



Regional Municipality of Waterloo

Budget Committee

Minutes

Wednesday, October 21, 2015

4:11 p.m.

Council Chambers, 2nd Floor

150 Frederick Street, Kitchener

Present were: Chair S. Strickland, L. Armstrong, E. Clarke, S. Foxton, T. Galloway, D. Jaworsky, H. Jowett, K. Kiefer, G. Lorentz, J. Mitchell, J. Nowak, K. Redman, K. Seiling, S. Shantz and B. Vrbanovic

Members absent: D. Craig

Motion to Go Into Closed Session

Moved by H. Jowett

Seconded by B. Vrbanovic

That a closed meeting of the Budget Committee be held on Wednesday, October 21, 2015 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

Carried

Motion to Reconvene into Open Session

Moved by S. Foxton

Seconded by H. Jowett

That the meeting reconvene into Open Session at 4:11 p.m.

1988526

Carried

Declarations of Pecuniary Interest under the “Municipal Conflict of Interest Act”

None declared

Opening Remarks - Chair

Chair Sean Strickland provided opening comments noting that this budget will be as challenging as in previous years with an opening position of 2.31% tax increase for direct Regional programs. He noted that the overall tax increase is projected at 3.5% with police services and budget issue papers, which include 24-hour ambulance services and enhanced bus service for Conestoga College.

He commended staff in finding \$2 million savings in base budget reductions and recognized the efforts to reduce debt charges for the capital budget in 2016 by deferring some capital projects. He noted that staff are working to match development charges revenue with planned expenditures for growth.

He concluded his remarks by outlining the 2016 budget timetable, stating that final budget approval will be in January 2016.

Opening Remarks – Chief Administrative Officer

Mike Murray, Chief Administrative Officer, noted that while this is the first budget meeting for Councillors, Regional staff have been working on the 2016 for several months. He stated that there has been a significant review of all capital programs and the operating budget, including \$2 million in sustainable base budget reductions. He noted the two major strategic issues of the 2016 budget being infrastructure and how projects are funded, specifically building new infrastructure to address growth and the repair, rehabilitation and replacement of ageing infrastructure. The second issue involves service enhancements and new budget issues such as ambulance, transit and staffing to meet critical compliance issues. He encouraged Councillors to identify any questions or requests for additional information early in the review process so that staff can respond in a timely manner.

2016 Preliminary Budget Presentation

Report COR-FSD-15-15, 2016 Budget Overview was received for information.

Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer, provided the Committee with [a presentation](#). The report was received for information and a copy is appended to the original minutes.

He noted that all figures being presented today are preliminary and that the 2016 Preliminary Budget Book will be available in mid-November. He gave an overview of the budget purpose, noting that the budget aligns with the current corporate strategic plan.

He highlighted the 2015 funding sources for Regional services, noting the diversity of how some services are funded, and the economic indicators, noting the significant changes over the past year, most notably the borrowing rate. He also noted the unreliability of Ontario Works (OW) caseload data in light of the challenges experienced with the provincial Social Assistance Management System (SAMS).

C. Dyer responded to Committee questions about the data variance between Ontario Works caseload and the local unemployment rate, and the financial impact on municipalities given the deficit budgets at the senior levels of government.

He provided an overview of the economic indicators, including inflation projections, local Gross Domestic Product (GDP) growth projections, the ten-year Government of Canada bonds, OW caseload costs, and fuel prices. He stated that a detailed information paper related to fuel prices will be available later in the budget review process.

Douglas Bartholomew-Saunders, Commissioner, Community Services, responded to Committee questions about OW caseload rates in other Ontario municipalities and the financial implications in the Region, noting that there are persistently high case levels across the southern part of the province.

Staff responded to Committee questions about the average cost per each OW case. Staff will bring back an information paper in November or December which will provide details about the process followed for establishing the budget and the ongoing impact on the Tax Stabilization Reserve Fund (TSRF).

C. Dyer provided a summary of the Region's GRT fuel costs since 2013. He provided an overview of the types of Regional budgets, typical expenditures and sources of revenue/funding; details about user rate budgets and property tax budgets, including funding sources; and, commonly used budget terminology.

C. Dyer summarized the water supply operating budget, including the 2015 variances and the proposed 2.9% rate increase in the 2016 budget. He gave an overview of the wastewater treatment revenue shortfall in 2015 and the proposed 2016 rate increase of 6.9%.

He outlined the User Rate capital program, including the growth and non-growth related shares and the funding sources. He stated that currently a significant level of investment is underway and that the Region is spending money now to service growth expected in the next 20-30 years when the development charges will be paid. Staff are preparing a

development finance strategy and more details will be available in the preliminary budget and at November budget meeting.

In response to a Committee question about whether wastewater and water budgets can be combined into one utility or transfer reserve funds to another area on a temporary basis, C. Dyer stated that this is possible on the development charge side and might be possible on the non-growth side. He noted that further details will be provided at the next budget meeting.

C. Dyer summarized the User Rate Capital Program. Staff will be providing an update on development charges at next Administration and Finance meeting. He outlined the timetable for reviewing and approving the 2016 user Rates.

In response to a Committee question regarding how precisely growth and non-growth costs can be broken down, C. Dyer stated that it's a precise formula as set out in the Development Charges Background Study. The Region calculates both the growth and non-growth projects in collaboration with Water Services staff and a consultant.

B. Vrbanovic stated that he would like to see options with lower rates for water supply and wastewater collection, specifically information about the impact of a .5% and a 1% rate decrease. C. Dyer confirmed that this information will be provided.

C. Dyer provided an overview of the Tax Supported Budget; the Capital Plan Review and the Capital Plan Outcomes. He noted that the Capital Plan has reduced expenditures for 2016 and the 10-year program in most areas with a goal that capital funding be sustainable and assist in improving the debt profile. He stated that the Capital Plan is \$2.2 billion over 10 years with a wide variety of projects involved. He provided examples of the draft 2016-2025 Tax Supported Capital Program.

C. Dyer stated that development financing strategies have been created for 2016. He said that some growth-related projects will be adjusted and interim financing will be arranged for smaller projects, using money from other reserves with repayments once development charges are collected. All strategies will be incorporated into the Capital Plan and a report will be prepared in November.

C. Dyer gave an overview of the internal administrative budget review process and noted the areas that are significantly impacting the 2016 budget. He stated an additional \$16 million in property taxes are forecasted for 2016, not including police services and budget issue papers, with an overall 2.3% tax rate impact for Regional programs. Budget issue papers are estimated at .43% increase and revisions will be made before the information is provided in November.

Lee Parent, Manager, Finance, Treasury Services, responded to a Committee question regarding user fees for Income Support programs. C. Dyer responded to a question from a Committee member regarding the cost of borrowing for Regional debt.

C. Dyer highlighted the 2016 budget pressures, including: GRT fare revenues, waste collection contracts, housing subsidies, and compensation.

C. Dyer summarized historical assessment data. It had been estimated that the growth rate for 2016 would be 1.75% but there is concern about meeting that target. Staff expect to receive updated data from the Municipal Property Assessment Corporation (MPAC) by early November and will provide more detailed information at that time. He provided updates on the provincial uploading for Ontario Works and court security.

