works with a cost greater than $500,000 and with a useful life of 10 years or more.

e) Projects included in the capital program that are debenture financed may not proceed as scheduled unless funding from other levels of government (i.e., federal and/or provincial) is available or unless a sustainable source of funding for resulting debt servicing costs is determined.

f) Where appropriate, interim financing can be considered whereby a temporary source of funding is used and then is repaid by the primary source of funding, i.e., where development charge reserve funds are inadequate to fund a smaller project, a property tax/user rate reserve may cover the initial financing and then be repaid over a certain period from the development charge reserve fund, as collections occur. This approach was used in the 2016 Budget whereby the Paramedic Services Vehicle Replacement Reserve was used to interim finance the acquisition of additional ambulances, to be repaid by future development charge collections.

Annual Debt Repayment Limit

The Ministry of Municipal Affairs and Housing calculates an Annual Debt Repayment Limit (ADRL) for all municipalities in Ontario. The Ministry requires that debt servicing costs can not exceed 25% of own source revenues (excluding grants & subsidies). The following chart shows the Region's actual and projected debt servicing costs as a % of own source revenues relative to the maximum over the last five years and projected for the next five years, based on the currently approved 10 year capital program.



While the ADRL would suggest that the Region still has significant borrowing capacity, enhancing long term financial sustainability includes prudent management of borrowing to ensure fiscal flexibility and ensuring that borrowing occurs for the right type of projects. The recommended Capital Financing Principles provide clear guidance with respect to the types of projects for which long term borrowing will be considered.

Credit Rating

The Region's Aaa credit rating was affirmed by Moody's Investor Service with a stable outlook earlier this year (see Report COR-TRY-16-16 dated March 2, 2016). Moody's updated credit profile notes that the Region's Aaa rating "is supported by **(1) prudent fiscal management and long-term planning practices** (bold added), (2) a track record of positive operating outcomes and (3) the region's diverse and wealthy economic base." The report does acknowledge that a "material increase in debt beyond current expectations, a sustained weakening of the region's operating performance, or a decline in the level of cash and investments relative to debt below current levels could apply downward pressure on the rating." Adopting the attached principles further strengthens the Region's track record of prudent fiscal management policies and practices and mitigates the possibility of a rating downgrade.

Concluding Comment

The Region continues to work towards a more appropriate mix of financing mechanisms (current year revenues, reserve and reserve funds, and long term borrowing) in order to enhance the long term sustainability of the Region's capital program. This is a long term continuous improvement exercise, and staff will report back at various times with recommendations and updates to Council. Approving the attached principles establishes clear direction for staff when preparing future iterations of the 10 year capital program, while recognizing that it will take some time to achieve the desired outcome.

Corporate Strategic Plan:

This report supports strategic objectives found in the Corporate Strategic Plan and particularly Focus Area 1.2 to plan for and provide the infrastructure and services necessary to create the foundation for economic success.

Financial Implications:

Implementation of the principles set out in this report is subject to council approval of the annual Regional Budget. As set out in the 2017 Budget Process and Timetable report COR-FSD-16-16 dated June 14, 2016, the projected 2017 impact of the continued implementation of the Building Lifecycle provision and the repurposing of debt servicing cost savings for Airport and Transit buses is approximately $1.8 million. Incremental debt servicing costs in 2017 are currently estimated to be approximately $700,000. This figure will be firmed up once the Region’s 2016 borrowing requirements are finalized later this year.

Other Department Consultations/Concurrence:

Regional staff from all departments have provided input to the attached principles.

Attachments:

Schedule “A” – Capital Financing Principles

Prepared By: Cheryl Braan, Manager, Budgets & Performance Measurement

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Schedule "A"

REGION OF WATERLOO

CAPITAL FINANCING PRINCIPLES

The purpose and benefits of adopting capital funding and financing principles are to:

- Promote long term corporate financial sustainability; and
- Identify appropriate sources of funding and financing for capital works.

Specifically, the principles and strategies contained herein will be used to:

- Assist in preparing accurate profiles of projected long term borrowing requirements and debt outstanding, debt servicing costs and reserve/ reserve fund balances;
- Ensure capital projects are financed appropriately: from reserves, current year operating budget contributions, and long term borrowing; and,
- Ensure capital projects are optimally aligned with the funding available.

Implementation and application of these principles is subject to annual budget approval by Regional Council.

1. Regional financing of capital works comprises one or more of current year revenue, reserves and reserve funds, and debentures (long term borrowing).

2. Program areas for which debenture financing will normally not be considered include Office of the CAO, Human Resources, Council and Administrative Services, Finance, Information Technology Services, Community Planning, and Library.

3. The Region will work towards becoming debt free for certain program areas including the following: Airport, Paramedic Services, Retail Water & Wastewater, and Roads Rehabilitation. For these programs, debenture financing will be considered on an as required basis for significant infrastructure replacement and expansion projects.

4. Vehicle and equipment replacement and asset renewal/lifecycle projects should be financed through reserves and current year revenues from property tax and user rate sources. The use of debentures to finance such capital expenditure will be phased out, subject to annual budget approval and available funding. Staff will continue to use the following strategies in the preparation of base budgets:

- Repurposing 50% of Airport debt servicing cost savings resulting from debt retirements to the Airport Capital Reserve with the objective of making this Program debt free by 2022;

- Repurposing 100% of Transit debt servicing cost savings resulting from debt retirements to the Transit Bus Replacement Reserve with the objective of financing 100% of bus replacements from this reserve in lieu of debenture financing; and,

- Increasing the Building Lifecycle provision, which provides a source of financing for renewal projects at Regional facilities and Housing units in lieu of debenture financing.

5. The use of debentures as a source of capital financing will generally be limited to significant growth related projects, property acquisition, and other major facility and fixed infrastructure projects. This includes new Water & Wastewater, Transportation, Waste Management, and Public Transit infrastructure, new facilities (e.g. Corporate buildings, Children's Centres, Long Term Care Homes, Housing Revitalization and Cultural Sites), related property acquisition, and significant asset replacement (e.g. major bridge rehabilitation).

6. Debenture financing will typically be used for capital works with a gross cost greater than $500,000 and with a useful life of 10 years or more.

