

Update -Capital Budget Affordability Strategy

Presentation to BRCOW

October 16, 2008

Goals

- ◆ Affordable 10 year Capital Plan
- ◆ Maintain Credit Rating
- ◆ Control Debt Within Policy for Annual Repayment Limit (ARL)

Background

- ◆ “New” Current Budget Affordability process since 2006 (for 2007 Budget)
- ◆ Future Capital Budget Affordability challenges noted during 2008 budget
- ◆ CSD 06-2008 (2008 Budget Report)
 - “joint Corporate Services and Public Works review of the existing Capital Strategy be undertaken...”
- ◆ CSD 62-2008 (re: Police LTA)
 - “affordability of the Police LTA Strategy be confirmed after the Capital Budget Affordability Strategy has been reviewed and revised...”

Previous Capital Budget Strategy

- ◆ Historically low interest rates
- ◆ Invest in capital / “managed” debt increase
- ◆ \$20 million per year = +1% on levy
- ◆ Debt from \$100 to \$200 m -'01 to '06
- ◆ “Pay as you go” for Water & WW

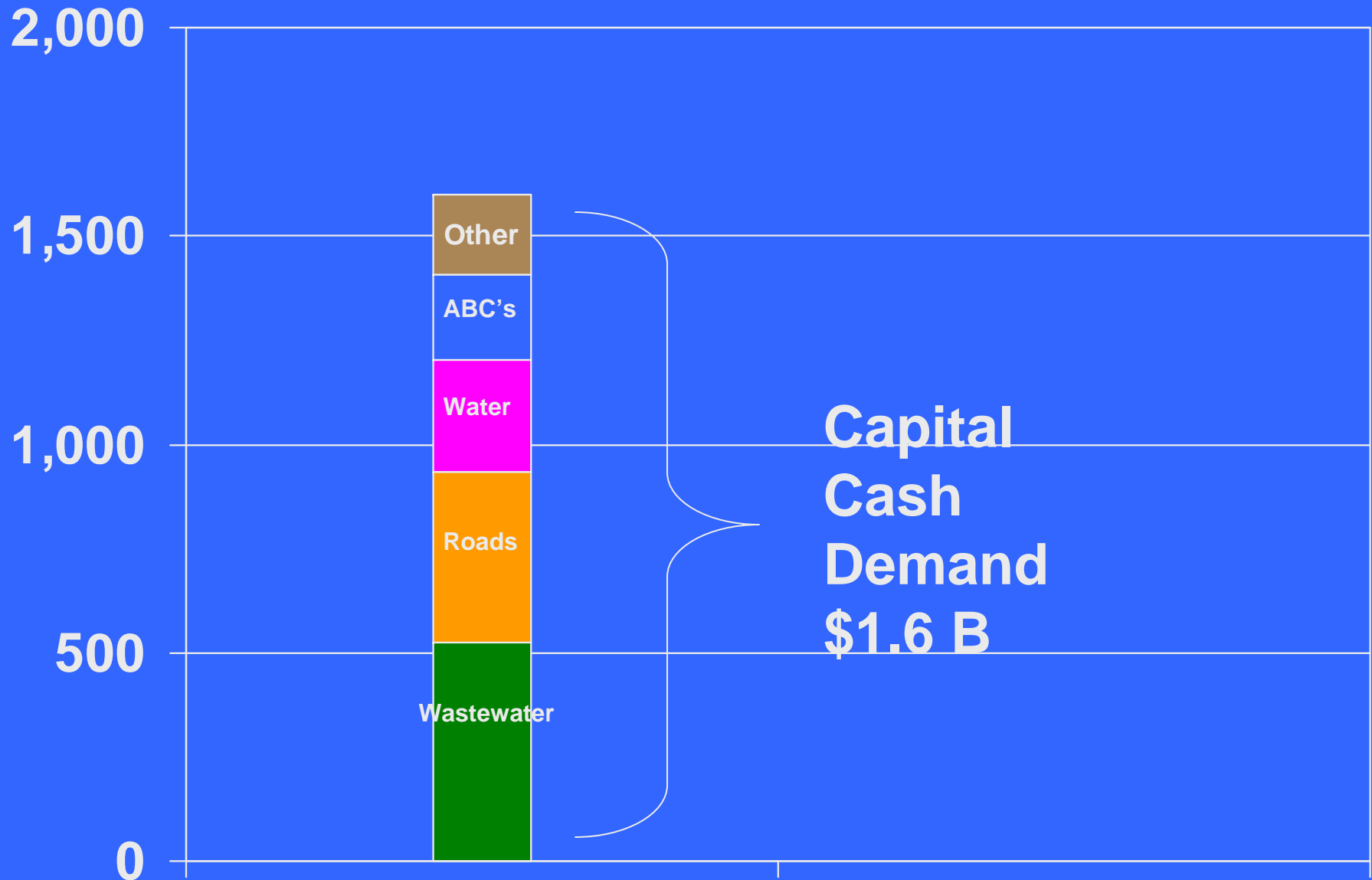
