



**STAFF REPORT**  
**Finance**

Title: 2023 Long Term Financial Plan  
Report Number: CORP2023-052  
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Attachments: N/A  
Ward No.: All – City-wide

**Recommendations:**

1. That Council receives CORP2023-052 for information.

**A. Executive Summary**

The long term financial plan (LTFP) is a framework of tools for Council and staff to consider future financial challenges and opportunities through forecasting scenarios, analysis, and financial policies, along with deriving strategies to achieve financial sustainability. A LTFP is the process of projecting revenues and expenditures over a longer term time horizon while using assumptions relevant to the municipality. In essence, long term financial planning is the process of aligning financial capacity with long term service objectives and the city's strategic plans.

The development and maintenance of a LTFP is complex and contains many inter-related decision making factors. With each update to the LTFP, the data and information is refined to reflect the financial environment faced by the City at that time and projected for the future. The City of Waterloo's first LTFP was approved on April 16, 2018 via CORP2018-011, with an update provided during the 2020-2022 budget via CORP2019-075.

Updates to the LTFP are made alongside the three-year budget cycle to capture the changes resulting from decisions made, staff tabled capital and operating budget projections and the financial and asset management impact that these changes are anticipated to have over the long term. These updates are provided as a part of the budget release package for Council's information. The 2023 update to the LTFP includes items as included in the staff tabled 2024-2026 budget, and any other applicable financial updates and policy changes that have occurred since the previous update in 2019 via CORP2019-075.

## **B. Financial Implications**

The City of Waterloo (City), like most cities, is responsible for providing a significant number of services, including infrastructure needs, and has limited financial resources to maintain them. The City owns almost \$4 billion worth of infrastructure that supports its ability to provide a wide range of services to the community, such as sports field programming, the active transportation network, municipal enforcement, day camps, and swimming lessons.

The City has strategically invested significantly in building infrastructure to support community growth over the past few decades. The same commitment and dedication will be necessary in order to sustain existing infrastructure as well as planned infrastructure as the City continues to grow. It is important to note that the identified funding gap existing today has evolved over time, and as data continues to be refined, it will be critical to understand how to address this gap along with changing variables and additional assets built or acquired by the City into the future. Through the LTFP and Asset Management Plan (AMP), modelling is being done to plan for addressing this gap over the long term (e.g. 25-year forecast period) and illustrates Council's commitment to increasing infrastructure rehabilitation and replacement funding.

The City's annual estimated infrastructure funding gap was recently confirmed to be \$54.3 million for all infrastructure asset classes (\$37.56 million for tax-funded assets and \$16.75 million for enterprise-funded assets) as per report CORP2023-040: 2023 Asset Management Report Cards and Update. As part of the 2020-2022 and 2023 approved budgets, supported by previous LTFPs, Council approved additional funding intended to begin the process of closing the infrastructure gap. This included Council's 2020-2022 budget increase of \$2.1 million by 2022, and an additional \$0.7 million increase in 2023, for a total of almost \$2.8 million additional infrastructure funding annually for asset rehabilitation. The staff tabled 2024-2026 budget will look to continue this investment and advance infrastructure rehabilitation through additional dedicated tax increases of 1% per year, subject to final budget adoption.

Addressing climate change in a meaningful way is also a priority for the City as it relates to infrastructure rehabilitation and management. Work continues on the implementation of Transform Waterloo Region, the community climate action plan, as well as development of the City's Corporate Climate Action Plan (CorCAP), with the final CorCAP expected to be brought forward in early 2024 for Council's approval. The primary purpose of the CorCAP is to plan a detailed and integrated corporate approach to reducing the City's corporate GHG emissions, in line with reduction targets. The updated LTFP incorporates climate initiatives already underway as well as those capital projects incorporated into the 2024-2026 staff tabled budget and forecast period.

As part of the LTFP modelling process, numerous assumptions and funding opportunities were considered. The assumptions and strategies included in the LTFP are outlined in greater detail as part of Sections 1-4 of this report. These assumptions represent a point in time and are subject to change as part of future LTFP updates.

**C. Technology Implications**

N/A

**D. Link to Strategic Plan**

(Strategic Objectives: Reconciliation, Equity, Accessibility, Diversity and Inclusion; Environmental Sustainability and Climate Action; Complete Community; Infrastructure and Transportation Systems; Innovation and Future-Ready)

(Guiding Principles: Equity and Inclusion; Sustainability; Integrity; Workplace Wellbeing; Community-centred; Operational Excellence)

Strategic Objectives:

- Reconciliation, Equity, Accessibility, Diversity and Inclusion;
- Environmental Sustainability and Climate Action;
- Complete Community;
- Infrastructure and Transportation Systems.

Guiding Principles

- Equity and Inclusion;
- Sustainability;
- Integrity;
- Community-centred;
- Operational Excellence.

**E. Previous Reports on this Topic**

CORP2023-040 2023 Asset Management Report Cards and Update, Nov 20, 2023

CORP2022-042 2022 Asset Management Update and Report Cards, Dec 5, 2022

CORP2021-035 2021 Asset Management Update and Report Cards, Dec 6, 2021

CAO2020-010 2020 Asset Management Report Cards, Dec 7, 2020

CORP2019-075 Long Term Financial Plan – Update - Dec 19, 2019

CAO2019-032 Asset Management Update - Nov 18, 2019

CORP2018-011 - Long Term Financial Plan - Staff Scenario - Apr 16, 2018



## 2023 Long Term Financial Plan CORP2023-052

This report is divided into 4 main sections with sub-sections beneath as required:

### 1 General Information

- 1.1 Background
- 1.2 Sustainability Actions Taken by Council to Date
- 1.3 About the Long Term Financial Plan

### 2 Long Term Financial Plan

- 2.1 LTFP Key Assumptions
- 2.2 Staff Recommended LTFP Considerations

### 3 Funding Opportunities

- 3.1 General Property Tax Funding
- 3.2 Grants
- 3.3 Increased Infrastructure Funding (CIRRF)
- 3.4 Debenture Financing
- 3.5 Expiring Debt Charges
- 3.6 RIM Park Reinvestment Reserve – Surplus Allocation

### 4 LTFP Summary and Next Steps

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Table 2 - Unspent Capital Funding

Figure 3 - Projected annual performance of tax base assets in the budget scenario

Figure 4 - Projected annual performance of enterprise assets in the budget scenario

Table 5 - Increased Infrastructure Allocation Summary

Table 6 - Infrastructure Replacement and Rehabilitation Needs Projects

Table 7 - Increased Preventative Maintenance Funding 2020-2026

Table 8 - Estimated Operating Impacts of Capital

Figure 9 - 2016-2023 Average Annual Capital Rehabilitation and Replacement Funding Summary

Table 10 - Anticipated Property Tax Increases

## **Section #1 - General Information**

### **1.1 Background**

The City's first LTFP was approved on April 16, 2018 via CORP2018-011. Given the corporate nature of the project, a steering committee comprised of the CAO, Commissioners, Director of Financial Planning, and the Chair of the Finance Committee was created to guide the City's first LTFP. The structure of the Steering Committee was approved by Council through CORP2017-033 in April 2017.

The City of Waterloo was engaged in creating an LTFP since Council's approval of the Asset Management Plan (AMP) in November 2016. Staff worked collaboratively with GM BluePlan (GMBP) to develop an initial 25-year comprehensive LTFP model for the City. The LTFP Steering Committee noted above guided the model creation. The development and maintenance of a LTFP is complex and contains many interrelated decision making factors. An update to the initial LTFP was provided to Council during the 2020-2022 budget via CORP2019-075.

Updates to the LTFP are being made alongside the 2024-2026 three-year budget cycle to capture the changes resulting from decisions made, staff tabled capital and operating budget projections, and the financial and asset management impact that these changes are anticipated to have over the long term. These updates are provided as a part of the budget release package for Council's information. The 2023 update to the LTFP includes items as included in the staff tabled 2024-2026 budget, and any other applicable financial updates and policy changes that have occurred since the previous update in 2019 via CORP2019-075.

With each update to the LTFP, data and information is refined to reflect the financial environment faced by the City at that time and projected for the future using a rolling 25-year forecast period.

### **1.2 Sustainability Actions Taken by Council to Date**

The path towards long term financial sustainability has several steps. One of the LTFP goals was to build upon the sustainable actions already taken by Council and staff. Council has instilled and supported a culture of improvement, efficiency and effectiveness within the City of Waterloo and has approved several capital projects focusing on continuous improvement over the past several years.

As part of each budget cycle, the Budget Committee looks to include sustainable efficiencies/savings/other revenue opportunities and budget true-ups that translate into real budget savings. During the 2020-2022 and 2023 budget approval processes, \$2.7 and \$1.3 million respectively in budget efficiencies/savings/other revenue opportunities were identified for Council's consideration. For the 2024-2026 budget cycle, \$1.6 million in budget efficiencies/savings/other revenue opportunities have been identified and included in the staff tabled budget, which equals 1.75% in property tax savings.