C. Dyer responded to a Committee question about the status of debt servicing costs for the Rapid Transit project. He stated that the Region is locked in for the \$100 million issued in 2013 and 2014 at about 4%. This won't have a significant impact on the funding strategy but staff will look at the .75% forecasted for the final year (2019). He said that Bill 73 may allow the Region to collect for the Rapid Transit project and this would assist in offsetting some costs.

C. Dyer provided an estimate of provincial funding for 2016 and noted the correction for the Community Housing line; the figure will remain the same as in 2015. With regards to capital financing, he said that all equipment and vehicles are adequately funded, progress is being made on buses, and a life cycle provision for Regional facilities is now reflected in Regional budgets. He gave an overview of the base budget adjustments and budget issue papers, noting that a full list of budget issue papers will come forward in November.

C. Dyer concluded his presentation with the Budget cycle overview and the 2016 budget schedule, stating that final budget approval is expected on January 13, 2016.

Next Meeting – November 18, 2015

Adjourn

Moved by K. Redman

Seconded by S. Foxton

That the meeting adjourn at 5:31 p.m.

Carried

Committee Chair, S. Strickland

Committee Clerk, S. Natolochny
1988526

2016 Budget Update



Region of Waterloo

Presentation to Budget Committee

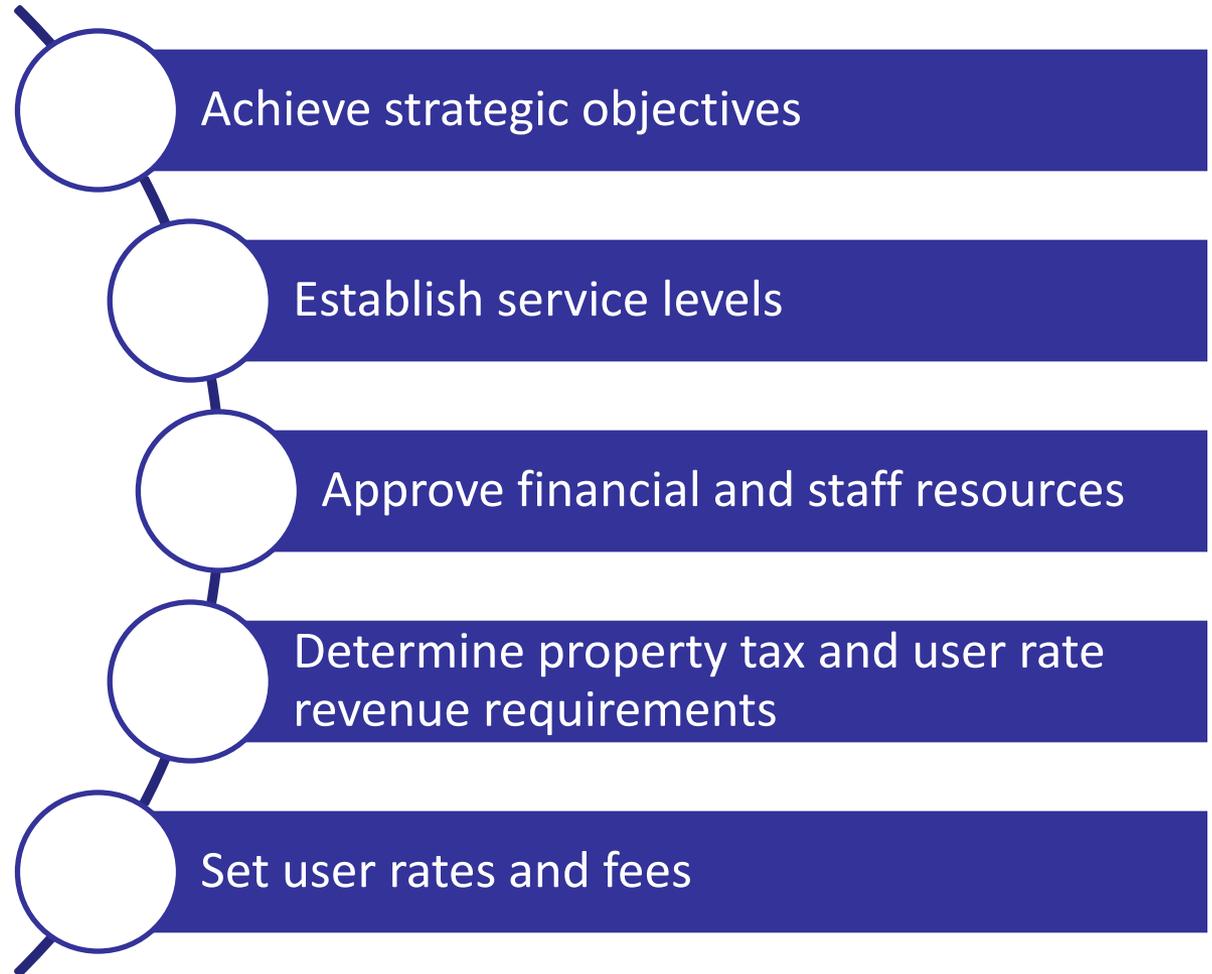
October 21, 2015



Region of Waterloo

Purpose of the Budget

Region of Waterloo Corporate Strategic Plan





2016 Regional Budget

Objectives of today's meeting

Overview of the status of the 2016 budget and the major factors influencing regional programs

Preview of the 2016-2025 capital program and budget issue papers

Obtain feedback from Council on those areas for which additional information is required