7. Projects included in the capital program that are debenture financed may not proceed as scheduled unless funding is available from other levels of government (i.e., federal and/or provincial) or unless a sustainable source of funding for resulting debt servicing costs is determined.

8. The use of development charge reserves as a source of funding for growth related capital projects will be assessed against the expected rate of development charge collections to ensure proper alignment of the capital plan with growth, and to ensure the long term sustainability of development charge reserve fund balances.

9. Where appropriate, interim financing can be considered whereby a temporary source of funding is used and then is repaid by the primary source of funding, i.e., where development charge reserve funds are inadequate to fund a smaller project, a property tax/user rate reserve may cover the initial financing and then be repaid over a certain period from the development charge reserve fund, as collections occur.

Report: COR-FSD-16-16

Region of Waterloo

Corporate Services

Financial Services and Development Financing

To: Chair Sean Strickland and Members of the Administration and Finance Committee

Date: June 14, 2016 **File Code:** F01-80

Subject: 2017 Budget Process & Timetable

Recommendation:

That the Regional Municipality of Waterloo take the following action with respect to the 2017 Budget:

1. Approve the 2017 Budget timetable as set out in Schedule B to Report COR-FSD-16-16 dated June 14, 2016;
2. Forward a copy of Report COR-FSD-16-16 to the Waterloo Region Police Services Board.

Summary:

The development of the 2017 Operating Budget and 2017-2026 Capital Plan is underway. This report provides Council with:

- An overview of key economic indicators;
- A summary of the major factors that staff expect will impact the 2017 Budget;
- An overview of the general approach that Regional staff will be taking when preparing 2017 budget estimates; and
- An outline of the 2017 budget timetable and budget review process.

Staff will work to present a budget that strikes an appropriate balance between meeting strategic plan goals, responding to service level demands and expectations, recognizing the need for new or expanded services and infrastructure, and achieving reasonable tax and user rate impacts.

Report:

1. Budget Context

A brief review of recent budget approvals serves as a good starting point for consideration of the 2017 budget. Schedule "A" provides a summary of operating budget approvals during this term of Council. The Regional tax levy comprises approximately 52% of the total residential property tax bill. Total tax supported expenditure in 2016 is $848 million with a Regional property tax levy of $471 million. Approximately 68% of the 2016 property tax levy is for direct Regional Services and 32% for Police Services. Budgeted operating expenditure in 2016 for water and wastewater is $82 million. The 2017 budget will be the third budget for this term of Council.

2. Current Economic Environment

The Region's budget is impacted by a number of economic factors. These factors combine to create an overall economic context for each annual budget, and are summarized below.

2.1 Economic Growth

Estimates of domestic economic growth projections federally and provincially are summarized as follows:

Federal and Provincial real GDP growth projections				
	2015 (actual)	**2016**	**2017**	**2018**
Canada	0.5%	2.2%	2.2%	2.1%
Ontario	2.5%	2.2%	2.4%	2.2%

Sources: Bank of Canada April 2016 Monetary Policy report, 2016/17 Province of Ontario Budget

Recent disruptions in the Canadian oil sector arising from wildfires in Alberta are expected to slow real GDP growth in Canada for the second quarter of 2016.

2.2 Federal and Provincial Budgets and Funding

The Federal Government is planning to invest significant amounts in infrastructure and social programs in the next few years, resulting in a projected federal deficit for the foreseeable future. Ontario is projecting a balanced budget for its 2017/2018 fiscal year, as set out below:

Federal and Provincial surplus (deficit) projections, in $ billions					
	Estimated	Forecast			
	2015/16	2016/17	2017/18	2018/19	2019/2020
Canada	(5.4)	(29.4)	(29.0)	(22.8)	(17.7)
Ontario	(5.7)	(4.3)	0.0	0.0	n.a.

Source: 2016/17 Government of Canada Budget, 2016/17 Government of Ontario Budget

Federal funding for municipalities comes in the form of subsidy for housing programs, the Federal Gas Tax Transfer and targeted, time limited infrastructure programs. Federal funding for housing programs is expected to be reduced in 2017-18, resulting in a Regional tax levy impact of approximately $1.1 million. The Region receives $14.7 million annually from the Federal Gas Tax Transfer and applies the funding to the Roads Rehabilitation Capital Program.

A number of Regional programs are cost shared with the Province, with annual provincial subsidies totalling approximately $210 million. Programs receiving provincial subsidy include Ontario Works, Children's Services, Seniors' Services, Public Health, Paramedic Services, and Transit, and to a much lesser extent Police, Museum and Library. The 2016/17 Provincial Budget has confirmed that the uploading of Ontario Works benefit costs and some court security costs will occur as planned, with the uploads to be complete in 2018. In 2017, provincial cost sharing for Ontario Works benefits will increase to 97.2%. As directed by Council, the Ontario Works upload savings will be used to offset costs associated with implementation of the Regional Transportation Master Plan.

Provincial funding represents a greater risk to the Region than Federal funding, as the amount of provincial funding is significantly higher. Municipal governments remain cautious in their expectations for funding from senior levels of governments for both existing cost-shared programs and new initiatives.

Overviews of the 2016/2017 provincial and federal budgets were presented to Administration and Finance Committee in two separate staff reports: COR-FSD-16-07 dated March 2, 2016 (provincial) and COR-FSD-16-09 dated March 30, 2016 (federal).

2.3 Inflation

The most recent Consumer Price Index (CPI) figures (April 2016) show inflation running at 1.7% year over year for Canada and 2.1% for Ontario, indicating that Ontario is above the 2% target range established by the Bank of Canada. Average CPI over the first four months of 2016 was 1.6% for Canada and 1.8% for Ontario. Federal and provincial governments and most financial institutions are predicting inflation rates in the 2.0% range for 2016:

Inflation (CPI) Projections	2017 forecast (%)
Canada	2.0
Ontario	2.0
Bank of Canada	2.0
National Bank Financial	2.1
CIBC	1.9
RBC	2.0
Scotiabank	2.2

Sources 2016/17 Government of Canada Budget, 2016/17 Government of Ontario Budget, Bank of Canada, National Bank Financial, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Scotiabank

It is noted that CPI figures reflect a basket of consumer goods which does not necessarily reflect municipal government expenditures.