Sustainability Actions Taken by Council:

- Creation of CIRRF  
In 2008, the Capital Infrastructure Reinvestment Reserve Fund (CIRRF) was first established for the purpose of funding the rehabilitation or replacement of road and facility capital infrastructure. This reserve fund has evolved over the years and is outlined in greater detail within section 2.2.3.
- Stormwater Enterprise  
In June 2010, Council approved moving the Stormwater program from a property tax supported program to a user rate (utility) funded program. The user rate model provides a dedicated funding source, hence sustainability, while providing a fee reduction incentive program for property owners to reduce stormwater runoff and pollutant discharge.
- Parking Enterprise  
In June 2016, Council approved the development of a Parking Financial model that includes a growth rate to establish fees and charges as well as parking operating and capital expenditures. This is funded entirely by those utilizing the infrastructure via parking user fees.
- Reserve Consolidation  
In January 2018, Council approved the consolidation of a number of reserve and reserve funds to provide greater flexibility, pool risk and minimize administration. Six reserve and reserve funds used for rehabilitation and replacement were consolidated into CIRRF. As part of the consolidation, the CIRRF policy was broadened to allow for the replacement and rehabilitation needs to all existing tax-based funded capital expenditures. The previous policy only allowed for the replacement and rehabilitation of roads and facilities.
- Use of Budgeted Assessment Growth Policy  
In April 2018, Council approved changes to the Use of Budgeted Assessment Growth Policy (FC-013). In order to provide a greater share of Assessment Growth for rehabilitation needs, the policy was updated to reflect new allocation splits:
  - 10% to Capital Reserve Fund (new/growth/studies), previously 20%
  - 30% to Capital Infrastructure Reinvestment Reserve Fund (replacement and rehabilitation), previously 20%
  - 60% to Operating

- Capital Overhead Policy Updates

In May 2019, Council approved changes to the Capital Overhead Policy (FC-018). Changes include using a flat 4% overhead rate for applicable projects resulting in easier administration and appropriate level of overhead recovery from all capital sources. Also, the policy was updated to direct 100% of any year-end surplus Capital Project Overhead Revenue (Acct #610101) to CIRRF, so it can be reinvested in asset rehabilitation.

- Modern Equivalent Adjustment

In February 2022, Council endorsed adjustments approved by the AM Steering Committee. Developing and sustaining public infrastructure is a complex and challenging task requiring continuous improvement and monitoring. The City has shifted away from the traditional methodology of when an end-of-life asset is replaced that it will be replaced in a “like-for-like” manner. The new approach is a “modern equivalent” approach that better reflects the type of infrastructure and the associated cost that the city will be implementing. Examples of a modern equivalent replacement approach for items are:

- Replacing natural gas boilers with electric boilers
- Replacing high pressure sodium (HPS) decorative street light bulbs with Light Emitting Diode (LED) bulbs
- Replacing a concrete sidewalk with a multi-use trail

- Debt Policy Updates

In June 2023, Council approved updates to limits on debt along with permitting internal inter-reserve borrowing as an additional financing source when appropriate. Changes include removing the capital project debt limit of less than 30% of total project funding and that no debt limit be placed on individual capital projects, rather debt be managed at an aggregate level versus on an individual capital project level. Amortization periods, where applicable, may also be extended up to 20 years (with approval from the CFO) which could help address possible financing challenges on larger projects. Direction was also provided by Council whereby debt be primarily used for strategic priorities including but not limited to; infrastructure renewal projects and climate action projects.

- Climate Change and Environmental Sustainability - Creation of CARF

In December 2022, the Climate Action Reserve Fund (CARF) was formally established for the purpose of helping facilitate projects, initiatives, and studies that support climate change mitigation and adaptation by targeting energy and greenhouse gas (GHG) reduction. While significant progress has been made through the creation of CARF and other contributing funding sources, future capital investment for environmental sustainability will be required alongside infrastructure rehabilitation funding to CIRRF in order to achieve these ambitious targets. To invest in the required resources that this newly established reserve will support, ongoing funding streams are being recommended as part of the 2024-2026 staff tabled budget whereby 25% of any final property tax surplus will be transferred to CARF, as well as 25% of any annual investment income

surplus. The property tax surplus allocation to CIRRF is recommended to be reduced from 50% currently to 25% (with the 25% going to CARF), recognizing that environmental sustainability of GHG emitting infrastructure rehabilitation can be a key funding tool of the CARF Reserve that will also help address the infrastructure gap (i.e. replacement of assets with more efficient technology).

The staff tabled 2024-2026 budget also includes the recommended strategic allocation of a 1% increased infrastructure investment, with Facilities set to receive a larger allocation (approximately 60% instead of 40% as per the Waterloo DSS). This strategic increased allocation for Facilities Design and Management Services (FDMS) is being recommended by the Budget Committee in support of the Facility Transformational Projects \$10M debenture project that will see FDMS leverage their increased infrastructure allocation to advance critical GHG reduction work via debenture financing. Please see section 2.1.3 for more information.

Examples of efficiencies and continuous improvement efforts undertaken by City Departments in 2023 include:

#### CAO Office

- Interpretation services - Implementation of [Voyce Language Services](#): enhanced support for all residents to engage in services offered by the City of Waterloo.
  - quality enhancement
- Municipal Services Satisfaction Assessment – As part of the Strategic Plan development process, staff supported by Deloitte, conducted the MSSA process to receive feedback from residents.
  - quality enhancement

#### Community Services

- Dog Licensing service improvements - [transfer of dog licensing to third party service provider](#). Use of an identified third party service provider reduces the level of staff resources to support this service delivery to residents as well as enhance services through improved web processing, which will also increase licensing compliance and revenue generation.
  - revenue enhancements
- Community garden policy - development of an overarching community gardens policy to guide and direct the community gardens program across the city.
  - capacity building/repurposing/cost avoidance



### Corporate Services

- The acquisition of zero-emissions vehicles that are in line with our operational needs, aiming to reduce fuel and repair expenses while decreasing the City's total greenhouse gas emissions. In 2023, six internal combustion engine vehicles were replaced with new zero-emissions vehicles.
  - capacity building/repurposing/cost avoidance
- Recruitment improvements - review of the Human Resources Internal Application System – an update to the current application process to better support the digitized application process.
  - quality enhancement

### Integrated Planning and Public Works

- Streamlined development approvals - in 2023 the City completed various initiatives to modernize our development approvals process and improve operational efficiencies, funded by the provincial [Streamline Development Approval Fund \(SDAF\)](#). The SDAF is an important tool to support municipal partners so that housing can be brought to market faster. It recognizes that the province and municipalities need to work together to increase the supply of housing and make housing more affordable for Ontarians. Under the fund, the City of Waterloo is eligible to receive up to \$1,000,000. The City advanced twelve different initiatives under the SDAF to streamline development applications, and made significant strides to address application backlogs and modernize planning processes through investments in technology.
  - capacity building/repurposing/cost avoidance
- In-house stormwater management (SWM) pond cleanout - staff members conducted their first cleanout of Pond 49 as a trial opportunity for future similar operations. This supported a review of in-house capabilities to conduct these operations resulting in cost-savings for the City of Waterloo.
  - capacity building/repurposing/cost avoidance

## **1.3 About the Long Term Financial Plan**

The development and maintenance of an LTFP is complex and contains many inter-related decision making factors. With each update to the LTFP, the data and information is refined to reflect the financial environment faced by the City at that time and projected for the future. The City of Waterloo's first LTFP was approved on April 16, 2018 via CORP2018-011, with an update provided during the 2020-2022 budget via CORP2019-075.

Updates to the LTFP are being made alongside the 2024-2026 three-year budget cycle to capture the changes resulting from decisions made, staff tabled capital and operating budget projections, and the financial and asset management impact that these changes are anticipated to have over the long term. The current update to the LTFP includes items as included in the staff tabled 2024-2026 budget, and any other applicable financial updates and policy changes that have occurred since the previous update in 2019. Numerous items were reviewed and considered throughout the process, which

include:

- The City's financial environment, including factors that have influenced present financial performance and position;
- The City's financial procedures and policies, which helps guide the City's financial management as well as recommended changes to key financial policies;
- The City's key assumptions for revenues, operating expenses, capital investment, and reserve and reserve fund contributions and withdrawals;
- The City's current estimated annual infrastructure funding gap;
- Updates to the asset management data to reflect replacement cost updates and overall data improvements.

## **Section #2 - Long Term Financial Plan**

This section provides an update on the City's LTFP for both tax base and rate supported (enterprise) budgets, as well as long term revenue, expenditure and asset decisions. The report seeks to outline assumptions, factors, and recommendations to achieve long term financial sustainability. The City continues to balance the challenges of accommodating growth, maintaining existing levels of service, addressing infrastructure needs, all while aiming to maintain modest tax rate increases over time.

It is critical to note that variables and drivers of the LTFP will continue to be refined and updated over time. The LTFP has been updated alongside the staff tabled 2024-2026 three-year budget cycle.

### **2.1 LTFP Key Assumptions**

The LTFP model has been prepared and updated using various key assumptions. These are highlighted below under 2.1.1 to 2.1.9.

#### **2.1.1 Planning / Reporting Horizon**

The LTFP updated projections span a 25-year timeframe from 2024-2048.