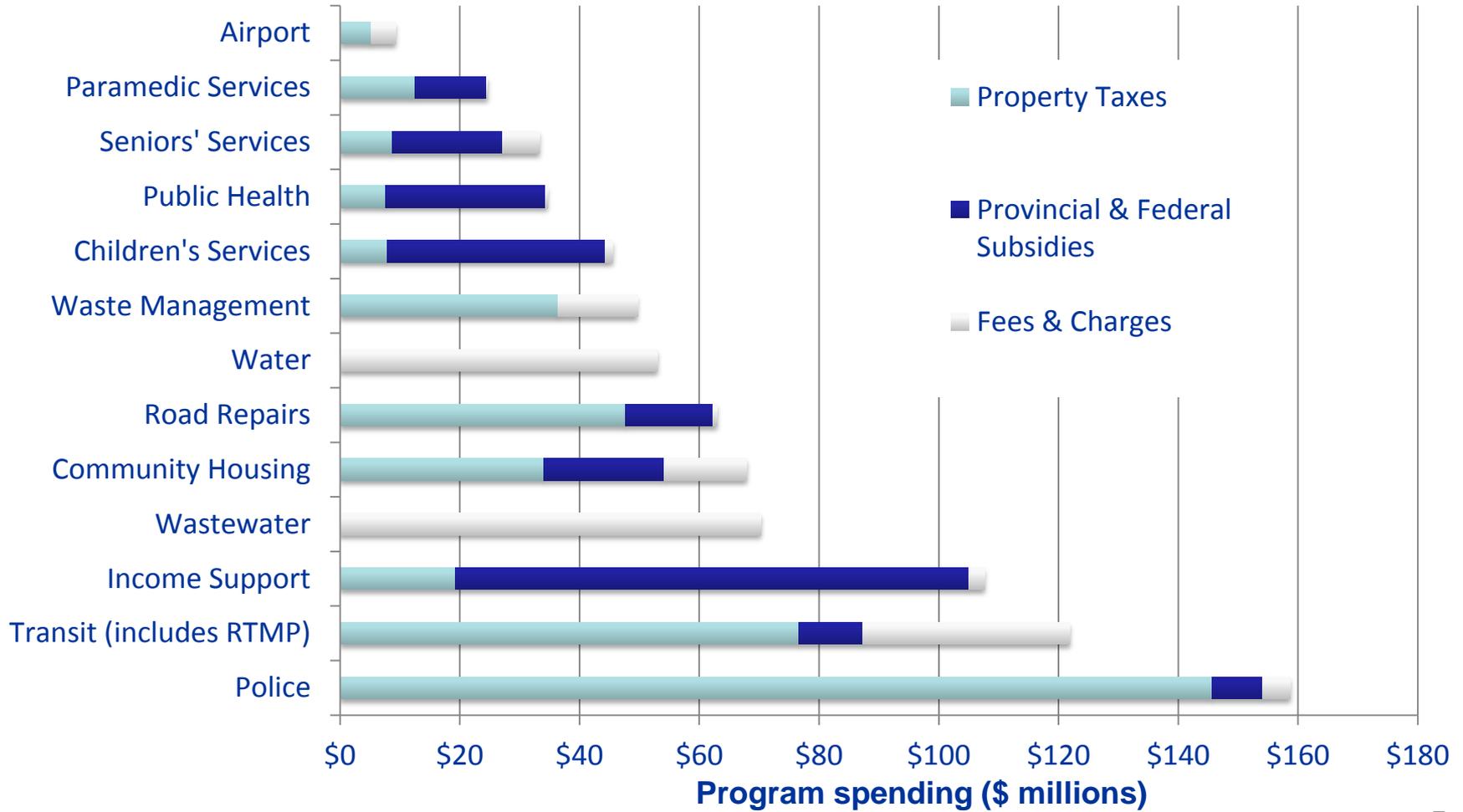
2016 Regional Budget Today's Agenda

- Economic Indicators
- Water and Wastewater Operating Budget and Capital Program
- Tax Supported Operating Budget and Capital Program
- Next Steps
- Discussion



Region of Waterloo

2015 Funding for Regional Services



Economic climate

	Last Year	Now
Federal Govt surplus (deficit)	(\$5.2 b)	\$1.9 b
Provincial Govt (deficit)	(\$10.5 b)	(\$10.3 b)
Ontario CPI	2.2%	1.2%
Unemployment rate	6.7%	5.8%
OW Caseload	8,283	8,957
10 year borrowing rate	2.9%	2.4%
Oil price per barrel (\$US)	\$80	\$46
\$1 CAD	\$0.89 USD	\$0.78 USD

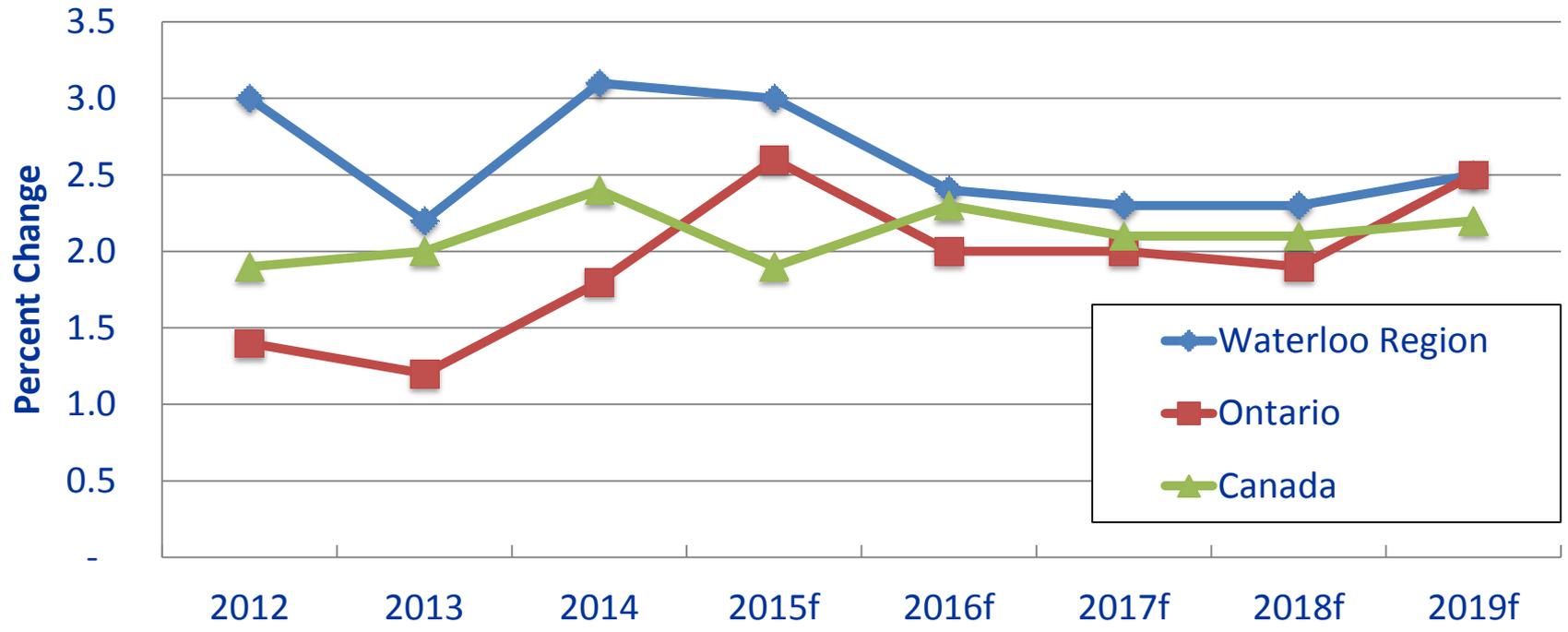
Economic Indicators

Inflation (CPI) Projections	2016 forecast (%)
Canada	2.2
Ontario	2.0
Bank of Canada	2.0
National Bank Financial	2.2
CIBC	2.2
RBC	2.6
Scotiabank	2.1