Recent Capital Budget Realities

- ◆ '07&'08 Current Affordability -3.4%↑
- ◆ Debt charges:
 - Increase stress on operations
 - 1%↑ impact not sustainable
- ◆ Unfunded projects
- ◆ Move toward user pay principle
- ◆ Need for long term Capital Affordability Strategy identified

Steps to Achieve Capital Budget Affordability

- ✓ Determine demand
- ✓ Define affordability
- ✓ Cash for Capital
- ✓ Risk Levers
- ✓ Decision Levers
- ✓ Debt Levers
- ✓ Quantify Gaps
- ◆ Seek Council Affordability Guidance
- ◆ Prioritize to Close Gaps
- ◆ Final approval of 10 year envelopes
- ◆ Annual Budget Within Approved Envelopes

Capital Cash Demand -10 Years



AFFORDABILITY

Living Within Niagara Taxpayers' Means

- Increases in rates and taxes to be less than increases in householders' income
- Capital Budget impacts consistent with Current Budget guidelines

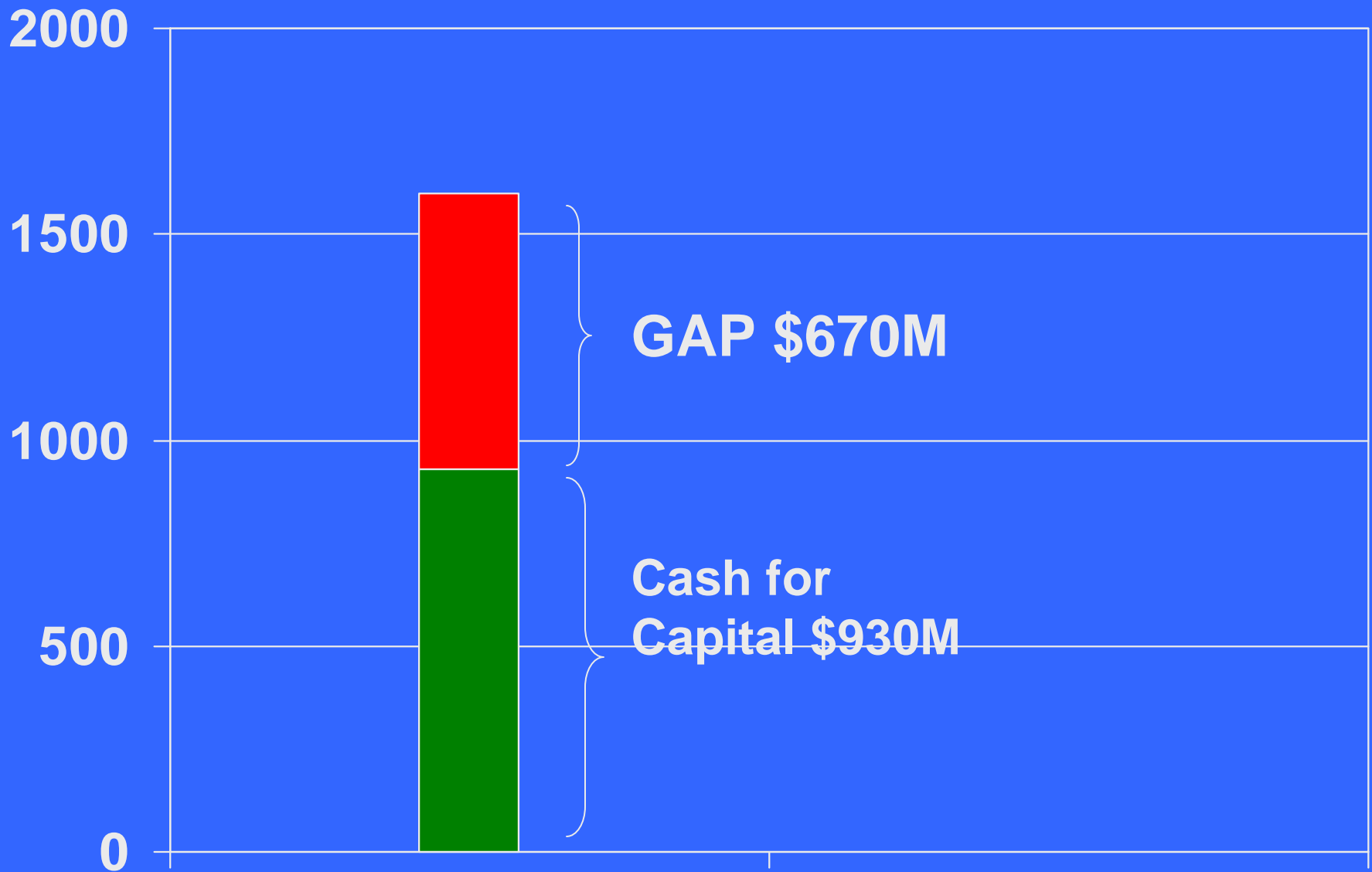
(Increase in taxes defined as after assessment growth)

