REGIONAL MUNICIPALITY OF OTTAWA CARLETON — REPORT

MUNICIPALITÉ RÉGIONALE D'OTTAWA CARLETON — RAPPORT

Our File/N/Réf.
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DATE 17 September 1996

TO/DEST. Coordinator
Planning & Environment Committee

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **REGIONAL DEVELOPMENT STRATEGY (RDS): MUNICIPAL FINANCIAL IMPACT UPDATE**

DEPARTMENTAL RECOMMENDATION

That this report be received by the Planning & Environment and Transportation Committees as information provided as context for the consideration of the joint report from the Planning & Development Approvals and Environment & Transportation Departments entitled "*Regional Plan Review: Proposed Regional Development Strategy*".

BACKGROUND

On June 6, 1996, a draft report entitled "Regional Plan Review: Proposed Regional Development Strategy" was presented to Regional Council and released to the general public for comment along with four technical background reports on land use, water, wastewater and transportation which provided additional information about the detailed assessment underpinning the proposed RDS.

In addition, a separate report entitled "Regional Development Strategy: Municipal Financial Impact" was provided. The purpose of the report was to determine whether the proposed RDS was "affordable". Specifically, could the levels of capital investment and future operating costs related to the RDS be sustained by property tax and user fee revenues assuming that the rates of taxation and user fees would be comparable to those that exist today. Four separate models - Roads, Public Transit, Water and Wastewater - were constructed to examine that question.

Based on the June 10, 1996 report, the analysis concluded that the RDS could be funded without the need for increases in Regional taxes and user fees except for a one percent increase in the sewer surcharge in the year 2002. However, one of the key assumptions underlying the Public Transit model was the continuance of provincial subsidy at 75% of eligible capital expenditures. Concurrent with the tabling of the RDS Report, the province announced the reduction in its support for public transit from 75% to 50% of eligible capital expenditures.

As a result of this announcement, staff have re-examined the Public Transit model with this reduced level of provincial support and, at the same time, have reviewed the operating and capital requirements of all the models.

The original models assumed an inflation rate of one percent per year which was applied against the operating and capital requirements identified over the 25 year planning period. The conclusions reached in each of the four models are extremely sensitive to the inflation rate. Consequently, all models have been subjected to further analysis by utilizing a two percent inflation rate to determine whether the RDS continues to be "affordable" or if a funding gap develops between expenditures for operating and capital requirements and revenues from property taxes and user fees.

The operating and capital requirements incorporated into the Roads, Public Transit, Water and Wastewater models assume a preferred development pattern at 2021 which would encourage more residential development within the Greenbelt. If this development pattern is modified to assume more residential development outside the Greenbelt (less intensification), additional infrastructure would be required to service that growth pattern. Staff have examined the financial impact of a growth pattern which would result in an increase of 40,000 units as opposed to the proposed 80,000 units within the Greenbelt over the planning period. The results of this analysis are also presented in this report.

In summary, the purpose of this update report is to present the conclusions from the Municipal Financial Impact analysis amended to:

a) incorporate the reduction in public transit subsidy from 75% to 50%;
b) compare the effect of different inflation rates on the "affordability" of the RDS; and
c) examine the financial impact of additional infrastructure requirements under a different development pattern.

METHODOLOGY

The basic objective of the Municipal Financial Impact analysis is to determine whether the capital infrastructure required in the proposed RDS along with the yearly operating requirements can be funded with no increase in regional taxes or user rates over the 25 year planning period. To assist in the analysis, separate service area models for Roads, Public Transit (including OC Transpo), Water and Wastewater were developed.

Within each model, several alternative scenarios have been examined. In each service area model, the scenario presented on June 10, 1996 is included (referred to as the Base Scenario or Scenario One) along with the alternative scenarios as described below:

Base Scenario - as presented June 10, 1996 (except Public Transit*)
(Scenario 1) - assumes 1% inflation on operating and capital expenditure requirements
- mill rates and user fees remain at current 1996 levels.

* (The Base Scenario for Public Transit reflects the reduced subsidy rate of 50% along with revisions to the operating and capital requirements.)

Scenario 2 - assumes 2% inflation on operating and capital expenditure requirements
- mill rates and user fees remain at current 1996 levels.

Scenario 3 - mill rates and user fees increased to fund operating and capital requirements of the RDS (increases do not exceed inflation rate).

Scenario 4 - impact on "affordability" resulting from additional capital requirements associated with alternative development pattern.

Annexes A to D summarize information from each respective model / scenarios constructed for Roads, Public Transit, Water and Wastewater. Information on projected operating revenues and expenditures and the net capital requirements and financing for the total planning period along with the Reserve Fund position at the end of the planning period are provided in these Annexes. All financial information shown has been restated in 1996 dollars to facilitate comparison. Copies of the detailed models along with the specific assumptions used in constructing each model are available from the Finance Department.

