



Media Release: Friday, December 7, 2018, 4:30 p.m.

Regional Municipality of Waterloo

Budget Committee

Agenda

Tuesday, December 11, 2018

Approximately 1:45 p.m. (following Council)

Regional Council Chambers, 2nd Floor

150 Frederick Street, Kitchener, Ontario

- 1. Declarations of Pecuniary Interest under the “Municipal Conflict of Interest Act”**
- 2. Opening Remarks** (S. Strickland)
- 3. Opening Remarks** (M. Murray)
- 4. 2019 Preliminary Budget Presentation** (C. Dyer)
- 5. [COR-FSD-18-24](#), 2019 Budget Overview**

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Recommendation:

That the Regional Municipality of Waterloo take the following action with respect to the 2019 Budget:

1. Approve the 2019 Budget timetable as set out in Schedule A to Report COR-FSD-18-24 dated December 11, 2018;
 2. Forward a copy of Report COR-FSD-18-24 to the Waterloo Region Police Services Board.
- 6. Next Meeting – January 16, 2019 (Detailed Budget Review Day 1)**
 - 7. Adjourn**



Report: COR-FSD-18-24

Region of Waterloo
Corporate Services
Financial Services and Development Financing

To: Chair Sean Strickland and Members of the Budget Committee

Date: December 11, 2018 **File Code:** F05-30

Subject: 2019 Budget Overview

Recommendation:

That the Regional Municipality of Waterloo take the following action with respect to the 2019 Budget:

1. Approve the 2019 Budget timetable as set out in Schedule A to Report COR-FSD-18-24 dated December 11, 2018;
2. Forward a copy of Report COR-FSD-18-24 to the Waterloo Region Police Services Board.

Summary:

The objective of this report and the December 11, 2018 Budget Committee meeting is to provide Committee members with an overview of the 2019 operating budget and 2019-2028 capital program. Details of the proposed 2019 Tax Supported and User Rate operating budgets and capital programs are provided in the 2019 Preliminary Budget Book, the Budget Issue Paper package, Budget Information Papers and through staff presentations at Budget Committee.

Proposed user rate budgets include 2019 wholesale rate increases of 2.9% for Water Supply and 6.9% for Wastewater Treatment, the same levels as projected for 2019 in the 2018 budget, effective January 1, 2019. Retail user rates in 2019 are recommended to also remain the same as projected in the 2018 budget for 2019, with Water Distribution increases at 7.9% and Wastewater Collection at 4.9%, effective March 1, 2019. The 2019-2028 capital program for water and wastewater, including retail water distribution

and wastewater collection, is projected to be \$1.0 billion over 10 years as compared to \$1.1 billion in the 2018-2027 capital plan.

The Municipal Property Assessment Corporation (MPAC) has completed all assessment changes for the 2019 assessment roll and final growth is 1.92% which was very close to 2018 assessment growth (1.93%). Assessment growth has been prorated between Regional Services (1.32%) and Police Services (0.60%) for cited tax impacts.

The current position of the Regional property tax supported base budget (excluding budget issue papers) results in a 2019 tax impact of approximately 1.9% net of assessment growth. Proposed 2019 Budget Issue Papers would, if approved, cost an additional \$6.3 million (tax impact of 1.2%), with annualization into 2020 of \$3.4 million (tax impact estimated to be 0.64%). The proposed 2019-2028 Tax Supported Capital Program for Regional services (excluding Police Services) anticipates total expenditures in 2019 (including estimated unspent approvals from prior years) of \$283 million and a 10 year total investment estimate of \$2.1 billion.

Report:

1. Economic Conditions

Report COR-FSD-18-15 dated June 19, 2018 provided an overview of economic conditions affecting the Region's 2019 budget. Since that time, a number of significant developments have occurred, including:

- Forecasts for real GDP growth in 2018 and 2019 are now in the 2.0% - 2.2% range.
- Over the course of 2018, the Canadian dollar declined from \$0.80 USD in February to \$0.75 USD in recent months.
- Short term interest rates have risen, with three 0.25% increases in the overnight Bank of Canada interest rate announced in January, July and October of this year.
- Oil prices rose over the first nine months of 2018, increasing from \$59 USD to \$76 USD per barrel. Since October, the price of oil has dropped dramatically to its current level of approximately \$53 USD per barrel.
- The provincial government, through the Independent Financial Commission of Inquiry (see Report COR-18-02 dated November 6, 2018) and its recent 2018 Fall Economic Statement has now revised its current fiscal year deficit to \$14.5 billion.
- The federal government, as announced in its recent fall Economic Statement, is predicting a 2018/19 deficit of \$18.1 billion.

1.1. Inflation

The most recent Consumer Price Index figures (October 2018) show consumer inflation running at 2.5% for Ontario and 2.4% for Canada, year over year. A few short months ago, inflation was above 3%, year over year for Ontario. Forecasts for 2019 are in the 2.5% range and for 2020, in the 2.2% range.

1.2. Interest Rates

The overnight interest rate set by the Bank of Canada has increased to 1.75% (from 1.0% at this point last year). Current 10 year borrowing costs for the Region are in the 3.25% range. Most financial institutions are projecting long term borrowing rates to increase in 2019, 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 projected to be a bit more tempered than the 3.0% seen in 2017. According to the Bank of Canada Monetary Policy report for October 2018, Canadian gross domestic product growth is expected to be approximately 2.1% in 2018 and forecasted to stay at that level in 2019. Falling oil prices and trade uncertainty with the United States are contributing to falling growth rate expectations.

1.4. Local Economy

At a local level, the regional economy continues to show strength. As reported in staff report PDL-CPL-18-15 2017 “Building Activity and Growth Monitoring”, the total value of building permits issued for new construction in Waterloo Region was over \$1 billion in 2017, a decrease of 26 per cent from the previous year’s values, but just 5 per cent lower than the 10-year average. This included almost 3,232 residential units and over 2 million square feet of new non-residential floor space.

1.5. Unemployment rates and Ontario Works Caseload Levels

The unemployment rate in October 2018 was 5.2% in Waterloo Region which was below that of Ontario at 5.7%. Ontario Works caseload levels have been in the range of 8,850 - 9,400 per month since the beginning of 2017. The October 2018 caseload (9,384) remains 57% higher than pre-recession levels, and is 2.4% higher than October 2017.

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)**

	2014	2015	2016	2017	2018 YTD (October)
Residential	\$44.1	\$33.9	\$67.3	\$42.9	\$31.4
Non-Residential	\$14.3	\$10.4	\$13.4	\$14.4	\$11.7
Total	\$58.4	\$44.3	\$80.7	\$57.3	\$43.1

RDC revenue for 2017 was \$57.3 million (\$42.9 million residential and \$14.4 million non-residential), down by \$23.4 million or 28.9% compared to 2016. Collections to the end of October are trending at approximately the same levels seen in 2017.

Note: total 2016 RDC revenue was significantly higher than previous years and 2017 due to an influx of building permits issued in 2016 in advance of increased Education Development Charges which came into effect June 1, 2016 and RDC rate increases related to the amended by-law for Transit and Waste Management coming into effect in January 2017.

2. 2018 Regional Budget Recap

The 2018 Budget included a Regional tax levy of \$514 million, an average tax impact of 2.74% (of which 2.27% related to direct Regional programs and 0.47% related to Police Services), and user rate increases of 1.9% for water and 7.9% for wastewater effective March 1, 2018. The Regional tax levy comprises approximately 53% of the total average residential property tax bill. Approximately 69% of the 2018 tax levy is for direct Regional services and 31% is for Police Services.