Economic Indicators

Real GDP growth projections



f = forecast

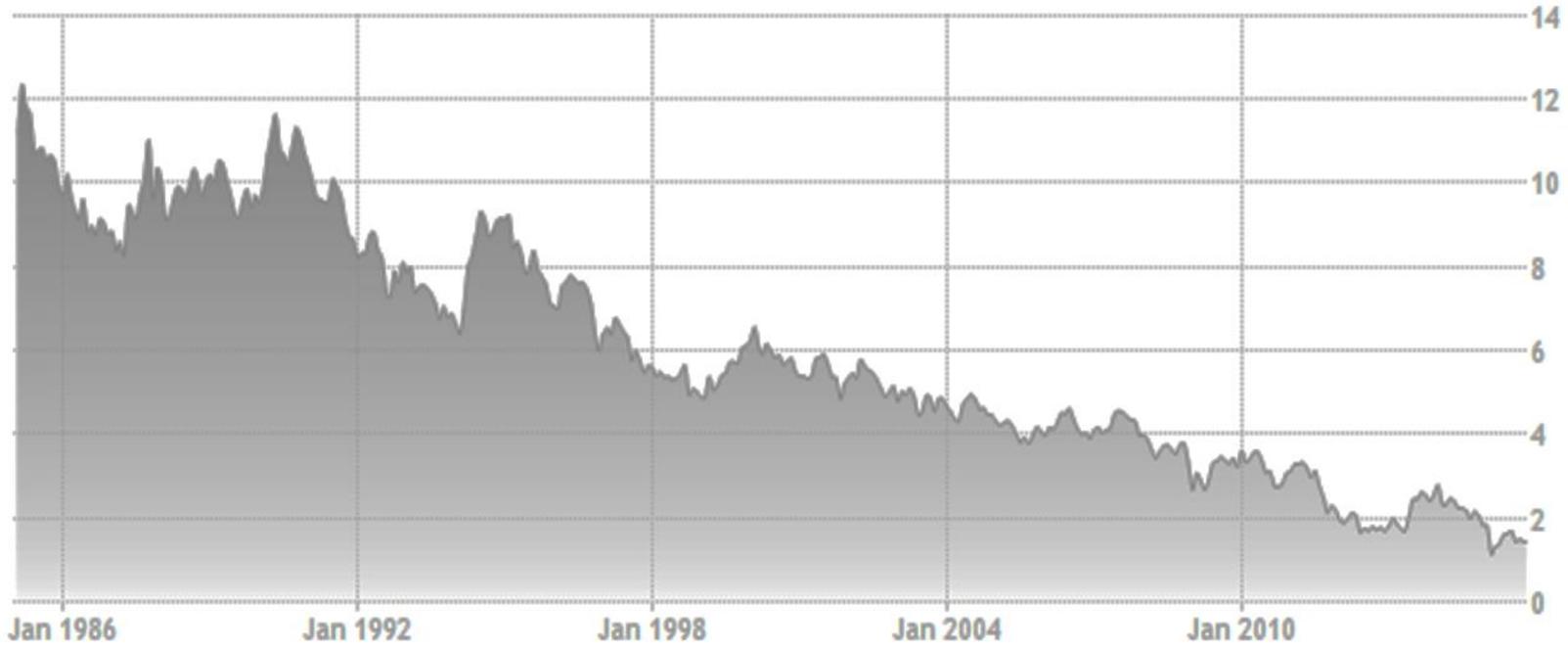
Source: The Conference Board of Canada, Winter 2015; Statistics Canada



Region of Waterloo

Economic Indicators

CANADA GOVERNMENT BOND 10Y



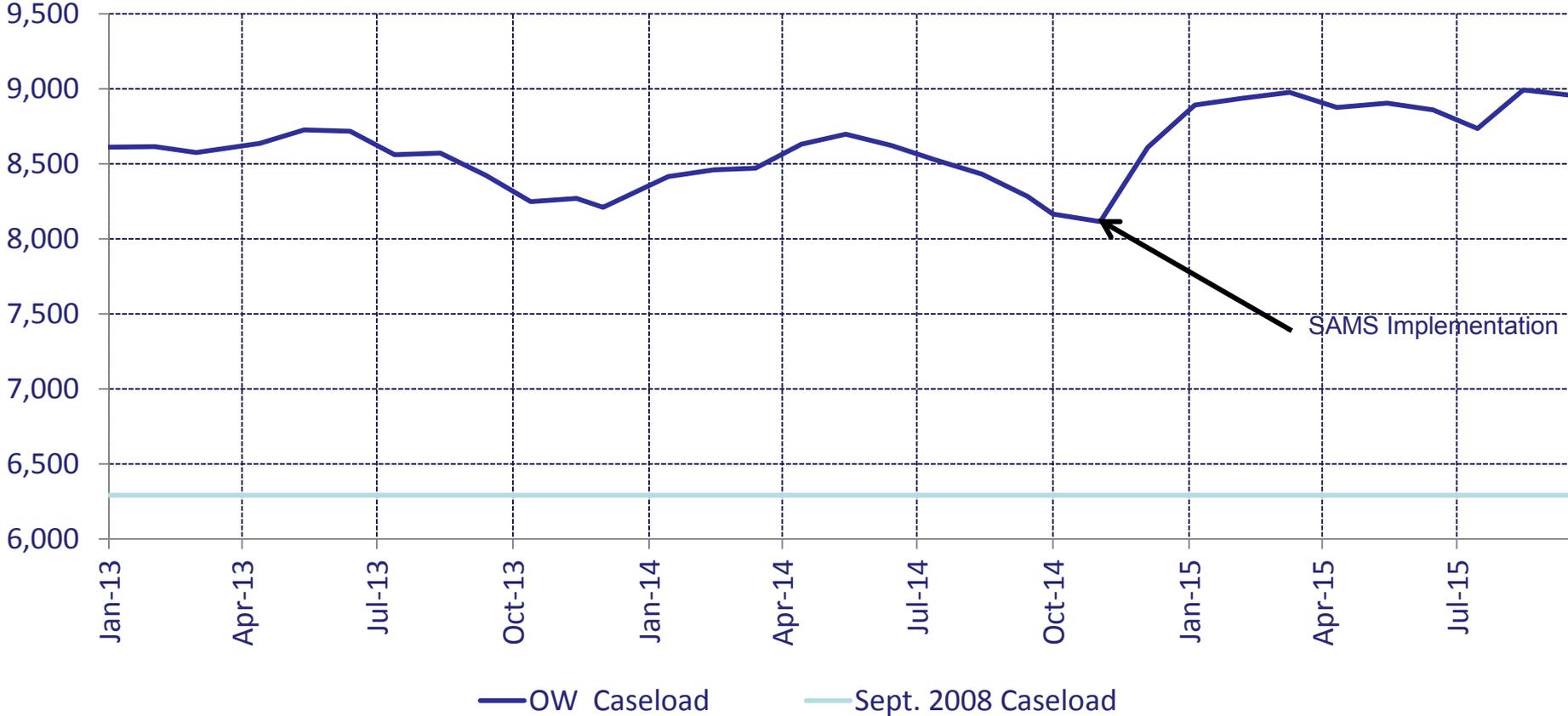
SOURCE: WWW.TRADINGECONOMICS.COM | TREASURY BOARD OF CANADA



