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## MEMORANDUM

BRC-C 10-2019

**Subject: Councillor Information Requests October 10, 2019 Budget Review  
Committee of the Whole**

**Date: November 28, 2019**

**To: Budget Review Committee of the Whole**

**From: Helen Chamberlain, Director, Financial Management & Planning /  
Deputy Treasurer**

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This memo is in response to Councillor Information Requests at BRCOTW on October 10, 2019 as follows:

- 1. Provide information for a budget scenario that would assume maximum allowable debt of \$320 million (120% of source revenue) that considers the amount of expenditures allowed, the deferred projects that could be included, the amount of the annual repayment limit and impacts to the operating budget. (Councillor Easton)*
- 2. Scope reduction of the Dain City Pump Station Forcemain Replacement project (Councillor Villella)*
- 3. Methodology on vehicles replacement (Councillor Insinna)*
- 4. Provide an updated Total Asset Consumption Ratio Table using the Regions of London, Windsor/Essex and Kitchener/Waterloo as comparators and information on the local area municipal rate increases. (Councillor Heit)*

Council may direct staff and make motions based on the following information and staff will endeavor to bring back any amended or additional material to the following Budget Review Committee of the Whole (BRCOTW) to support council decisions.

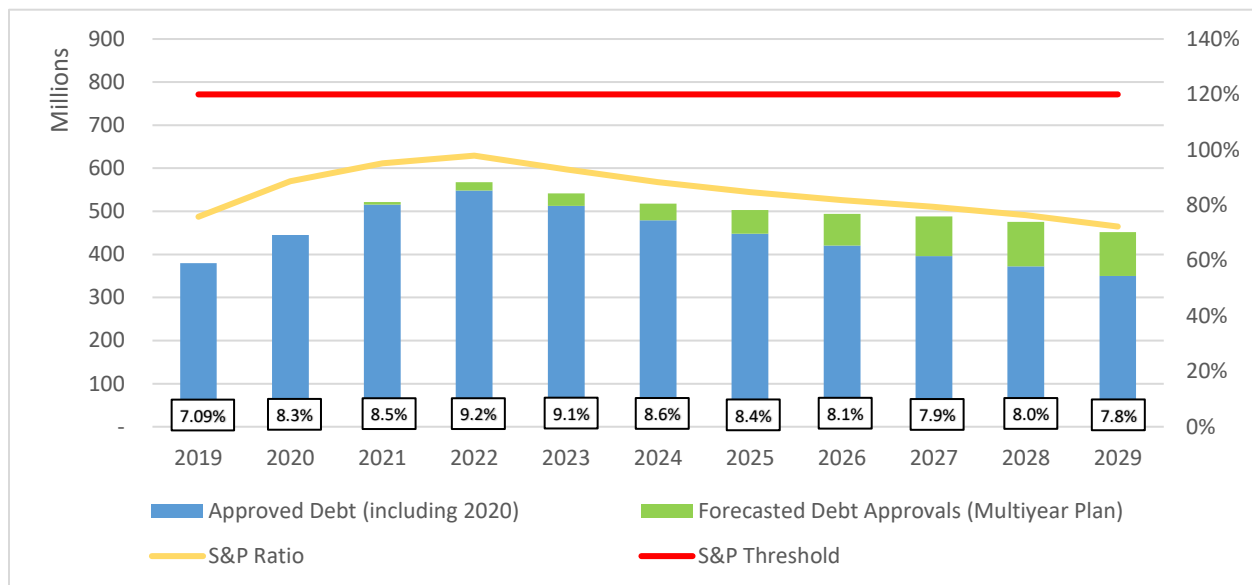
- 1. Provide information for a budget scenario that would assume maximum allowable debt of \$320 million (120% of source revenue) that considers the amount of expenditures allowed, the deferred projects that could be included, the amount of the annual repayment limit and impacts to the operating budget.**

The graph below provides the debt scenario proposed in CSD 53-2019 noting the following for the recommended capital budget as well as relative to two alternative scenarios below:

- Debt outstanding based on 2020 proposed and prior approval (blue bars)
- Forecast debt outstanding inclusive of new approvals (green bars)
- Maximum debt outstanding as a percentage of own source revenue at 120% (red line)

- Debt outstanding as a percentage of own source revenue (yellow line)
- Annual repayment limit relative to Provincial maximum of 25% (in box)

#### a) Budget



#### Assumptions:

- Capital financing budget remains constant through the multiyear horizon
- New and past debenture issues are forecasted to be issued when projects are complete as estimated based on historical trend of timing of approval.

Pros	Cons
<ul style="list-style-type: none"> <li>• S&amp;P and ARL debt ratios remain within limits which mitigates the risk of increased cost of borrowing.</li> <li>• No increases on the tax levy with the exception of the 1.54% for Long Term Care redevelopment.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires deferral of \$1.2B in capital projects over the 10 year forecast; does not resolve the funding gap.</li> <li>• Risk of potential asset failure and reduced level of service.</li> <li>• Requires separate levy increases in the forecast period as identified in CSD 51-2019</li> </ul>

**b) Maximizing the use of debt to where the Region reaches the 120% S&P threshold.**

The Region reaches the 120% S&P threshold with an additional \$310M of debt. This strategy is not recommended based on the analysis below.

