



Media Release: Friday October 14, 2016, 4:30 p.m.

Regional Municipality of Waterloo

Budget Committee

Agenda

Wednesday, October 19, 2016

4:30 p.m.

Council Chambers, 2nd Floor

150 Frederick Street, Kitchener

1. Motion to Go Into Closed Session

That a closed meeting of the Budget Committee be held on Wednesday, October 19, 2016 at 4:00 p.m. in the Waterloo County Room in accordance with Section 239 of the 'Municipal Act, 2001', for the purposes of considering the following subject matters:

a) labour relations or employee negotiations

2. Motion to Reconvene into Open Session

3. Declarations of Pecuniary Interest under the "Municipal Conflict of Interest Act"

4. Opening Remarks (S. Strickland)

5. Opening Remarks (M. Murray)

6. 2017 Preliminary Budget Presentation (C. Dyer)

7. [COR-FSD-16-26](#), 2017 Budget Overview (Information)

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8. Next Meeting – November 16, 2016

9. Adjourn



Report: COR-FSD-16-26

Region of Waterloo

Corporate Services

Financial Services & Development Financing

To: Chair Sean Strickland and Members of the Budget Committee

Date: October 19, 2016

File Code: F05-30

Subject: 2017 Budget Overview

Recommendation:

For Information

Summary:

The purpose of this report is to provide an update on the development of the Region's 2017 Budget. Subsequent Budget Committee meetings will provide an opportunity for detailed discussions on the proposed 2017 base budget, budget issue papers, and the proposed ten year capital program.

The current position of the Regional property tax supported budget (excluding budget issue papers) results in a 2017 tax impact of approximately 2.3% net of assessment growth. User rate increases are under review and 2017 wholesale rate increases are recommended to change slightly from rates projected for 2017 in the 2016 budget: Water Supply at 1.9% (2016 = 2.9%) and Wastewater Treatment 7.9% (2016 = 6.9%). Retail user rates in 2017 are recommended to increase as projected in the 2016 budget: Water Distribution at 8.9% and Wastewater Collection at 5.9%.

Report:

1. Economic Conditions

Report COR-FSD-16-16 dated June 14, 2016 provided an overview of economic conditions affecting the Region's 2017 budget. Since that time, a number of significant developments have occurred, including:

- The Canadian economy experienced robust growth in June and July, offsetting the contraction experienced in the early part of the year. There remains a fair bit of uncertainty for the fourth quarter. The United States has reported declining GDP growth since mid 2015.
- During 2016, the Canadian dollar has fluctuated between \$0.70-\$0.78 \$US and currently sits around \$0.76 USD.
- The vote by Great Britain to leave the European Union resulted in what is anticipated to be a somewhat temporary contraction in the European economy as August results seem more positive. A great deal of uncertainty with respect to growth may persist in Great Britain and the European Union as the two parties negotiate terms of trade and migration which is expected to take more than a year.
- Long term interest rates continue to remain at or near historic lows.
- Oil prices have fluctuated between \$35 USD and \$50 USD per barrel over the past year. The Organization of Petroleum Exporting Countries (OPEC) recently announced that it will be cutting production by at least 200,000 barrels per day which caused the price per barrel to jump up over \$3 USD per barrel to \$48 USD per barrel.
- Federal and provincial governments are still predicting to end 2016 in a deficit position: the federal deficit is projected to reach \$29.4 billion while the Ontario provincial deficit is projected to be in the \$4.3 billion range.

1.1. Inflation

The most recent Consumer Price Index figures (August 2016) show consumer inflation running at 1.5% for Ontario and 1.1% for Canada, year over year. Rising oil prices are expected to put upward pressure on consumer inflation rates for the remainder of 2016. Forecasts for 2017 and 2018 are in the 2% range.

1.2. Interest Rates

The overnight interest rate set by the Bank of Canada remains at its historic low of 0.50%. Some economists predict a modest rate increase in 2017. Long term borrowing rates remain at or near historically low levels in both Canada and the United States. The Region recently completed a \$104.6 million debenture issue at rates of 2.05% for a 10 year serial debenture (\$43.4 million) and 2.79% for a 20 year serial debenture (\$61.2 million). Most financial institutions are projecting long term borrowing rates to increase in 2017 and 2018, although there is some variation in terms of both timing and extent of such increases.