Economic Indicators

Region of Waterloo

Ontario Works

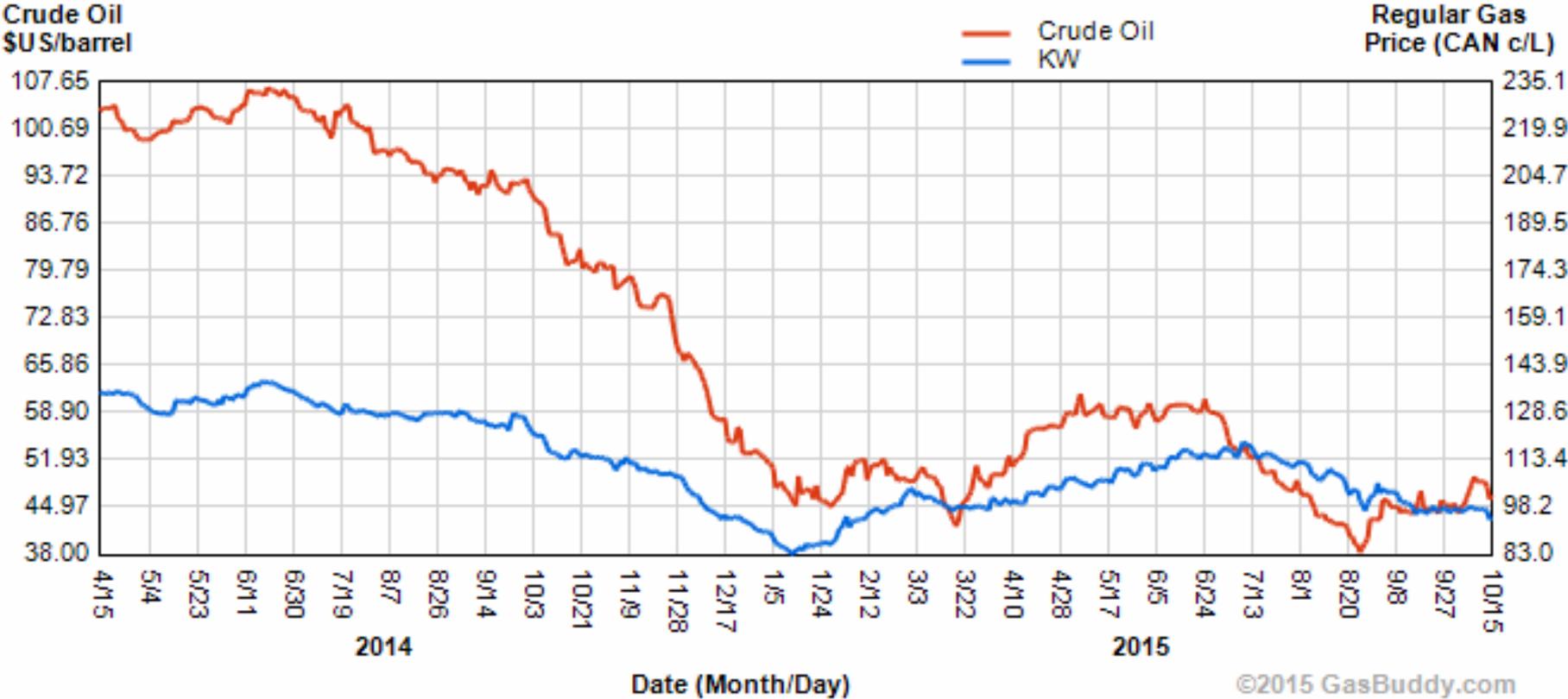




Economic Indicators

Region of Waterloo

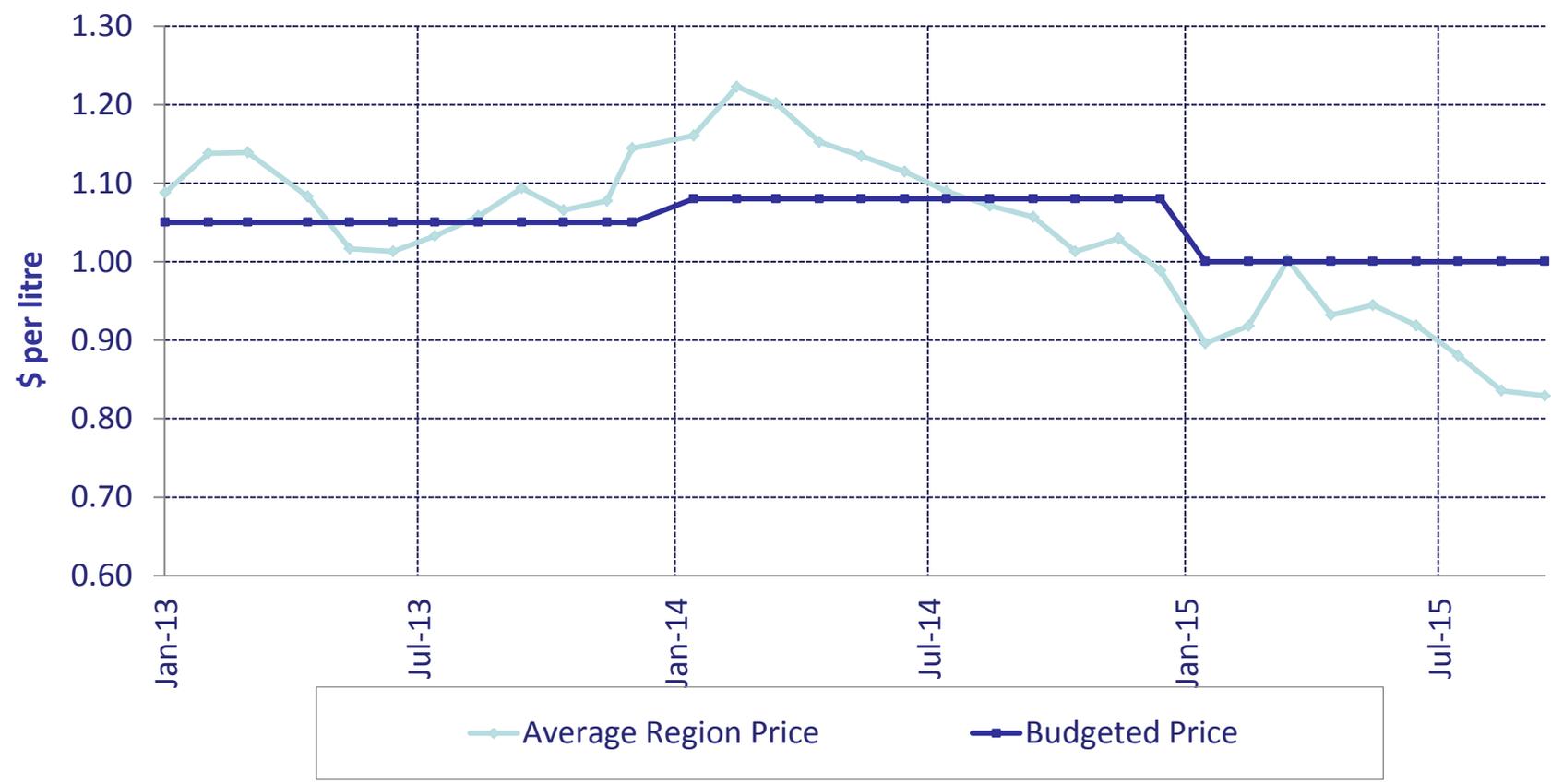
18 Month Average Retail Price Chart





GRT Fuel Cost

Fuel Cost - Ultra Low Sulphur Diesel



Fuel price strategy

2014 budget

- Budgeted price/L for diesel & gasoline = \$1.08/L

2015 budget

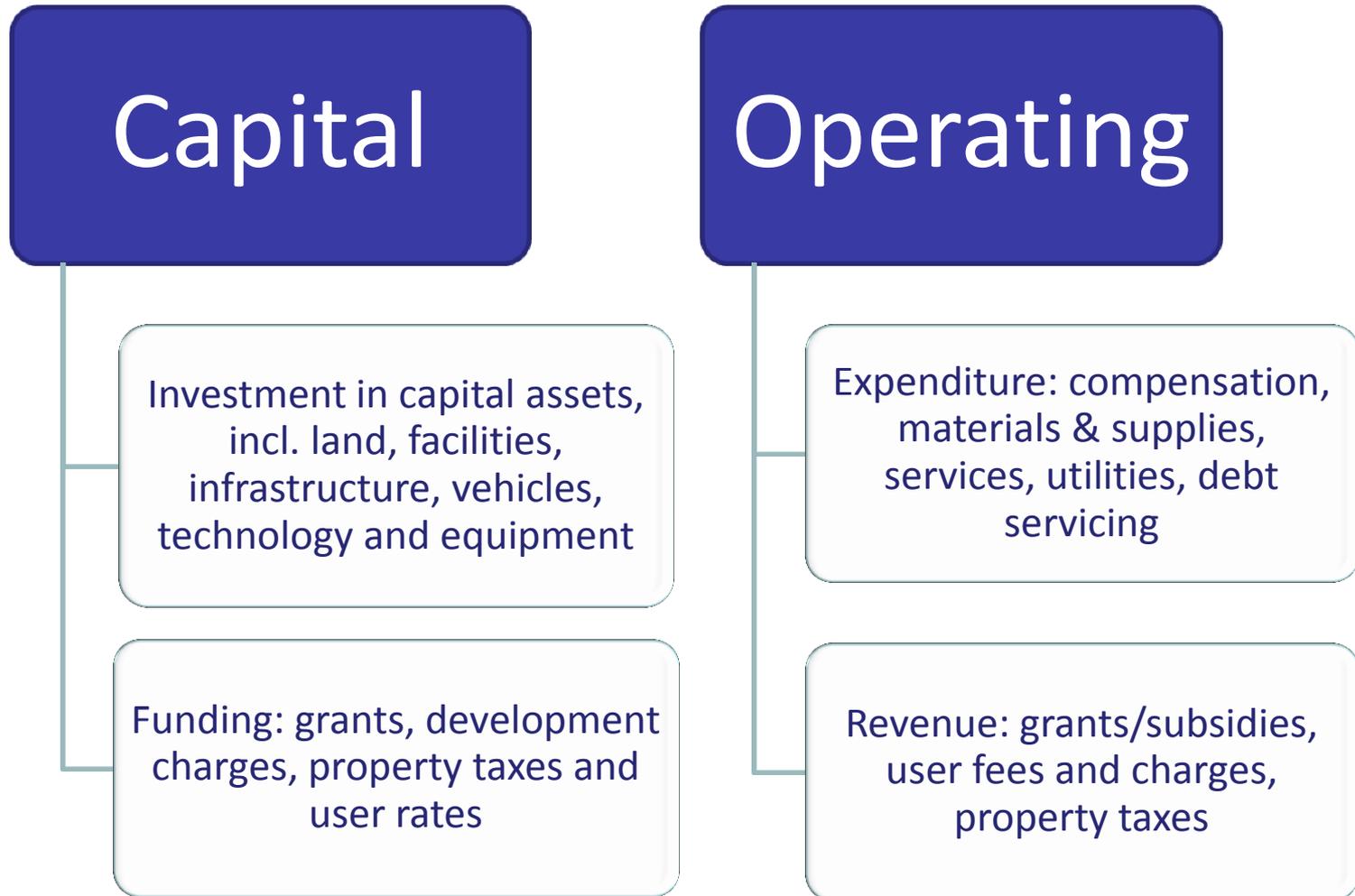
- Introduction of Fuel Price Strategy
- Budget: diesel = \$1.00/L; gasoline = \$0.88/L
- \$1.04 m in savings of which \$577k transferred to GRT vehicle reserve, \$465k used to reduce the tax levy
- YTD avg price: diesel = \$0.91/L; gasoline = \$0.92/L

2016 budget

- Fuel price strategy remains in place for preliminary budget
- Staff to report back in December with options



Types of Budgets



Budgeting at the Region

User Rate Budgets

- Region-wide wholesale water supply and wastewater treatment
- Retail function in two townships
- Funded from user rates and development charges
- Earlier approval to allow 5 area municipalities to set retail rates

Property Tax Budget

- All other services
- Net expenditure (after all other revenue sources) funded from property taxes
- Includes Police Services
- Transit and Library are area-rated



Budget Terminology

Budget Issue Paper

- Service expansion request
- Required for staff additions

Budget Information Paper

- Background and details
- Councillor request or staff initiated

Full Time Equivalent (FTE)

- Measure of staff complement
- Consistent and comparable



Region of Waterloo

2015 User Rate Budgets recap

User Rate
Budgets
approved on
Feb. 11/15

- Operating budget = \$81 m
- 10 year capital spending = \$1.2 b
- Water rate increase of 4.9%
- Wastewater rate increase of 7.9%
- Retail water rate increase of 8.9%
- Retail wastewater rate increase of 5.9%



2015 Average Annual Wholesale Cost Per Household

Water Supply	\$209
Wastewater Treatment	\$200
Annual Total	\$409

