



REGIONAL MUNICIPALITY OF WATERLOO ADMINISTRATION AND FINANCE COMMITTEE AGENDA

Tuesday, January 10, 2012

11:00 a.m.

(Time is approximate; meeting follows Closed Session)

Regional Council Chamber

150 Frederick Street, Kitchener, Ontario

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1. **MOTION TO RECONVENE INTO OPEN SESSION**
 2. **DECLARATIONS OF PECUNIARY INTEREST UNDER THE MUNICIPAL CONFLICT OF INTEREST ACT**
 3. **DELEGATIONS**
 4. **REPORTS – Corporate Resources**
 - a) [CR-CLK-12-001](#), Ontario Association of Police Services Boards (OAPSB) White Paper – Defaulted Fines, Provincial Offences Court 1
 - b) [CR-FM-12-001](#), Administration Headquarters Generator Design and Installation Consultant Selection 7
 - REPORTS – Finance**
 - c) [F-12-001](#), [P2011-44](#) External Audit Services 10
 5. **REPORT FROM THE AUDIT COMMITTEE**
 - a) Minutes of the Audit Committee – December 12, 2011 12
 6. **INFORMATION/CORRESPONDENCE**
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 - b) Council Enquiries and Requests for [Information Tracking Sheet](#) 18
 7. **OTHER BUSINESS**
 8. **NEXT MEETING – January 31, 2012**
 9. **ADJOURN**



REGION OF WATERLOO
CORPORATE RESOURCES
Council and Administrative Services

TO: Chair Tom Galloway and Members of the Administration and Finance Committee

DATE: January 10, 2012 **FILE CODE:** L02-20

SUBJECT: ONTARIO ASSOCIATION OF POLICE SERVICES BOARDS (OAPSB) WHITE PAPER - DEFAULTED FINES, PROVINCIAL OFFENCES COURT

RECOMMENDATION:

THAT the Regional Municipality of Waterloo support the recommendations contained in the Ontario Association of Police Service Boards (OASPSB) White Paper entitled "Provincial Offences Act – Unpaid Fines" dated 11/01/2011;

AND THAT the Regional Municipality of Waterloo request the Province of Ontario to commence with inter-ministry and municipal discussions, to review the paper and develop an implementation plan to address the recommendations contained in the paper;

AND FURTHER THAT a copy of this report be circulated to local MPPs, Association of Municipalities of Ontario (AMO), Association of Municipal Managers, Clerk's and Treasurers of Ontario (AMCTO), Ontario Association of Police Service Boards (OAPSB), Waterloo Regional Police Services (WRPS) Board and Municipal Court Managers Associations (MCMA).

SUMMARY:

Currently across the Province, there are nearly 2.5 million unpaid POA fines¹ totalling close to \$1 billion, owed largely to Ontario municipalities. The magnitude of this delinquency undermines public safety, the rule of law, and accountability. It clearly has significant financial impact on municipalities including the Region of Waterloo. The Ontario Association of Police Service Boards (OAPSB) together with MCMA and AMCTO developed a white paper on uncollected fines and it was released in November of 2011. The collection of outstanding fines is important to the Region of Waterloo for several reasons including the ones listed above; however without better collection tools and methods the Region's success will continue to be limited. Furthermore, a greater ability to collect fines would return greater value to the Region and reduce expenditures, money which could be used in other areas to support services that aid citizens of the Region.

REPORT:

History

Fines levied under the *Provincial Offences Act* are difficult to collect due to the limitations of the tools currently available. Very little of how fines are collected has changed since the provision of POA court services was devolved from the province to municipalities starting in 2000. This is the reason why the total dollar amount of defaulted fines, the subject of the white paper, has continued to grow in municipalities throughout the province. Municipalities are, therefore, very interested in seeing more effective and efficient collection measures put in place.

¹ ICON database, as of July 2010 (\$954,338,261.10 total owing for 2,370,864 fines)

At devolution in 2000 there was just over \$10 million in outstanding fines passed on to the Region of Waterloo to collect. However, it became apparent that some of those matters were quite old which made tracking the offender extremely difficult and by virtue of that uncollectible. Tools for enforcement focused on driver's license suspensions as the means to compel people to pay and the Region hired 2 internal collectors and began using collection agencies to try and collect this money.

The problem that became apparent from this is that license suspension alone is not enough incentive to get offenders to pay; many are willing to continue to drive unlicensed. As a result, this has created a situation where courts continue to sustain high levels of defaulted fines every year even though there is active pursuit of offenders.

