NIAGARA REGION **BUDGET**

2020

BUDGET PLANNING & CAPITAL FINANCING

October 3rd, 2019

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

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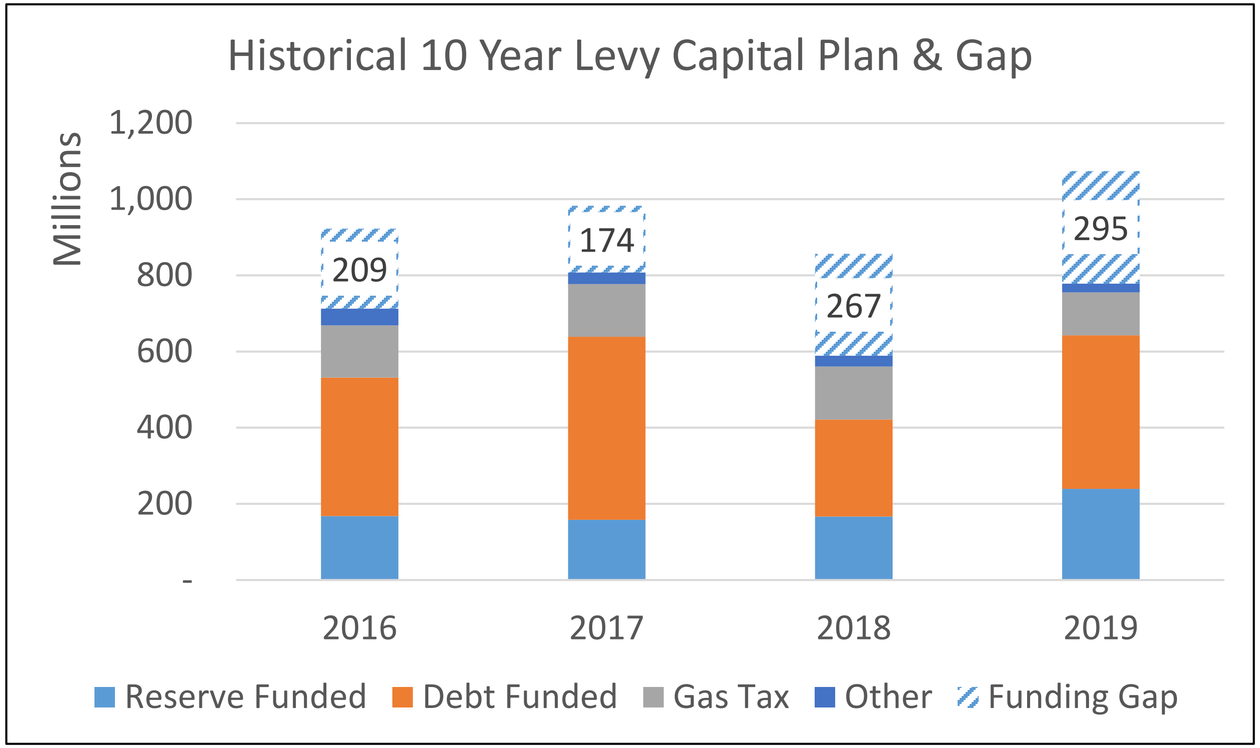
  - Indexing options for base budget
  - When business cases are prepared