Water Supply Operating

2015 variances

- Expenditures below budget by 3% (repairs, maintenance, utilities)
- Projected revenues at budget
- Overall favourable variance projected of \$1 m

2016 budget

- Expenditures adjusted by 1% (electricity costs increasing)
- Revenues proposed to increase by 2.9%; volume projections unchanged from 2015 forecast



Wastewater Treatment Operating

2015 variances

- Expenditures below budget by 3% (biosolids, operations contract, offset by higher than anticipated DC exemptions)
- Rate revenue projected shortfall of 10% (\$6.4 m), sewer surcharge revenue shortfall of \$280k
- Overall unfavourable variance projected of \$5.6 m

2016 budget

- Expenditures adjusted by 0.4% (electricity costs and anticipated DC exemptions increasing, partially offset by new biosolids tender)
- Revenues proposed to increase by 6.9%; sewer surcharge revenue adjusted; volume projections unchanged from 2015 forecast

User Rate capital program

\$1.1 billion over 10 years

\$502 m

**Growth related share
funded from
development charges**

\$639 m

**Non-Growth share
funded from user rates**

User Rate capital program

- Significant capital investments are underway e.g. Kitchener WWTP
- But...the benefitting growth will take place over an extended period of time, and hence so will the RDC collections
- Given relatively low capital reserve balances and lower than anticipated RDC collections, staff have prepared an updated financing strategy

Financing of growth-related capital

- Development financing strategy for the 2016-2025 capital program
- Certain growth-related projects will be debt financed in order to spread the cost over a longer period and better match costs to anticipated RDC revenues
- Details to follow in November

Water Supply

- Total 10 year investment: \$420 m
- Growth share: \$54 m in growth related debt to be issued in 2019-2025
- Non-growth share: 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).