Current State of Defaulted Fines

The Region uses 2 internal collection clerks and 2 collection agencies to actively pursue debtors. The fine revenue generated by the internal collectors averages \$1.5 million a year, on track to be \$1.8 million for 2011, and agency revenue, which has fluctuated over the years, is on track to be approximately \$800,000. In spite of these efforts the default has grown at a consistent rate even though POA constantly seeks to improve collection methodology.

The charts in the Appendix 'A' reflect the level of defaulted fines at the Region of Waterloo and from the province as a whole. The overall composition of defaulted fines in the Region amounts to 80,841 fines in total: *Highway Traffic Act (HTA)* 36,670, *Compulsory Automobile Insurance Act (CAIA)* 5,571, Other 18,274 (includes Ministry Of Environment and Occupational Health & Safety Administration) and *Liquor License Act (LLA)* 20,326.

Currently, the Region has approximately \$31 million in defaulted fines. In order to put this amount into perspective a comparison can be made utilizing Ontario Municipal Benchmarking Initiative (OMBI) statistics. The Region participates in OMBI with 12 other municipalities of various sizes collecting performance related data on court administrative and collection activities for comparison and improvement purposes.

The Region has a comparable default amount to other municipalities its size: Durham \$40 million; Hamilton \$49.5 million; London \$25 million; Niagara \$40 million; Ottawa \$61 million and York \$43.5 million. Furthermore, for the 2010 OMBI report, the Region had a defaulted collection rate of 50.74% within a range of 41.31% to 54.17% for the above listed municipalities. While specific performance can vary from year to year there is a trend that stands out: defaulted fines continue to climb in all municipalities and collection success is generally stagnant within the range of 40% to 55%. To improve defaulted collection rates and reduce the overall default total, new tools are necessary.

Streamlining and Bill 212

In 2007 the Ministry of the Attorney General began an undertaking with involved stakeholders, ministries, and municipalities to examine the *Provincial Offences Act* and current court procedures to determine what changes could be made to improve POA performance. This exercise, entitled Streamlining, was concerned mainly with procedural reform but there was a section on enhancing the enforcement of POA fines.

Bill 212, passed in December of 2010, contained some measures approved by the Ministry of the Attorney General from the streamlining exercise.

- Adding defaulted fines to municipal tax rolls;
- Making payment of fines a condition for issuing municipal licenses or contracts;
- Removal of the 2 year limitation for filing civil enforcement;
- Increasing maximum fines.

Unfortunately, these measures have little overall impact on improving fine collection: collection by adding fines to municipal tax roles is complicated and can only be done under very specific conditions. The same applies to making fine payment a condition for receiving municipal licenses and contracts. Increasing fine amounts does not make them easier to collect and can work to increase the amount in default.

The following key provisions were left out:

- Plate denial for all POA offences
- Waiver of civil enforcement fees

As a result, POA courts did not receive tools which would have made collection more effective and efficient. While streamlining was a good start to reforming POA practices, much more can be done to improve fine collection rates.

OAPSB White Paper

The Ontario Association of Police Service Boards released a white paper on November 1st, 2011, as a means to address the problem of unpaid fines in Ontario and the effect it has on public safety and confidence in the justice system. The paper is focused entirely on fine collection and while it raises some of the methods that were left out of Bill 212, it makes new recommendations that will be of great use to POA courts should they be implemented.

White Paper Recommendations

The following list of recommendations is ordered according to the effectiveness a measure would have on fine collection.

- That driver's license suspensions and plate denial become penalties for non-payment of any POA fine, regardless of type.
- That Ontario negotiates the power to garnish federal income tax returns for non-payment of POA fines.
- That the Ministries of Transportation and Attorney General link databases so information can be shared and readily accessed by law enforcement and collecting agencies alike.
- That vehicle impoundment and additional demerit points be considered for non-payment of POA fines.
- That discounts for early fine payment be used as an incentive.
- That late penalties be doubled.
- That the province negotiates agreements with other jurisdictions to collect fines.
- That the Ministry of the Attorney General improves the quality and accessibility of fine data for better decision making.
- That the Ministry of the Attorney General host regular POA discussion forums on the subject with involved stakeholders and the insurance industry.
- Assess ability to pay and offer alternative measures.