#### **2.1.2 Annual Infrastructure Funding Gap**

The City of Waterloo, like most cities, is responsible for providing a significant number of services, including infrastructure needs, and has limited financial resources to maintain them. The City owns infrastructure that is valued at almost \$4 billion and is comprised of a variety of complex asset groups. These assets support the City's ability to provide a wide range of services to the community, such as sports field programming, the active transportation network, municipal enforcement, day camps, and swimming lessons.

The City has strategically invested significantly in building the infrastructure to support community growth over the past few decades. The same commitment and

dedication will be necessary in order to continue to sustain existing infrastructure as well as planned infrastructure as the City continues to grow.

Developing and sustaining public infrastructure is a complex and challenging task requiring continuous improvement and monitoring. Due to the work completed over the past year, Asset Management (AM) staff have determined the expenditures required to achieve a level of performance from the City's infrastructure assets believed to be acceptable to most interested and affected parties as identified in CORP2023-040, 2023 Asset Management Report Cards and Update report on November 20, 2023. When comparing the current planned expenditures in the capital and operating budgets, staff determined that additional annual funding of approximately \$54.3 million (\$37.56 million for tax-funded assets and \$16.75 million for enterprise-funded assets) is required. The additional funding is required to achieve a level of service anticipated to be acceptable to most interested and affected parties.

The City's average annual funding target is based on maintaining the average performance of assets with a fair or better performance profile. This reflects the fact that the City's infrastructure assets are in various performance categories and will need rehabilitation or replacement at different times. The required expenditures have been established based on an analysis of the available asset data, combined with professional management strategies, to determine why, when, and how each different type of asset should be renewed. It is not financially sustainable to maintain all assets with an excellent performance profile and as a result, that approach has not been incorporated in the City's approach to asset management.

Since 2020, Council has had a plan to narrow the infrastructure-funding gap. While the plan has been approved, the infrastructure gap may increase due to increasing construction costs, continued deterioration, and the asset inventories being updated to reflect assets that were excluded (e.g. retaining walls, library assets). The Council approved additional infrastructure funding was added to the Capital Infrastructure Reinvestment Reserve Fund (CIRRF). Since its inception in 2008, the annual contribution to CIRRF has increased significantly and is currently \$12.1 million per year in infrastructure-related funding. Table 1 identifies the additional annual contributions needed to fund the target scenario for each asset class and has been used to inform this LTFFP.

Table 1: Infrastructure Overview (000's)\*\*

Asset Groups	Replacement value (millions)	Current Performance	Projected Performance in 25 Years	Annual Funding		2023
				Needed to Meet Target Performance	Average Annual Funding	Average Annual Funding Gap
Transportation*	1,122	Fair	Very Poor	30,000	7,000	23,000
Facilities	541	Poor	Very Poor	16,700	5,200	11,500
Parks	69	Poor	Very Poor	4,200	1,800	2,400
Information Technology	19	Fair	Fair	1,200	1,200	0
Fire	15	Fair	Good	1,300	1,200	100
Bridge & Culverts^	28	Good	Very Poor	400	250	150
Forestry	113	Excellent	Excellent	500	100	400
Library	6	Good	Good	300	300	0
Public Art	2	Good	Good	15	5	10
<b>Total Tax Base</b>				<b>\$ 54,615</b>	<b>\$ 17,055</b>	<b>\$ 37,560</b>
Stormwater	761	Fair	Poor	17,200	4,300	12,900
Water Distribution	635	Good	Fair	3,800	3,800	0
Sanitary Collection	526	Good	Fair	6,000	3,000	3,000
Fleet and Shop Equipment	28	Poor	Fair	3,000	2,800	200
Bridge & Culverts^	28	Good	Very Poor	400	250	150
Parking	38	Fair	Poor	600	200	400
Cemeteries	15	Fair	Poor	200	100	100
<b>Total Enterprise</b>				<b>\$ 31,200</b>	<b>\$ 14,450</b>	<b>\$ 16,750</b>
<b>Total City of Waterloo Funding Gap</b>	<b>\$ 3,946</b>			<b>\$ 85,815</b>	<b>\$ 31,505</b>	<b>\$ 54,310</b>

Note: some number may not add due to rounding.

\*\*The analysis for this chart used the "Status Quo" approach and excludes rehabilitation or replacement funding pending Council approval.

The annual infrastructure funding gap is calculated through the comparison of the Waterloo Decision Support System (Waterloo DSS) budget and target scenario outputs. The budget scenario provides perspective on the projected performance of assets based on the budgeted expenditures for each asset group. The target scenario generates the infrastructure expenditure needed to achieve the target levels of service that have been established through collaboration with SMEs. The Waterloo DSS analysis used the capital funding included in the approved 2023 Capital Budget and 2024-2032 Capital Forecast, as well as any unspent rehabilitation and replacement funding from in-progress projects approved in prior budget cycles for the first 10 years. The analysis then uses the City's 10-year average capital funding for the years 15-25 to calculate the projected performance.

Since the development of the Waterloo DSS, the AM team has been incorporating funding approved through the capital budget process. Unspent capital represents the approved funding held within capital projects that has not been spent yet but will be spent on rehabilitating or replacing assets in the future. The inclusion of unspent capital funding is a process improvement that ensures that these investments already approved by Council are not missed in the DSS while the capital project is ongoing. Table 2 identifies the unspent funding incorporated within the DSS in 2023 and reduced the annual infrastructure funding gap by approximately \$1.7 million.

**Table 2: Unspent Capital Funding (000's)**

<i>Asset Groups</i>	<i>Unspent Capital Funding</i>
<i>Transportation*</i>	6,226
<i>Facilities</i>	5,857
<i>Parks</i>	10,650
<i>Information Technology</i>	3,734
<i>Remaining Tax Base Asset Classes**</i>	1,155
<b>Total Tax Base Unspent Funding \$</b>	<b>27,623</b>
<i>Stormwater</i>	10,275
<i>Remaining Enterprise Funded Asset Classes**</i>	3,991
<b>Total Enterprise Unspent Funding \$</b>	<b>14,266</b>
<b>Total Unspent Capital Funding \$</b>	<b>41,889</b>

\*The Transportation class is comprised of roads, sidewalks, streetlights, retaining walls, trails & trail links, traffic & wayfinding signs.

\*\*A consolidation of all unspent funding less than \$3 million per asset class.

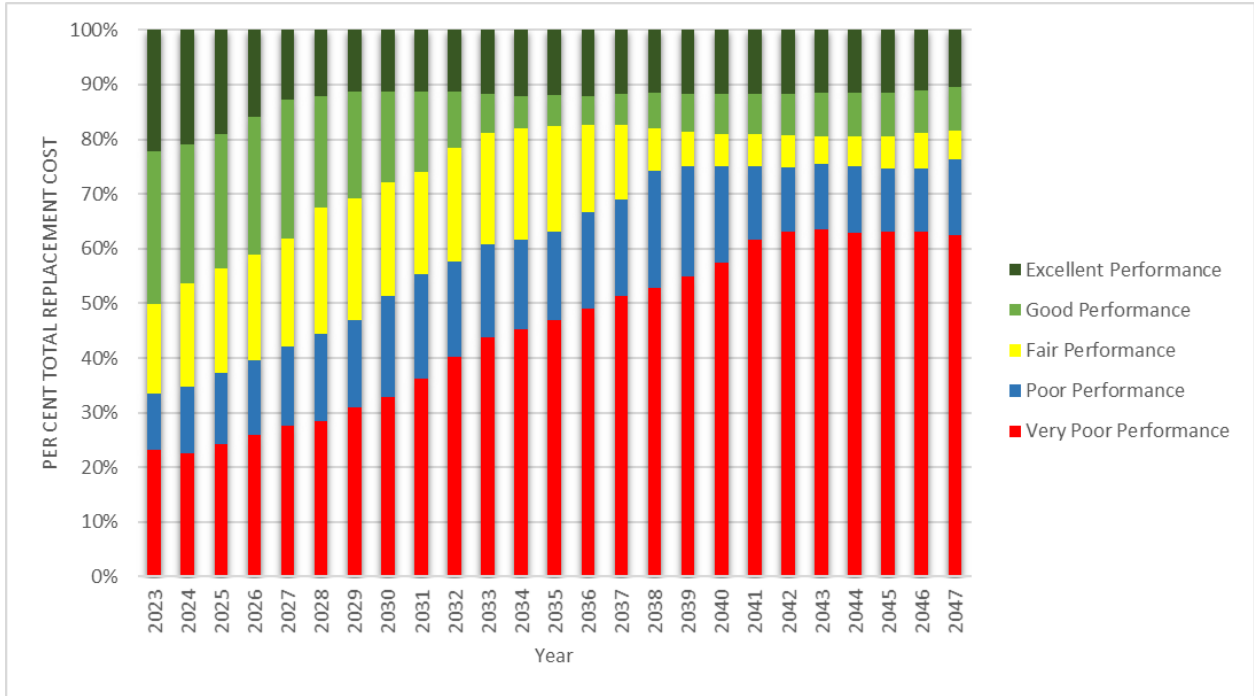
Capital project implementation is very complex and projects can often span numerous years or encounter delays outside of city staff control. Examples of potential delays include but are not limited to:

- Land acquisition or expropriation;
- Third-party delays (e.g. developers, regulatory agency approvals, resource capacity\* for developers and contractors);
- Increased public engagement requirements;
- Staff capacity to complete the projects;
- Tender pricing coming in over budget resulting in projects being re-scoped or re-budgeted;
- Long-term capital projects where full funding is allocated to award a contract and funding is drawn down over a period of time as work is completed.