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



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

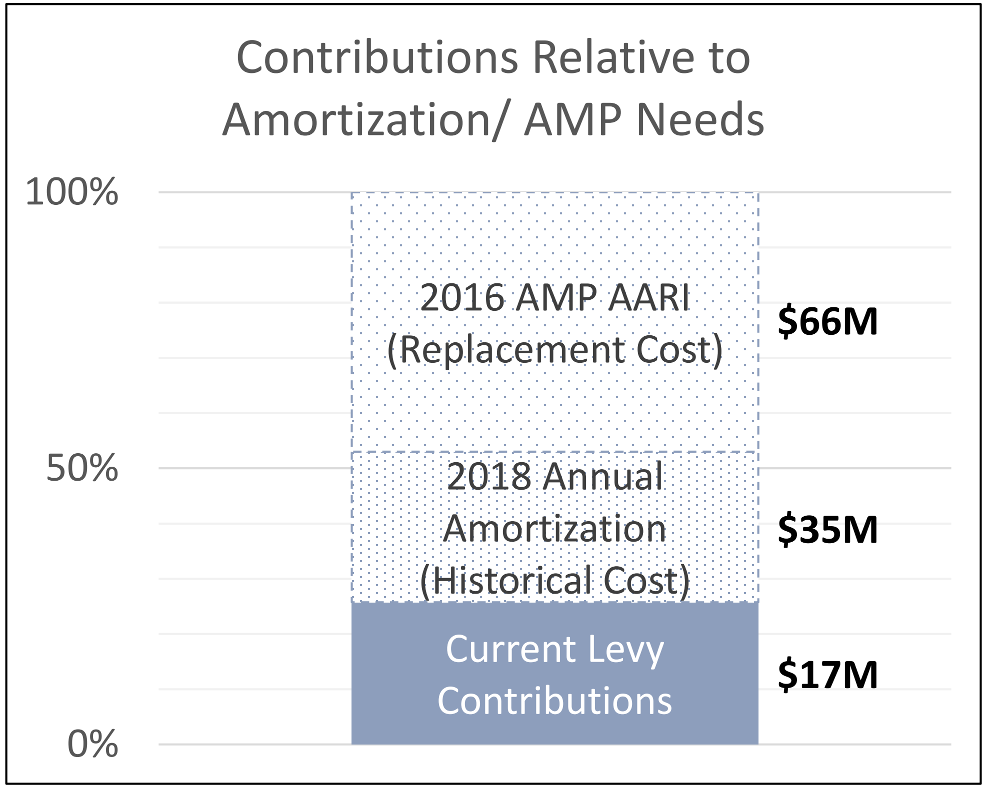
Introduction and Purpose

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

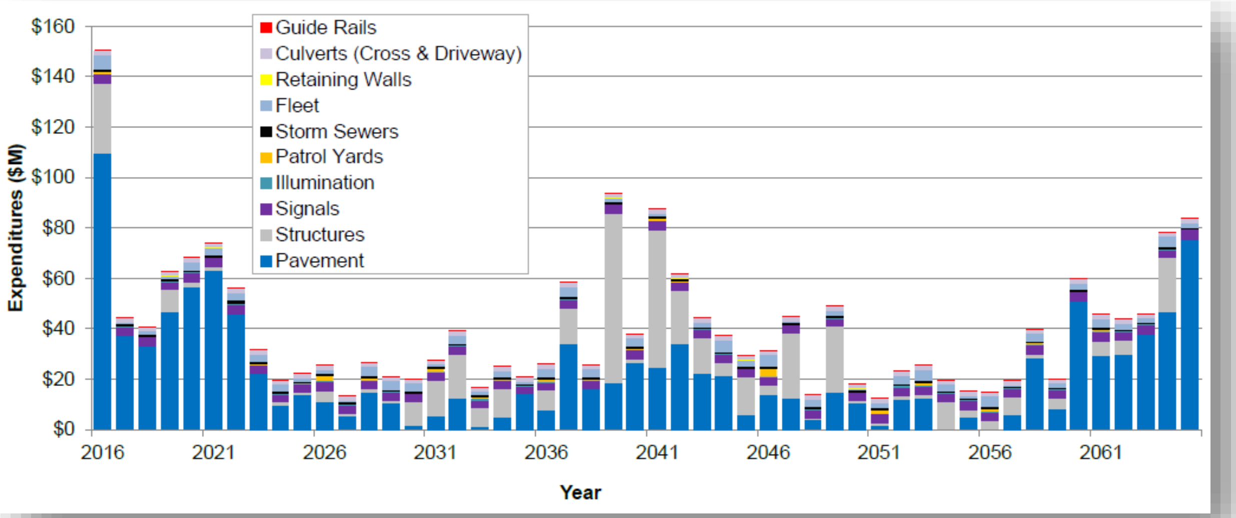
Capital Financing Strategy
Asset Management Plan Challenges