1.3. Economic Growth

Growth in the Canadian economy is an area of concern. The persistence of reduced oil prices has created significant uncertainty and capital investment cutbacks in the resource sector. Canadian gross domestic product growth in 2015 was 0.9% and projections for 2016 anticipate GDP growth to land near 1.2%. Economists' projections for 2017, mainly in the 2.0% range, seem more optimistic.

1.4. Local Economy

At a local level, the regional economy continues to show strength. In 2015, the total value of building permits issued was approximately \$1 billion. This included almost 3,600 residential units and over 1.7 million square feet of new non-residential floor space. Building activity in 2016 remains strong.

In its summer 2016 report entitled "Economic Insights into 15 Canadian Metropolitan Economies", the Conference Board of Canada concluded that in 2015, the highest localized GDP growth of all mid-sized metropolitan areas included in their study was Waterloo Region's at 2.8%. The report went on to project GDP growth for Waterloo Region at 3.0% and 2.5% in 2016 and 2017, respectively. The 2016 projection was highlighted as being, in large part, due to investments being made on the light rail system.

1.5. Unemployment rates and Ontario Works Caseload Levels

The unemployment rate in September 2016 was 5.3% in Waterloo Region which was below that of Ontario at 6.6%. Ontario Works caseload levels have been in the range of 8,000 - 9,000 per month since the beginning of 2010. The August 2016 caseload (8,748) remains 42% higher than pre-recession levels, and is 0.8% higher than August 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.

1.6. Regional Development Charges

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

Regional Development Charge Collections (\$ millions)					
	2012	2013	2014	2015	2016 YTD (September)
Residential	\$20.2	\$21.0	\$44.1	\$33.9	\$42.0
Non-Residential	\$9.6	\$10.5	\$14.3	\$10.4	\$12.2
Total	\$29.8	\$31.5	\$58.4	\$44.3	\$54.2

RDC revenue for 2015 was \$44.3 million (\$33.9 million residential and \$10.4 million non-residential), down by \$14.1 million or 24% compared to 2014. Total RDC revenue collected in 2014 was in turn 85% higher than in 2013, in part due to an increase in building permits issued in advance of RDC rate increases in August 2014.

Year to date 2016 RDC revenue (excluding interest) is \$54.2 million (\$42.0 million residential and \$12.2 million non-residential), up by \$23.4 million or 76% compared to the same period in 2015. Increased activity occurred in April and May which was largely attributable to the school boards' implementation of increased Education Development Charges on June 1, 2016. An addition, collections in the period were higher than usual due to several large non residential permits as well as increased numbers of residential permits.

2. 2016 Regional Budget Recap

The 2016 Budget included a Regional tax levy of \$471 million, an average tax rate impact of 2.89% (of which 2.22% related to direct Regional programs and 0.67% related to Police Services), and user rate increases of 2.9% for water and 6.9% for wastewater effective March 1, 2016. The Regional tax levy comprises approximately 52% of the total average residential property tax bill. Approximately 68% of the 2016 tax levy is for direct Regional services and 32% is for Police Services.

3. Draft 2017 User Rate Operating Budgets and 2017-2026 Capital Plan

Staff is in the final stages of preparing the 2017 Water and Wastewater Operating Budgets and 10 year capital program. At this point, the 2017 Water and Wastewater operating budgets include proposed operating expenditure in 2017 of \$78 million, which is comprised of \$33 million for water supply, \$42 million for wastewater and \$3 million for water distribution/wastewater collection in the townships of Wellesley and North Dumfries.

Due to dry conditions in early 2016, there is a wastewater revenue shortfall to the end of September of \$2 million. If wastewater revenues continue at this pace, a revenue shortfall of 4.4% or \$2.8 million may result at year end. There is also a shortfall in water revenue to the end of September of \$717,000 due to lower than anticipated flows in the earlier part of the year. If water revenues continue at this pace, a revenue shortfall of approximately 1.7% or \$1 million may result at year end. As part of the budget process, staff review the operating expenditures, revenues, capital program and flow volume. Adjustments to the flow volumes have been made to best estimate the flows for 2017-2026.