3. Draft 2019 User Rate Operating Budgets and 2019-2028 Capital Plan

Details regarding the preliminary 2019 base budgets for Water and Wastewater and the 2019-2028 capital programs are provided in the 2019 Preliminary Budget document. As part of the budget process, staff review operating expenditures, revenues, capital program and flow volume. Adjustments to flow volumes have been made to better reflect anticipated flows for 2019-2028.

The proposed water and wastewater budgets include wholesale rate adjustments of 2.9% for water and 6.9% for wastewater effective January 1, 2019. The proposed increases are unchanged from the 2019 increase projected in the 2018 rate models. Retail water rates in Wellesley and North Dumfries are proposed to increase by 7.9% for water distribution, which is the same rate increase as in 2018 and 4.9% for wastewater collection, which is lower by one per cent than the 2018 rate increase. The 2019 budget proposes to increase the monthly charge for both retail water and wastewater by \$1 per month.

The following tables provide a comparison of approved 2018 proposed 2019 rate increases.

Wholesale Rate (effective January 1, 2019)	2018 approved user rate increase	Projected 2019 user rate increase from 2018 forecast	Current estimate of 2019 user rate increase
Water supply	1.9%	2.9%	2.9%
Wastewater treatment	7.9%	6.9%	6.9%
Water distribution	7.9%	7.9%	7.9%
Wastewater collection	5.9%	4.9%	4.9%

Retail Rate (effective March 1, 2019)	2018 approved monthly service charge	Projected 2019 monthly service charge from 2018 forecast	Current estimate of 2019 monthly service charge
Water distribution	\$9.00	\$10.00	\$10.00
Wastewater collection	\$7.00	\$8.00	\$8.00

The total use rate revenue requirement for 2019 is \$138.2 million as outlined in the following table:

User Rate revenue requirement (\$millions)

Program	2018 Budget	2019 Budget	
Water Supply net operating expenditure	\$34.2	\$33.6	
Water Supply contribution to capital reserve	21.7	24.0	
Subtotal Water Supply	55.9	57.6	
Wastewater Treatment net operating expenditure	37.3	40.7	
Wastewater Treatment contribution to capital reserve	35.2	36.0	
Subtotal Wastewater Treatment	72.5	76.7	
Water Distribution net operating budget	2.1	2.1	
Waste Distribution contribution to capital reserve	0.4	0.4	
Subtotal Water Distribution	2.5	2.5	
Wastewater Collection net operating budget	1.1	1.2	
Wastewater Collection contribution to capital reserve	0.2	0.2	
Subtotal Wastewater Collection	1.3	1.4	
Total	\$132.2	\$138.2	4.5%

Funding for capital comprises a significant portion of rate revenue requirements, and consequently, has a significant impact on user rates. The 2019-2028 Water Services capital program has been adjusted to reflect significant changes resulting from the Wastewater Treatment Master Plan Update (TES-WAS-18-09 dated May 1, 2018). The 2019-2028 capital program for water and wastewater, including retail water distribution and wastewater collection, is projected to be \$1.0 billion over 10 years as compared to \$1.1 billion in the 2018-2027 capital plan. The Ten Year Water Supply and Wastewater Treatment Capital financing plan is summarized as follows:

	2019-2028 Capital Program (\$ millions)	Water	Wastewater	Total	% of Total
Capital funding and financing sources	Capital reserve (including Equipment/Vehicle reserves)	\$265	\$310	\$575	57%
	Debt recovered from future user rates	26	5	31	3%
	Development charge reserve funds	100	114	214	21%
	Debt recovered from future development charges	86	97	183	18%
	Grants	-	4	4	1%
Total ten year capital investment		\$477	\$530	\$1,007	100%

Significant capital investments made in recent years, particularly in the wastewater capital program, provide for long term sewage capacity, while the benefitting growth will occur over an extended period of time. Due to the timing of RDC collections relative to the 'upfront' nature of growth-related capital investment, debentures have been issued. Future debt servicing costs associated with these debentures will be funded future RDC collections.

The financing plan for the 2019-2028 capital program includes anticipated RDC funding based on current RDC rates. These RDC rates are currently under review and will be updated as part of the 2019 RDC By-law review process. Of note, it is projected that \$183 million in growth related debt will be required over the next 10 years, which increases risk to user rate base if sufficient RDC's are not collected to fund debt servicing costs, and increases the overall amount of regional debt outstanding. Through the upcoming RDC by-law review, staff will be developing guidelines and policies governing the issuance of growth-related debt, as an important component of a long term financial sustainability plan. Staff have identified a modest need for user rate supported debt for water supply (\$26 million) and wastewater (\$5 million) over the 10 year period.

There are two budget issue papers for Water Services for 2019:

- Addition of one permanent Water Coordinator, Source Protection Planning to ensure the delivery of the Source Protection Plan approved in 2016 (page 9 of Budget Issue Paper package).
- Converting a temporary Water Supervisor, Maintenance and Programs to permanent to ensure continuation of operations and systems during the replacement of critical infrastructure and the implementation of the enhanced asset management program (page 11 of Budget Issue Paper package).

The Water and Wastewater Operating and Capital Budgets will be the subject of a detailed staff presentation at the Budget Committee meeting on January 16, 2019. Further details regarding 2019 user rate budgets will be presented in Information Papers for Water Supply and Wastewater Treatment at that meeting. The Water and Wastewater 2019 operating budget, 2019-2028 capital program and 2019 user rates are scheduled to be approved on February 6, 2019.

4. 2019 Preliminary Tax Supported Operating Budget

Details regarding the preliminary 2019 base budget for tax supported services are provided in the 2019 Preliminary Budget document. The 2019 base budget reflects the amount of funding required to deliver the current Council-approved level of service and provides for all collective agreements, estimates for benefit rates and inflation, annualization of prior years' approved initiatives, debt servicing costs, estimated provincial and federal funding and user fee revenue.

Current estimates of the preliminary base budget position excluding Police Services requires a property tax levy of \$369.7 million, which is an increase of approximately \$16.5 million and translates to a 1.85% tax impact over 2018. The current preliminary position, as set out in the table below, incorporates 2018 assessment growth of 1.92% pro-rated between Regional Services (1.32%) and Police Services (0.60%). The opening base position excludes service enhancements made through budget issue papers.

Status Of Preliminary 2019 Tax Supported Operating Budget (excluding Budget Issue Papers and Police Services)	Tax Rate % impact
Direct Regional Services – base budget	3.17%
Less: regional share of assessment growth	(1.32%)
Tax impact of Regional programs – current estimate	1.85%

There are a number of projects, factors and initiatives that impact the 2019 property tax supported operating budget discussed in the following sections.

4.1 Regional Transportation Master Plan (RTMP)

The Council-approved funding strategy for implementation of ION Stage 1 and Grand River Transit service expansion will conclude in 2019. Previously approved tax increases, determined as a per cent of the previous year's regional property tax levy, were as follows:

- 1.5% in 2012, 2013, 2015, 2016 and 2017; and
- 1.25% in 2014 and 2018.

The 2019 base budget includes a final 0.75% urban levy tax increase.