\*Resource capacity may include staff, equipment and funding.

Figure 3 illustrates the current projected tax-base asset performance over 25 years and identifies that 34% of the City's tax-funded infrastructure assets currently exhibit poor or very poor performance profiles. However, more importantly, it is estimated that with current levels of funding, in 25 years, the proportion of assets exhibiting poor or very poor performance profiles will increase from 34% to approximately 76%. It is anticipated that this performance level will be unacceptable to most interested and affected parties.

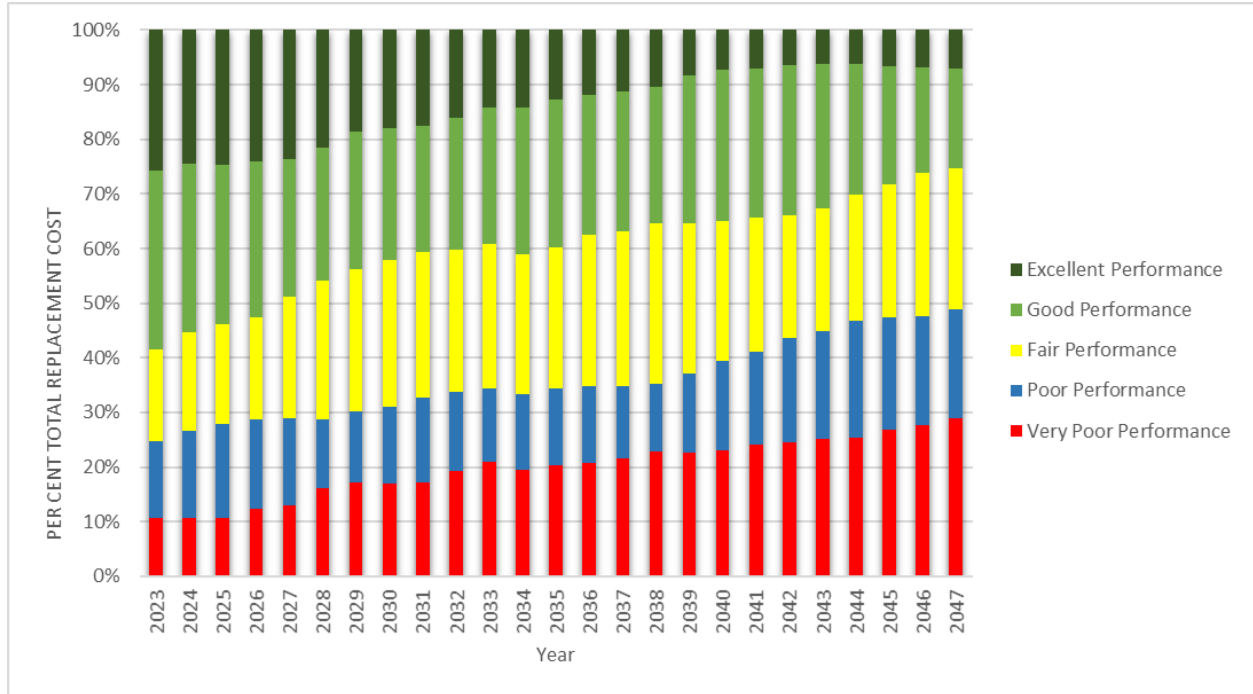
**Figure 3: Projected annual performance of tax base assets in the budget scenario**



The target scenario follows the same principles; however, supplementary infrastructure funding is added above and beyond the approved budget scenario. It is important to note that the Waterloo DSS will only apply funding to assets identified as requiring rehabilitation or replacement and some funding may be left unallocated. Once both the budget and target scenarios have been created, the annual infrastructure-funding gap is calculated through the comparison of the Waterloo DSS budget scenario and target scenario outputs.

Using the same approach for enterprise-funded infrastructure assets, Figure 4 illustrates the projected performance using currently available data. Similar to Figure 3, this graph represents enterprise asset inventory, performance, and deterioration trends, and planned funding included in the 2023 Approved Capital Budget and 2024-2032 Capital Forecast, as well as any unspent rehabilitation and replacement funding from in-process projects, approved in prior budget cycles. Figure 4 identifies that with current levels of funding, in 25 years, enterprise asset performance is projected to decline, increasing from 25% of assets exhibiting a poor or very poor performance profile to almost 50%. It is anticipated that this performance level will be unacceptable to most interested and affected parties.

**Figure 4: Projected annual performance of enterprise assets in the budget scenario**



\*Enterprise assets include water distribution, sanitary collection, storm collection, stormwater management ponds, parking, fleet vehicles, fleet shop equipment, cemeteries, and 50% of bridges and culverts.

It is important to note the current level of service is incorporated in the budget scenario and the target scenario including key modern equivalent data improvements noted earlier, however, excludes the financial impacts for new infrastructure needs (i.e. solar panels) that will be required to achieve the community and corporate GHG emission reduction targets. This includes the to-be-determined financial impacts of Councils decision on October 16, 2023 to set a powerful new goal for the Corporation to hit net zero emissions — the point at which the amount of greenhouse gas emitted is equal to the amount that is removed from the atmosphere — by 2050. Asset-related level of service adjustments approved by Council and incorporated in the Waterloo DSS will influence the budget and target scenarios as well as the infrastructure-funding gap as part of future AM Report and LTFP updates.

**2.1.3 Recommended Infrastructure Funding Changes 2024-2026**

Throughout the development of the 2016 AMP and 2018 LTFP, the City identified that changes to infrastructure funding levels would be required and tabled as part of future budget processes. As a result, the 2023 LTFP update has been prepared with increased infrastructure investments funded through tax increases above inflation being recommended. Budget request (17) - Increased Infrastructure Funding as per LTFP, if approved, would see a net increase to the CIRRF reserve of \$2.1 million by 2026, as noted in Table 5. In addition, the 2024-2026 staff tabled budget 'Infrastructure Investment' category also includes budget requests for staff resources

required to support the increased infrastructure spending (outlined in section 2.1.4) and preventative maintenance activities (outlined in section 2.1.5). These increased infrastructure investments are tax based amounts only (net of enterprise contributions), and would equate to a tax increase of 1% per year from 2024-2026 if approved by Council.

**Table 5 – Increased Infrastructure Allocation Summary:**

Ref #	Division	Budget Request Name	2024 (\$) Amount	2025 (\$) Amount	2026 (\$) Amount	TOTAL (\$) Amount
11	Facilities	Preventative Building Maintenance Infrastructure	-	100,000	300,000	<b>400,000</b>
12	Facilities	Senior Project Engineer (Mechanical )	-	155,000	-3,500	<b>151,500</b>
13	Parks	Outdoor Water Technician and Preventative Mechanical Maintenance of Splash Pads	130,000	-2,500	-	<b>127,500</b>
14	Finance-AM	GIS Specialist/Analyst	-	58,000	-	<b>58,000</b>
15	Procurement	Contracts Manager	98,000	-3,500	-	<b>94,500</b>
16	Transportation	Transportation Services Lead Hand	120,000	0	-	<b>120,000</b>
17	Corp Transactions	Increased Infrastructure Funding as per LTFFP – Tax Increase above Inflation Allocated to CIRRF	575,000	700,000	795,000	<b>2,070,000</b>
<b>TOTAL INFRASTRUCTURE INVESTMENT</b>			<b>923,000</b>	<b>1,007,000</b>	<b>1,091,500</b>	<b>3,021,500</b>
<b>% TAX INCREASE</b>			<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>-</b>
<b>Net Infrastructure Investment Allocated to CIRRF</b>			<b>575,000</b>	<b>700,000</b>	<b>795,000</b>	<b>2,070,000</b>
<b>Infrastructure Investment Increase (CIRRF) – Funded by Tax</b>			<b>0.62%</b>	<b>0.70%</b>	<b>0.73%</b>	<b>2.05%</b>

The increased infrastructure funding included in the staff tabled 2024-2026 capital budget and 2027-2033 capital forecast is allocated to the Capital Infrastructure Reinvestment Reserve Fund. The increased infrastructure funding has been allocated to three key tax-funded asset classes. The asset classes recommended to receive an allocation of the additional infrastructure funding include information technology, facilities, and the transportation network. The full amount allocated is summarized under Table 6 - Infrastructure Replacement and Rehabilitation Needs Projects and Facility Transformational Projects. The increased infrastructure funding projects are classified as Non-Routine in nature and the subject matter experts (SMEs) will return after capital budget approval with a prioritized list of candidate projects to be advanced utilizing this funding for Council consideration.

Please note that during the 2024-2026 staff tabled capital budget development, the Budget Committee made the strategic decision to recommend a larger allocation of this increased additional infrastructure funding to the facilities asset class in support of Council’s powerful new net zero by 2050 GHG reduction goals. Under this plan, the facilities asset class will receive approximately 60% of these funds compared to approximately 40% as per the Waterloo DSS. This strategic decision was made to provide the required annual funding to cover the principal and interest payments anticipated for the Facility Transformational Projects \$10 million debenture.