2.4 Interest Rates

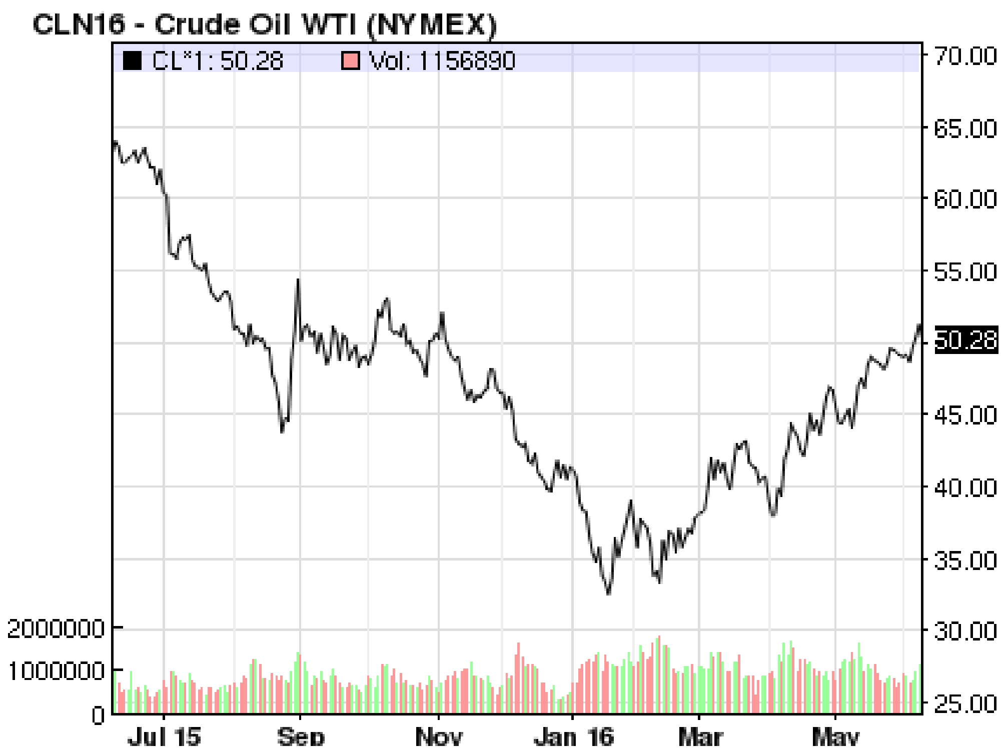
The overnight interest rate set by the Bank of Canada dropped to 0.5% in July of 2015. The rate was briefly at 0.75% from January to July 2015, dropping from 1% where it had been since September 2010. Long term borrowing rates continue to remain near historic lows and are currently at 2.2% for debentures with a 10 year term and 3.5% for a 20 year term. Long term borrowing costs are expected to rise slightly over the next 6-12 months and the Region will monitor the rates in anticipation of a planned fall 2016 debenture issue. The Region continues to maintain an Aaa credit rating from Moody's Investor Services, with a stable outlook.

2.5 Unemployment Rates and Ontario Works Caseload Levels

The unemployment rate in April 2016 was 6.8% in Ontario (April 2015 was 6.9%) and 5.6% in Waterloo Region (April 2015 was 5.9%). Ontario Works caseload levels have been in the range of 8,200 - 9,000 per month since the beginning of 2010 and are currently at 8,664 (March 2016). It is worth noting that there is minimal budget risk due to higher Ontario Works caseloads as the upload of benefit costs to the province proceeds through to 2018. In 2017, the provincial cost sharing of social assistance benefits will increase to 97.2% (from 94.2% in 2016).

2.6 Oil and Fuel Prices

As the following chart indicates, the price of crude oil has rebounded in the first few months of 2016. The current price of crude is approximately $50 USD/barrel (up from $32 USD/barrel in January and compared to $60 USD/barrel at this point last year).