Wastewater Treatment

- Total 10 year investment: \$722 m
- Growth share: \$234 m in growth related debt to be issued in 2016-2025
- Non-growth share: 50% of the non-growth share of two significant projects (Upgrades at the Kitchener and Galt Wastewater Treatment plants) to be debt financed (\$114 m).

User Rate capital program

- Benefits of strategy:
 - cost of significant infrastructure projects will be spread over a broader group of benefitting users at a relatively low financing cost
 - provide more capacity in the Wastewater Reserve to manage in-year revenue fluctuations and any potential shortfalls in development charge collections

User Rate capital program

- Financing strategy remains a work-in-progress, requiring more work and regular updates
 - Wastewater master plan
 - Biosolids master plan
 - Bill 73
 - Many options to review



Region of Waterloo

Proposed User Rates

	2015 approved user fee increase	Proposed 2016 user fee increase from 2015 forecast	Current estimate of 2016 user rate increase
Water supply	4.9%	3.9%	2.9%
Wastewater treatment	7.9%	6.9%	6.9%
Water distribution	8.9%	8.9%	8.9%
Wastewater collection	5.9%	5.9%	5.9%

Proposed Service Charges

	2015 approved service charge	Proposed 2016 monthly service charge from 2015 models	Current estimate of 2016 monthly service charge
Water distribution	\$8.00	\$8.00	\$8.00
Wastewater collection	\$6.00	\$7.00	\$6.00

User Rate budget summary

- Proposed rate increases:
 - 2.9% for water supply and 6.9% for wastewater treatment
- Detailed review on November 18
- Approval scheduled for December 16
- Any rate changes approved by Council would be effective March 1, 2016



Region of Waterloo

2015 Tax Supported Budget Recap

- Tax Supported Budget approved on Mar. 4, 2015
- Operating budget = \$814 million
- Tax levy = \$451 million
- Tax rate increase of 2.58%
- → Direct Regional Services 2.00% tax impact
- → WRPS 0.58% tax impact
- Assessment growth = 1.52%

Capital Plan Review

Review of all capital plans with CAO, CFO and departmental staff in June and July

Scope included:

Appropriate distinction between operating and capital expenditures

Project cost, timing, and need

Sources of financing

Development financing

Capital Review Outcomes

Reduced 2016 and 10
year capital
expenditures in almost
all areas

Operating costs moved
out of capital

Outcomes

Improved debt profile

Develop strategies to
ensure capital plan
funding is sustainable

Draft 2016-2025 Tax Supported Capital Program

10 year
investment
plan = \$2.2 b

- ION Rapid Transit
- Roads rehabilitation and expansion
- Lifecycle work at facilities and housing sites
- Grand River Transit
- Waste Management
- Paramedic Services
- Cultural Sites

Development Financing

- Growth related infrastructure
- Reviewing many options: revenue, expenditure, and financing
- Potential legislative changes

2016 Development Financing Strategies

SPENDING

- Adjusting spending profile to better match expected development charge revenues

SHORT TERM FINANCING

- Interim financing for some projects until development charges collected

LONG TERM BORROWING

- Long term financing of some growth related capital works



Internal Budget Review Process

Detailed reviews of departmental budgets with CAO, CFO and departmental staff

Capital projects

3 year budget versus actual comparisons

Base budget review

User fees and charges

Tax Supported Budget status

TAX SUPPORTED OPERATING BUDGET – DIRECT REGIONAL PROGRAMS	\$ million	Tax rate impact
Salaries & benefits	7.0	
Regional Transportation Master Plan (net of upload)	4.3	
Capital financing	2.7	
Grand River Transit revenue adjustment	1.6	
Waste collection contracts	0.9	
Other	1.5	
Base budget reductions	(2.0)	
Subtotal	16.0	3.47%
Assessment growth		1.16%
Total tax impact of direct regional programs		2.31%
Budget issue papers		0.43%

2016 Budget Pressures

Grand River
Transit fare
revenue

Waste
collection
contracts

Housing
subsidies

Compensation

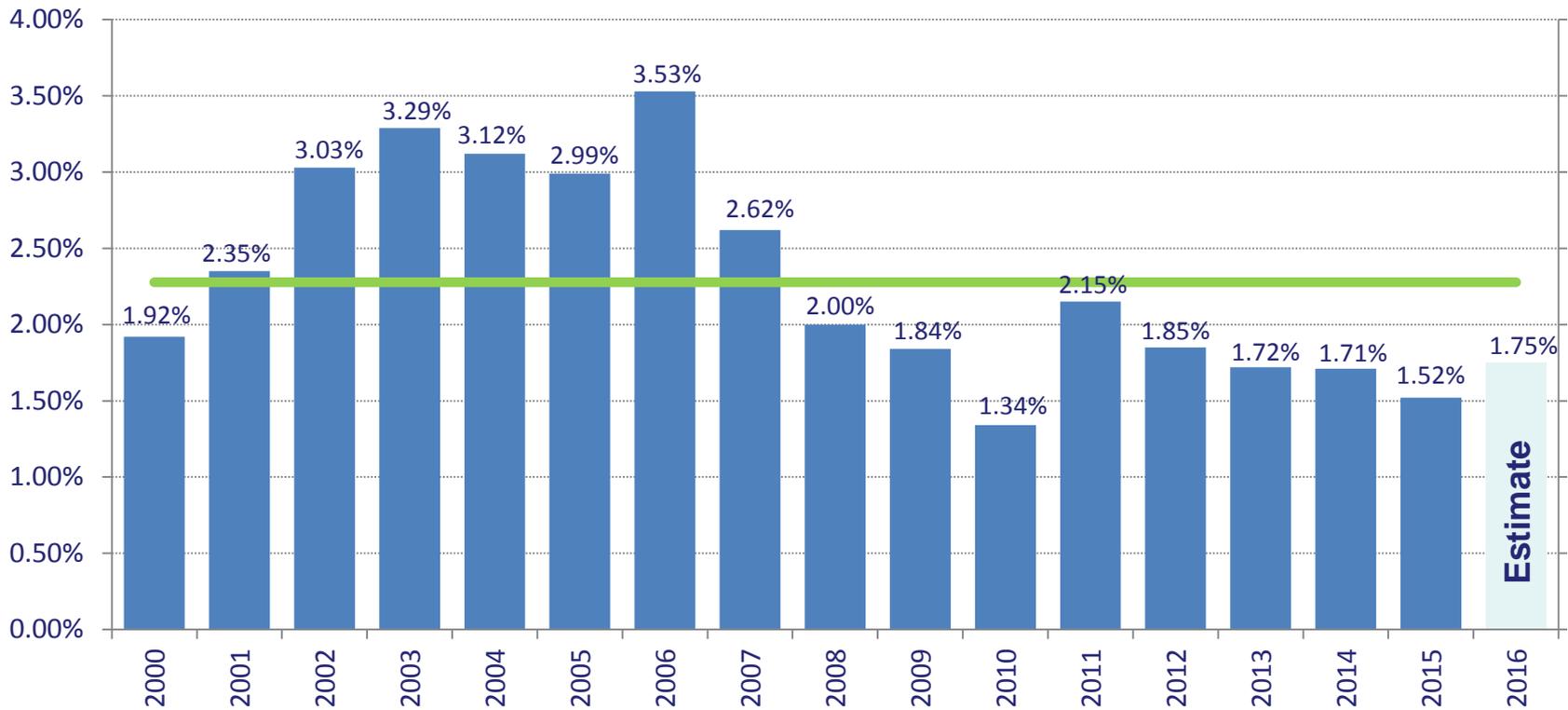
Utility rates

Assessment
growth risk



Assessment growth

History of Assessment Growth



Average assessment growth = 2.28%



Major 2016 Budget Impacts

Regional Transportation Master Plan (RTMP)