**Table 6 - Infrastructure Replacement and Rehabilitation Needs Projects:**

REF	Strategic Priority	Council Reporting Criteria	Service Delivery Division	Theme	Project Description	Source of Financing	2024	2025	2026	2027 - 2033	Total
225	Environmental Sustainability and Climate Action	Non-Routine	Fac Design & Mgmt Serv.	Facility Refurbishment	Facility Transformational Projects*	Debt/CIRRF		1,275	1,275	8,925	11,475
440	Infrastructure and Transportation Systems	Non-Routine	IMTS	Equipment Replacement	Corporate Services Infrastructure Replacement and Rehabilitation Needs	CIRRFINFRA	36		50	350	436
674	Infrastructure and Transportation Systems	Non-Routine	Transportation Services	Infrastructure Management	Integrated Planning & Public Works	CIRRFINFRA	539		745	5,215	6,499
					Infrastructure Replacement and Rehabilitation Needs	SEWCAP			366	2,562	2,928
						SWM			207	1,449	1,656
						WATCAP				382	2,674
<b>Infrastructure Replacement and Rehabilitation Needs Total</b>							<b>575</b>	<b>1,275</b>	<b>3,025</b>	<b>21,175</b>	<b>26,050</b>

\*The Fac Design & Mgmt Services allocation represents the principal and interest payments anticipated for the transformational projects debenture.

### IMTS Asset Class

The IMTS Infrastructure Replacement and Rehabilitation Needs project (ref #440) will be used to fund IMTS asset priorities that couldn't be accommodated within the currently available funding including but not limited to equipment replacement and technology refresh/upgrades.

### Roads, Trails and Sidewalk Asset Class

The Transportation Infrastructure Replacement and Rehabilitation Needs project (ref #674) will be used to fund active transportation, roads and sidewalk asset priorities that could not be accommodated within the currently available funding including but not limited to trail / multi-use path resurfacing, road resurfacing or reconstruction and roadside maintenance.

### \* Facilities Asset Class

The Facilities' additional infrastructure project funding (ref #225) will be used to support large-scale transformational\*\* projects at City facilities. The funds will be utilized in the following priority order:

1. Funding the city portion related to federal grant applications for the Green and Inclusive Community Buildings (GICB) – Phase II grant. The City's GICB Phase II grant applications have been submitted for large-scale building retrofits to reduce GHG emissions and increase accessibility at Manulife Sportsplex and Healthy Living Centre (RIM Park Sportsplex), Albert McCormick Community Centre (AMCC) and Moses Springer Community Centre (MSCC). Staff anticipate an announcement regarding the City's application by early to mid 2024.
2. Funding the City portion for other future grant opportunities (if item 1 above is unsuccessful) that may become available during the 2024-2026 timeframe, with a focus on transformational change at City facilities. If the grant applications from priority 1 are unsuccessful, staff will monitor other grant opportunities until mid to late 2025.

3. If the grant applications are unsuccessful (from either item 1 or 2 above), this funding may be allocated to other ongoing projects (e.g. AMCC Reconfiguration & Upgrades) to support transformation change at these facilities funded entirely by the city.

\*\*Transformational change primarily includes larger system/building level retrofits, to support infrastructure renewal and corporate GHG emission reduction targets. This may include renovations and/or additions to existing buildings, in order to enhance the programming opportunities at these facilities. The above project is being planned in the following priority order in an effort to fully leverage the city's investment as well as maximizing the infrastructure / GHG reduction return on investment.

#### **2.1.4 Staff Resources**

When the 2016 AMP was approved by Council, it was acknowledged that additional staff would be required as capital reinvestment increased. Increased staff resources may range from direct to support function activities provided and can include, however are not limited to, project management, operational, procurement, finance, asset management, and information technology.

These resources are intended to assist with the implementation of additional capital reinvestment activities, with the funding for these additional staff resources recommended to come out of the increased infrastructure investment funding. For the purposes of the LTFP modelling, 3 - 5 full-time equivalent (FTE) positions have been estimated each Council term over the planning horizon.

For the staff tabled 2024-2026 operating budget, five (5) positions are being included to address increased rehabilitation and preventative maintenance needs in the short-term. These positions are to be partially funded by the increased infrastructure investment and also have an Enterprise contribution based on the estimated level of support that will be provided to the Enterprise areas in accordance with the City's overhead model.

##### Senior Project Engineer – Mechanical (12)

This is a critical position to oversee the planning, design, repair, and replacement of large-scale mechanical assets and systems at City facilities. The primary duties of this position are to ensure the safe and reliable operation of mechanical systems at City facilities, as well as to ensure the timely, efficient, and effective completion of capital work for building mechanical systems. The position would also work closely with the City's Energy Program Manager, to complete energy/greenhouse gas reduction projects at City facilities, in pursuit of Council's corporate greenhouse gas reduction target.

##### Outdoor Water Technician (13)

This position is required by Parks Services due to the expanded implementation across the City of various splash/spray pad and fountain features. The Water

Technician will ensure compliance with water safety by providing continued water testing and preventative maintenance on all types of water features required to ensure compliance with water testing guidelines, while ensuring quality standards are being maintained.

#### GIS Specialist/Analyst (I4)

This dedicated Analyst within the Asset Management team will help improve data maturity (quality, quantity and completeness) and use existing processes to share data in source systems. The position will be responsible for maintaining data within GIS, writing programming code to upload data to the Waterloo Decision Support System, create and support data collection/maintenance tools for subject matter experts, assist in the closure of asset data gaps, and create QA/QC data checks. This position is a shared resource between Asset Management and IMTS (GIS).

#### Contracts Manager (I5)

The position would be responsible for procurement and contract development/administration, including supplier performance management for Fleet/Stockroom and stray contracts, ensuring by-law compliance, realization of savings, and supply efficiency and quality.

#### Transportation Services Lead Hand (I6)

A permanent Lead Hand position in Transportation Services is required due to continued growth of Transportation assets across the City as well as ongoing requests for maintenance, new services and programs. The Lead Hand would ensure compliance with Road Safety obligations under the Minimum Maintenance Standards (MMS) and Occupational Health and Safety Act (OHSA) Regulations.

### **2.1.5 Operating Budget Expenditures**

It was recognized throughout the development of the initial LTFP that inflationary increases are required to maintain existing service levels. As a result, within the modelling, all operating budget lines had an inflationary increase of 1%-3% applied depending on the type of activity. This theory is applied as part of the LTFP update, however any actual increases to the various operating budget lines for inflation will continue to follow the normal budget deliberation and approval process, and consider the need along with all other budgetary pressures. For example:

- General Operations inflated by 1%
- Preventative maintenance activities inflated by 2%

*NOTE: The inflationary factors used in the LTFP are 'levers' and can be adjusted as part of future LTFP updates as required*

### Preventative Maintenance Activities

Traditionally, preventative maintenance activities have been included in the operating budget. However, over the past few decades, maintenance funding has increased slower than the growth of new infrastructure assets. As a result, the funding gap has increasingly widened, and infrastructure assets have experienced a lower level of preventative maintenance than required. During the initial LTFP modelling process, the Steering Committee identified the need to include annual increases to preventative maintenance accounts to help assets reach their intended useful life (and help avoid premature asset failure and an increased infrastructure funding gap due to under investment in preventative maintenance).

As such, through previous budget approvals, increases to preventative maintenance activities were included. A line by line operating budget analysis was prepared by Finance and Asset Management staff in 2020 identifying the City's existing preventative maintenance accounts. Across all divisions, the City budgeted \$8.03M in preventative maintenance activities with the tax base preventative maintenance portion being \$4.6M. Applying an inflationary factor to existing preventative maintenance accounts, the increase translated into \$135,000-\$145,000 in tax base preventative maintenance funding over the 2020-2022 budget. Each of the three major asset classes (Parks, Roads and Sidewalks, and Facilities) utilizing preventative maintenance were provided an increase and are summarized as per Table 7. Note, no additional preventative maintenance amounts were included in the 2023 budget as a larger portion was allocated to CIRRF during that budget cycle.

Similarly, through the 2024-2026 staff tabled budget, additional funding has been added for preventive building maintenance (I1) and outdoor mechanical maintenance of splash pads (I3) as summarized in Table 7 below.

**Table 7 – Increased Preventative Maintenance Funding 2020-2026:**

Ref #	Division	Budget Request Name	2020-2023 Total (\$)	2024 (\$)	2025 (\$)	2026 (\$)
I3 (2020-2022 Ref)	Parks	Increased Preventative Maintenance Funding for Parks	135,000			
I4 (2020-2022 Ref)	Facilities	Increased Preventative Maintenance Funding for Facilities	145,000			
I7 (2020-2022 Ref)	Transportation	Increased Preventative Maintenance Funding for Transportation	140,000			
I1 (2024 Ref)	Facilities	Preventative Building Maintenance Infrastructure			100,000	300,000
I3 (2024 Ref)	Parks	Outdoor Water Technician and Preventative Mechanical Maintenance of Splash Pads		20,000		

The 2024-2026 allocation of additional preventative maintenance funding was reviewed and prioritized by the Budget Committee to predominantly address facilities

assets given the existing backlog of needed work along with supporting the City's goal of addressing climate action and GHG reduction initiatives.