The proposed water and wastewater budgets include wholesale rate adjustments of 1.9% for water and 7.9% for wastewater effective March 1, 2017. The proposed increase in the water wholesale rate (1.9%) is lower than the 2017 increase projected in the 2016 rate model. Due to the ongoing pressure of the wastewater capital program, it is proposed that the wastewater treatment rate be increased by 7.9% rather than 6.9% as proposed in the 2016 rate model. Retail water rates are proposed to increase by 8.9% for water distribution and 5.9% for wastewater collection. The 2016 budget anticipated a \$1.00/month increase in the monthly charge for both retail water and wastewater in 2017, which is what staff continues to recommend for 2017.

The following tables provide a relative comparison to 2016 approved rate increases and highlights proposed rate increases compared to the original forecast for 2017 based on the 2016 water and wastewater rate models.

	2016 approved user rate increase	Projected 2017 user rate increase from 2016 forecast	Current estimate of 2017 user rate increase
Water supply	2.9%	2.9%	1.9%
Wastewater treatment	6.9%	6.9%	7.9%
Water distribution	8.9%	8.9%	8.9%
Wastewater collection	5.9%	5.9%	5.9%

	2016 approved service charge	Projected 2017 monthly service charge from 2016 forecast	Current estimate of 2017 monthly service charge
Water distribution	\$8.00	\$9.00	\$9.00
Wastewater collection	\$6.00	\$7.00	\$7.00

Total capital spending for water and wastewater, including retail water distribution and wastewater collection, is projected to be \$1.0 billion over 10 years. Staff continues to review capital plan financing options reflecting anticipated RDC collections and the expected timing of certain growth related capital projects. On the wastewater side in particular, there are significant capital costs being incurred in the early years of the capital program (e.g. Kitchener Wastewater Treatment Plant). While these upgrades provide for long term sewage capacity, the benefitting growth will take place over an extended period of time, and hence so will the RDC collections. Staff is close to finalizing a development financing strategy for the 2017-2026 capital program that will see certain growth-related projects debt financed in order to spread the cost over a longer period and better match costs to anticipated RDC revenues.

In addition, staff has been reviewing the financing of non-growth related capital costs and are in the process of finalizing new 10 year rate models. At this point staff anticipates no new non-growth related debt for water supply will be required over the next 10 years (i.e. these costs can be funded from the Water capital reserve). For wastewater, staff is proposing that a modest amount of user rate supported debt in the first two years of the forecast. This will spread the cost of certain infrastructure projects over a broader group of benefitting users at a relatively low financing cost.

The funding of certain Water Supply and Wastewater Treatment capital projects will be adjusted to reflect federal and provincial grants to be provided as part of the Clean Water and Wastewater Fund, as set out in Report COR-FSD-16-23/TES-WAT-16-21 dated October 4, 2016. The Water and Wastewater Operating and Capital Budgets, which are scheduled to be approved on December 14, 2016, will be the subject of a detailed staff presentation at the Budget Committee meeting on November 16, 2016.

4. Draft 2017-2026 Tax Supported Capital Program

The Region of Waterloo's Ten Year Capital Program sets out planned investments in infrastructure, facilities, equipment, vehicles and related studies, along with the proposed sources of financing for such investments. Staff undertook a detailed review of capital programs with all departments in June and July. This process included reviewing the need, scope, cost and timing of projects. These discussions provided the basis for determining long term borrowing amounts in 2016 and for preparation of the 2017-2026 Capital Program. One result of these discussions is that overall debt servicing costs funded by the tax levy will be only \$279,000 higher in 2017 than in the 2016 budget. This is due in part to the deferral of certain capital works, and in part because new debt is being issued at a lower rate than debt that is being retired.

Sources of funding for the tax supported capital program are limited to property taxes (in the form of current year allocations, contributions from reserves, and debt to be paid by future taxpayers), development charges, grants and subsidies from other levels of government, and in a small number of cases third party recoveries.

Major capital works which will continue or which will be undertaken in 2017 include:

- Completion of ION rapid transit construction
- Numerous road expansion and rehabilitation projects
- Building Lifecycle work at various Regional Administration buildings
- Housing facilities lifecycle work
- Voice Radio system replacement

The funding of certain public transit projects will be adjusted to reflect federal grants to be provided as part of the Public Transit Infrastructure Fund, as set out in Report COR-FSD-16-24/TES-TRS-16-21 dated October 4, 2016.

The tax supported capital program is funded in part by regional development charges (RDC). Staff continues to review RDC reserve funds and projected collections in order to assess capital program affordability over the forecast period. The capital financing strategy that will be presented to Budget Committee in November will incorporate debt financing as required for the growth related shares of certain projects. Full details of the capital program and associated financing strategies will be included in the Preliminary 2017 Budget Book and presented at the November 16, 2016 Budget Committee.