The underlying methodology used in formulating the models was to project the yearly revenues from taxes and user rates. The analysis incorporates yearly increases in revenues from the following:

Tax Revenues - increases based on assessment growth
Water / Sewer Revenues - increases based on household growth
Transit Fare Box Revenues - increases based on ridership growth

Projected tax and user fee revenues are then used to fund the operating expenditure requirements of each service. Any remaining funds are contributed to the capital reserve fund of each respective service.

Capital reserves and RDC's are used to finance the net requirement of the capital program. Except for the transportation capital requirements, no debt is utilized to fund the program. Yearly revenues from Regional Development Charges (RDC's) are based on housing projections as provided by the Region's Planning Department.

Some of the common assumptions incorporated into the analysis are summarized below:

- *`97 Budget Directions* as adopted by Council form the base budgets for forecasting future expenditures / revenues
- Revenues increase with assessment growth as a result of increase in housing units (residential) and with net employment growth (commercial)
- Operating expenditures increase with system expansion
- Capital and Regional Development Charge Reserve Fund Balances earn 5% interest
- Capital program is to be funded through reserves, development charges and debentures (transportation only)
- Debentures issued at 8% for a ten year term (Transportation only)
- Regional Development charges based on a $7,000 Single Family Dwelling rate and $1.30 Non-Residential Rate (indexed to inflation)

CONCLUSION

The June 10 analysis, which assumed a one percent annual inflation rate against the operating and capital requirements for each service, concluded that the proposed RDS was "affordable" in that no increase in mill rates or user fees was required over the planning period (except for a one percent increase in the sewer surcharge rate).

The June 10 analysis also assumed provincial subsidy for transit capital purposes at 75% of eligible expenditures. After adjusting the Public Transit model to reflect the revised subsidy rate of 50%, the proposed RDS can no longer be supported without additional revenues from property taxes or user fees. The funding shortfall over the planning period for this model expressed in 1996 dollars would amount to approximately $298 million.

In addition, if the annual inflation rate assumption is increased from one percent to two percent, (Scenario 2) funding of the operating and capital requirements for the Roads, Water and Wastewater service areas can no longer be sustained from current mill rates and user fees.

Scenario 3 of each model calculates the approximate yearly increase required in mill rates and user fees to fund the shortfall identified in Scenario 2. Required yearly increases in either mill rates or user fees are limited to the rate of inflation. The following mill rate and user fee increases would be required.

Roads

1.5% yearly increase in the transportation component of the Region Wide mill rate from the year 2000 to 2010 only. Currently, property taxes paid by the average homeowner for Regional transportation services is approximately $183.00 . The impact of a 1.5% mill rate increase would equate to a yearly tax increase of $3.00 over the 2000 to 2010 time period.

Transit

2% yearly mill rate increases from 1999 onwards and 2% average yearly transit fare increases from 1998 onwards. (This would still leave a small funding shortfall of approximately $126 million in 1996 dollars over the planning period.) Property taxes for Public Transit purposes in 1996 are $171.00. A yearly 2% increase in the Transit mill rate from 1999 onwards would correspond to an average yearly increase in property taxes of $4.00.

Water

2% yearly increases in the water rate effective from 2003 onwards. In 1996, the average homeowner connected to the Regional water system consumed and paid for one cubic metre of water per day which equates to approximately $200.00 per year. The impact of yearly 2% increases in the water rate from 2003 onwards would increase the average yearly bill for water services by $4.50.

Wastewater

1% increase in the sewer surcharge rate in 2003 and an additional 1% increase in 2013. The revenue generated by the sewer surcharge rate is calculated by applying the rate on the water usage billed. Based on the average yearly consumption of water, the average homeowner paid approximately $200.00 in 1996. A one percent increase in 2003 followed by another one percent increase in 2013 would result in an average yearly increase for sewer services of $5.00 .

The additional capital infrastructure required to service an alternative development pattern, as presented in Scenario 4, results in a net funding shortfall expressed in 1996 dollars of approximately $271 million for Roads. The net funding gap for Public Transit increases by an additional $52 million from the $126 million shortfall in Scenario 3 for a total of $178 million. The additional capital requirements for Water and Wastewater can be sustained from the rate increases presented in Scenario 3.

Approved by J.C. LeBelle
Finance Commissioner

Annex A

Roads
Summary of Models
000's

In 1996 Dollars

	Scenario 1 As Tabled 10-Jun-96 1% Inflation	Scenario 2 No Mill Rate Increase 2% Inflation	Scenario 3 1.5% Mill Rate Incr. Required 2% Inflation	Scenario 4 Alternative Development Pattern
Operations				
Total Tax Revenues	2,188,854	1,942,416	2,155,123	2,155,123
Total Operating Expenditures				
Operational Costs	1,273,091	1,184,545	1,184,545	1,184,545
Debt Charges	321,112	285,846	281,490	281,490
PAYG Contributions	594,651	681,435	689,088	959,667
Total Expenditures	2,188,854	2,151,826	2,155,123	2,425,702
Additional Funding Requirement		*209,410*		270,579
Capital				
Capital Mtce	599,630	599,630	599,630	599,630
Transportion Master Plan	571,500	571,500	571,500	850,500
	1,171,130	1,171,130	1,171,130	1,450,130
Total Financing				
Capital Reserves	611,805	701,394	704,646	988,620
Regional Development Charges	479,721	424,596	424,596	419,623
Debentures	79,604	45,139	41,887	41,887
Total Financing	1,171,130	1,171,130	1,171,130	1,450,130
2021 Reserve Fund Position				
Capital Reserves	1,091	503	17,238	890
Regional Development Charges	14,432	11,170	11,170	13,607