Base Case -Cash Affordability

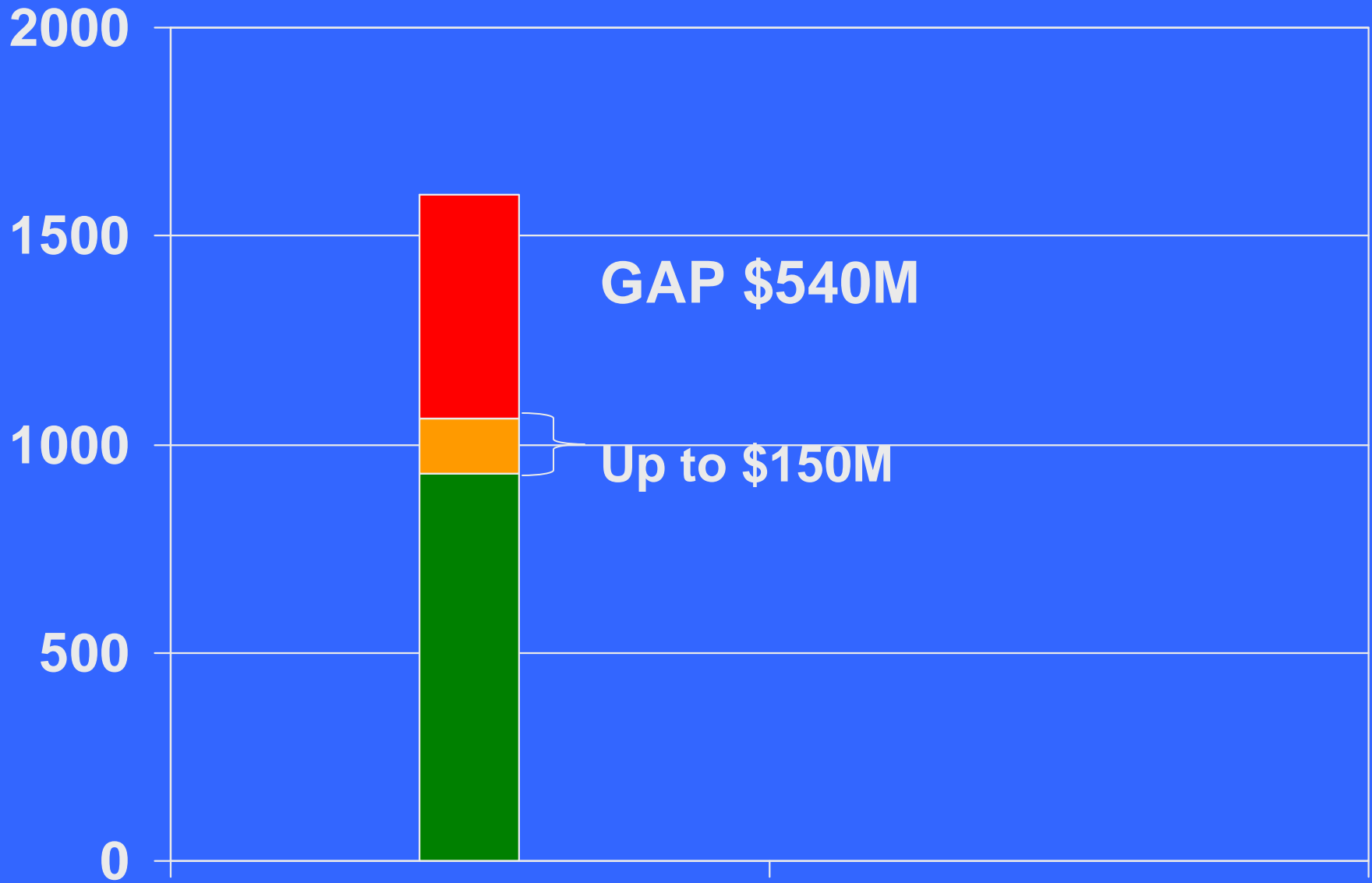
◆ Water capital reserve transfers	\$230 million
◆ Wastewater cap. Reserve trans.	\$220 million
◆ Capital Levy	\$69 million
◆ Maturing debt	\$172 million
◆ Development charges	\$85 million
◆ One Time Funding (Inv in Ont)	\$20 million
◆ Gas Tax	<u>\$134 million</u>