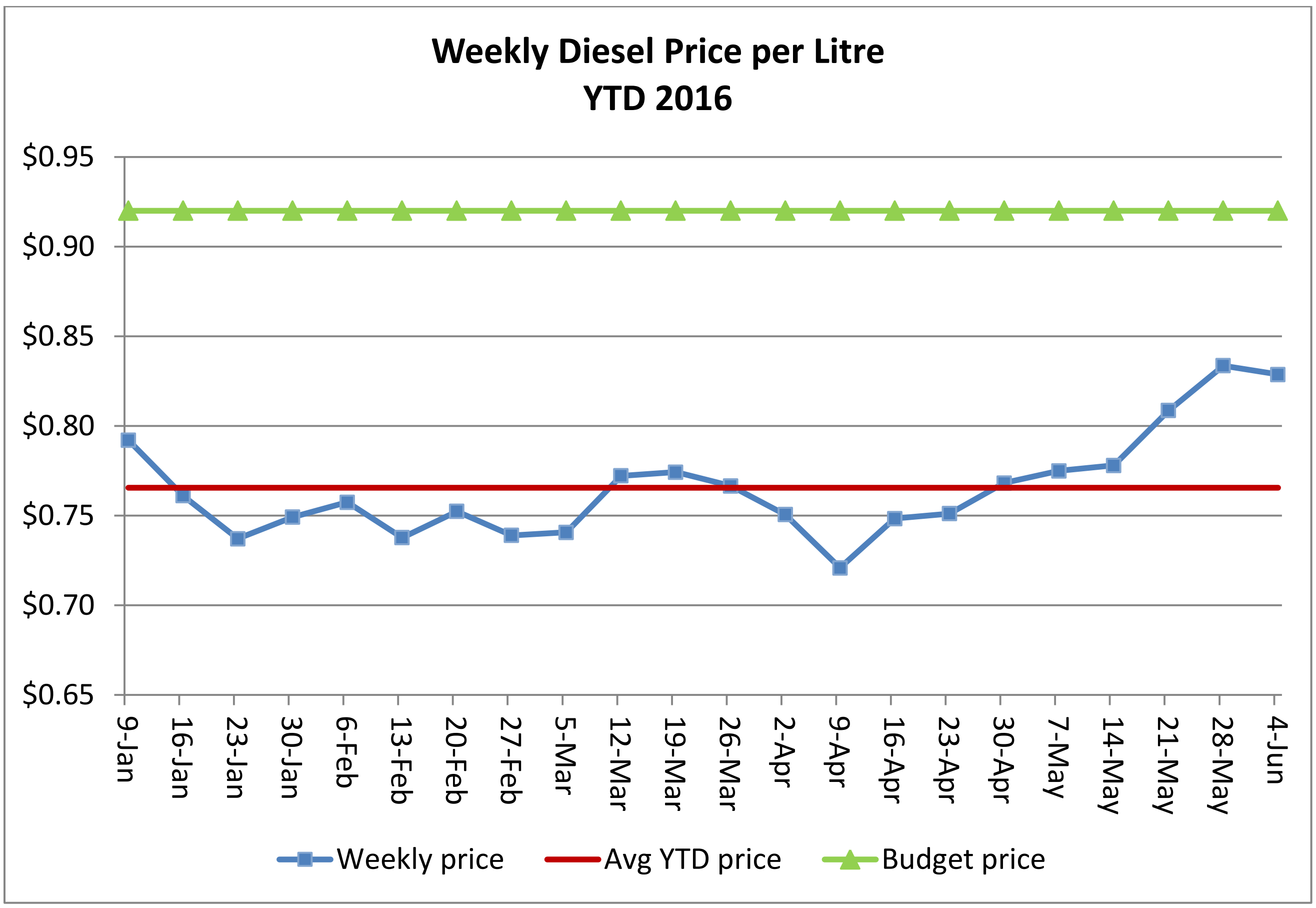


Source: Nasdaq.com

The recent wildfires in the Alberta oil sector are expected to affect world supply and influence crude prices. The extent to which this influence will be seen through an increase in fuel prices is unknown at this time. The price of oil and fuel affects the Region's budget in a number of areas including public transit, paramedic services, police services, roads maintenance, waste management, and support vehicles in other Regional departments.

The 2016 operating budget was approved using a fuel price strategy whereby the price of diesel and gasoline were both set at $0.92/L (from a 2015 budget fuel price of $1.00/L and 0.88/L for diesel and gasoline, respectively). The strategy provided that 50% of the savings associated with the budgeted price decrease was reflected in the 2016 property tax levy and 50% of the savings was budgeted as a transfer to reserve. This approach was taken to mitigate fluctuations in the fuel price and reduce the risk of a deficit once prices climb back to 2014 levels. January to May 2016 diesel prices averaged $0.77/L and gasoline averaged $0.83/L, with current prices being $0.83/L and $0.93/L, respectively.

The following chart outlines the year to date actual and average diesel prices relative to the 2016 budgeted price:



2.7 Building Trends

Recent building permit activity in Waterloo Region is summarized as follows:

Building Permit Activity				
	2013	**2014**	**2015**	**2016***
Jan – Apr # of Residential units	632	817	1,525	888
Jan – Apr Value of residential permits	$143.3m	$168.2m	$249.6m	$222.4m
Annual # of Residential units	2,564	3,805	3,553	n.a.
Annual Value of residential permits	$543.0m	$851.2m	$750.8m	n.a.
Jan – Apr Non-residential square feet (million)	0.37	0.63	0.59	0.69
Jan – Apr Value of non-residential permits	$76.9m	$88.6m	$86.8m	$102.9
Annual # of Non-residential square feet (millions)	1.38	2.15	1.73	n.a.
Annual Value of non-residential permits	$228.6m	$433.4m	$293.8m	n.a.

*preliminary information; more detailed analysis performed in June and at year-end

Building permit activity is one indicator of the strength of the local economy. Total residential activity in 2015 remained strong. In 2015, permits were issued for 3,553 new units with the value of $750.8 million. This included 1,723 apartment units, which amount to more than half of the newly created units. The non-residential building permits were issued for 1.7 million square feet of floor space, valued at $293.8 million. The total value of both residential and non-residential permits issued in 2015 was $1.04 billion.

January to April 2016 indicates a strong start to the year in residential and non-residential building activity. The number of units added in 2016 is consistent with the Regional trend, but is lower than the significant number of building permits issued last year in the same period. In 2016, 0.69 million square feet of non-residential square footage has been added, which is the highest level in past three years. The combined value of residential and non-residential permits year-to-date in 2016 is $325.4 million, compared to $336.4 in the same period of 2015.

2.8 Development Charges

Regional Development Charges (RDC) are a significant source of funding for growth related capital projects undertaken by the Region. Recent RDC activity is summarized in the following table:

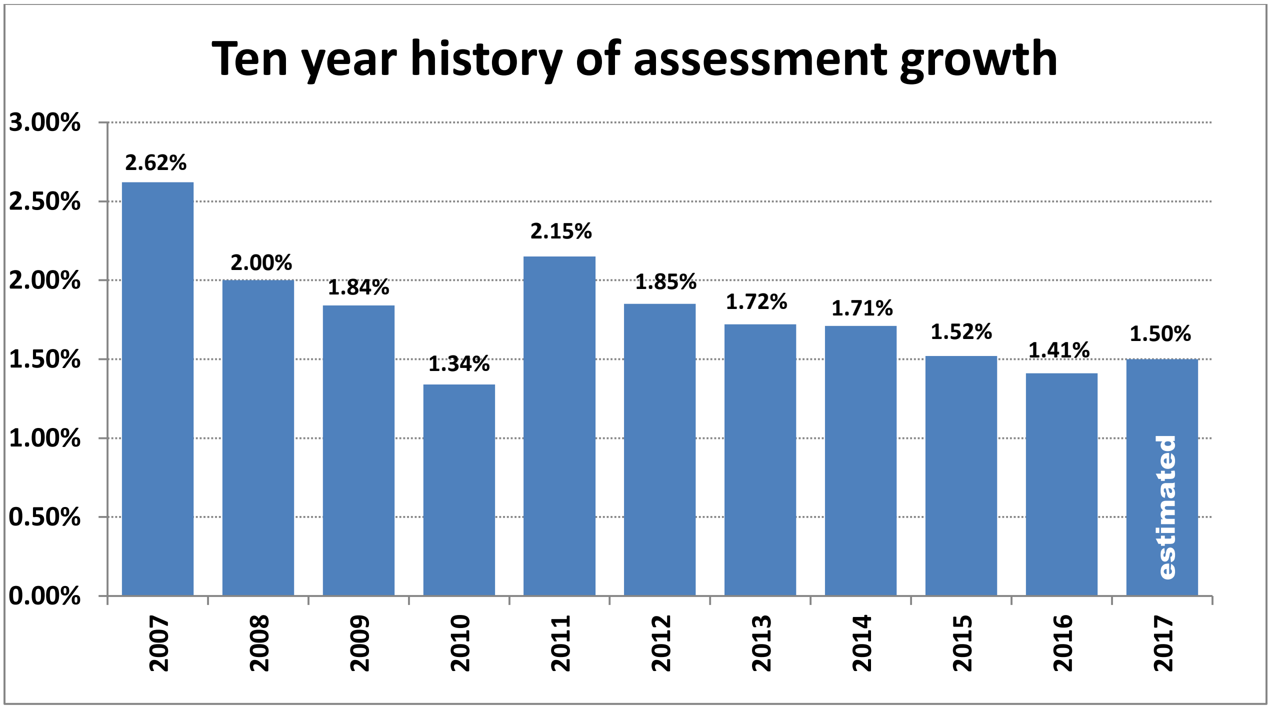
Regional Development Charge Summary				
	2013	**2014**	**2015**	**2016 Estimate**
Residential				
Jan-Apr units	403	497	656	781
Jan-Apr revenue	$5.3m	$6.6m	$8.8m	$14.1m
Annual equivalent single detached units**	1,578	3,091	1,882	n.a.
Annual revenue	$21.0m	$44.0m	$33.9m	n.a.
Non-residential				
Jan-Apr square feet	268,487	308,720	50,600	711,382
Jan-Apr revenue	$2.6m	$3.0m	$0.5m	$7.0m
Annual square feet	1,110,070	1,477,597	1,014,373	n.a.
Annual revenue	$10.5m	$14.3m	$10.4m	n.a.

**includes DC collections and funded exemptions only

Estimated year to date 2016 RDC Revenue (excluding interest) at the end of April 2016 is $21.1 million ($14.1 million residential and $7.0 million non-residential), which is an increase of $11.6 million compared to the same period in 2015. Collections in the period were higher than usual due to several large non residential permits as well as increased numbers of residential permits. This increased activity is, also attributable to the rush by developers to make permits applications before June 1, 2016 in order to avoid increases to the Education Development Charges which came into effect for both local school boards on that date. Similarly, it should be noted that the substantial revenue levels seen in annual 2014 figures were in large part due to the rush in June and July of that year to make permit applications in advance of new Regional Development Charge rates effective August 1, 2014.

2.9 Assessment Growth

Assessment growth in 2015 (and reflected in the 2016 Budget) was 1.41%, representing the second lowest level of assessment growth in the Region in the last 15 years. The following graph provides a summary of assessment growth over the last ten years:



The estimated 2017 budget impacts set out in this report are based on an assumed level of assessment growth of 1.5%.

3. Capital Planning and Financing

The Region of Waterloo's $3.5 billion 10 year capital program includes both infrastructure required to accommodate growth in the residential and non-residential sectors, as well as lifecycle work to maintain existing infrastructure in a state of good repair. The Region remains in a period of significant capital expansion with construction of new infrastructure including major upgrades to water and wastewater facilities, significant road network projects and asset renewal work at regional facilities and housing properties.

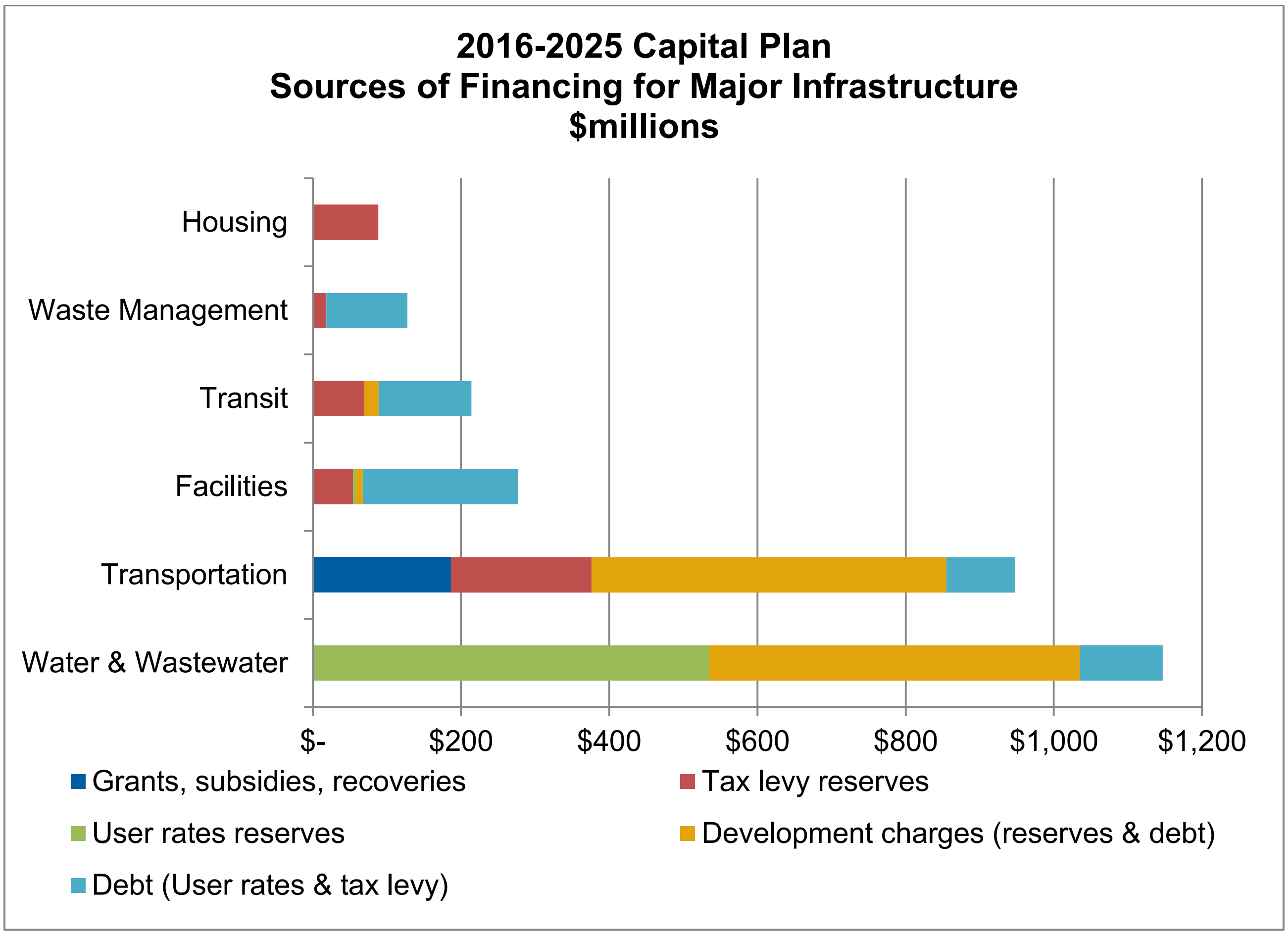
A review of the capital program is being undertaken by staff in June and July. The purpose of these capital reviews is to:

- Ensure the Region's ten year capital program is affordable, achievable and sustainable;
- Understand the scope of debenture financing required and impact on operating budgets;

- Review projected capital expenditures to year end; and,
- Provide the basis for drafting 2017 capital plans.

Staff has previously reported to Council on the extent of the Region's reliance on debenture financing in various program areas and the low level of regional reserve and reserve fund balances relative to other regional municipalities. While the capital program for certain regional services is largely funded through annual contributions to reserves (water, wastewater and roads for example), certain program areas have little or no access to reserve funding, notably waste management, public transit and Regional facilities.

The following graph depicts the relative sources of financing for major infrastructure over the next 10 years:



In the absence of adequate reserve contributions and funding, debenture financing is the only alternative. While long term borrowing for capital works is appropriate in many cases, the resulting debt servicing costs place a significant burden on future operating budgets. To the extent that debenture financing can be reduced or avoided, then future debt servicing costs will be mitigated. Limiting debenture financing to fund significant property acquisition, facilities and fixed infrastructure is a strategic attempt to manage debt servicing costs.

In order to achieve these financing objectives, staff is recommending a set of capital financing principles outlined in staff report COR-FSD-16-15 “Capital Financing Principles.” If approved, these principles will be used in the development of the 2017-2026 capital plan and, in conjunction with capital plan review meetings, staff will assess the financing strategies of all capital programs, reporting back to Committee and Council as required through the 2017 budget process.

Projects included in the capital program that are debenture financed may not proceed as scheduled unless funding from other levels of government (i.e., federal and/or provincial) is available or unless a sustainable source of funding for resulting debt servicing costs is determined.

4. Preliminary Budget Projections

4.1 Tax Supported Operating Budget – Direct Regional Services

Initial estimates of the 2017 property tax levy budget and tax rate impacts for Regional services are shown in the following table:

	$millions
2016 tax levy (Regional purposes)	**$320.0**
Operating items:	
Salaries/benefits	5.4
RTMP (1.5% of prior year urban levy in 2017/18, 0.75% in 2019; net of OW upload which ends in 2018)	4.5
Utilities, maintenance, taxes	1.6
Federal Housing subsidies	0.7
Community Housing subsidy to providers & move-in/move-out costs	0.8
Waste Management collection contract savings	(1.4)
Increased user fee revenue	(0.7)
All other operating items	0.8
Subtotal operating items	**11.7**
Capital funding from tax levy:	
Building lifecycle provision, repurposed debt servicing costs	1.8
Net debt servicing costs (assumes 60% of tax supported debt issued)	0.7
Tax increment grants	0.1
Subtotal capital funding	**2.6**
Projected 2017 Regional base tax levy	**334.3**
Projected tax impact - Regional base tax levy only	**2.0%**

The figures shown above reflect service levels currently funded through base budgets, and therefore exclude any impacts resulting from the implementations of master plans, business plans, or service expansion requests, all of which would come in the form of budget issue papers. The year over year regional tax levy increase required to support current service levels is estimated to be 4.5% for Regional services in 2017. This would translate to a tax rate impact (net of assessment growth) in the range of 2.0%, before any consideration of budget issue papers or the Police Services budget.

Major 2017 Budget Drivers

With the above context and economic climate in mind, there are certain factors and initiatives that will impact the 2017 operating budget:

- **Debt Servicing Costs:** The Region's 2016-2025 tax supported capital plan totals $2.3 billion. Approximately 29% of the Region's tax supported capital plan is financed through debentures. As noted earlier in the report, staff are conducting a capital plan review to identify options for reducing the impact of new debt servicing costs in the immediate 5 years of the capital plan. Current estimates of incremental debt servicing costs are based on an assumption of 60% of debt projected to be required will be issued. These estimates will be validated through capital reviews in June and July. A 10% increase in the debt issuance assumption translates into approximately $600,000 in debt servicing cost additions required.

- **Regional Transportation Master Plan (RTMP):** Regional Council's approved funding strategy for the Regional Transportation Master Plan (including Rapid Transit and GRT expansion) requires a 1.5% annual urban levy increase in both 2017 and 2018 and 0.75% (projected) in 2019. These increases will be offset by the uploading of Ontario Works benefit costs to the Province through 2018. The current strategy anticipates a net tax rate impact for RTMP in 2017 of 0.93%. As noted in staff report COR-FSD-16-02 to Administration and Finance Committee on January 12, 2016, recent changes to the Development Charges Act (DCA) enable municipalities to include a greater proportion of their growth related transit infrastructure costs in their Development Charges background studies. Staff will be reviewing these impacts as well as other potential issues relating to the overall RTMP funding strategy in the coming months.