Current contributions insufficient



Smooth tax impact of spikes

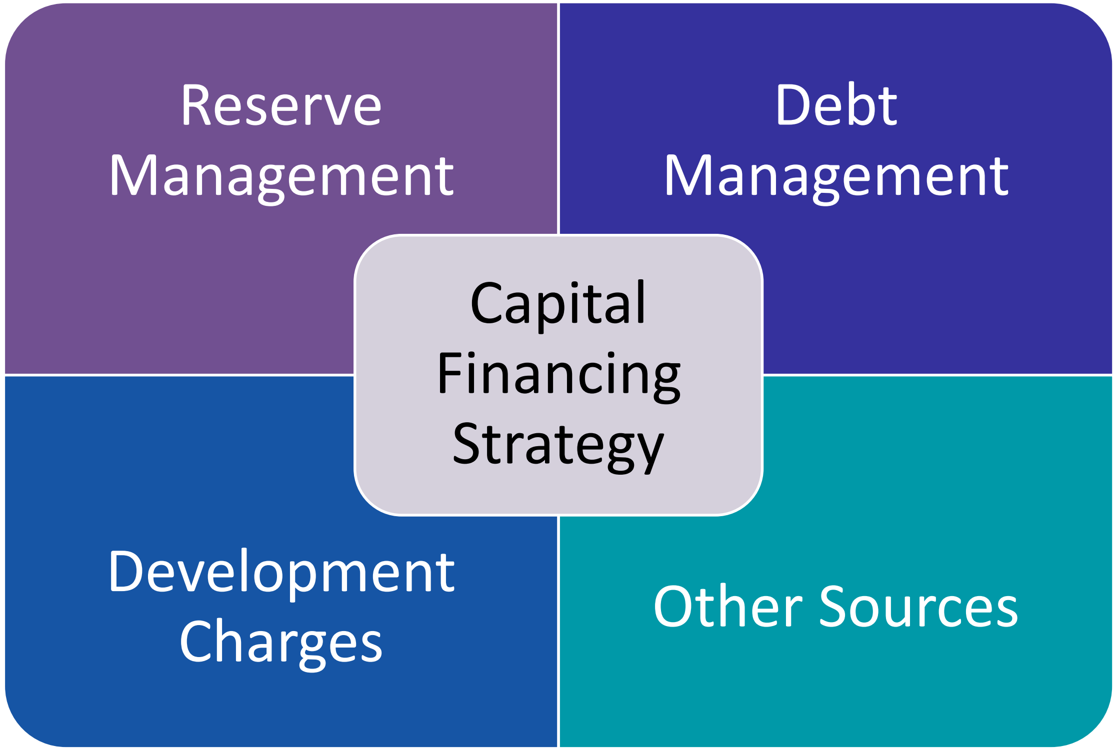
Transportation – 50-year Capital Plan



Capital Financing Strategy

How do we finance our 10-year Capital Forecast?