To assess the effectiveness of these measures it is necessary to put them into context with the Region's current reality. As the attached chart indicates, over 75% of the Region's defaulted fines are for insurance or highway traffic offences not currently covered by plate denial or income tax return interception. If just these 2 measures were enacted municipalities would collect a large amount of money with minor investment of effort due to offenders needing to renew plates and file income tax.

Recommendations

It is recommended that the Region of Waterloo support the OAPSB initiative by making the provincial government aware of this support and to work towards bringing the White Paper's

recommendations to fruition in order to enhance fine collection. Of particular value is to tie all unpaid POA fines to plate renewal and to seek interception of income tax returns. These two measures are very attainable, require little in the way of resource allocation for municipalities and will yield positive results.

Greater communication between the Attorney General and the Ministry of Transportation is very desirable to municipal courts, but will likely take many years to achieve due to the nature of the problem. Each Ministry will have to agree on technology solutions and implement them for the benefit of other stakeholders who would need to be given access to this data. With that, municipalities could better manage their defaulted caseload.

The question of hardship provisions is more problematic to consider. Vehicle drivers are liable for their actions, the inability to pay fines may be more indicative that a person shouldn't drive. Also, if alternative measures are invoked, it would require the establishment of a program to monitor and administer it and the question of expense and oversight must be addressed.

Conclusion

Collection of fines under the POA is inadequate under the present regimen as established by the province. Municipalities have had to develop expertise and navigate complex processes without proper support and at a cost. As much as can be achieved has been using the tools available and further help is needed. Streamlining the POA resulted in some measures coming out in Bill 212 but most of the changes were procedural and not focused on fine collection. The OAPSB White Paper contains significant measures, some of which have been presented to the province already. The Region of Waterloo should support the OAPSB initiative with the province as required to ensure a voice in future developments and to shape eventual changes that will be of great benefit, not only for the administration of justice but also in service of the community.

CORPORATE STRATEGIC PLAN:

This report is aligned with Focus Area 5 of the strategic plan - "5.3 Ensure Regional programs and services are efficient and effective and demonstrate accountability to the public." For the Provincial Offences Court to become efficient and effective better collection tools are required and greater cooperation between various Province Ministries and the Region is needed.

FINANCIAL IMPLICATIONS:

There are currently \$31 million in defaulted fines owed to the Region of Waterloo. The majority of the fines outstanding are related to Highway Traffic Act offences and Automobile Insurance Act offences. The Region uses internal collection clerks and collection agencies to actively pursue debtors. The fine revenue generated by the internal collectors averages \$1.5 million a year and is expected to approximately \$1.8 million for 2011. Collection agency revenue, which has fluctuated over the years, is on track to be approximately \$800,000 for 2011. Defaulted fines continue to grow at a rate of approximately \$1.5 - \$2 million per year. Implementation of the OAPSB initiatives should result in collection of money already owing to the Region.

OTHER DEPARTMENT CONSULTATIONS:

Discussions with Finance have taken place. Further discussions with the Waterloo Regional Police Services Board are being considered.

ATTACHMENTS:

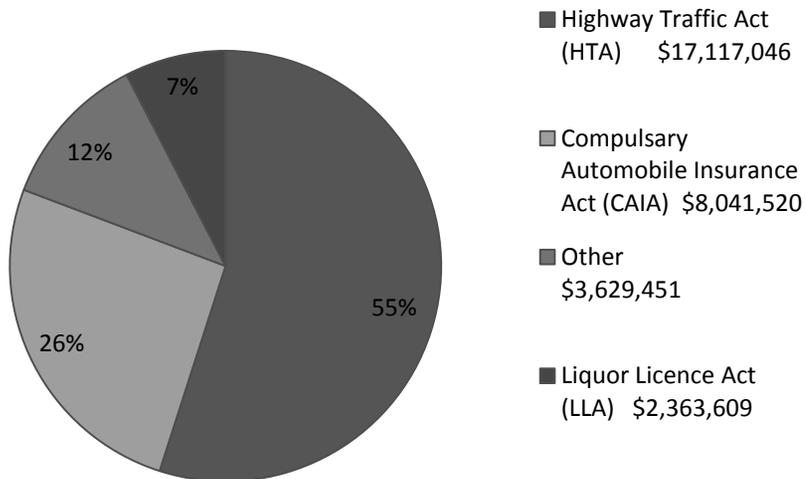
Appendix A: Region of Waterloo Defaulted Fines and Provincial Defaulted Fines Charts.