- **Community Housing subsidies:** The Region annually provides $25 million in subsidies to non-profit and cooperative housing providers. Tax levy impacts associated with this program are largely driven by the provincially mandated funding model. This model determines factors such as inflation, rent control/Market Rent indices, and property taxes. Impacts in 2017 are currently projected to be in the $0.5 million range.

- **Community Housing move-in/move-out costs:** Move-in/move-out costs (flooring and painting) are projected to be higher than budget by $286k by year end. Staff is reviewing whether a budget adjustment will be necessary in 2017 to reflect these increasing costs.

- **Contract Settlements and Negotiations:** It is noted that all collective agreements will be renegotiated in 2016 and 2017. Estimated compensation costs are reflected in both the 2017 tax supported and user rates budget projections.

- **Annualization of service enhancements approved in the 2016 budget:** The base budget for tax supported areas will include a property tax levy increase of $662,000 for annualization of budget issue papers approved in the 2016 budget. This increase excludes any impacts associated with the Conestoga College U-Pass budget issue paper that was removed through an amendment to the 2016 budget on March 30, 2016.

- **Unknowns:** Several factors that may affect base budgets and the ten year capital program are unknown at this point in time but are worth identifying:

  1. The timing, amount and eligibility requirements for federal and provincial infrastructure funding
  2. 2016 property reassessment impacts on Regionally owned properties
  3. Ongoing fuel price fluctuations
  4. Landfill site assessment review outcome
  5. Municipal Act review outcome

Staff will monitor these items, and to the extent possible, make reasonable assumptions regarding the impact of each in the development of base budgets.

Budget Issue Papers

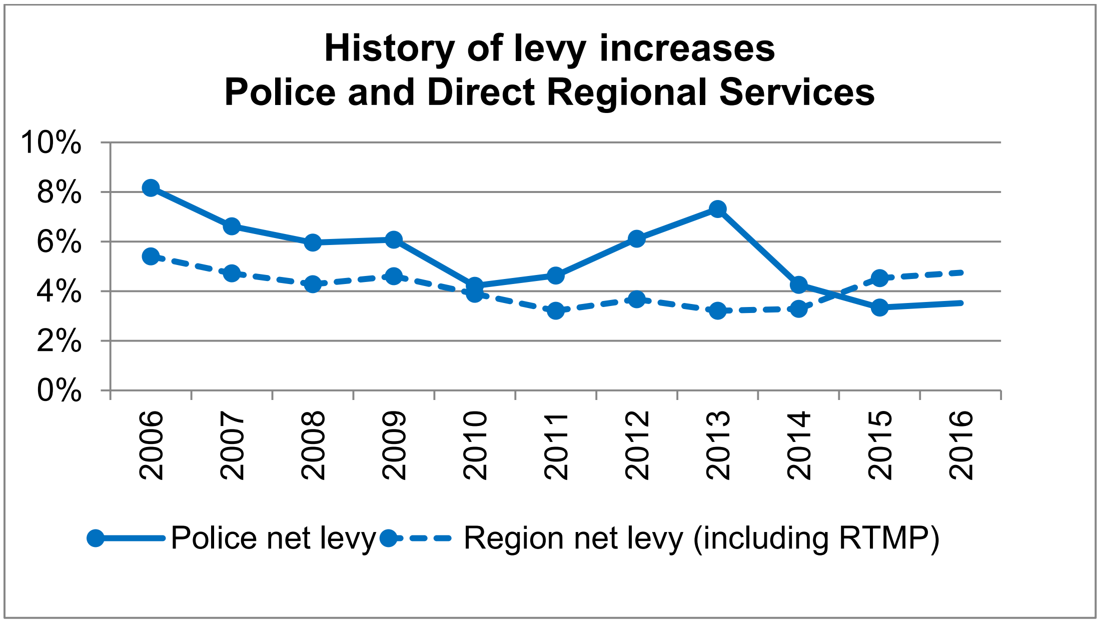
New programs and program expansions are presented in the form of budget issue papers. Examples of planned budget issue papers for 2017 include:

- Repurposing of Waste Management (WM) collection contract savings to fund the WM capital program and reduce the need for long term borrowing
- Implementation of the Paramedic Services master plan
- Implementation of the GRT business plan
- Conestoga College U-Pass
- Capital Levy Reserve Fund

The estimated 2017 tax impact of proposed service and funding enhancements is expected to be in the range of 1.0%.

4.2 Tax Supported Operating Budget – Police Services

The following chart summarizes the property tax levy increases for Police and direct Regional services since 2006:



As depicted in the chart above, levy increases for Police Services have outpaced Direct Regional Services in all but the last two years. Consequently, the proportion of the levy dedicated to Police Services has increased from 30% in 2006 to 32% in 2016.

The 2016 Polices Services budget included a net expenditure increase of 3.5% with a property tax rate impact of 0.67%. Factors expected to impact the 2017 Police Services budget include the annualization of 2016 service expansions, the impact of the recently negotiated collective agreement, movements through the salary grids, and debt servicing costs for any new debt issued in 2016.

4.3 Water and Wastewater Operating Budgets and Capital Plans

Staff is also developing the 2017 Water and Wastewater operating budgets and 2017-2026 capital plans. The model that was used to develop 2016 user rates and subsequent year projections estimated a rate increase of 2.9% in 2017 for water supply (2.9% in 2016) and 6.9% for wastewater treatment (6.9% in 2016). Although key inputs such as electricity and chemicals are large factors in these operating budgets, the component that has the most impact in determining user rates is the capital plan. A number of factors are impacting the 2017 user rate estimates, including:

- The Wastewater capital reserve balance ($11 million) is relatively low compared to the expenditures supported ($44.7 million in operating and a 10 year average annual expenditure of $39.4 million for capital).
- The construction schedule for the Kitchener Wastewater Treatment Plant process upgrades has accelerated, resulting in contracts 3 and 4 progressing faster than anticipated. The approved 2016 Wastewater Capital Program included a budget of $33 million in 2016 for this project and the current 2016 estimated spending forecast is $72.5 million. Overall, this multi-year project is

expected to be within budget and impacts on the rate model and 2016 borrowing requirements are being evaluated. Staff will provide a status update to Committee in late summer on this project and should the 2016 capital budget require amending, approval will be sought at that time, including any need to revise the 2016 long term borrowing approval. The approved 2016 capital budget for this project is financed by the Wastewater capital reserve ($12 million), and debentures supported by Wastewater rates ($12 million) and development charges ($9 million).