Pros	Cons
<ul style="list-style-type: none"><li>• ARL debt ratio remains within limits, peaking at 14.7% in 2022</li><li>• The Region can expedite approximately \$310M of projects which reduces the funding gap</li><li>• Would allow the Region to lock in historically-low interest rates</li></ul>	<ul style="list-style-type: none"><li>• Additional debt will have a 10.06% impact on the 2020 tax levy</li><li>• S&amp;P debt ratio breaches 120% in 2020 which may increase the cost of borrowing</li><li>• Project resources (staff/time) may be inadequate to support the additional capital works in 2020</li><li>• Issuing debt in advance would incur interest costs for debt not yet required</li><li>• Issuing debt in advance commits funding to project cost estimates, which may be higher than actual costs</li><li>• Any new debt approvals will be limited to debt retirement</li><li>• Debt would be utilized to fund for state of good repair/renewal projects which is not in line with the Capital Financing Policy</li><li>• Could limit the ability for Local Area Municipalities to issue debt</li></ul>

**c) Utilize additional debt to add back into the budget the 2020 deferred capital projects with debt funding.**

The original 2020 deferred projects totaled \$150M however have been reduced to a need of \$79.3 million , with debt funding of \$71 million for levy and \$8.3 million for rate due to the following:

- Phased funding approach to be used for the Port Dalhousie WWTP Upgrade project (\$14M)
- Project extension granted for the Niagara Falls WWTP Secondary Treatment

- Upgrade (\$58M)

Pros	Cons
<ul style="list-style-type: none"><li>• S&amp;P and ARL debt ratios remain within limits which mitigates the risk of increased cost of borrowing, both ratios peak in 2022 (S&amp;P 105% and ARL 10.5%).</li><li>• The Region can consider adding back into 2020 previously deferred projects</li></ul>	<ul style="list-style-type: none"><li>• Additional debt will have a 2.3% impact to the 2020 tax levy and 0.4% impact on the 2020 rate budget</li><li>• Funding gap still exists in the future years.</li><li>• Debt would be utilized to fund for state of good repair/renewal projects which is not in line with the Capital Financing Policy.</li></ul>

## 2. Scope reduction of the Dain City Pump Station Forcemain Replacement project

The scope reduction of the project as described by the project manager:

Extensive approvals are required from the Ministry of Transportation (MTO) and other various permitting agencies to construct the multiple phases of the forcemain. The funds were deferred due to the anticipated duration required to obtain the necessary permits and background studies. Should the required approvals be granted in 2020 and remaining budget allows, construction within the MTO property limits will be undertaken in current year.

## 3. Methodology on vehicles replacement

Currently, there are a total of 556 licensed vehicles & unlicensed equipment inventoried on the Public Works M5 AssetWorks Fleet Management System:

220 (40%) are licensed vehicles:

- 28 (5%) Heavy Duty Commercial Vehicles:
  - Special Purpose Vacuum/Aerial Trucks, Dump Trucks;
- 93 (17%) Heavy Duty Trucks & Cargo Vans:
  - Ford F250-F550, GMC Sierra/Chevy Silverado 2500-3500;
- 58 (10.5%) Light Duty Trucks:
  - Ford F150, GMC Sierra/Chevy Silverado 1500, Dodge Ram 1500;
- 41 (7.5%) Minivans & SUVs:
  - Ford Escape/Ranger, Nissan Frontier, Dodge Caravan/Promaster.

336 (60%) are unlicensed equipment:

- Loaders, Backhoes, Trailers, Mowers, Trimmers, Saws.

Fleet Replacement Methodology adheres to the current Vehicle & Equipment Policy (PW5.FO1.0), which applies to all Regional vehicles and equipment that: i) are inventoried on the Public Works M5 AssetWorks Fleet Management System (M5); and ii) contribute monthly rental internal chargeback. This policy currently identifies Fleet Management's responsibility in recommending which vehicles & equipment should be replaced. The measurable criteria include:

- functional usefulness;
- overall operating costs; and
- costs of refurbishing existing equipment (to provide an extended useful and economic term of life).

The majority of vehicles applicable to this policy are located in Public Works division with a limited number of vehicles in Corporate Services (Facilities), Corporate Admin (Courier Services) and Community Services (Senior Services) divisions.

This policy does not apply to Niagara Region Police nor Emergency Medical Services vehicles which are not inventoried on the M5 System. In addition, Public Health vehicles on the M5 System (five vehicles for Tobacco Enforcement and one mobile Dental Bus), also do not contribute rental internal chargeback. This segregation exists as these vehicles are partially funded by other levels of government or have different legislative requirements/guidelines.