- 4 Main Sources of Funding



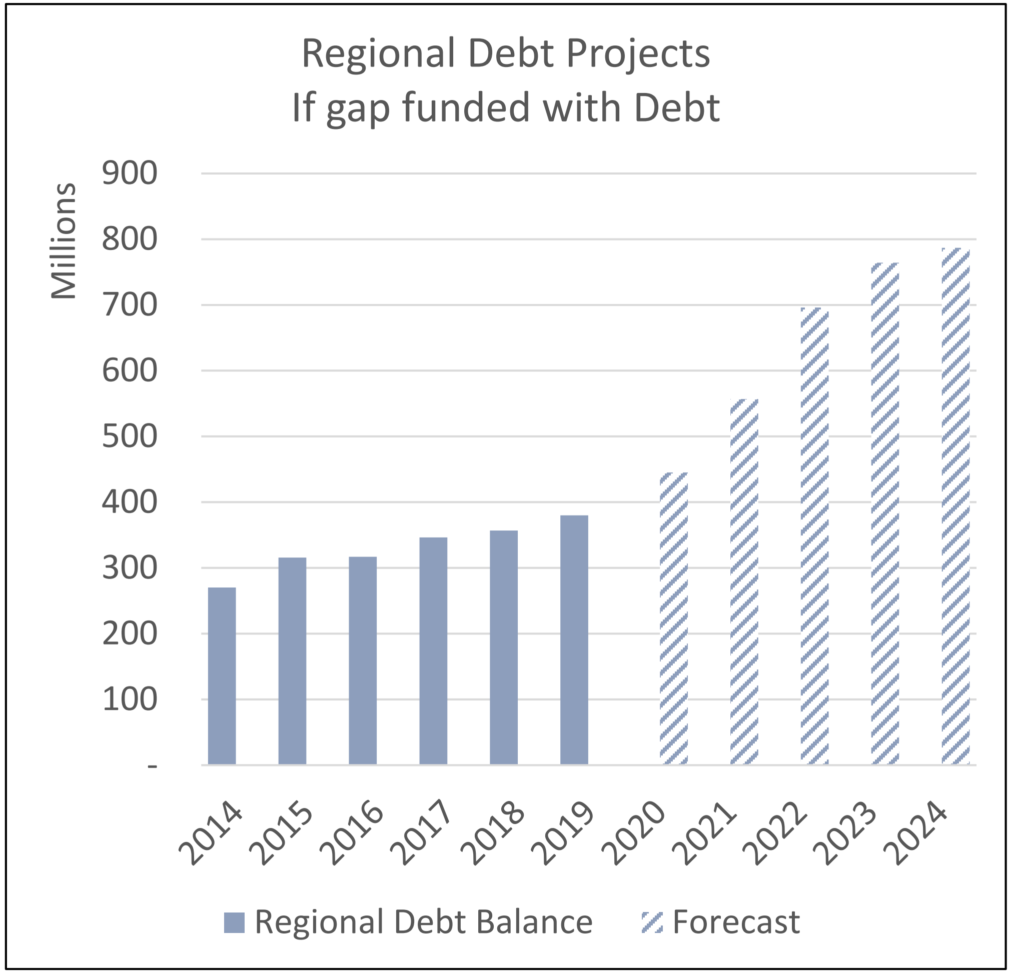
Capital Financing Strategy

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

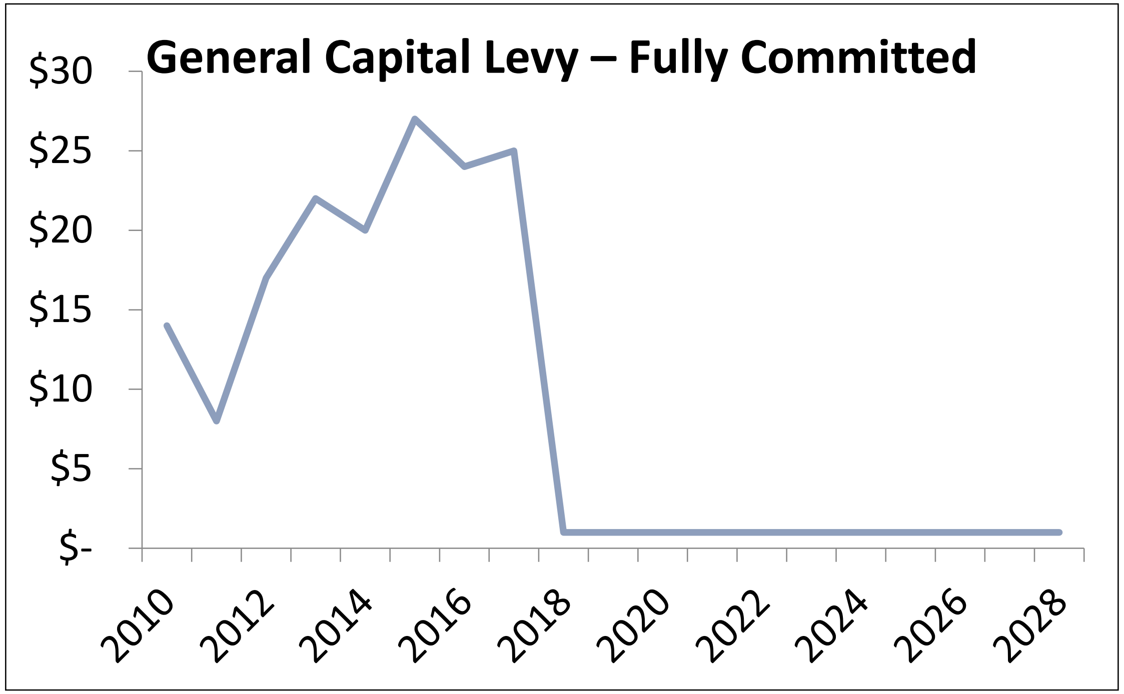
- New level of service
  Eg. Niagara Regional Transit
- Align timing to subsidies/grants
  Eg. Long Term Care Redevelopment