### **2.1.6 Operating Budget Revenues**

During each operating budget cycle divisional and department user fees and charges are reviewed to ensure that the appropriate level of recovery revenue is being generated. The review of operating budget lines reveals that many are reasonably static in nature and dependant on factors outside the City's control. In light of this information, the LTFP inflationary factors for revenue lines include increases of 0%-2.5% depending on the type of revenue activity. For example:

- Program revenue inflated by 2%
- Capital Recovery Overhead inflated by 0%
  - o Opportunities for revenue 'true-ups' will be incorporated into future budgets as they arise

*NOTE: The inflationary factors used in the LTFP are 'levers' and can be adjusted as part of future LTFP updates as required*

### **2.1.7 Property Tax Funding Changes**

Property tax is the main revenue source for municipalities in Ontario and will generate an estimated \$101 million for the City of Waterloo in 2024, increasing to \$117 million by 2026 as per the staff tabled budget. As the main revenue source for the City, it is necessary to consider potential increases to the property tax base in order to maintain existing service levels or when considering adding or increasing service levels.

### **2.1.8 City Utilities Financial Models**

City Utilities rates pay for the costs associated with providing drinking water, collecting and treating wastewater, and responsibly managing stormwater. Through these services, residents and businesses within Waterloo receive a reliable supply of drinking water, wastewater collection, protection of our source water, stormwater control, and better customer access to information such as water consumption.

City Utilities generates all funds for operations, maintenance, and capital projects from water, wastewater, stormwater rates and service charges (no revenue is generated from property taxes). City Utilities works closely with Finance on utility billing, modelling, and the preparation of budgets and rolling 10 year rate forecasts. The models used for all three utilities are robust and have been used as key drivers within the LTFP for each section.

### 2.1.9 Other Enterprise Financial Models

The LTFP is a comprehensive overview of all city operations and includes other enterprise business units throughout the city (e.g. Parking, Cemetery, Rental Housing, Business Licensing, and Building Standards). Several enterprise divisions have created comprehensive financial modeling tools that allow staff to consider the projected impacts of both operating and capital spending over a 10 year time horizon. These models assist in decision making for user fee rate setting, along with operating and capital budgeting. The models provide key inputs to the LTFP as they are more detailed and contain specific information related to their enterprises.

## 2.2 Staff Recommended LTFP Considerations

The LTFP is a holistic review of financial needs for the City and takes all known city priorities and funding requirements into account at a single point in time. Based on this, the following LTFP recommendations have been included in the staff tabled 2024-2026 budget.

### 2.2.1 New Services / Increased Levels of Services

For the purposes of the LTFP, staff concentrate primarily on maintaining existing levels of services through inflation. As a result, and in accordance with policy FC-019 Core Consumer Price Index (CPIX), new or increased levels of service approved by Council will require additional levels of funding above CPIX and the proposals included in the LTFP as noted on Table 10 in section 3.1 further below.

Service level changes recommended as part of the 2024-2026 budget are in alignment with the Strategic Plan priorities and objectives Council and the community has prioritized for this council term. Examples of key service level changes included in the staff tabled 2024-2026 budget include:

- S2 – Fire Master Plan Expansion (COM2023-016)
  - Complete Community
- S3/S4/S5 – Winter Sidewalk Maintenance Service Enhancement (IPPW2023-040)
  - Reconciliation, Equity, Diversity, and Inclusion
- S6/S7 – Digital Services Specialist and Web Developer (CORP2023-034)
  - Innovation and Future-Ready
- S11 – Community Inclusion Initiatives
  - Reconciliation, Equity, Diversity, and Inclusion

### 2.2.2 Operating Impacts of Capital

A key component of the LTFP model is the ability to input the forecasted increases to operating expenditures that are expected to be incurred as a result of the City building new infrastructure (e.g. new facility, splash pad or park). During the

development of the 2016 AMP, a methodology was developed for the City to estimate operating impacts of new or expanded capital. This approach has been used and fine tuned for the past few budget cycles, allowing staff to utilize a consistent methodology to developing operating impacts of capital when preparing the individual project sheets.

For purposes of the LTFP update, staff included the operating impacts of capital and new assets as outlined in the 2024-2026 staff tabled capital budget and 2027-2033 capital forecast, along with amounts resulting from previously approved projects. Staff then use an average of the 2024-2033 operating impacts, and exclude any major anomalies (e.g. Fire Expansion) that aren't likely to reoccur, for the long term projection period (years 11-25). The long term figures will continue to be updated as capital forecasts for those years are further developed.

The operating impacts of capital that have been included in the 2023 LTFP model update are summarized in Table 8.

**Table 8: Estimated Operating Impacts of Capital (000's):**

**SUMMARY OF OPERATING IMPACT OF CAPITAL EXPENDITURES**

Operating Impact of Prior Capital Approvals-COMMITTED	2024	2025	2026	2027-2033	Grand Total
Operating Impact of projects approved in 2023	251	100	50		401
<b>Committed Subtotal</b>	<b>251</b>	<b>100</b>	<b>50</b>		<b>401</b>
Operating Impact of Staff-Tabled 2024-2026 Capital-ACTIONABLE	2024	2025	2026	2027-2033	Grand Total
Operating Impact of projects budgeted in 2024-2026	1,168	1,944	1,804	3,182	8,099
<b>Actionable Subtotal</b>	<b>1,168</b>	<b>1,944</b>	<b>1,804</b>	<b>3,182</b>	<b>8,099</b>
Operating Impact of 2027-2033 Staff Tabled Capital-FORECAST	2024	2025	2026	2027-2033	Grand Total
Operating Impact of projects budgeted in 2027-2033				2,039	2,039
<b>Forecast Subtotal</b>				<b>2,039</b>	<b>2,039</b>
<b>TOTAL OPERATING IMPACTS</b>	<b>1,419</b>	<b>2,044</b>	<b>1,854</b>	<b>5,222</b>	<b>10,539</b>

Operating impacts of capital recommended as part of the 2024-2026 staff tabled budget approval are grouped by divisional area or program specific area, and will be linked to the respective capital project sheets for approval on budget day. This process is for Council benefit during the decision-making process as well as to ensure that capital projects are not approved without the associated future operating cost to maintain or operate them also being considered. Examples of key operating impacts of capital items included in the staff tabled 2024-2026 budget include:

- G2 – Waterloo Public Library Funding Agreement
- G5 – Operating Impacts of Capital - Parks services
- G8 – Fleet Equipment Operating Impacts of Capital

### 2.2.3 History of the Capital Infrastructure Reinvestment Reserve Fund

CIRRF was first established in 2008 for the purpose of funding the rehabilitation or replacement of road and facility capital infrastructure. The reserve fund was established with an annual base contribution from operating of \$500,000, initially phased-in over 3 years. Later in 2008, Council approved the allocation of the Ontario Road and Bridge grant funds, and the Investing in Ontario grant funds to CIRRF as well, and in December 2008 Council chose to allocate an additional \$98,930 annually to CIRRF from assessment growth.

On December 14, 2009 Council directed staff to review options regarding the use of assessment growth and capital funding. Staff reported back in March 2010 via report FS2010-002 which recommended that the assessment growth policy at that time be maintained, which allocated 80% of assessment growth to operating to pay for growth initiatives and 20% to the Capital Reserve Fund. Council considered this recommendation, but in recognition of the ever-increasing pressure the city is facing on infrastructural renewal, ultimately decided that in addition to the 20% allocation to the Capital Reserve Fund, 20% of assessment growth was to be allocated to the newly established Capital Infrastructure Reinvestment Reserve Fund, reducing the operating allocation to 60%. Subsequently, in April 2012, Council also approved an update to the Allocation of Surplus Policy to allocate a portion of year end surplus, if any, to CIRRF as well.

In January 2018, Council approved the consolidation of a number of reserve and reserve funds to provide greater flexibility, pool risk and minimize administration. Six reserve and reserve funds used for rehabilitation and replacement were consolidated into CIRRF, and the policy was broadened, from allowing for the replacement and rehabilitation of just roads and facilities, to all existing tax-based infrastructure assets. As part of this approved consolidation, the Uptown Development Reserve Fund was consolidated into both the Capital Reserve Fund (75%) and the Capital Infrastructure Reinvestment Reserve Fund (25%). The apportioning of the close-out percentages was based on the weighting between new and rehabilitation projects previously projected to be funded by the Uptown Development Reserve Fund over the 10 year capital projection. In April 2018, changes approved through the Long Term Financial Plan had also been implemented, including updates to FC-013 - Use of Budgeted Assessment Growth Policy increasing the allocation to CIRRF (30%), while reducing the allocation to CRF (10%) and maintaining the allocation to operating (60%) and FC-003 - Allocation of Surplus Policy, resulting in increased funds being directed to CIRRF for rehabilitation.

