By-law and Policy
What we’re going to cover:

• Budget Planning By-law
• Capital Financing Policy
Budget Planning By-law

Building the Budget

• Four budget components (recap of CSD 41-2019 Budget Planning Policy Review)
  • Base Budget Development
  • Capital Financing
  • New or Enhanced Programs
  • Assessment Growth

• Formalized principles and rules
  • Scheduling budget approval
  • Indexing options for base budget
  • When business cases are required
Indexing Options for Base Budget

Sustainable Budgeting

• Base budget increases annually due to rising prices
• An appropriate index should be applied
  • Supports sustainability
  • Council knows what to expect
• Both CPI and MPI are options
  • Staff advocate for MPI
  • MPI is a more accurate measure for municipal spending

CPI
Goods purchased by a household
• Focus on groceries, clothing, health/personal care, etc.

MPI
Services purchased by municipality
• Focus on service delivery (labour-related costs and purchased services)
Business Cases
Transparent Budgeting

• Business cases included in budget detail:
  • Departmental sections
  • Corporate summary

• Prepared for items that meet the following criteria
  • New permanent FTEs
  • New programs and services

• Additional information on budget drivers
  • Greater detail on base budget pressures and mitigations
Capital Financing Policy

Budget Planning By-law
Building the Budget

- Four budget components (recap of CSD 41-2019 Budget Planning Policy Review)
  - Base Budget Development
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  - New or Enhanced Programs
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- Formalized principles and rules
  - Scheduling budget approval
  - Indexing options for base budget
  - When business cases are prepared
Introduction and Purpose
Why do we need a Capital Financing Policy?

• SHAPE Strategic Plan Implementation
  • Capital Financing Strategy
• Levy Capital funding gap continues to increase
  • Increase from $209M to $295M
• Strive for financial sustainability

Historical 10 Year Levy Capital Plan & Gap
Introduction and Purpose

What is Financial Sustainability?

• Financial Sustainability means ...
  • Infrastructure can be kept in state of good repair & replaced at the right time
  • Financial responsibility is fairly shared between current and future residents (inter-generational equity)
  • Growth can be accommodated without unacceptable tax levy or debt increases
  • Service levels can be maintained in the face of changes in economic conditions
Introduction and Purpose
What challenges do we face?

• Key challenges
  • Future cost of infrastructure investments
  • Mismatch between level of service decisions and fiscal capacity
  • Unforeseen shocks to revenue or spending
  • Development charges rebates/grants put additional pressure on operating budget
  • Lack of levy supported capital reserves
# Capital Financing Strategy

## Asset Management Plan Challenges

### Current contributions insufficient

<table>
<thead>
<tr>
<th>Contributions Relative to Amortization/ AMP Needs</th>
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</thead>
<tbody>
<tr>
<td>100%</td>
</tr>
<tr>
<td>50%</td>
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<tr>
<td>0%</td>
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</tbody>
</table>

- **2016 AMP AARI (Replacement Cost)**: $66M
- **2018 Annual Amortization (Historical Cost)**: $35M
- **Current Levy Contributions**: $17M

### Smooth tax impact of spikes

**Transportation – 50-year Capital Plan**

Expenditures (M) by Year:

- Guide Rails
- Culverts (Cross & Driveway)
- Retaining Walls
- Fleet
- Storm Sewers
- Patrol Yards
- Illumination
- Signals
- Structures
- Pavement

*Note: Graph shows projected expenditures from 2016 to 2061.*
Capital Financing Strategy
How do we finance our 10-year Capital Forecast?

• 4 Main Sources of Funding
Capital Financing Strategy
Debt Management

• Most expensive option
• When used to fund existing assets, future taxpayers are paying for infrastructure being used today
• Pressure on S&P ratio in 2024 which may impact credit rating

Conclusion: Strategic Investment Projects
• New level of service
  Eg. Niagara Regional Transit
• Align timing to subsidies/grants
  Eg. Long Term Care Redevelopment

![Regional Debt Projects If gap funded with Debt](image)
Capital Financing Strategy
Reserve Management

• Current taxpayers funding for replacement of asset as consumed (Pay as you go)
• Historically underfunded
• Greater flexibility than debt
• Interest savings from debt avoidance can fund other projects

Conclusion: Asset Management Projects
• Utilize for State of good repair/renewal
  • Eg. Roads Rehabilitation
Capital Financing Strategy

Development Charges

• Growth pays for growth
• No financial impact on tax base
• $13M used for Rebates constrains funds for infrastructure
  • $5M shortfall needed in base budget
  • Opportunities within the Incentives review

Conclusion: Growth Projects

• Growth Infrastructure per DC Study
  Eg. Casablanca Boulevard, Thorold Stone Extension
Capital Financing Strategy

Other external sources

• Difficult to forecast
  • Federal Gas Tax has been consistent

• Allows for collaboration
  • Ontario Power Generation, Local Areas Municipalities

• No financial impact on tax base as funding is from 3rd parties

Conclusion: Various Projects

• Maximize usage based on funding agreements
Equitable Fiscal Planning

Niagara Region’s Capital Plan

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Funding Source</th>
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<tbody>
<tr>
<td>Asset Management Plan</td>
<td>Pay as you go (Reserves)</td>
</tr>
<tr>
<td></td>
<td>Pay as you go (Reserves)</td>
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<tr>
<td></td>
<td>Federal Gas Tax</td>
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<td>Federal Gas Tax</td>
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<td></td>
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<tr>
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<td>Growth</td>
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<td></td>
<td>Growth</td>
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<td>Other External Sources</td>
<td>Other External Sources</td>
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<td></td>
<td>Other External Sources</td>
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</tbody>
</table>

- Pay as you go (Reserves)
  - Utilize funds set aside from Operating budgets

- Federal Gas Tax
  - Federal funding to support local infrastructure priorities

- Debt
  - Funds raised from creditors for Capital projects
  - Required to transition to the policy

- Growth
  - Business/Economic Growth
  - Growth pays for growth

- Other External Sources
  - Grants, Subsidies, Local Area Municipal Cost Share etc.
Capital Financing Strategy
Implementation Strategy

• Annual separate levy increases of 2.16% over 10 years
  • Operating Contributions will align to AARI per 2016 AMP
  • Eliminates funding gap
  • At a minimum the Region requires $86.5M by 2028

“The National Research Council recommends that a minimum of 2 percent of the value of assets should be spent on repairs and normal rehabilitation and 2 percent contributed to reserves each year”.

Funding Gap and AARI compared to Separate Levy

- Cumulative Reserve Gap
- Annual Contributions
- Inflation Adj. AARI
Summary

• A Fiscal Strategy updated every year
  • Reduces the Region reliance on debt
  • Increases savings for capital asset replacement
  • Ensures active management of the 10-year capital plan

• A Financial Sustainability Plan for Water and Wastewater
  • 5.15% was recommended in the Financial Plan for O.Reg 453/07
  • Of that amount 3.15% for Capital funding gap
Questions?