Annex B

Public Transit
Summary of Models
000's

In 1996 Dollars
Assumes 50% Subsidy

	Scenario 1 As Restated * 10-Jun-96 1% Inflation	Scenario 2 No Mill Rate/ Fare Increase 2% Inflation	Scenario 3 2% Rate / Fare Increase 2% Inflation	Scenario 4 Alternative Development Pattern
Operations				
Total Tax Revenues	1,951,917	1,740,002	2,125,141	2,125,141
Total Passenger Revenues				
- OC Transpo	2,646,240	1,994,435	2,542,593	2,542,593
- Para Transpo	32,028	28,347	28,347	28,347
- Other	52,118	52,954	52,954	52,954
Subsidy	655,009	584,273	584,273	584,273
Total Revenues	5,337,312	4,400,012	5,333,308	5,333,308
Total Operating Expenditures				
OC Transpo Regular Operations	4,361,188	4,248,713	4,248,713	4,248,713
Para Transpo	409,643	329,955	329,955	329,955
Debt Charges	12,237	12,033	12,033	12,033
PAYG Contributions	771,461	798,342	793,165	845,180
Other	81,032	74,999	74,999	74,999
Total Expenditures	5,635,561	5,464,042	5,458,865	5,510,880
Additional Funding Requirement	*298,249*	*1,064,030*	*125,557*	*177,572*
Total Net Capital Expenditures				
Transit Master Plan & Capital Mtce	387,898	387,898	387,898	442,398
OC Transpo	496,521	496,521	496,521	496,521
Total Net Capital	884,419	884,419	884,419	938,919
Total Financing				
Reserve Funds	815,466	823,237	823,237	877,737
Regional Development Charges	68,953	61,182	61,182	61,182
Total Financing	884,419	884,419	884,419	938,919
2021 Reserve Fund Position				
Capital Reserves	1,157	2,705	2,185	454
Regional Development Charges	7,234	9,635	9,635	9,635

* Scenario 1 has been restated to reflect the decrease in Provincial subsidy from 75% to 50% and a total review of all operating and capital expenditures

Annex C

Water
Summary of Models
000's

In 1996 Dollars

	Scenario 1 As Tabled 10-Jun-96 1% Inflation	Scenario 2 No User Rate Increase 2% Inflation	Scenario 3 A 2% Incr. from 2003 Required 2% Inflation	Scenario 4 Alternative Development Pattern
Operations				
Total User/Tax Revenues	1,614,314	1,432,813	1,590,268	1,590,268
Total Operating Expenditures				
Operational Costs	1,172,263	1,166,678	1,166,678	1,166,678
Debt Charges	2,324	2,312	2,312	2,312
PAYG Contributions	439,728	421,792	421,278	421,278
Total Expenditures	1,614,314	1,590,782	1,590,268	1,590,268
Additional Funding Requirements		*157,969*		
Total Capital Expenditures				
Total Capital Requirements	665,867	665,867	665,867	689,667
Total Financing				
Reserve Funds	481,628	484,901	484,901	488,438
Regional Development Charges	184,239	180,966	180,966	201,229
Total Financing	665,867	665,867	665,867	689,667
2021 Reserve Fund Position				
Capital Reserves	64,844	353	3,728	785
Regional Development Charges	46,923	25,228	25,228	939

Wastewater
Summary of Models
000's

In 1996 Dollars

	Scenario 1 As Tabled 10-Jun-96 1% Inflation	Scenario 2 No User Rate Increase 2% Inflation	Scenario 3 A 1.0% Incr. from 2003 Required * 2% Inflation	Scenario 4 Alternative Development Pattern
Operations				
Total User/Tax Revenues	1,390,837	1,196,144	1,480,706	1,480,706
Total Operating Expenditures				
Operational Costs	1,033,363	1,030,937	1,030,937	1,033,252
Debt Charges	194,821	183,149	183,149	183,149
PAYG Contributions	162,653	272,930	266,620	264,306
Total Expenditures	1,390,837	1,487,016	1,480,706	1,480,706
Additional Funding Requirement		*290,872*		
Total Capital Expenditures				
Total Capital Requirements	485,547	485,547	485,547	490,807
Total Financing				
Capital Reserves	370,316	385,525	385,525	388,847
Regional Development Charges	115,232	100,022	100,022	101,960
Total Financing	485,547	485,547	485,547	490,807
2021 Reserve Fund Position				
Capital Reserves	(60,591)	340	9,071	2,636
Regional Development Charges	8,960	13,200	13,200	11,021

*** An additional increase of 1% is required in the year 2013**