A full copy of the Ontario Association of Police Service Boards White Paper is available upon request.

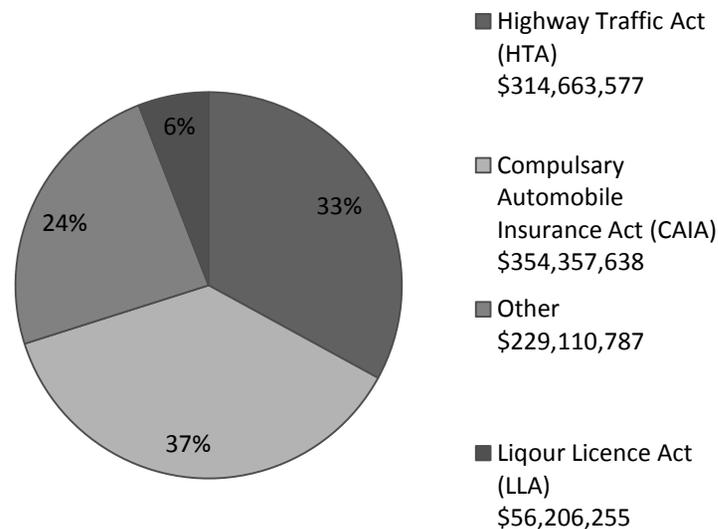
PREPARED BY: *Thomas Hudacin*, Manager, Provincial Offences
Kris Fletcher, Director, Council & Administrative Services/Regional Clerk

APPROVED BY: *Gary Sosnoski*, Commissioner, Corporate Resources

Region of Waterloo Defaulted Fines - \$31 Millon(approx.)



Provincial Defaulted Fines \$1 Billion(approx.)





REGION OF WATERLOO

**CORPORATE RESOURCES
Facilities Management and Fleet Services**

TO: Chair Tom Galloway and Members of the Administration and Finance Committee

DATE: January 10, 2012 **FILE CODE:** A20-20

**SUBJECT: ADMINISTRATION HEADQUARTERS GENERATOR DESIGN AND
INSTALLATION CONSULTANT SELECTION**

RECOMMENDATION:

THAT the Regional Municipality of Waterloo enter into an agreement with WalterFedy to provide engineering consulting services related to the procurement and installation of a standby generator at 150 Frederick St. Kitchener, Ontario at a price of \$132,900.00 plus applicable taxes and disbursements.

SUMMARY: Nil

REPORT:

Background

At present, emergency generators exist for Regional Administration (150 Frederick Street) and WRPS Division #1 (134 Frederick Street) but not for the Courthouse (20 Weber Street) or Provincial Offenses Administration in the Governor's House and Gaol (73 & 77 Queen Street). The existing on-site generators provide limited operation of only essential building electrical circuits and life safety systems. The need for additional standby generation capacity was identified in the ten year capital budget. In the event of a power disruption, this would provide for the full electrical operation of all buildings on the Administration campus including the WRPS building.

During the planning of the Kitchener Public Library (KPL) parking garage staff took the opportunity to determine if an underground generator room could be designed and constructed as part of the project. This will allow generators to be hidden from view rather than occupy above ground site space. This is in keeping with our participation in the planning of the overall utilization of land in the Civic District and the principle of hiding infrastructure (parking, utilities, etc) underground on this block.

The underground generator room will be located in the space between the new KPL parking garage and the existing Administration building garage. The generator room and equipment rough-ins will be included as part of the parking garage construction to take advantage of the excavation already being done and using the tendered contracts for the parking garage project. Additional details are outlined in report CR-FM-10-011, dated May 18, 2010.

Generators

Two matched 1040 kW generators will be procured and installed, the first in 2012 and the second in 2016, pending budget approval. The first generator will be of sufficient capacity to carry historic combined peak loads of both the Administration building and WRPS Central Division. The second generator will provide capacity for the redeveloped Courthouse building as well as a measure of redundancy and capacity for additional future load growth. The natural gas-fired generator system will meet stringent USEPA Tier 4 emissions standards and will be eligible for participation in the Ontario Power Authority Demand Reduction 3 (DR3) program.

The generator room was designed by WalterFedy, the architectural and engineering firm providing design and contract administration services for the KPL project. It was necessary to undertake preliminary design of the generator system itself as part of the design exercise in order to properly determine the size and configuration of the generator room.