- 1.5% urban levy increase required annually for the next 3 years, followed by 0.75% in 2019
- Required to cover all operating and capital financing costs relating to ION Rapid Transit and aBRT, and costs related to GRT service level expansion
- Provincial upload offset



Major 2016 Budget Impacts

Provincial upload savings

- Ontario Works (OW) benefits being uploaded from 2010 to 2019
- OW cost sharing ratio for 2016: 94.2% / 5.8%
- \$1.7 million upload savings in 2016
- Court Security upload from 2012 to 2018 (\$4.7 million) with revenue credited to the Police Budget



2016 Provincial Support

Provincial Subsidy Estimates (\$ millions)			
Program	2015 budget	2016 budget	Change
Ontario Works/Social Assistance	\$88.2	\$92.9	\$4.7
Child Care	36.4	36.4	0.0
Public Health	27.6	27.4	(0.2)
Long Term Care & Community Programs	18.7	18.5	(0.2)
Paramedic Services	12.0	13.1	1.1
Community Housing	10.9	10.9	0.0
Community Homelessness Prevention Initiative	10.4	9.8	(0.6)
Total	\$204.2	\$209.0	\$4.8

Major 2016 Budget Impacts

Capital financing

- Both transfers to capital and debt servicing
- Significant investment in capital assets
 - Renewal, refurbishment and replacement
 - Expansion related to growth
- Working towards full bus replacement from reserves
- Building lifecycle provision

Base Budget Adjustments

- Ongoing effort to seek efficiencies and cost savings without impacting service levels

Base Budget Review Reductions (\$millions)					
2012	2013	2014	2015	2016 (preliminary)	Total
\$2.1	\$1.9	\$2.5	\$1.9	\$2.0	\$10.4



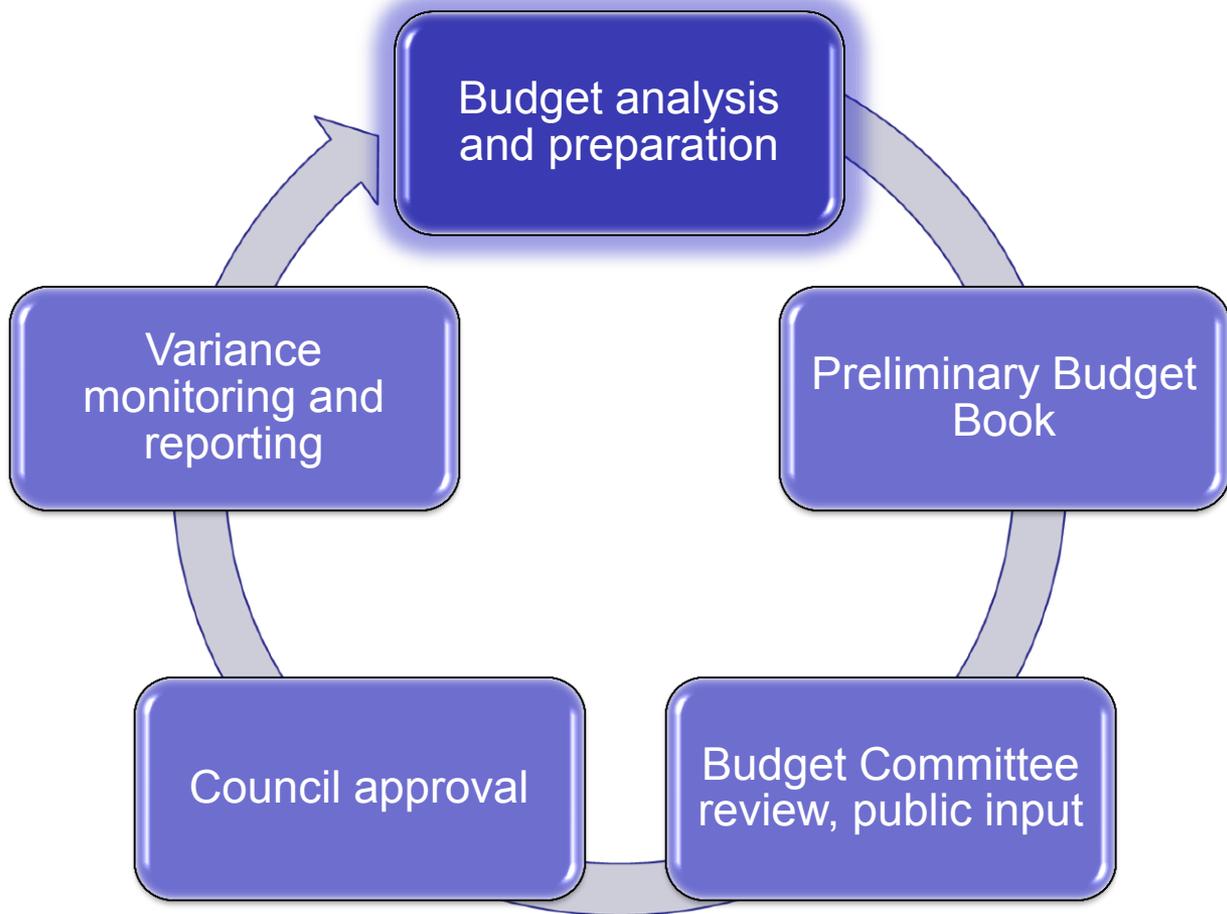
Budget Issue papers

Sample of 2016 Proposed Service Enhancements

- 1 additional 24 hour ambulance for Paramedic Services
- Implementation of the Conestoga College U-Pass
- Facilities maintenance and reliability planning
- Quality and risk management for Seniors' Services
- Implementation of the Mobility Plus business plan
- Transit services to Family and Children's Services on Hanson Ave.
- Increase contribution to Capital Levy Reserve Fund for capital financing



The Budget Cycle





2016 Budget Schedule

Oct. 21: Budget Committee overview

Early November: Print Budget Book

Nov. 18: Budget Committee Detailed Review and Public Input

Dec. 16: Budget Committee approval of user rate budgets, 2nd Public Input, WRPS and GRCA

Jan. 13/16: Tax Budget approval, user fees & charges approval

Questions?