5. 2017 Preliminary Tax Supported Operating Budget

Staff is close to completing the preliminary 2017 base budget for tax supported services, which reflects the amount of funding required to deliver the current Council approved level of service. Base budgets for 2017 will reflect all settled collective agreements and estimates for those that remain to be negotiated, estimates for benefit rates and inflation, annualization of prior years' approved initiatives, debt servicing costs, estimated provincial and federal funding and user fee revenue. Details regarding the 2017 base budget will be provided in the Preliminary Budget Book at the November 16 Budget Committee meeting. This document, along with a package of budget issue paper requests, will be distributed with the meeting agenda on November 10.

Current estimates of the preliminary base budget position excluding Police Services require a property tax levy increase of \$14.2 million which translates to an estimated 2.3% tax rate impact over 2016. The current preliminary position, as set out in the table below, incorporates estimated assessment growth of 1.0% pro-rated between Regional Services (0.68%) and Police Services (0.32%). The opening base position excludes any provisions for service enhancements made through budget issue papers.

Status Of Preliminary 2017 Tax Supported Operating Budget (excluding Budget Issue Papers and Police Services)	Tax Rate % impact
Direct Regional Services – current estimate	2.99%
Less: estimate for regional share of assessment growth	(0.68%)
Tax impact of Regional programs – current estimate	2.31%

There are a number of projects, factors and initiatives that impact the 2017 operating budget, and these are set out below.

5.1. Regional Transportation Master Plan (RTMP)

The Council-approved funding strategy for Rapid Transit implementation and Grand River Transit service expansion is outlined in the following table:

RTMP Funding Strategy (all \$ figures in millions)								
	2012	2013	2014	2015	2016	2017	2018	2019
Tax increase (% of prior year urban levy)	1.5%	1.5%	1.25%	1.5%	1.5%	1.5%	1.5%	0.75%
Total property tax funding	\$8.8	\$14.1	\$18.7	\$24.4	\$30.3	\$36.6	\$43.0	\$46.4
Incremental budget impact before funding offsets	\$5.0	\$5.3	\$4.6	\$5.7	\$6.0	\$6.2	\$6.5*	\$3.4*
Debt retirements from Admin buildings	(\$0.6)	(\$4.5)	(\$1.5)	--	--	--	--	--
Provincial uploading	(\$1.2)	(\$1.5)	(\$1.7)	(\$1.7)	(\$1.7)	(\$1.7)	(\$1.7)	--
Net budget impact	\$3.2	(\$0.7)	\$1.4	\$4.0	\$4.3	\$4.5	\$4.8	\$3.4

*projected

The projected increases are subject to annual budget deliberations and are area-rated to the urban transit service area (the three Cities). Regional Council also approved in 2011, subject to annual budget deliberations, that budget reductions resulting from the retirement of debt on Regional buildings at 150 Frederick and 99 Regina Streets and the uploading of social assistance costs be allocated to offset the tax rate impact arising from the RTMP. The debt servicing cost savings were realized in 2012, 2013 and 2014, while social assistance upload savings are realized from 2012 to 2018.

5.2. Employee Compensation

The base budget for 2017 reflects the estimated salary and benefit provisions of all collective agreements. Employee compensation costs represent an estimated 30% of total budgeted Regional spending in 2017.

5.3. Provincial Offences Act (POA) / Red Light Camera Revenues

As mentioned in the periodic financial report COR-FSD-16-22 presented to Administration and Finance Committee on October 4, 2016, year to date POA revenues are \$409,000 in excess of budget due to several large fine collections and higher than anticipated Red Light Camera revenues. The projected year end position for POA revenue is a surplus of \$442,000, partially offset by higher than expected adjudication fees of \$63,000 and collection fees of \$25,000. Given the uncertainty regarding sustainability of the positive variance in 2016, POA revenues have been maintained at 2016 levels and red light camera revenues have been increased by \$50,000.