A fee proposal was requested from WalterFedy for the balance of engineering services required to complete the installation of the first generator and associated equipment: pre-design, equipment pre-tender, design, tender, contract administration and field review. WalterFedy submitted a fee proposal of \$132,900.

Staff have concluded that retaining the services of any other consultant would result in higher total consulting costs and increased risk of coordination mistakes and therefore recommend awarding the assignment to WalterFedy on a sole-sourced basis. Rationale is outlined as follows:

- Staff have reviewed the fee proposal and consider that both the scope of work and fees to be appropriate.
- WalterFedy is already familiar with the design and site constraints.
- WalterFedy is the lead architectural and engineering consultant for the KPL project. Ancillary equipment related to the generator must be integrated with the northeast stairwell kiosk, which combines the existing Administration building stairwell kiosk with the KPL stairwell kiosk. In addition to fees paid to the Region's consultant, the Region would pay additional fees to the KPL consultant for their coordination efforts. Coordination costs would not be incurred if WalterFedy undertakes the assignment.
- Using one consultant for all phases and aspects of the design and project execution ensures accountability in the event of design error.
- The Purchasing Bylaw states that the Chief Purchasing Officer may acquire any services through negotiation where the extension of an existing contract would prove more cost effective or beneficial for the Region. In this case, the contract is with the City of Kitchener on the joint City-Region project. Notwithstanding, the Chief Purchasing Officer shall submit any negotiated acquisition to Council for approval if the value of the acquisition exceeds \$100,000.

CORPORATE STRATEGIC PLAN:

Providing 150 Frederick St. with full back-up power supports Focus Area 2 of the Corporate Strategic Plan - Growth Management and Prosperity: Continue to prioritize and implement capital program projects required to meet community needs and ensure sustainability.

The project also supports Focus Area 1- Environmental Sustainability: Protect and Enhance the Environment, as the proposed generator will meet emissions based on USEPA Tier 4 Standards and be eligible for participation in Ontario Power Authority demand reduction programs.

FINANCIAL IMPLICATIONS:

Consultant - Fee proposal from WalterFedy		\$132,900.00
Contingency		20,000.00
Regional Engineering (not subject to HST)		<u>9,000.00</u>
	Sub-total	\$161,900.00
Plus: HST (13%)		<u>19,877.00</u>
	Sub-total	\$181,777.00
Less: Municipal Rebate of 86.46% of HST (11.24%)		<u>(17,185.65)</u>
	Net Total	<u>\$164,591.35</u>

The approved 2011 Capital Budget includes \$866,144 for design & constructing the generator room (project 90088) to be financed by issuance of debentures. \$700,000 of the budget has been committed for construction costs. The remaining budget of \$166,144 is sufficient to cover consulting services related to environmental approvals, procurement and installation of the first generator and related equipment.

OTHER DEPARTMENT CONSULTATIONS/CONCURRENCE:

Finance staff have been consulted during the preparation of this report.

ATTACHMENTS: Nil

PREPARED BY: *Kari Feldmann*, Senior Project Manager

APPROVED BY: *Gary Sosnoski*, Commissioner of Corporate Resources



REGION OF WATERLOO

**FINANCE DEPARTMENT
Procurement & Supply Services Division**

TO: Chair T. Galloway and Members of the Administration and Finance Committee

DATE: January 10, 2012 **FILE CODE:** F18-40

SUBJECT: P2011-44 EXTERNAL AUDIT SERVICES

RECOMMENDATION:

THAT the Regional Municipality of Waterloo accept the proposal of Deloitte & Touche LLP for Audit Services and appoint as the Region's auditors for a five (5) year term (2011-2015) at a total cost of \$638,550.00 plus applicable taxes.

SUMMARY: Nil

REPORT:

Section 296 of the *Municipal Act, 2001* requires that a municipality appoint an auditor licensed under the *Public Accounting Act, 2004* and that the auditor be appointed for a term not exceeding five years. The term of the Region's current auditors, Deloitte & Touche LLP, expired with the completion of the 2010 audit in August 2011.

Proposals were called for Audit Services for a five year term from 2011-2015 and were advertised in the Record, on the Ontario Public Buyers Association website and the Region's website and were opened in the presence of P. Holling, T. Lumgair and L. Buitenhuis.