Further refinements to FC-003 are included in the 2024-2026 staff tabled budget recommending a reduction to the portion allocated to CIRRF be directed to the newly established CARF reserve fund (25% of any final property tax surplus). The property tax surplus allocation to CIRRF is recommended to be reduced from 50% currently to 25% (with the 25% going to CARF), recognizing that environmental sustainability of GHG emitting infrastructure rehabilitation can be a key funding tool of the CARF



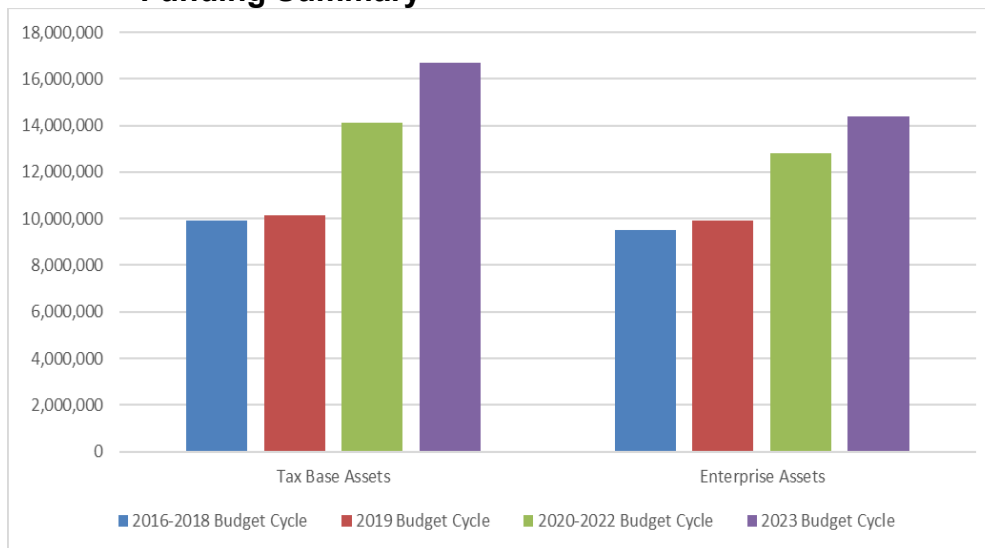
Reserve that will also help address the infrastructure gap (i.e. replacement of assets with more efficient technology). The policy refinements also include the removal of the clause that allocates the first \$200,000 of any tax base surplus to the RIM Park Investment Reserve as that reserve is fully funded to meet its obligations. That may result in approximately \$100,000 annually for CIRRF/CARF.

In addition, in May 2019, the Capital Overhead policy was updated to direct 100% of any overhead surpluses to CIRRF annually.

As part of the 2020-2022 and 2023 approved budgets, Council approved additional CIRRF funding intended to begin the process of closing the infrastructure gap. This included Council’s 2020-2022 budget increase of \$2.1 million by 2022, and a \$0.7 million increase in 2023, for a total of almost \$2.8 million in additional funding annually for infrastructure assets.

When Council approved the \$2.8 million of increased infrastructure funding, it was allocated to four key tax-funded asset classes: facilities, information technology, parks, and the transportation network, based on their weighted average need. Figure 9 provides a summary of the capital rehabilitation and replacement funding for tax-based funded assets and enterprise assets over the last four budget cycles. The Tax Base Asset funding includes CIRRF and Parkland Dedication Reserve Fund (PUB) sources.

**Figure 9: 2016-2023 Average Annual Capital Rehabilitation and Replacement Funding Summary**



Since its inception in 2008, the annual contribution to CIRRF has increased significantly and currently receives \$12.1 million per year in dedicated infrastructure-related funding. Approval of the 2024-2026 staff tabled budget request I7 - Increased Infrastructure Funding as per LTFP would add an additional \$2.1M by 2026, for a total of \$14.2 million annually.

## Section #3 Funding Opportunities

### 3.1 General Property Tax Funding

The City's first LTFP was approved on April, 16, 2018 via CORP2018-011. Increasing the general property tax revenues through higher annual tax increases was an option considered through the initial LTFP development. This approach has the potential to provide more flexibility for determining how the additional revenue is allocated between additional contributions to reserves versus increases to the operating expenditures. While potentially more flexible, this approach limits the ability to report on the positive actions that Council has undertaken to reduce the City's infrastructure deficit by allocating the increase directly to CIRRF. As a result, staff have continued to develop and update the LTFP utilizing increases to the general tax revenue level as a methodology to fund only operational activities (i.e. base budget plus operating impacts of capital and growth), with infrastructure increases over and above inflation allocated to CIRRF.

Based on the analysis undertaken through the LTFP modelling process, it is projected that the general tax revenue level will require increases as noted below in Table 10. These projected tax revenue increases are for base budget and operating impacts of capital only. Service level changes or other enhancements, and any new or proposed additional infrastructure funding, are not included in these figures, rather indicated on a separate line for reference.

**Table 10: Anticipated Property Tax Increases:**

Type of Increase	2024 *	2025 *	2026 *	2027-2030 (average annual increase)	2031-2034 (average annual increase)	2035-2048 (average annual increase)
** Tax Revenue	3.82%	3.86%	3.55%	2.5%-3.5%	2.5%-3.5%	2.0%-3.0%
<i>Service Level Changes</i>	2.64%	2.44%	1.89%	<i>To Be Determined</i>	<i>To Be Determined</i>	<i>To Be Determined</i>
<i>Infrastructure Increase</i>	1.00%	1.00%	1.00%	1%-1.5%	1%-1.5%	1%-1.5%
* as recommended in the staff tabled 2024-2026 budget						
** Base budget + operating impacts of capital (does not include service level changes or infrastructure increases)						

For reference, during the 2019 LTFP model update, long term tax revenue increases were projected with an annual average increase of approximately 2.0%, which is also in line with the projected range that was identified during the 2018 LTFP.

Council approval of the increases noted in Table 10 will be recommended through the City's normal budget process. The longer term increases are subject to change based on decisions made by future Councils and updates to model parameters over time. It is important to note that the anticipated tax revenue is significantly influenced by the timing

of capital projects and the related operating impacts of capital as noted in section 2.2.2 and Table 8, and is based on the best available data and assumptions at this time.

### 3.2 Grants

Both the Ontario and Federal governments have established substantial grant programs over the past several years to help fund the rehabilitation or replacement of municipal infrastructure. Grants are traditionally awarded through an application program or through annual formula-based allocation programs. **However, in order for municipalities like Waterloo to address their existing infrastructure funding gaps and achieve powerful climate action goals, more funding from higher orders of government will be required.**

#### Application Programs

Application grant programs invite eligible parties such as municipalities to submit grant applications that align with the grant streams objectives through a competitive process. Funding approval is not guaranteed, and often there are significant interest and application volumes to contend with. However, the City of Waterloo remains active in searching out applicable grants that can leverage other levels of government or organization funding to help with the asset management objective of supporting a coordinated approach of good stewardship of municipal assets.

Over 2012-2023 YTD the City of Waterloo has benefited from over \$22 million in application based grant funding awarded and staff will continue to pursue this as a source of rehabilitation funding. Note, the \$22M figure above does not include the grant application of \$35 million related to the CMHC Housing Accelerator Fund (HAF). The City's HAF application decision has not been released as of this report writing date, however, staff remain optimistic that the City will be awarded this grant in near future.

#### Allocation Programs

The Canada Community-Building Fund (CCBF) is an example of an allocation program (formally the Federal Gas Tax Rebate Reserve Fund (GTR)). The City of Waterloo receives a semi-annual allocation of funds from the Association of Municipalities of Ontario (AMO) on behalf of the Federal Government as per the agreement for the transfer of revenues. For 2023 the City of Waterloo received \$3.47 million from the Canada Community-Building Fund under the program. Annual, stable, and predictable allocation grant programs like the CCBF are optimal for municipal planning and capital budgeting as it allows the City to allocate the CCBF funds to assets that require rehabilitation/replacement, similar to how we allocate CIRRF funding during capital budget development to the assets with the highest need.

### 3.3 Increased Infrastructure Funding (CIRRF)

Instituting a property tax increase dedicated to fund infrastructure renewal activities (administered through CIRRF) has proven to be one of the best strategies to fund the

additional contributions. This approach provides a more direct line of sight from the taxes that residents pay to the services/infrastructure that it funds.

Since 2020, Council has implemented a plan to begin narrowing the infrastructure-funding gap. This includes Council's approval within the 2020-2022 budget of an increase of \$2.1 million by 2022, and a \$0.7 million increase within the 2023 budget, for a total increase of almost \$2.8 million annually for infrastructure assets. The additional infrastructure funding was added to the Capital Infrastructure Reinvestment Reserve Fund (CIRRF) and since its inception in 2008 by Council, the annual contribution to CIRRF has increased significantly and currently receives \$12.1 million per year in infrastructure-related funding.

For 2024-2026 it's recommended that a measured increase in infrastructure reinvestment is again approved by Council, funded through a tax increase above inflation. This is recommended via budget request I7 Increased Infrastructure Funding as per LTFP, and if approved would see a net increase for CIRRF of \$2.07 million by 2026 as outlined previously in Table 5 – Increased Infrastructure Allocation Summary.