5.4. Grand River Transit Fare Revenue

A number of adjustments were made to the 2016 Grand River Transit (GRT) fare revenue budget in order to arrive at the 2017 budget estimate, as shown below:

2016-2017 Budgeted GRT fare revenue continuity (\$000's)				
2016 fare revenue budget	Plus: annualization of 2016 fare increase	Plus: proposed 3% fare increase on July 1, 2017	Less: adj. to reflect 2016 revenue variance	2017 fare revenue budget
\$32,928	\$614	\$450	(\$1,500)	\$32,492

Transit fare revenue is expected to be below 2016 budgeted levels by \$1.6 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. For the 2017 budget, staff have adjusted revenues based on current trends and have included a 3% fare increase effective July 1, 2017.

5.5. Provincial Government Funding

Despite the focus on deficit reduction at the provincial levels, an additional \$7.1 million in provincial funding is anticipated in 2017. Provincial funding for cost-shared services in the 2017 budget is projected to be as follows:

Provincial Subsidy Estimates (\$ millions)			
Program	2016 budget	2017 budget	Change
Ontario Works/Social Assistance	\$92.3	\$98.2	\$5.9
Child Care	39.9	39.9	0.0
Public Health	26.6	26.8	0.2
Long Term Care & Community Programs	18.0	18.7	0.7
Paramedic Services	13.1	14.0	0.9
Community Housing	10.6	9.5	(1.1)
Community Homelessness Prevention Initiative	9.3	9.8	0.5
Total	\$209.8	\$216.9	\$7.1

Increased subsidy for Long Term Care & Community Programs and Paramedic Services are based on the 2016 funding approvals that were received after the 2016 Budget was approved.

The 2017 budgeted revenues for Public Health programs is preliminary. The 2016 approval from the Province of Ontario has recently been received and is being reviewed with the Province to determine the impact on the 2016 and 2017 budgets. Further information on the 2016 Public Health Provincial approval will be provided at a future meeting.

5.6. Provincial Uploading and Ontario Works Caseload

The upload of Ontario Works benefit costs by the Province continues in 2017, the tenth year of the upload. The subsidy rate for Ontario Works benefit costs is scheduled to increase to 97.2% from the 2016 rate of 94.2%. This increase in cost sharing will result in a savings of \$1.65 million to the Regional tax levy.

The Court Security upload, which began in 2012, is also phased and is scheduled to be completed in 2018. In the fall of 2014, the Province provided updated amounts for 2015 and 2016 and these are reflected in the table below, which summarizes the life to date and projected impact of uploading on the Region of Waterloo. Court Security

upload savings are reflected in the Police Services budget as that is where court security costs are budgeted.

Impact of Provincial Uploading (\$ millions)												
Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
ODSP	\$3.4	\$0.7	\$8.5	\$10.2								\$22.8
OW			0.5	0.4	1.2	1.5	1.7	1.7	1.7	1.7	1.7	12.1
OW Admin				2.7								2.7
Court Security*					0.5	0.5	0.5	1.1	0.7	0.7	0.7	4.7
Total	\$3.4	\$0.7	\$9.0	\$13.3	\$1.7	\$2.0	\$2.2	\$2.8	\$2.4	\$2.4	\$2.4	\$42.3

*updated amounts for 2015-2018

5.7. Ontario Works Discretionary Benefits

Through the Employment and Income Support Division of Community Services, the Region provides services to individuals on social assistance (Ontario Works and Ontario Disability Support Program). Provision of this program is discretionary and service levels are at the discretion of Regional Council.

In 2012, the Province changed the funding of the program so that the maximum cost shareable amount for discretionary benefits was set at \$10.00 per OW and ODSP case per month. Prior to this change there was no funding cap. This change resulted in a shortfall of \$3.5 million. In the 2013, 2014 and 2015 Budgets, Regional Council has provided \$2.0 million in funding (\$1.5 million from the property tax levy and a further \$0.5 million in CHPI Funding) over the amount cost shared with the Province.

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. On June 22, 2016, Council approved an additional \$600,000 in expenditures to be funded by the Tax Stabilization Reserve Fund (TSRF) to maintain the current level of service in 2016.

The following table summarizes the 2016 budget and year end projection for Ontario Works Discretionary Benefits:

	2016 Budget	2016 Projection	Variance
Expenditures	\$4,467,200	\$5,067,200	\$(600,000)
Revenues:			
Provincial Subsidy	\$2,255,000	\$2,259,500	\$4,500
CHPI subsidy	500,000	500,000	0
Tax Stabilization Reserve Fund	0	595,500	595,500
Regional Property Tax Levy	\$1,712,200	\$1,712,000	\$0

Staff is undertaking a review of the program, including public consultation, to determine what changes can be made in 2016 so that the program can be provided within the approved budget of \$4.467 million. Options for consideration will be provided at a future budget meeting.