Bids were received from the following:

Deloitte & Touche LLP	Kitchener, ON
Grant Thornton LLP	Burlington, ON
KPMG LLP	Waterloo, ON

The proposal submissions were evaluated using the following criteria: understanding and approach, experience, work plan, project manager and team, and price through a two-envelope process. All proposals demonstrated a good understanding of the audit scope and requirements with capable project teams and experience on numerous audits. All three (3) bidders were interviewed by a team of Regional staff, including the CAO, Acting CFO, Director of Financial Services/Development Financing, Manager, Financial Services (Corporate) and Manager, Procurement. Two firms were shortlisted at the conclusion of the interview process. Deloitte & Touche LLP received the highest overall score and had the lowest overall price for the five year term of the audit appointment.

CORPORATE STRATEGIC PLAN:

Award of this contract is in accordance with the Region's public procurement practices and meets Focus Area 5 (Service Excellence) of the Corporate Strategic Plan and specifically Strategic Objective 5.3 which is to ensure Regional programs and services are efficient, effective and demonstrate accountability to the public.

FINANCIAL IMPLICATIONS:

The cost of the annual audit of the Region's books of account and 17 special audits is included in the Finance Department budget and other program budgets. The proposed costs for the 2011 annual audit are \$129,900, which is marginally less than the 2010 actual audit fees.

OTHER DEPARTMENT CONSULTATIONS/CONCURRENCE: Nil

ATTACHMENTS: Nil

PREPARED BY: *C. Whitlock*, Director, Procurement & Supply Services

APPROVED BY: *A. Hinchberger*, Acting Chief Financial Officer

MOODY'S

INVESTORS SERVICE

CREDIT ANALYSIS

Waterloo, Regional Municipality of

Ontario, Canada

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Waterloo, Regional Municipality of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Rating

Waterloo, Regional Municipality of

Category	Moody's Rating
Outlook	Stable
Bonds	Aaa

Summary Rating Rationale

The Regional Municipality of Waterloo's Aaa debt rating and stable outlook reflect sound financial management, a low debt burden and a strong liquidity position. Waterloo's debt burden stood at 39.4% of total revenues at December 31, 2010, a low level. Moreover, the regional municipality's substantial cash and investments, which totaled roughly C\$322 million at December 31, 2010, provide considerable liquidity and a measure of safety for debenture holders, supporting the Aaa rating. The rating also takes into consideration Waterloo's diverse and wealthy economic base.

National Peer Comparisons

The Regional Municipality of Waterloo is rated at the high end of Canadian municipalities, whose ratings remain in the narrow range of Aaa to Aa2. Waterloo's position at the high end of the range reflects its low debt burden when compared to other national peers as well as its higher-than-average levels of liquidity. The institutional framework governing municipalities in Ontario is mature and well-developed, similar to that in other Canadian municipalities where Moody's rates municipal governments.

Rating Outlook

The outlook is stable.

What Could Change the Rating - Down

Given the discipline displayed by the regional administration in keeping spending and debt under control, it is highly unlikely that conditions could deteriorate by a large enough margin, in the near term, to trigger a downgrade. Nonetheless, a sustained loss of discipline leading to a significant increase in debt to fund infrastructure projects could apply downward pressure on the rating.

Key Rating Considerations

Financial Position and Performance

Prudent Financial Management Helps Generate Positive Results

Waterloo's multi-year strategic plans and annual budget process, which includes 10-year capital expenditure projections, have helped the region generate positive operating outcomes. Though accounting changes introduced in recent years make comparisons to prior years difficult, from 2006-2010, the region registered gross operating balances averaging roughly 8.8% of operating revenues, as well as overall surpluses averaging 3.2% of total revenues over the same period.

In 2010, total revenues increased by 7%, driven by higher taxation revenues, user fees, and government operating grants. Total expenditures were little changed, mainly due to significant staffing savings in transportation and lower than expected winter maintenance costs. Overall, the surplus for 2010 was equivalent to 8.4% of total revenues, compared to 1.9% in 2009. On an operating basis, excluding amortization expenses and revenues related to capital expenditures and development charges, the region's gross operating balance was equivalent to 8.7% of operating revenues.

The region's 2011 budget approved a property tax increase of 1.47% to balance operations, and the 2012 budget process currently underway will be finalized in January 2012. Given Waterloo's record of generating positive outcomes, the region is expected to continue to post positive operating results in the future.

Revenue Base Provides Stable Cash Flows

Waterloo's revenue base is predictable and has provided stable cash flows to the region. In 2010, property taxes comprised about half of the regional municipality's operating revenues, while provincial grants and user rates each accounted for roughly 22% of operating revenues.