4.2 Provincial Offences Act (POA) / Red Light Camera Revenues

As mentioned in the periodic financial report COR-FSD-18-19 presented to the Administration and Finance Committee on October 2, 2018, year to date POA revenues are meeting budget estimates. Expenses are higher than budgeted by \$351,000 as a result of staffing backfill and an additional temporary clerk, adjudication fees for additional court dates, security and extra crown prosecution fees to deal with the volume of cases. Given the uncertainty regarding the nature of large fine collections, POA revenues have not been increased in the base 2019 budget.

4.3 Transit System Fare Revenue

GRT ridership revenues in 2018 are projected to exceed annual budget estimates by approximately \$1.2 million and this is due, in part, to higher Conestoga College ridership coupled with ridership increases resulting from the end of light rail transit ("ION") construction detour routing. GRT revenue was budgeted at \$34.0 million in 2018. Actual fare revenue in 2018 is projected to be \$35.2 million. ION service is expected to launch in the spring of 2019 and total transit system revenue, including ION service, is anticipated to be \$38.8 million.

4.4 Provincial Funding

As referenced in report COR-FSD-18-17 dated August 14, 2018, staff are awaiting information from the new provincial government with respect to funding for cost-shared programs in 2019. The 2019 budget has been based on existing funding formulas, and in most cases, is unchanged from 2018. Additional funding of \$8.3 million for 100% funded Ontario Works Benefits has been assumed, as well as additional funding for paramedic services relating to 2017 and 2018 service expansions, based on the current 50/50 cost sharing split. Provincial funding for cost-shared services in the 2019 budget is summarized in Appendix A.

4.5 Ontario Works

As of 2018, the upload of Ontario Works (OW) benefit costs to the Province was complete and the provincial government is now paying 100% of the cost of OW benefits. The Region receives approximately \$20 million in provincial funding for OW administration costs, which is comprised of a mix of 100% funded and 50/50 cost-shared administrative expenditures.

The new Provincial government undertook a 100 day review of social assistance programs in Ontario shortly after taking office. On November 22, 2018 it announced that it plans to reform social assistance, by focussing it on assisting Ontario Works recipients in exiting to employment, as well as restructuring and modernizing the current system to make it more efficient for the clients. It was indicated that changes will be implemented slowly allowing time for consultations to take place and that changes will allow for local flexibility acknowledging that community needs may differ.

Through the Employment and Income Support Division of Community Services, the Region provides services to individuals on social assistance through OW and Ontario Disability Support Program (ODSP). The 2019 Ontario Works Discretionary Benefits (OWDB) budget has been set at the same level as 2018. The OWDB budget of \$4.56 million is funded by the Province (\$2.825 million) and by Regional property taxes (\$1.735 million).

4.6 Housing Services

- **Loss of Federal Subsidy**

Federal housing subsidies, which flow through the province, will be reduced by \$488,000 in 2019. This funding is tied to operating agreements with fixed terms that were signed at the time of unit construction. Net of expiring mortgage costs, the impact to the tax levy relating to the Waterloo Regional Housing program is an increase of approximately 228,000 for 2019.

- **Non Profit and Cooperative Housing Subsidies**

The Region provides subsidies to non-profit and cooperative housing providers totalling \$25.0 million per year based on various funding models. Subsidies to housing providers in 2018 are estimated to be under budget by \$27,000 which equates to a variance that is less than 1.0%. A budget increase of \$124,000 has been included in the 2019 preliminary base budget. The funding models for these programs are mandated by the Province.

- **Housing move out/unit refurbishment costs**

Move-out/unit refurbishment costs (flooring, painting, bathroom restorations) are projected to be higher than budget by \$821,000 in 2018 as reported in COR-FSD-18-19 Periodic Financial Report – Year End Projections Based on Financial Results to August 31, 2018. This cost trend is in large part due to aging stock and 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. A budget adjustment of \$350,000 was made in the 2018 budget and a further increase of \$250,000 has been included in the 2019 preliminary base budget. Staff will undertake a LEAN process review relating to unit refurbishments in 2019.

4.7 Downtown Core RDC Exemptions

As reported in staff report COR-FSD-17-33 Downtown Core Regional Development Charge Exemptions Funding Strategy dated November 22, 2017, the expiry of downtown core Regional Development Charge exemptions in Kitchener and Cambridge in early 2019 is expected to result in an increased number of building permit applications made before the February 28 deadline. Staff had previously estimated the total cost of exemptions to be approximately \$45 million. Staff will provide an updated estimate of the cost of downtown core exemptions as part of the 2019 budget process during a future Budget Committee review meeting.

Council in 2017 approved a funding strategy whereby the cost of exemptions incurred in 2017, 2018 and early 2019 (above funding available in the current year operating budget) would be funded over a period of ten years in order to better match the timing of development activity. Exemption funding is provided through both the tax supported and user rate operating budgets. An additional \$2.2 million in annual tax supported funding was estimated to be required to fund these exemptions over the ten year period and accordingly, an incremental budget provision of approximately one third, i.e., \$750,000 has been added to the tax supported operating budget in 2018 and 2019. The amount required in 2020 will be finalized after February 28, 2019 when the actual amount of exemptions will be known.

4.8 Waste Management Collection and Processing Contracts

The preliminary 2019 Waste Management operating budget increases are primarily a result of external contracts for waste collection, hauling and processing, and relate to increases in price inflation, level of activity, and fuel price as follows:

- The waste collection budget has been increased by \$919,000 to reflect contract inflation (\$358,000), an increased number of households serviced due to growth (\$263,000), as well as a provision for fuel price inflation (\$298,000).
- The budget for waste hauling has been increased by \$75,000 to cover an increase in loads (mostly green bin material), inflationary and fuel price increases.
- The budget for green bin and blue box processing have been increased to cover additional tonnage and price inflation (green bin \$408,000, blue box \$75,000) following implementation of new collection service standards. The increased provision for green bin processing will cover an estimated volume increase of 4,000 tonnes (from 22,000 tonnes to 26,000 tonnes).

4.9 Fuel Prices

Following the dramatic reduction in oil prices in late 2014 (from \$108 USD per barrel to \$55 USD per barrel over a period of 6 months), Council adopted a fuel price strategy in the 2015 budget which has remained in place through the 2018 budget. The strategy successfully mitigated the risk of a potential increase in oil prices while taking advantage of temporarily lower fuel prices. The strategy provided that a portion of budget savings resulting from lower fuel prices would accrue to the property tax levy and a portion would be transferred to reserves to reduce future borrowing requirements, mainly for GRT replacement buses.

The 2018 budgeted prices for fuel were set at \$0.92/L for diesel and \$0.95/L for gasoline. For the preliminary 2019 base budget, the budget price for both fuel types has been set at \$1.03/L, which was the Region's average price of gasoline when the preliminary base budget was drafted in late September. The price of gasoline has since fallen in relative lock-step with the price of oil since early October and currently sits at approximately \$0.95/L, while the Region's price of diesel currently sits at approximately \$1.07/L. The annual average year to date price for diesel and gasoline is \$1.07/L and \$1.09/L, respectively. A chart comparing the Region's year-to-date prices for gasoline and diesel to their respective budgeted fuel price is included as Appendix B.