5.8. Non Profit and Cooperative Housing Subsidies

The Region provides subsidies to non-profit and cooperative housing providers valued at \$25.17 million based on various funding models. Subsidies to housing providers in 2016 are estimated to be under budget by \$130,000 which equates to a small variance of 0.6%.

5.9. Housing move out/unit refurbishment costs

Move-out/unit refurbishment costs (flooring, painting, bathroom restorations) are projected to be higher than budget by \$1.0 – 1.2 million in 2016. This increase is in large part due to aging stock, 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. Staff recommends phasing-in adjustment to this budget. Accordingly, for 2017, the unit refurbishment budget has been increased by approximately one third, i.e., \$350,000. Staff will continue to monitor these costs during 2017.

5.10. Waste Collection Costs

The new Waste Management collection contracts take effect in March 2017 (as set out in report TES-WMS-16-03 dated April 12, 2016). The waste collection budget, which totalled \$21.7 million in 2016, will be adjusted to reflect contract inflation and fuel consumption for the two months of the old contract, as well as 10 months of the new contract pricing based on updated household stop counts. To implement and

support the new contract, there will be one time start up costs of \$1.6 million in 2016 – 2018, as well as ongoing operating costs of \$400,000, starting in 2017. The 2016 portion of start-up costs (\$799,000) is being funded by the Tax Stabilization Reserve Fund and 2017 costs (\$666,000) and 2018 costs (\$87,000) will be funded from the savings relating to the new waste collection contract.

5.11. Fuel Prices

A fuel price strategy was adopted in the both the 2015 and 2016 budgets to mitigate the risk of a potential increase in oil prices while taking advantage of lower current fuel prices. The strategy provides that 50% of budget savings resulting from lower fuel prices will accrue to the property tax levy and 50% will be transferred to reserves to reduce future borrowing requirements. The 2016 fuel budgets were set using a price of \$0.92 cents/litre for both diesel and unleaded. For the preliminary 2017 base budget, the budget price for both fuel types has been reduced to \$0.90/L, with 50% of the resulting savings of \$118,000 being transferred to the Transit vehicle and Fuel equipment reserves and the remaining 50% being used to reduce the property tax levy. In the event fuel prices rise above \$0.90/L for both fuel types, the transfer to reserve could be used to offset the resulting unfavourable variance. There is sufficient capacity in reserve transfers to reset the budgeted fuel price to \$0.99/L for both fuel types without impacting the property tax levy. Staff will continue to monitor fuel prices and will provide any further recommendations to Budget Committee in December. Total expenditure on fuel in 2017 is estimated to be \$11.8 million, including Police.

5.12. Capital Financing

In June of 2016 Council approved the Capital Financing Principles set out in Report COR-FSD- 15. The principles have been used to develop the financing of the 2017 capital program, and include:

- Debt servicing cost reductions arising from debt retirements have been repurposed as transfers to capital and equipment replacement reserves in order to preserve the overall level of capital financing and reduce future borrowing. In particular, 50% of debt servicing cost reductions relating to the Airport (\$245,000) and GRT bus replacement program (\$275,000) have been repurposed as part of the 2017 budget. The Region has historically relied on borrowing as a major source of financing for bus replacements, and is transitioning to rely on financing from the bus replacement reserve, as is the case with all other regional vehicles.