There is ongoing work reviewing the current Region vehicle and equipment compliment and identifying and communicating with customers on current applications and future needs. However, the Vehicle & Equipment Policy is currently in review as has not been recently updated for additional measurable criteria.

Current Fleet Replacement Methodology takes into account the policy stated above and recommendations provided in the Fleet Value For Money Audit (VFMA), completed in Fall 2016, which emphasized repurposing Regional vehicles to extend useful life when cost effective to do so. All vehicles and equipment are evaluated for repurposing to extend their useful life, however the greatest opportunities for redeployment across other departments are primarily limited to only 18% (99 vehicles) of the existing inventory. On average, 10% of these 99 vehicles are considered for replacement in any given year.

Currently, Fleet has redeployed 19 vehicles in Public Works and Corporate Services that were due for replacement in previous budget years and reallocated these vehicles on a short-term (6-12 months) basis in these departments where a temporary need exists to support incremental temporary staff (i.e. during summer months). The reallocation on a short-term basis allows oversight on ongoing repairs and maintenance, which tend to increase as vehicles age. In addition, repurposing fully depreciated vehicles may result in reductions to resale values and incremental operating costs

combined that are greater than the annual debt payment for a new vehicle. These costs (ongoing maintenance, repairs and lost resale value) need to be balanced in conjunction with all other criteria to inform an optimal retirement and replacement year, which minimizes the overall financial impact to the Region. Following the VFMA, the Capital Replacement Model was enhanced to include the recommendations contained in the VFMA providing better analysis and capital forecasts, which drive least cost solutions to the Region.

Niagara Region utilizes Government pricing (15% to 25% off retail) when purchasing new Base to Midgrade Fleet vehicles & equipment.

#### *Fleet Replacement Considerations*

1. *Age & Usage of Vehicles*
    - a. Useful life/age normally attained 8 to 12 years at standard depreciation
    - b. Usage includes kms or hours of heavy duty use
  2. *Reliability & Safety*
    - a. As a regional vehicle or equipment, reliability to perform duties for Public Works (e.g. special purpose vehicles, heavy duty trucks, backhoes)
    - b. Warranty expiration after 3 to 6 years on new vehicles
    - c. higher maintenance & repairs after warranty expires (increasing age and utilization drives increased repairs & maintenance costs)
  3. *Image*
    - a. Overall image we are required to maintain for Regional vehicles
    - b. Mandatory legislative requirements to maintain licensed vehicles
    - c. Discretion with unlicensed equipment; this does not include safety related items which are required
  4. *Price at Auction – Good Salvage Value*
    - a. Age/Usage of vehicle
    - b. Condition of vehicle
    - c. Market demand
- 4. Provide an updated Total Asset Consumption Ratio Table using the Regions of London, Windsor/Essex and Kitchener/Waterloo as comparators and information on the local area municipal rate increases.**
- a) The following table includes the 2013-2017 Total Asset Consumption Ratio from BMA Management Consulting's latest municipal study. Niagara Region is above the average consumption ratios of the sample of municipalities requested which

indicates that relative to the other municipalities, Niagara Region assets are older.

<i><b>Total Asset Consumption Ratio Trend</b></i>					
<b>Municipalities</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
London	33.9%	34.6%	35.3%	35.9%	36.2%
Windsor	38.9%	39.2%	41.0%	42.3%	43.0%
Kitchener	33.8%	33.9%	30.7%	30.4%	31.4%
Waterloo	35.1%	35.9%	36.9%	38.1%	38.9%
<b>Average</b>	<b>35.4%</b>	<b>35.9%</b>	<b>35.9%</b>	<b>36.6%</b>	<b>37.4%</b>
<b>Region Niagara</b>	<b>42.4%</b>	<b>42.7%</b>	<b>43.2%</b>	<b>41.6%</b>	<b>42.5%</b>

- b) The local area municipal rate increases for 2019 have been included in the following table. The increases were provided by Areas Treasurers meeting from May 2019. 2020 Rates are still in the process of being finalized.

<b>Municipality</b>	<b>2019 Water Increase</b>	<b>2019 Wastewater Increase</b>
<b><i>Niagara Region</i></b>	<b><i>2.77%</i></b>	<b><i>6.65%</i></b>
Fort Erie	1.39%	6.22%
Grimsby	2.90%	4.90%
Lincoln	3.10%	2.00%
Niagara Falls	Fixed 2.48% Volumetric 5.74%	Fixed 7.88% Volumetric 3.65%
Niagara on the Lake	6.94%	17%
Pelham	7.5%	9.5%
Port Colborne	2.79%	5.03%
St. Catharines	5.28%	5.28%
Thorold	1.86%	8.7%
Welland	7.71%	6.75%
West Lincoln	5%	5%

Respectfully submitted and signed by

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Helen Chamberlain, CPA, CA  
Director, Financial Management & Planning/Deputy Treasurer