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



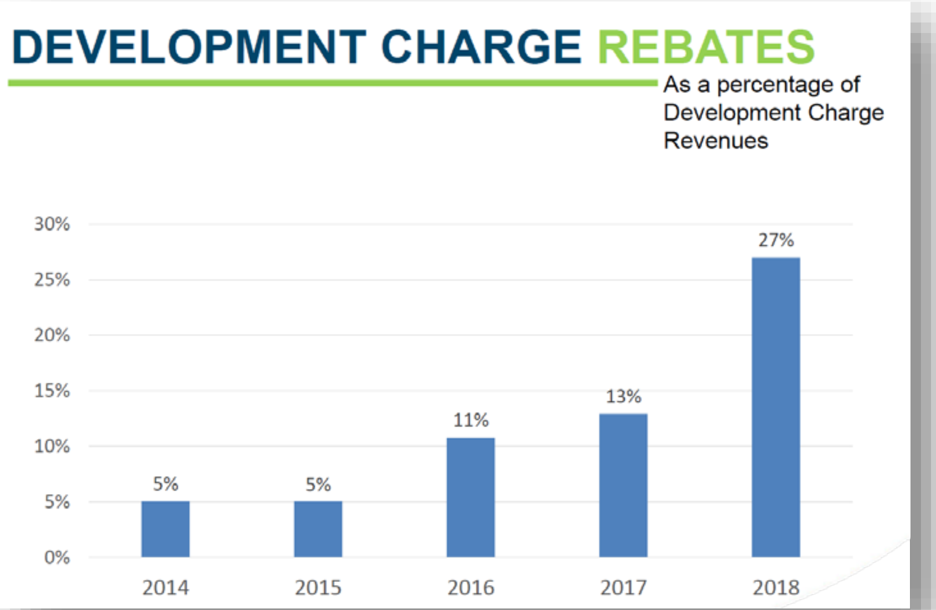
Conclusion: Asset Management Projects

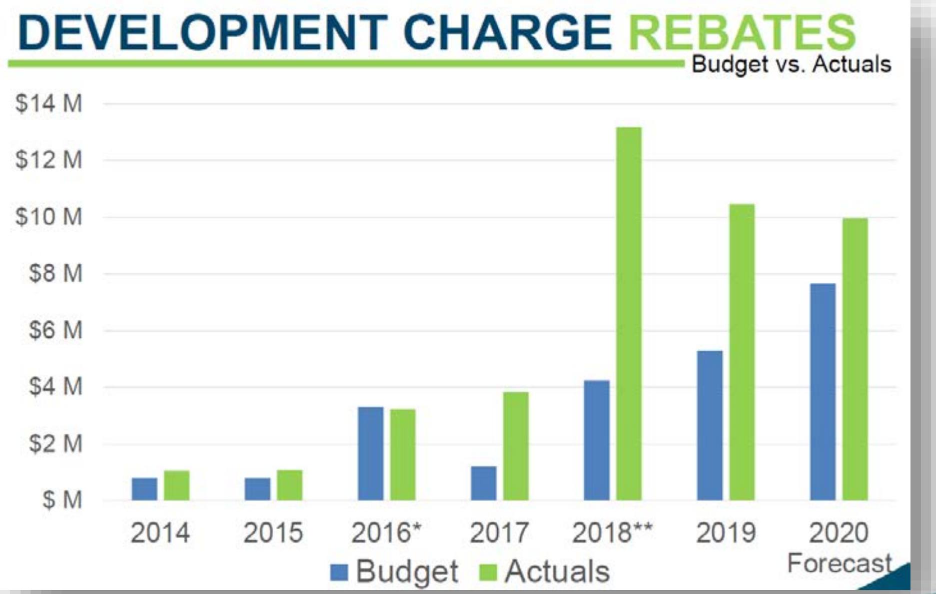
- Utilize for State of good repair/renewal
  - Eg. Roads Rehabilitation

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

Project Type

Asset Management Plan

- Responsible Growth and Infrastructure Planning
- Current tax base maintaining existing level of service

Strategic Investments