Interestingly, the price of diesel has been trending higher than gasoline, demanding a premium of \$0.20 - \$0.25/L in recent weeks. Gasoline and diesel prices are largely driven by global market conditions for each fuel type. The International Maritime Organization has introduced new regulations that will require the shipping industry to reduce sulphur emissions to a defined target by January 1, 2020. As a result, the shipping industry has largely shifted to using diesel,

increasing demand for diesel and creating a diesel shortage in some regions. For gasoline, prices have been dropping due to a record high refinery processing volumes in the third quarter of 2018 in combination with flattening consumption.

Since fuel prices are expected to be higher in 2019 than in 2018, the fuel price strategy has been removed in the 2019 preliminary base budget. The strategy served its purpose as it has enabled budgeted diesel and gasoline prices to effectively increase to \$0.98/L and \$1.00/L respectively, with no impact to the tax levy. Over the 4 years, \$3.5 million was transferred to reserves to reduce long term borrowing.

Staff will bring forward recommendations for further adjustments to budgeted fuel prices at the February 6, 2019 Budget Committee meeting.

4.10 Capital Financing Requirements in the 2019 Operating Budget

Sources of financing for the Region's capital program impact the operating budget as follows:

- **Debenture financing:**

At the end of 2018, the Region will have approximately \$689 million in debt outstanding. During 2018, \$54 million of debt was retired while approximately \$52 million of debt was added through two Regional debenture issues. The impact on debt servicing costs in 2019 operating budgets is summarized in the following table:

Funding Source	Budgeted Debt Servicing Costs (\$millions)			
	2018 Budget	Retirements	Additions	2019 Budget
Development Charges	\$8.5	\$0.0	\$0.9	\$9.4
Property Taxes (direct levy and reserves)	53.4	(3.7)	4.0	53.7
User rates	10.6	(0.8)	1.2	11.0
Subtotal	\$72.4	(\$4.5)	\$6.1	\$74.0

- **Capital Asset Renewal Funding Strategy:**

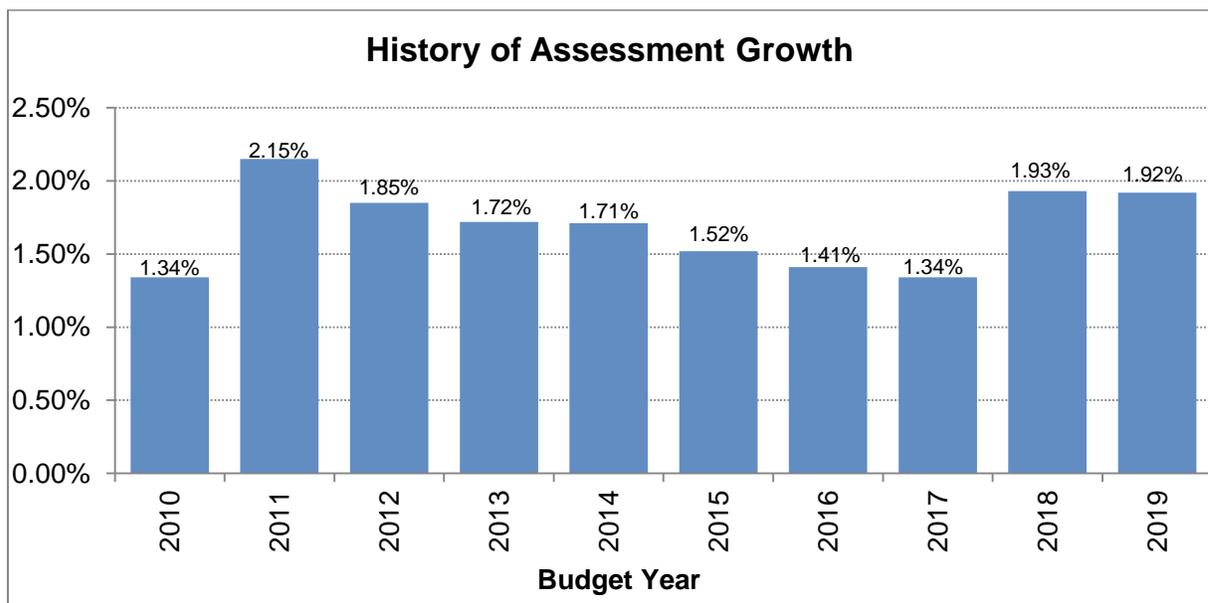
Through staff report COR-FSD-18-16 Capital Asset Renewal Funding Strategy dated June 19, 2018 Council approved, subject to annual budget approval, the implementation of a funding strategy in order to keep the Region's assets in a

state of good repair without reliance on long term borrowing. The preliminary 2019 tax supported base operating budget includes an incremental provision of \$2.1 million in funding for state of good repair works, allocated as follows:

- An increase of \$1 million to the Building Lifecycle Provision: Introduced in 2015, this provision is a critical funding strategy specifically intended for financing Regional facility asset renewal works. Issuing debt to finance building renewal works will continue until such time that the level of funding for lifecycle projects is sustainable. The 2019 base budget provision is \$5.0 million, while analysis of the proposed 2019-2028 capital forecast indicates that a sustainable budget provision in the range of \$26 million annually is required for this purpose.
- Waste Management asset renewal works: A provision of \$1.1 million has been added to the Waste Management budget. The Waste Management capital renewal program is financed primarily through property tax supported debentures (of the total \$149 million 2019-2028 Waste Management capital program expenditure, \$104 million is funded through property tax supported debentures). The \$1.1 million increase in the 2019 budget to fund the Waste Management projects results in avoidance of \$11 million in debt issuance over the ten year plan period and \$2.2 million in interest costs over the life of debentured amounts (assuming debt would be issued for a ten year term at 3.5%).

4.11 Assessment Growth

Assessment growth in 2018 for the 2019 budget year has been finalized at 1.92%, which is virtually the same assessment growth seen in 2017 for the 2018 budget:



Assessment growth is a net position after accounting for the various factors that impact the assessment base. An information paper providing background information on assessment growth will be presented at the January 16, 2019 Budget Committee meeting.

4.12 Employee Compensation

The base budget for 2019 reflects the salary and benefit provisions of collective agreements where a collective agreement is in place for 2019 and includes an estimate for those bargaining units that have yet to reach a negotiated settlement for 2019. Employee compensation costs represent an estimated 30% of total budgeted Regional spending in 2019.

4.13 2019 Base Budget Staff Complement

The continuity of Regional staff complement is as follows, with all figures shown as full time equivalents:

	Permanent	Temporary	Total
2018 Final Budget Book	2,942.9	117.5	3,060.4
2018 Council-approved additions (for 2018)	5.0	-	5.0
2018 restated complement	2,947.9	117.5	3,065.4
2018 Council-approved additions (for 2019)	4.6	2.5	7.1
2019 complement, starting point	2,952.5	120.0	3,072.5
Temporary contract expirations	(1.0)	(13.3)	(14.3)
Base budget reductions	(1.0)	(1.6)	(2.6)
2019 base budget complement	2,950.5	105.2	3,055.7
2019 complement change	(2.0)	(14.9)	(16.8)

New staff positions are approved only through approval of budget issue papers or staff reports throughout the year.