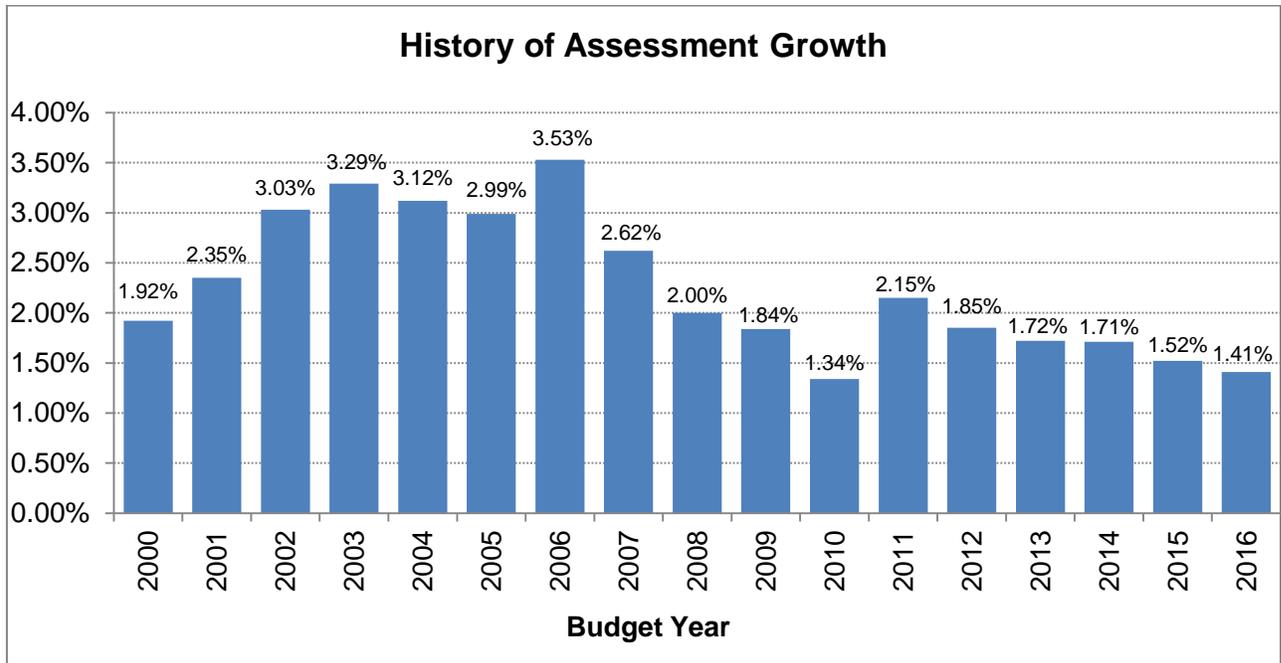
- As mentioned previously in this report, the Region recently closed a \$104.6 million debenture issue, of which the Region's share was \$94.2 million; the remaining amounts were issued on behalf of area municipalities. Approximately \$33 million in 10 year debt is entirely supported by the property tax levy (both Region and Police) and the remaining \$61.2 million in 20 year debt is funded by future wastewater user rates. Debt servicing costs in the property tax budget, net of reserve funding, have increased by \$279,000 in 2017 because the amount debt servicing being added to the levy (that is not funded from RTMP or other reserves) is slightly more than the debt servicing savings due to debt retirements in 2016.
- The Building Lifecycle Provision, introduced in 2015, is a critical funding strategy specifically intended for financing Regional facility asset renewal works. The goal of this strategy is to (eventually) eliminate the issuance of debt for facility repair and refurbishment projects. Issuing debt to finance more significant renewal works will continue until such time that the level of contribution to the lifecycle reserve is sufficient. The current level of contribution is \$3.0 million, while analysis of the proposed 2017-2026 capital forecast indicates that a sustainable budget provision in the range of \$19 million annually is required.

5.13. In-year 2016 Budget Changes Approved by Council

A small number of changes to funding and service levels have been approved by Council over the course of 2016, and these are listed in Appendix A. All in-year operating changes were funded by federal, provincial and third party grants, or a reallocation of operating budgets. Reserves and temporary reallocation of operating funds provided funding for identified changes to the capital plan. These budget amendments have been incorporated as required into the 2017 base budget.

5.14. Assessment Growth

Assessment growth in 2015 for the 2016 budget year was 1.41%, representing the second lowest level of growth in the Region in the last 17 years.



As noted earlier in this report, the current assumption for assessment growth is 1.0% in 2016 for the 2017 budget. This assumption is due to a number of factors such as:

- A province-wide reassessment is underway to update property values to reflect market conditions as at January 1, 2016. Reassessments, which occur every four years, require significant amounts of Municipal Property Assessment Corporation (MPAC) staff time which results in fewer resources to add new properties and improved properties to the assessment roll;
- Class changes, legislative changes and changes in assessment methodologies are impacting in-year weighted assessment growth. MPAC has been resolving outstanding gravel pit appeals which has had a negative impact on weighted assessment. Properties moving from classes with a higher tax ratio to a class with a lower tax ratio, such as a multi-residential property becoming a condominium property, or properties changing to exempt status, such as former Blackberry properties being purchased by the University of Waterloo, also reduce in year assessment growth; and,
- The Assessment Review Board's commitment to settle the backlog of appeals relating to 2008-2012 assessment years, resulting in decreased assessed values and subsequent write-offs during 2016.