The region's expenditures are also stable and predictable. In 2010, spending on social and family services accounted for 27.3% of operating expenditures, while spending on transportation, environmental services and public safety each accounted for about 19% of operating expenditures.

Provincial Uploading Alleviates Pressure From Social Services

In 2008, the Province of Ontario announced changes to its framework governing the funding and delivery of some public services by municipalities and the provincial government. Services that had been delivered and partly paid for by municipalities, such as income and employment assistance, are being uploaded to the Province of Ontario. For Waterloo, responsibilities for the Ontario Disability Support Program (ODSP) have been fully uploaded to the provincial government in 2011, and responsibilities for the costs of Ontario Works (welfare) benefits are being gradually uploaded and will be completely transferred to the province by 2018. The uploading of costs related to court security will begin in 2012 and be completed in 2018.

The changes to the funding framework will help Waterloo alleviate cost pressures from social and family services, the region's largest expense item. When fully implemented, these measures are expected to generate total recurring savings of about C\$41 million for the regional municipality.

Debt Profile

Low Debt Burden Expected to Increase Moderately

Waterloo's net direct and indirect debt has increased moderately to 39.4% of total revenues at December 31, 2010, from 29.5% five years earlier. Relative to other Canadian peers, which tend to exhibit moderate debt ratios, Waterloo's debt burden is considered low, and debt service consumed only 3.9% of total revenues in 2010. These low debt and debt servicing ratios illustrate the regional municipality's high degree of fiscal flexibility and successful fiscal track record – two key characteristics supporting the Aaa rating.

The Regional Municipality of Waterloo's 2011-20 ten-year capital plan calls for total capital expenditures of C\$3.1 billion, of which C\$1.8 billion is identified for tax-supported expenditures (primarily transportation) and C\$1.2 billion is identified for rate-supported expenditures (primarily water and sewer). The bulk of the proposed expenditures are to be financed by drawing down accumulated reserves and through development charges, while debt-financing is restricted to roughly C\$832 million (or around 27% of total capital expenditures), in line with previous plans.

If the current capital plan comes to fruition, we anticipate that net direct and indirect debt would peak at roughly 88% of total revenues in 2018 and then stabilize gradually thereafter. In our view, the projected debt levels would not alter the regional municipality's credit profile materially, as debt servicing expenses would remain low, preserving fiscal flexibility. Additionally, the region typically underpends its capital budget by a significant margin and issues less debt than planned, and the region's medium-term debt burden could be lower than called for in the 2011-20 capital plan.

Rapid Transit Funding to be Detailed in 2012 Budget

In 2009, the regional municipality approved the technology and route of a light rail rapid transit project that is expected to improve transportation and increase the population density in the core areas of the region. The capital project received final approval from regional council in June 2011 after considering public input. The project will undergo a six-month assessment process beginning in October 2011, with construction expected to launch in 2014 and the system operational by 2017. The project is estimated to cost roughly C\$818 million, of which C\$300 million and C\$265 million will be funded by, respectively, the provincial and federal governments.¹ The region would finance the balance of costs, a portion of which would likely be financed through debenture issuance, which is expected to be detailed in the 2012 capital budget. While debenture issuance for the project would measurably increase the region's debt burden, we view that it would remain manageable within their fiscal framework. We will continue to monitor developments with respect to the rapid transit plan and planned financing options to assess the impact, if any, on Waterloo's creditworthiness.

Substantial Liquidity Provided by Cash and Investments

Waterloo's debt burden is also low when considered in relation to its high levels of cash and investments. At December 31, 2010, cash and investments measured C\$322 million (88.5% of net direct and indirect debt), up from C\$265 million five years earlier. The accumulation of large cash and investment balances reflects Waterloo's prudent and forward-looking fiscal planning, building up cash reserves in anticipation of capital projects and future obligations.

¹ In September 2010, the federal government announced it would fund one-third of eligible construction costs, up to C\$265 million.

While these cash balances are earmarked into reserve funds for future expenditures, they provide liquidity and strengthen Waterloo's credit profile. Waterloo's cash and investments are invested conservatively in money market and debt securities issued by highly-rated Canadian federal, provincial and municipal governments as well as chartered banks, ensuring that their value and liquidity do not fluctuate significantly.