4.14 Base Budget Reductions

On an annual basis, staff review operating budgets in an effort to identify efficiencies and budget reductions which do not affect service levels. This year's review has resulted in tax supported base budget reductions of \$1.1 million and base budget reductions in the user rate budget of a further \$1.1million. The base budget reductions include cost reduction measures such as implementing energy saving retrofits and reviewing and adjusting staffing levels and overtime

requirements. The table below identifies the extent of base budget reductions over the last five years in both the tax supported and user rates budgets:

Base Budget Review Reductions (\$millions)

	2015	2016	2017	2018	2019	Total
Tax supported	\$1.8	\$1.7	\$2.6	\$1.7	\$1.1	\$8.8
User rates	0.5	0.9	0.8	0.4	1.1	3.7
Subtotal	\$2.3	\$2.6	\$3.4	\$2.1	\$2.2	\$12.5

5. Budget Issue Papers

A number of budget issue papers are being recommended for 2019. Some budget issue papers relate to program expansions as set out in master plans and business plans, while others address legislative/safety related concerns or insufficient staffing levels required to achieve the current level of service. A complete package has been prepared and is available electronically on this agenda. Proposed 2019 budget issue papers have a total tax supported budget impact of \$9.7 million: a 2019 property tax levy of \$6.3 million (tax impact of 1.20%) and annualization of \$3.4 million in 2020 (tax impact estimated to be 0.64%). A summary of proposed 2019 Budget Issue Papers has been included in Appendix C.

6. Draft 2019-2028 Tax Supported Capital Program

The Region of Waterloo's 2019-2028 tax supported capital program sets out planned investments in infrastructure, facilities, equipment, vehicles and related studies, along with the proposed sources of funding and financing for such investments. The Region is a large and growing community which puts increased pressure on municipal infrastructure for both expansions of and additions to infrastructure, as well as for renewal of existing infrastructure. The master/business planning process identifies both operating budget and capital assets required to meet growth expectations for a given service. Once approved, master and business plans form part of the budget process and are subject to annual budget approval. Operating budget increases are brought forward in the form of budget issue papers and capital projects are included for consideration in the ten year capital program.

6.1. Capital expenditure

The preliminary 2019-2028 Tax Supported Capital Program for Regional Services includes total expenditure in 2019 of \$283.4 million (including estimated unspent previous approvals of \$99.8 million from 2018) and a 10 year total expenditure estimate of \$2.1 billion. Appendix D provides a summary of 2019-2028 capital program expenditure by division.

Major capital works which will continue or which will be undertaken in 2019 include:

- GRT Northfield Drive transit maintenance and storage facility
- Paramedic Services headquarters and operations centre
- Numerous road expansion and rehabilitation projects
- Building lifecycle work at various Regional Administration buildings
- Housing facilities lifecycle work
- Landfill cell development

The 2019 - 2028 tax supported capital program also reflects the following significant changes:

- Approval of the Police Facilities Accommodation master plan in 2018;
- Adjustments to timing of Airport master plan Trigger 2 and 3 projects;
- The recently approved Transportation Master Plan;
- Significant re-profiling of the Transportation rehabilitation program in order to minimize debt associated with this renewal work

Staff undertook the annual process of reviewing 2018 capital programs with all departments in June and July. This process included reviewing the need, scope, cost and timing of projects. The purpose of these reviews was twofold: to inform the development of the next capital program and provide a basis for determining long term borrowing amounts in 2018. One result of these discussions is that overall debt servicing costs funded by the tax levy, originally estimated to be \$1.3 million higher in the 2019 budget than in the 2018 budget, will now not result in any incremental tax supported debt servicing costs.

Planned capital investment in 2019 is generally unchanged as compared to the 2019 projection in the 2018 capital plan. As set out in the 2019 – 2023 years of the preliminary capital program, expenditures have increased by approximately \$50 million over the approved 2018 plan for Direct Regional tax supported services. Appendix E provides a summary of 2019 capital program expenditure changes from the 2018 capital program. Details of proposed capital projects are provided for each division in the 2019 Preliminary Budget Book.

It should be noted that certain ten year capital programs, including Transit Services and Transportation, anticipate receiving Investing in Canada Infrastructure Program (ICIP). Cost sharing is assumed to be 40% federal and 33% provincial which amounts to approximately \$118.5 million of federal funding and \$97.8 million of provincial funding. While the bilateral agreement has been signed by the Governments of Canada and Ontario, the new provincial government has yet to signal its intent with respect to honouring the agreement. As a result, annual allocations to municipalities have yet to be established and a target date to execute a

Transfer Payment Agreement between the Region and the Province has not been determined. That being said, the Province has indicated that program announcements could be made shortly. If provincial funding does not materialize, some projects may need to be deferred, scaled-back or cancelled. In the event that program guidelines are changed, staff will report back with proposed amendments to the capital program.

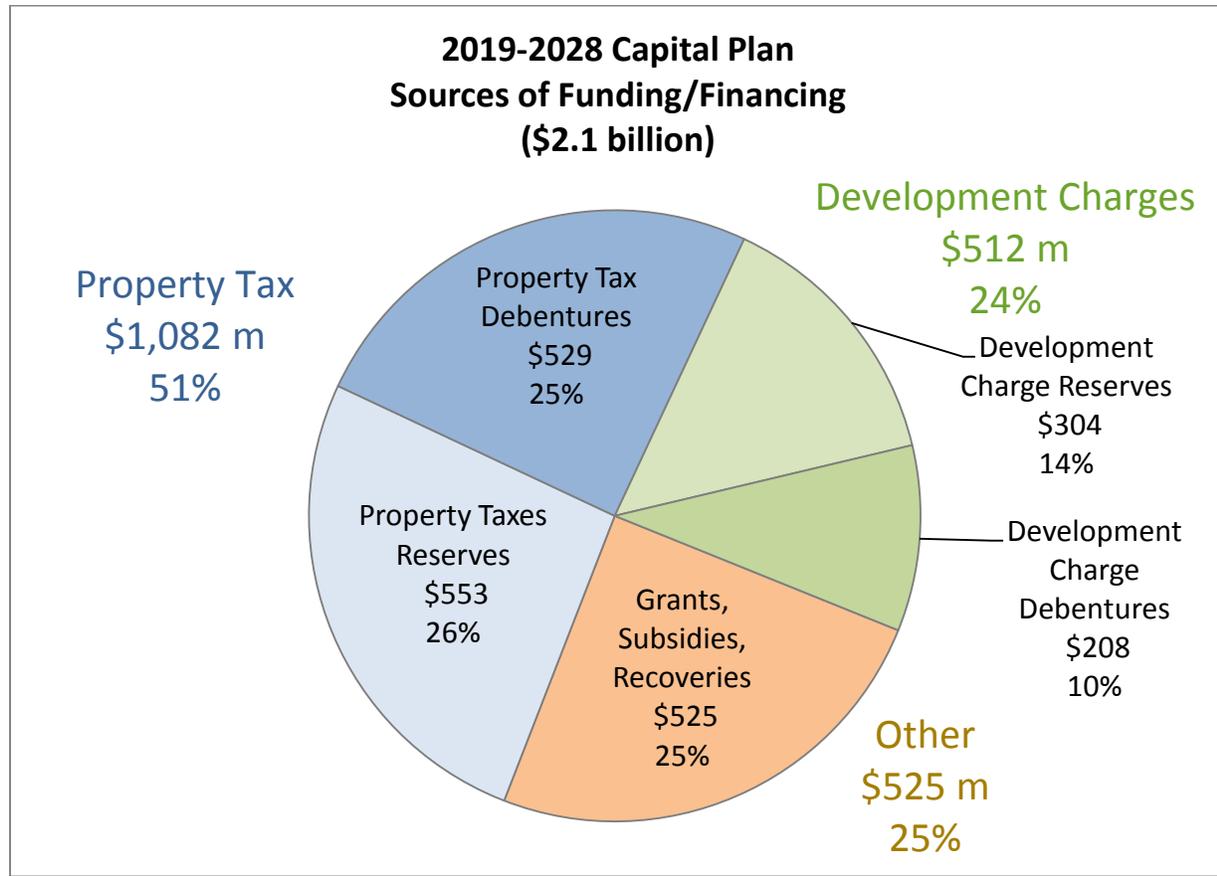
6.2. Capital Financing

There are limited sources of funding for capital works, as set out in the table below:

CAPITAL PROGRAM FUNDING AND FINANCING

FUNDING SOURCE	FINANCING METHOD
Property taxes	<ul style="list-style-type: none"> • Reserves (from prior years' taxes) • Current year transfers to capital projects • Long term borrowing, to be paid for by future taxpayers
Development Charges	<ul style="list-style-type: none"> • Reserves (from current and prior years' RDC collections) • Long term borrowing, to be paid for by future development
Grants and subsidies	<ul style="list-style-type: none"> • Project specific Provincial, Federal grants/subsidies
Third party recoveries	<ul style="list-style-type: none"> • Project specific recoveries from municipal or private sector partners

In the development of the 2019-2028 capital plan, staff applied capital financing principles as set out in the June 14, 2016 report COR-FSD-16-15. The funding sources identified in the preliminary 2019-2028 capital plan reflect current federal and provincial grant approvals, including Public Transit Infrastructure Fund (PTIF) Phase 1 funding, anticipated Investing in Canada Infrastructure Program (ICIP) funding, anticipated development charge collections under the Region's Development Charge By-law 14-046, as amended by By-law 16-053, and other recoveries agreed to by third parties. Sources of funding/financing for the preliminary 2019-2028 tax supported capital program are set out in the following pie chart:



The tax supported capital program is funded in part by regional development charges (RDC). Staff continue to review RDC reserve funds and projected collections in order to assess capital program affordability over the forecast period. Financing options for the 2019-2028 capital plan include anticipated RDC collections based on current RDC rates. These RDC rates are currently under review and will be updated as part of the 2019 RDC By-law review process. Through the upcoming RDC by-law review, staff will be developing guidelines and policies governing the issuance of growth-related debt, as a component of a long term financial sustainability plan.

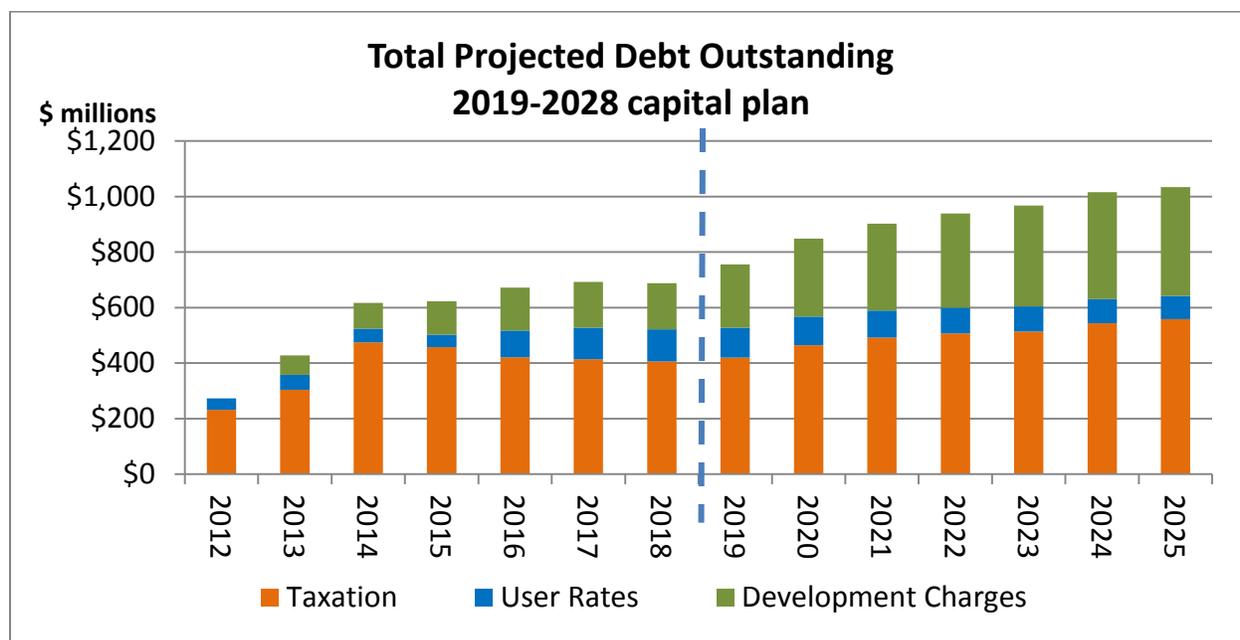
Long Term Borrowing

As reported in previous budgets, the Region’s capital program for certain services is heavily debt-financed, and debt-financed projects might not proceed in the absence of additional funding from the federal and provincial governments. While the use of debt financing should be focused on significant infrastructure expansion projects, a significant amount of debt financing continues to be required for asset renewal projects. Most regional programs continue to rely on long term borrowing as the primary source of financing for capital works. A summary of Regional services with significant long term financing requirements based on the preliminary 2019-2028 tax supported capital program is set out in the following table:

\$ millions				
Program area	2019-2028 capital expenditure	Debt funding source		Total debt financing amount and % of expenditure
		Tax levy	RDC	
Transportation	\$871	\$75	\$123	\$197 23%
Transit Services	339	45	12	57 17%
Facilities	248	164	-	164 66%
Airport	201	58	71	129 64%
Waste Management	141	99	-	99 70%
Housing	138	48	-	48 35%
Paramedic	52	20	2	22 43%
Culture	28	21	-	21 75%
Other	123	13	-	13 11%

Full details of the capital program and associated financing strategies are included in the 2019 Preliminary Budget document. Regional projects in the preliminary 2019 capital budget will require approximately \$109 million in debenture financing in 2019. Should some of these capital projects not be completed, be completed below budget, or should alternate sources of funding be realized, the amount of debenture financing required would be reduced accordingly.

The following graph provides a projection of regional debt outstanding. While the overall amount of debt has remained relatively constant over the past three years, significant increases in debt outstanding are projected over the next 5 years as the Region undertakes significant capital projects, many of which are the outcome of various master plans approved by Council. This chart points to the need for a significant increase in tax levy contributions to fund state of good repair projects, in the form of the previously discussed Asset Renewal funding strategy.



7. Public Engagement

Recently, the Region changed its online public engagement platform provider to a new product: Bang the Table. Staff are reviewing the functionality of this platform and developing a public engagement initiative that will provide opportunities for citizens to provide quantitative and qualitative feedback on the 2019 budget. An information paper providing an overview of the public engagement initiatives to be used for the 2019 budget will be provided at the Budget Committee meeting on January 16, 2019.

8. Budget Schedule

The proposed 2019 budget review schedule is attached as Appendix F. Future meetings are proposed as follows:

- January 16, 2019 (Council date) – Detailed budget overview, GRCA presentation, public input
- February 6, 2019 (Council date) – Budget updates, user rate budget approval, Police Services presentation, public input
- February 19, 2019 (Committee date) – Final budget approval, user fees and charges approval

Staff recommend that Committee approve the proposed 2019 Budget schedule.