Assessment growth is a net position after accounting for the various factors that impact the assessment base as noted above. The current assumption of 1.0% bears some risk, particularly related to appeals settled before the close of the assessment roll, and staff continues to monitor assessment growth. MPAC has recently advised that the cut-off for the third and final supplementary tax run for the year will be extended by

10 days which should allow more assessment to be added to the final roll. The 2016 assessment roll will be returned in early December and a full update will be provided at the December 14, 2016 Committee meeting in the form of an information paper.

5.15. Base Budget Reductions

On an annual basis, staff reviews operating budgets in an effort to identify efficiencies and budget reductions which do not affect service levels. This year’s review has resulted in base budget reductions of \$2.9 million, excluding Waste Management collection contract savings. The base budget reductions include cost reduction measures such as implementing energy saving retrofits, reviewing and adjusting staffing levels and overtime requirements, and restructuring software agreements and hardware replacement costs, as well as minor revenue increases in areas such as POA and Waste Management. The table below identifies the extent of base budget reductions over the last 5 years:

Base Budget Review Reductions (\$millions)					
2013	2014	2015	2016	2017 (preliminary)	Total
\$1.9	\$2.5	\$1.9	\$1.9	\$2.9	\$11.1

6. Budget Issue Papers

A number of budget issue papers are proposed for 2017. Some budget issue papers relate to program expansions as recommended through master, business or service plan updates. Others address legislative/safety related concerns, insufficient staffing levels or capital financing needs. A complete package of budget issue papers will be presented at the November 16, 2016 Budget Committee meeting.

7. Public Engagement

At the request of Council during the 2016 budget process, staff has developed a public engagement strategy as outlined in staff report 2017 Budget Public Engagement Strategy COR-FSD-16-20. The primary goal of this initiative is to provide additional opportunities for members of the public to provide input and feedback during the 2017 budget process. The intent of this planned initiative is to enhance the current policy of providing for public input at the November and December Budget Committee meetings. The strategy will focus on proposed service enhancements and the public’s opinion whether the incremental cost provides good value to the community.

8. Budget Schedule

Future budget meetings are scheduled as shown in Appendix B.

Corporate Strategic Plan:

The 2015-2018 Corporate Strategic Plan was presented for Council approval in 2015. The annual budget incorporates numerous initiatives set out in the Corporate Strategic Plan.

Financial Implications:

A 1% change in the tax rate results in a \$19 annual change to the average residential property owner, based on a residential property assessed at \$312,500 in 2016. A 1% tax rate increase generates an additional \$4.8 million in tax revenue.

Other Department Consultations/Concurrence:

All departments and the Waterloo Regional Police Service are involved in the development of the Region of Waterloo Budget.

Attachments:

Appendix A – 2016 Operating Budget Amendments Approved by Council

Appendix B – 2017 Budget Schedule

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

Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Approved By: Mike Murray, Chief Administrative Officer

Appendix A – 2016 Budget Amendments Approved by Council

Approval Date	Description	2016 Expenditure Change	Funding Source
Operating Budget			
June 22	Increase Funding for Ontario Works Discretionary Benefits to maintain approved level of service for the balance of 2016	\$600,000	Tax Stabilization Reserve Fund
August 9	Homelessness Partnering Strategy – 0.3 temporary FTE to March 31, 2019	\$165,677	100% Provincial funding
August 9	Social Infrastructure Funding and Social Housing Improvement Program – 5.0 temporary FTEs (Housing & Corporate Services)	\$829,935	100% Provincial funding
August 9	Survivors of Domestic Violence – Portable Housing Benefit	\$53,831	100% Provincial funding
Capital Budget			
August 9	Social Infrastructure Funding and Social Housing Improvement Program	\$10,361,065	Provincial subsidy

Appendix B – 2017 Budget Schedule

PURPOSE OF THE BUDGET SESSION	DATE and TIME
2017 Budget Process and Timetable	June 14, 2016 Administration and Finance Committee
Budget Overview Session <ul style="list-style-type: none"> • Preliminary Operating Budget and Capital Program 	October 19, 2016
Detailed Budget Review – Day One <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • Police Services Budget • GRCA Budget • Approval of User Rate Operating Budget and Capital Program • 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	January 11, 2017