- A large proportion of Wastewater operating expenditures are fixed in nature, providing limited ability to reduce costs when revenues are lower than anticipated
- The Wastewater RDC reserve fund remains at a very low level due to lower collections while supporting a high level of debt servicing costs

Accordingly, Program and Finance staff are undertaking a comprehensive review of the rate models for both Water and Wastewater. Staff will assess these and other issues in developing recommended user rate increases for 2017 and will report back to Committee in the fall of 2016 on recommended rate projections. Any changes to user rates are expected to come into effect on March 1, 2017.

5. Budget Preparation

In order for staff to deliver a budget that is reasonable and reflective of critical Region-specific objectives to Council, the budget preparation process will include the following measures:

- A review of the 10 year capital plan. The ten year forecast is being reviewed with each department, with discussions covering the full range of project need, scope, timing, cost and sources of financing. Staff is in the process of developing the updated 10 year capital plan.
- User fees and charges will be reviewed to ensure that such fees are at appropriate levels.
- Regional staff will complete operating budget review meetings this fall with the Chief Administrative Officer and Chief Financial Officer. These sessions will include a detailed review of the 2017 base budget, a historical budget-to-actual review of spending and revenues, proposals for user fees for 2017 and proposed 2017 service levels.

6. 2017 Budget Timetable

The proposed timetable for review of the 2017 Budget is set out in Schedule “B” to this report. The budget review process will include four Budget Committee meetings. At the first budget meeting, scheduled for October 19, staff will provide an overview of 2017 operating and capital budgets. The second (November 16) and third meetings (December 14) will be for detailed budget review and user rate budget approval, with the final meeting for approval of the property tax budget scheduled in mid January 2017. All proposed Budget Committee meeting dates fall on Council meeting dates with the exception of the Committee meeting on November 16, 2016.

At the request of Council during the 2016 budget process, staff will be developing a public engagement strategy to provide additional opportunity for members of the public to provide input and feedback during the budget process. The intent is to enhance the current policy of providing public input at the November and December Budget Committee meetings. Staff will outline a recommended approach for public engagement for the 2017 budget process in a report to Administration and Finance Committee in late summer/early fall of 2016.

Corporate Strategic Plan:

The budget process enables Council to achieve its Corporate Strategic Plan by allocating appropriate resources to each focus area.

Financial Implications:

The Region’s tax supported services represent approximately 52% of the total residential property tax bill. In 2017, it is estimated that a 1% impact on regional taxes will equate to $4.8 million.

Other Department Consultations/Concurrence:

All departments and the Waterloo Regional Police Service contribute to the development of the Regional budget.

Attachments:

Schedule A – Budget Approvals 2015 - 2016

Schedule B – 2017 Budget Timetable

Prepared By: Cheryl Braan, Manager of Budgets and Performance Measurement

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Schedule A

Region of Waterloo

Budget Approvals during this Term of Council

	2015		2016	
Budget	$m	% change	$m	% change
Tax Supported Budget				
Operating Expenditures				
Regional Services	$ 653.9	4%	$ 680.0	4%
Library Services	2.7	8%	2.8	4%
Police Services	158.7	4%	165.5	4%
Total	**$ 815.3**	**4%**	**$ 848.3**	**4%**
Net Levy				
Regional Services	$ 303.0	5%	$ 317.2	5%
Library Services	2.7	13%	2.8	4%
Police Services	145.6	3%	150.7	4%
Total	**$ 451.3**	**4%**	**$ 470.7**	**4%**
Tax Rate Impact*		**2.58%**		**2.89%**
User Rates (Wholesale & Retail)				
Water				
Operating	$ 35.3	2%	$ 36.0	2%
Capital	20.2	-7%	18.6	-8%
Total	**$ 55.4**	**-2%**	**$ 54.6**	**-2%**
Wastewater				
Operating	$ 45.3	7%	$ 45.7	1%
Capital	37.4	62%	45.2	21%
Total	**$ 82.7**	**26%**	**$ 90.9**	**10%**
User Rate Increases (effective March 1)				
Water		4.9%		2.9%
Wastewater		7.9%		6.9%
Retail Water		8.9%		8.9%
Retail Wastewater		5.9%		5.9%

* Excluding four-year reassessment impacts. Average tax impact; urban and rural tax impacts will vary

SCHEDULE B

Region of Waterloo

DRAFT 2017 Budget Timetable

PURPOSE OF THE BUDGET SESSION	PLANNED DATE and TIME
2017 Budget Process and Timetable	June 14, 2016 Administration and Finance Committee
Budget Overview Session • Preliminary Operating Budget and Capital Program	October 19, 2016
Detailed Budget Review – Day One • User Rate Operating Budget and Capital Program • Tax Supported Operating Budget and Capital Program	November 16, 2016
Public Input Session #1	November 16, 2016
Detailed Budget Review – Day Two • Police Services Board Budget • GRCA Budget • Approval of User Rate Operating budgets and Capital Programs • Update Tax Supported Operating Budget and Capital Program	December 14, 2016
Public Input Session #2	December 14, 2016
Approval Tax Supported Operating Budget and Capital Program Approval of 2017 User Fees and Charges	mid January, 2017

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Council Enquiries and Requests for Information				
Administration and Finance Committee				
Meeting date	**Requestor**	**Request**	**Assigned Department(s)**	**Anticipated Response Date**
17-Nov-15	S. Strickland	Report on options related to collaboration between WRTMC and the local private sector, particularly with respect to a destination marketing fee.	PDLS (Cultural Services)	Jun-2016
13 Jan 2016 (Budget Committee)	D. Craig	Report listing of Regional programs that are provincially mandated with no additional provincial funding.	COR (Finance)	Sep-2016