Corporate Strategic Plan:

The budget process enables Council to achieve its Corporate Strategic Plan by allocating appropriate resources to each focus area.

Financial Implications:

A 1% change in the 2019 tax rate results in a \$19.79 annual change to the average residential property owner, based on a house assessed at \$333,800 in 2018. A 1% tax rate increase generates an additional \$5.2 million in tax revenue. Current estimates of the preliminary base budget position excluding Police Services and proposed 2019 budget issue papers requires a property tax levy increase of approximately \$16.5 million which translates to a tax impact of 1.85%. The current preliminary position incorporates 2018 assessment growth of 1.92% pro-rated between Regional Services (1.32%) and Police Services (0.60%).

The actual tax impact will differ across the area municipalities in the Region. This is due to the fact that, while the net cost of most programs and services is levied in a uniform manner on all properties in the seven area municipalities, there are limited exceptions where services (conventional and Mobility Plus transit, rapid transit, and library) are area rated to specific municipalities, as set out in Appendix G. It is noted that assessment growth varies by municipality, which also has implications on area rating and tax impacts.

Other Department Consultations/Concurrence:

All departments and the Waterloo Regional Police Service contribute to the development of the Regional budget.

Attachments

Appendix A – Provincial base funding for cost-shared operating services in the 2019 Budget.

Appendix B – 2018 Year to Date and 2019 Budgeted Fuel Price Comparison

Appendix C – Proposed 2019 Budget Issue Papers (\$thousands)

Appendix D – Summary of 2019 – 2028 Capital Program Expenditure by Division

Appendix E – Summary of Changes in proposed 2019 capital program expenditure over 2018 approved capital program expenditure in the years 2019-2023

Appendix F – Proposed 2019 Budget Timetable

Appendix G – Property Tax Levy Distribution

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

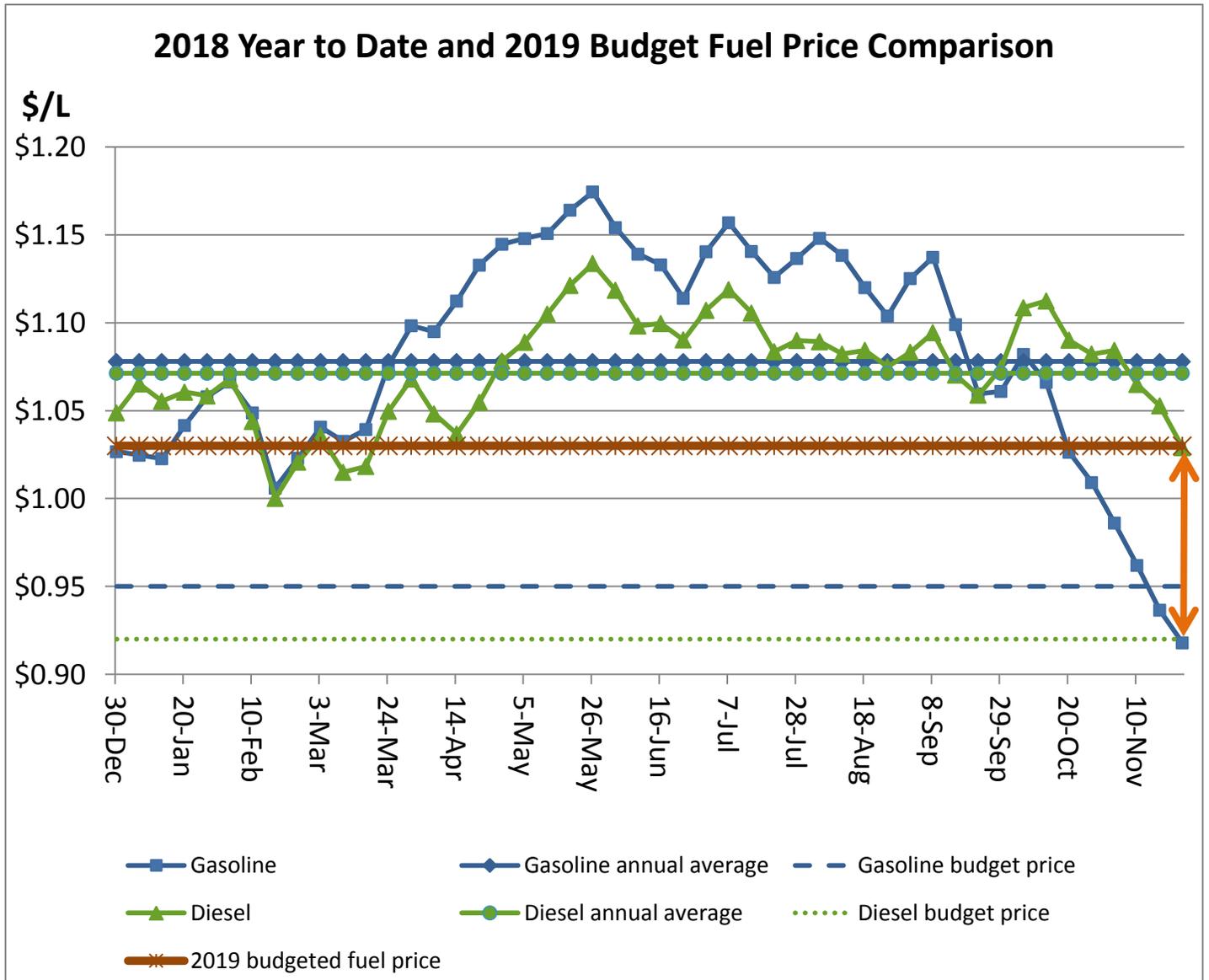
Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Approved By: Mike Murray, Chief Administrative Officer

Appendix A – Provincial base funding for cost-shared operating services in the 2019 Budget (\$millions)

Program	2018 Budget	2019 Budget	Change
Transit	\$10.7	\$10.7	\$0.0
Police	9.9	10.1	0.2
POA	0.2	0.2	0.0
Cultural Services	0.1	0.1	0.0
Library	0.1	0.1	0.0
Child Care	55.1	53.9	-1.2
OW Administration	19.9	19.9	0.0
OW Benefit Programs	87.4	95.7	8.3
Housing	13.5	14.2	0.7
Seniors' Services - Long Term Care	15.4	15.8	0.4
Senior's Services - Community Programs	3.9	4.1	0.2
Immigration Partnership Council	0.4	0.5	0.0
Public Health	27.4	27.4	0.0
Paramedic Services	15.4	17.7	2.3
Total	\$ 259.5	\$ 270.3	\$ 10.9

Appendix B – 2018 Year to Date and 2019 Budgeted Fuel Price Comparison



Appendix C – Proposed 2019 Budget Issue Papers (\$thousands)