Governance and Management Factors

Similar to other highly rated municipalities in Ontario, Waterloo displays strong governance and management characteristics. In addition to long-term planning for capital and operating budgets and a history of meeting fiscal targets, management adheres to conservative debt and investment management policies, thus limiting the region's exposure to market-related risks and ensuring relatively smooth debt servicing costs. These fiscal management measures are also supported by comprehensive, transparent and timely financial reporting.

Economic Fundamentals

The Regional Municipality of Waterloo is comprised of three cities: Cambridge, Kitchener and Waterloo; and four townships: North Dumfries, Wellesley, Wilmot and Woolwich. With a population of about 540,000, the Regional Municipality of Waterloo is the fourth largest urban area in Ontario and 10th largest in Canada. Its population continues to grow and is projected to exceed 700,000 by 2031. The region has historically outperformed Ontario on a number of economic and labour market indicators. While in 2009, the region's unemployment rate measured 9.5%, slightly higher than the provincial average, it declined to 7.4% in 2010, below the provincial average of 8.7%.

The Regional Municipality of Waterloo's economy is diversified and benefits from a strategic location, a strong institutional base and a skilled labour force. Waterloo is located in Southern Ontario, approximately 100 kilometers from the City of Toronto, and is connected to major North American markets via a well developed road network. While the prominence of the manufacturing sector remains a key characteristic of the local economy (underscored by the presence of Toyota in the region), the insurance, business services, health care and higher education sectors all contribute to economic diversity.

The presence of several post-secondary institutions, which offer various programs tailored to local labour market needs, including a highly regarded engineering program at the University of Waterloo, has also helped spawn a burgeoning technology sector. Waterloo Region is home to many high-tech start-ups and established firms such as Research in Motion, the maker of the Blackberry communications device.

Operating Environment

The national operating environment in which Waterloo operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility and high ranking on the World Bank's Government Effectiveness Index, all of which suggest a minimal level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with widespread defaults of regional and local governments are not present in Canada.

Institutional Framework

The institutional framework governing municipalities in Ontario is mature and highly developed. The division of roles and responsibilities between the province and municipalities is clearly articulated. Historically, changes to the institutional framework have occurred at a measured, evolutionary pace, following discussions between both parties. Nevertheless, in certain cases, changes have occurred more rapidly.

Waterloo's creditworthiness benefits from the stability inherent in the provincial institutional framework. Provincial legislation dictates a high degree of oversight, including limits on debt servicing costs, while policy flexibility on both the revenue and expenditure sides of the ledger helps Waterloo manage pressures as they arise.

Application of Joint-Default Analysis

The application of Moody's joint-default analysis methodology to regional and local governments (RLGs) requires two principal inputs: a baseline credit assessment (BCA) on a scale of 1 to 21 (in which 1 represents the lowest level of credit risk), which is a measure of the RLG's standalone credit strength, and an assessment of the likelihood that the higher-tier government would act to prevent a default by the RLG. In the case of the Regional Municipality of Waterloo, Moody's assigns a BCA of 1, which already places the regional municipality in the Aaa rating category before any consideration of the likelihood that the Province of Ontario (Aa1, negative outlook) would act to prevent a default by Waterloo. To complete the analysis, Moody's assigns a very high likelihood of extraordinary support from the provincial government, reflecting Moody's assessment of the risk to the province's reputation as a regulator of municipalities and incentive for the provincial government to minimize the risk of potential disruptions to capital markets if Waterloo, or any other municipality were allowed to default.

Rating History

Waterloo, Regional Municipality of

Date	Rating
December 2000	Aaa
August 1998	Aa1
November 1995	Aa2

COUNCIL ENQUIRIES AND REQUESTS FOR INFORMATION**ADMINISTRATION AND FINANCE COMMITTEE**

Meeting date	Requestor	Request	Assigned Department	Anticipated Response Date
04-Mar-08	P&W	Best Value Bidding	Finance/Purchasing	2012
26-Jan-10	Committee	Report on a policy related to development charge grants, exemptions and deferral requests, to include past history/practice, implications, and options.	Finance	2012
08-Jun-10	A&F	Review current funding for the tax increment grant program, with full range of funding options.	Finance	2012
23-Nov-10	A&F	Assess the application of the prequalification guidelines (both generals and sub contractors) and report back to A & F after one years experience	Finance	2012
06-Sep-11	A&F	Analysis of consulting fees on Regional capital projects	Facilities / Transportation & Environmental Services	January 2012