- Debt required to support projects with future beneficiaries

Growth

- Business/Economic Growth
- Growth pays for growth

Funding Source

Other External Sources

- Grants, Subsidies, Local Area Municipal Cost Share etc.

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

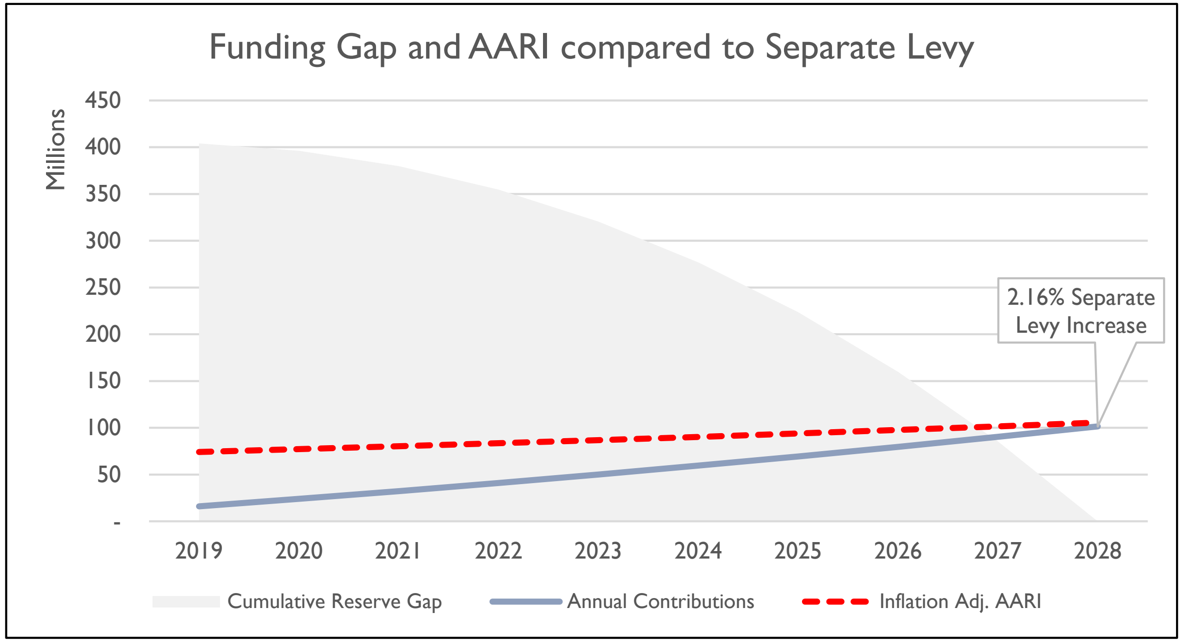
Development Charges

- Used for Growth projects based on DC study & receipts

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".*



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?