Page#	Dept/Div	Description	Annualized Levy Impact	2019 operating budget impact		2019-2028 capital plan impact	
				Property taxes	Reserves Capital User rates Subsidies Other	Tax supported reserves and debt	RDC reserves and debt
NO LEVY IMPACT							
1	COR/Facilities Management	Project management and additional facility maintenance staff			\$179		
5	PDL/Provincial Offences Court	POA Prosecution and Administrative staff			\$192		
9	TES/Water Services	Water Source Protection Plan			\$65		
11	TES/Water Services	Supervisory staff for maintenance and programs					
LEVY IMPACT							
14	CSD/Seniors' Services	Personal Support Workers (Nights)	\$270	\$203			
17	CSD/Seniors' Services	Personal Support Workers (1:1 HINF)	\$111	\$83	\$399		
20	PHE/Paramedic Services	Implementation of Paramedic Master Plan (Year 3) (Bundle 1)	\$517	\$286	\$287	\$582	
30	TES/Transit Services	Implementation of GRT Business Plan (Year 2) (Bundle 1)	\$2,153	\$1,907	\$135		
38	TES/Transit Services	Conestoga College Upass	\$885	\$619	\$49	\$643	\$378
42	TES/Transit Services	MobilityPLUS Business Plan Implementation (Year 2)	\$361	\$144	\$4	\$59	
20	PHE/Paramedic Services	Implementation of Paramedic Master Plan (Year 3) (Bundle 2)	\$371	\$193	\$194	\$114	
45	COR/ITS	Network infrastructure security and support	\$238	\$157			
48	COR/Facilities Management	Convert 1 FTE from temporary to permanent for implementation of the Facilities safety management system	\$117	\$98	\$19		
52	CSD/Housing	Increased Housing Stability System supports (Bundle 1)	\$620	\$321			
57	COR/ITS	Corporate technology project delivery	\$365	\$219			
60	TES/Transportation	Add 2 signal maintenance positions and 1 signal technician	\$307	\$263		\$65	
65	TES/Transportation	Add 1 FTE for Corridor Management	\$106	\$76			

Appendix C – Proposed 2019 Budget Issue Papers (\$thousands) continued

Page#	Dept/Div	Description	Annualized Levy Impact	2019 operating budget impact		2019-2028 capital plan impact	
				Property taxes	Reserves Capital User rates Subsidies Other	Tax supported reserves and debt	RDC reserves and debt
68	COR/ITS	Asset Management systems implementation and ongoing support	\$119	\$78			
71	PDL/Economic Development	Funding for economic development initiatives	\$300	\$200			
75	PDL/Community Planning	Implementing Community Energy Investment Strategy Actions (Bundle 1 - residential project neutral campaign for 2 years)	\$58	\$58			
78	TES/Administration	Asset Management support technologist - Waste Management & Airport	\$93	\$79			
81	TES/Transportation	Add 1 FTE for Transportation Planning	\$116	\$101			
85	TES/Transportation	Add 1 FTE for Infrastructure Analysis	\$103	\$69			
88	TES/Waste Management	Conversion of temporary Regional collection inspector to permanent	\$87	\$66			
52	CSD/Housing	Increased Housing Stability System supports (Bundle 2)	\$624	\$312			
91	PDL/Community Planning	EvolveGreen	\$50	\$50			
94	PDL/Community Planning	Implementing Community Energy Investment Strategy Actions (Bundle 2 - feasibility studies for 4 years)	\$100	\$100			
30	TES/Transit Services	Implementation of GRT Business Plan (Year 2) (Bundle 2)	\$699	\$454	\$47		
96	TES/Transit Services	Transit Service to Woolwich	\$285	\$170	\$23	\$25	
100	TES/Transportation	Traffic signal technology (Bundle 1)	\$25			\$300	
100	TES/Transportation	Traffic signal technology (Bundle 2)	\$600			\$2,700	
	Subtotal		\$9,680	\$6,306	\$1,593	\$4,488	\$378

Appendix D – Summary of 2019 – 2028 Capital Program Expenditure by Division

2019-2028 Capital Program Expenditure (\$000s)		
DEPARTMENT/DIVISION	2019	2019-2028 Total
Corporate Services		
Information Technology Services	\$1,453	\$11,471
Facilities & Fleet Management	11,024	169,995
Financial Services & Development Financing	270	2,915
Human Resources & Citizen Service	755	3,796
Planning, Development & Legislative Services		
Economic Development	1,762	13,622
Region of Waterloo International Airport	10,499	160,537
Planning	1,845	6,597
Council & Administrative Services	148	1,379
Cultural Services	3,064	34,664
Region of Waterloo Library	83	1,015
Transportation & Environmental Services		
Design & Construction	43	458
Transportation	110,427	873,779
Waste Management	19,105	148,648
Transit Services	73,650	353,679
Rapid Transit	2,475	37,788
Community Services		
Waterloo Region Housing	8,862	137,549
Housing Services	13,903	16,402
Children's Services	761	12,152
Seniors' Services	6,171	24,275
Public Health & Emergency Services		
Paramedic Services	17,142	53,419
TOTAL EXPENDITURE	283,441	2,064,139

Appendix E – Summary of Changes in proposed 2019 capital program expenditure over 2018 approved capital program expenditure in the years 2019-2023

\$ millions	2019 Change	2020 Change	2021 Change	2022 Change	2023 Change	2019- 2023 Change
EXPENDITURE						
Corporate Services	(\$1)	\$2	(\$4)	(\$16)	(\$15)	(\$35)
Human Resources and Citizen Service	0	1	0	0	(1)	(0)
Planning, Development & Legislative Services	4	8	(11)	(26)	(1)	(26)
Transportation & Environmental Services (Roads, Transit, Waste)	(6)	(18)	69	10	32	87
Community Services	7	3	2	4	7	24
Public Health & Emergency Services	3	(2)	1	(2)	1	1
TOTAL EXPENDITURE	\$7	(\$6)	\$57	(\$30)	22	\$50

Appendix F – Proposed 2019 Budget Timetable

PURPOSE OF THE BUDGET COMMITTEE SESSION	PLANNED DATE and TIME
2019 Budget Process and Timetable	June 19, 2018 Administration and Finance Committee
2019 Budget Overview (following Standing Committees) <ul style="list-style-type: none"> • Preliminary Operating Budget and Capital Program 	December 11, 2018 Time TBD (after Council meeting)
Detailed Budget Review Day 1 <ul style="list-style-type: none"> • User Rate Operating Budget and Capital Program • Tax Supported Operating Budget and Capital Program • Budget issue papers • GRCA presentation 	January 16, 2019 Time 1:00 – 5:00 p.m.
Public Input Session #1	January 16, 2019 6:00 p.m.
Detailed Budget Review Day 2 <ul style="list-style-type: none"> • 2019 Tax Supported Budget update • Police Services presentation • Approval of User Rate Budgets 	February 6, 2019 Time 2:00 – 5:00 p.m.
Public Input Session #2	February 6, 2019 6:00 p.m.
Final Budget Day (following Standing Committees) <ul style="list-style-type: none"> • Approval of 2019 Operating budgets and Capital Programs for all Tax Supported Programs • Approval of 2019 Fees and Charges 	February 19, 2019 Time TBD (after Community Services Committee) Council 7:00 p.m.

Appendix G – Property Tax Levy Distribution

Service	Net cost of service levied to municipalities denoted with ✓						
	Cambridge	Kitchener	Waterloo	N. Dumfries	Wellesley	Wilmot	Woolwich
Conventional GRT to Woolwich							✓
Conventional GRT to Wilmot						✓	
Urban Conventional GRT service	✓	✓	✓				
Urban GRT Mobility service	✓	✓	✓				
Rural GRT Mobility service				✓	✓	✓	✓
Rapid Transit	✓	✓	✓				
Library Services				✓	✓	✓	✓
All other Regional Services	✓	✓	✓	✓	✓	✓	✓
Police Services	✓	✓	✓	✓	✓	✓	✓