Recently CORP2023-040, Asset Management Report Cards and Update identified that the City has an annual estimated infrastructure funding gap of \$54.3 million for all infrastructure assets of which \$37.56 million is for tax base funded assets and \$16.75 million for enterprise assets. The LTFP includes a plan to increase infrastructure funding to continue progress on closing the infrastructure funding gap. Increases to infrastructure funding will need to continue as part of future budget cycles for Council's approval and will set the City of Waterloo on a path towards delivering our Strategic Plan objective to address the infrastructure deficit over time. The increases to infrastructure funding included within the LTFP range between 1%-1.5% annually.

### **3.4 Debenture Financing**

Debenture (debt) financing is borrowed money that is paid back over time along with interest charges (normally over 10 years, but by policy can be up to 20 years with CFO approval). Debt at the municipal level cannot be used to fund operating expenditures (e.g. salaries) however can be an important capital financing tool. Municipalities may consider debt as a logical option when financing larger infrastructure projects and looking to spread the cost of the project over a longer period of time in alignment with the assets useful life.

For the City of Waterloo, there is a Council approved policy (FC-009 Debt Management Policy) that outlines Council's commitment to demonstrating financial leadership and sustainability. The policy provides a defined and transparent process for the City's management of debt. Within FC-009, the City has made strategic decisions and updates to set appropriate limits on debt along with permitting internal inter-reserve borrowing as an additional financing resource when appropriate. City Staff reviewed this policy and brought forward revisions for Council approval in June 2023. Future reviews of the debt policy will be conducted periodically, ensuring it has the correct parameters and guidelines for future financial environments.

Debt can be a viable option if interest rates are lower than the rate of inflation as the cost to complete the project may be higher if delayed under a pay-as-you-go financing approach. Current projected interest rates are between 4.5% - 5.0% for a 10-year term based on recent information provided by the Region of Waterloo. The Region of Waterloo is a AAA rated municipality and issues debt on behalf of the lower-tier municipalities in the Region, including the City of Waterloo.

It is also important to consider the urgency of the project and the need to fund via debt. The staff tabled 2024-2026 capital budget contains strategic projects earmarked for debt financing such as those addressing GHG emissions and fast-tracking the important work to be done in this area (Facility Transformational Projects). Debt is also recommended for significant growth related infrastructure projects required to enable much needed housing unit expansion within the City (Beaver Creek Road and Conservation Drive Reconstruction). Without debt, these projects would be delayed or would create a significant tax increase in the short term in order to fund, therefore debt can be considered an appropriate funding strategy given the urgency of the project.

### **3.5 Expiring Debt Charges**

As part of the City's first LTFP report CORP2018-011, expiring debt charges were identified as a future funding opportunity. The final debt payment to be incurred by the City to build RIM Park will be paid in 2031, allowing Council during the 2032-2034 budget process to redirect this base operating budget of \$3.65 million in 2032 (Debt Charges less budgeted transfer from RIM Park Investment Reserve). With this opportunity falling within the LTFP timeframe, staff has included it within the LTFP modeling activities, with the assumption that this future opportunity will be allocated 75% to CIRRF in support of closing our infrastructure gap and 25% towards new/increased services.

*NOTE: The expiring debt charge allocations used in the LTFP are 'levers' and can be adjusted as part of future LTFP updates as needed*

The opportunity to allocate the expiring debt charges will be a decision of Council during the 2031-2034 Council term, during the 2032-2034 budget process. While it is important to plan for this future opportunity within the LTFP model, it's also important to remember that this is a future opportunity that can be used to help the City reach its ultimate increased infrastructure goals, but isn't available for allocation in the near-term. Therefore, future Council approval will be sought to determine how to best allocate this opportunity.

### **3.6 RIM Park Investment Reserve – Surplus Allocation**

The RIM Park Investment Reserve was initially established to offset the lease liability of RIM Park and the repayment obligations.

Contributions to this fund are reviewed each budget cycle to ensure adequate funding is available that will meet, but not exceed, the obligation which ends with the final payment in 2031. Currently, without incorporating any further investment surpluses or year end

operating surplus contributions, funding in the reserve now exceeds the repayment needs, providing a funding reallocation opportunity to direct surplus funding from this reserve to address other budget pressures and priorities.

Several one-time transfer amounts have been established by the staff Budget Committee as part of the 2024-2026 budget development process. This reallocation opportunity is being recommended by the Budget Committee to provide necessary funding in support of various initiatives within the 2024-2026 staff tabled budget without adding additional ongoing pressures to the property tax base. The recommended transfers are built into the 2023 LTFP update and are as follows:

- \$1,200,000 to the Capital Reserve Fund (CRF)
- \$750,000 to the Planning Litigation Reserve Fund (LIT)
- \$500,000 to the Climate Action Reserve Fund (CARF)
- \$500,000 to the Affordable Housing Reserve Fund (CCPC-AH)
- \$400,000 to the Comprehensive Business Licensing Reserve (BUS)
- \$100,000 to the Rental Housing Reserve (RHR)

Some examples of how these funds will be used to support initiatives in the 2024-2026 staff tabled budget are:

- the CRF allocation is being recommended to fund the Winter Sidewalk Maintenance Service Enhancements Capital Equipment (ref #327);
- the CARF allocation is being recommended to fund the increased Electric Vehicle Charging Program (ref #145).

#### **Section #4 - Long Term Financial Plan Summary and Next Steps**

Since approval of the City's first LTFP in April 2018, progress has been made towards addressing future financial challenges through additional infrastructure funding. It is important to note the LTFP excludes new infrastructure needs to incorporate the community and corporate GHG emission reduction targets. This includes the to-be-determined financial impacts of Council's decision on October 16, 2023, to set a powerful new goal for the corporation to hit net zero emissions - the point at which the amount of greenhouse gas emitted is equal to the amount that is removed from the atmosphere - by 2050. This will be incorporated as part of future LTFP updates.

Other key items of note that were considered along with the LTFP update are as follows:

##### Development Charges By-Law Update and Budget Approval Alignment

During the 2020-2022 budget process, staff were targeting alignment of the Development Charges (DC) background study and by-law update with the three year budget approval. The intention going forward was to undertake the by-law update every four years thereafter to coincide with the 3-year budget approval process. This

alignment would provide an opportunity to consider and prioritize growth and strategic priorities / enhancements alongside rehabilitation needs, as these projects can often compete for the same limited city funding sources.

However, various Bills were passed in 2019 and 2020 that affected DCs (Bill 108, 138, 197, 213, 109). They resulted in a number of changes to how DCs are calculated along with providing the ability to develop a new Community Benefits Charge (CBC) to further support growth related projects. Since both the CBC strategy and DC background study use many of the same inputs, and because the 2019 DC By-Law was set to expire Dec. 31, 2024 (prior to Bill 23 changes), it was determined that coordinating a DC background study and by-law update earlier than planned (i.e. throughout 2022) alongside implementing a new CBC by-law would be beneficial.

With the passage of Bill 23 on Nov. 28, 2022, this created further changes to how DCs are calculated along with significant uncertainty surrounding exemptions and lost funding sources for growth related infrastructure. Given the major financial implications Bill 23 has on DCs, the DC by-law update process was paused in order to better understand the impact it would have for the City as it relates to capital project financing.

Bill 23 has a direct and immediate financial impact on how the City of Waterloo will budget, and more importantly collect DCs for growth related infrastructure. These uncertainties (reduced DC collections potentially needing to be offset with tax based funding sources) have not been factored into the LTFP and could significantly change forecasted values within the LTFP as more information become available.

Staff continue to analyze the possible outcomes and various impacts to future DC collections resulting from Bill 23, along with any potential funding alternatives for municipalities such as the 'Building Faster Fund' and funding from the Province's 2023 Fall Economic Statement relating to the 'Housing-Enabling Water Systems Fund'. These could potentially be utilized to offset some of the financial impacts of Bill 23 for the City pending further clarification on the programs.

Over the past few years, DC collections have been near target levels with cumulative collections over the current DC by-law term (2020 to Q3-2023) being 89% of the target. Looking at a longer time horizon over multiple DC by-law terms (from 2013 to Q3-2023), collections are strong at 92% of the target. Developer project timing can often cause anomalies in the short term, however collection attainment over time has been strong and projects currently in the planning or development approvals process remain promising.

Apart from the uncertainties noted above, Staff recommend that the 2024-2026 growth related capital program proceed as budgeted at this time, with continued quarterly monitoring by senior management as new information becomes available. For reference, the existing DC by-law remains in force, with current DC rates being indexed up by 6.6% on December 1, 2023 in accordance with the Q3 year-over-year increase of the non-residential construction price index for the GTA.

### 2024-2026 Budget

The 2024-2026 staff tabled operating and capital budgets will be released on December 11, 2023. The budget has been guided by the City's LTFP along with updates made during previous and current budget cycles. The staff tabled 2024-2026 budget includes increased infrastructure reinvestment funded through tax increases above inflation. Also, it recommends continued investment with increased preventative maintenance funding to assist in maintaining better asset conditions for a longer period and to help avoid premature asset failure triggering the need for early replacement.

### Next Steps

Staff have been updating the LTFP with each three-year budget cycle. At minimum, having LTFP updates alongside the three-year budget process provides Council with another tool for budget decision making along with other inputs such as the approved Strategic Plan and the City's Asset Management Plan.

As staff continues to update the LTFP model to reflect current information and decisions by Council, staff will also continue to look for ongoing process improvements that can be made to enhance and refine the LTFP.