Existing 10 yr affordability for capital **\$930 million**

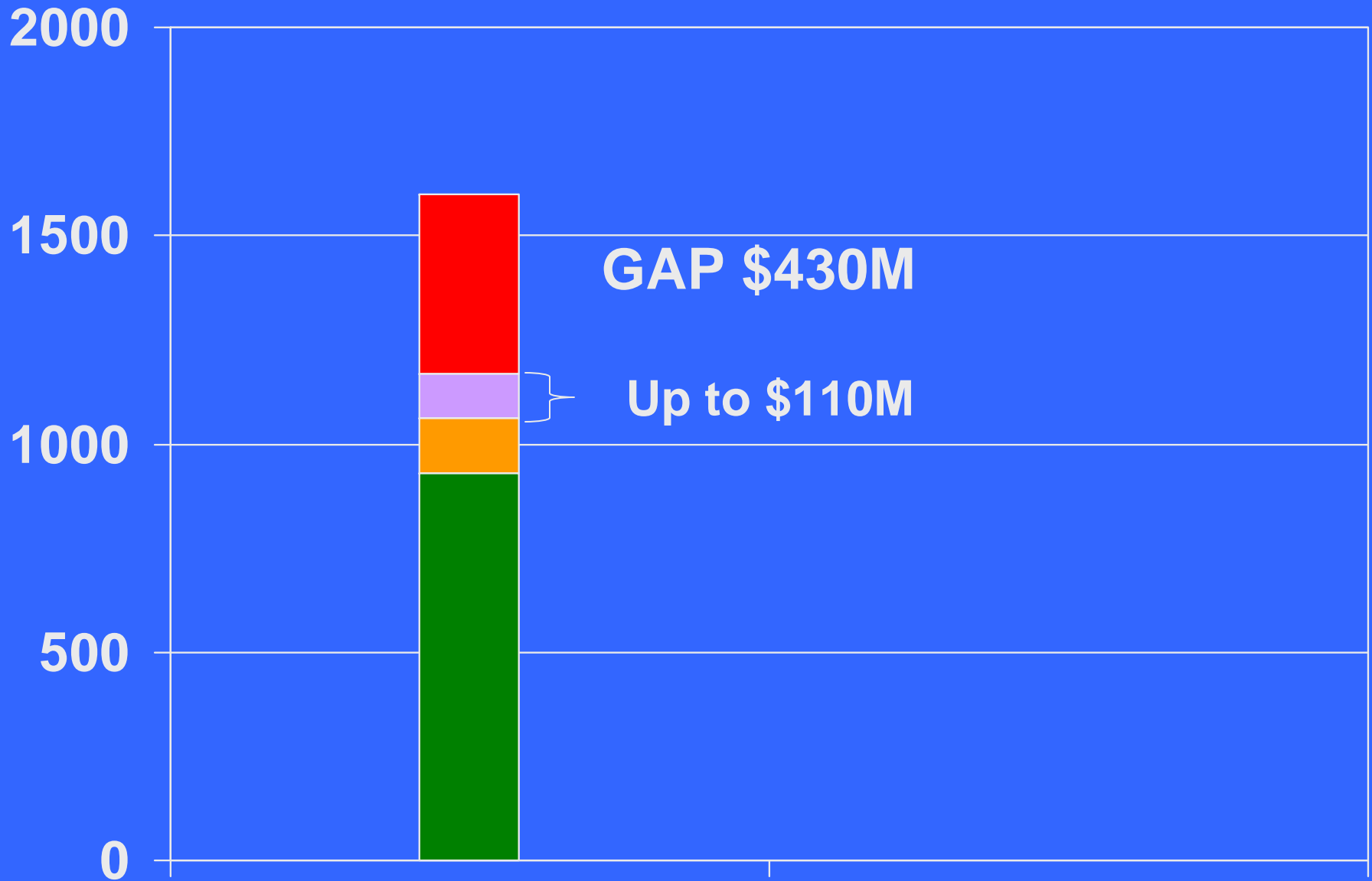
Base Case Cash Affordability -10 Years



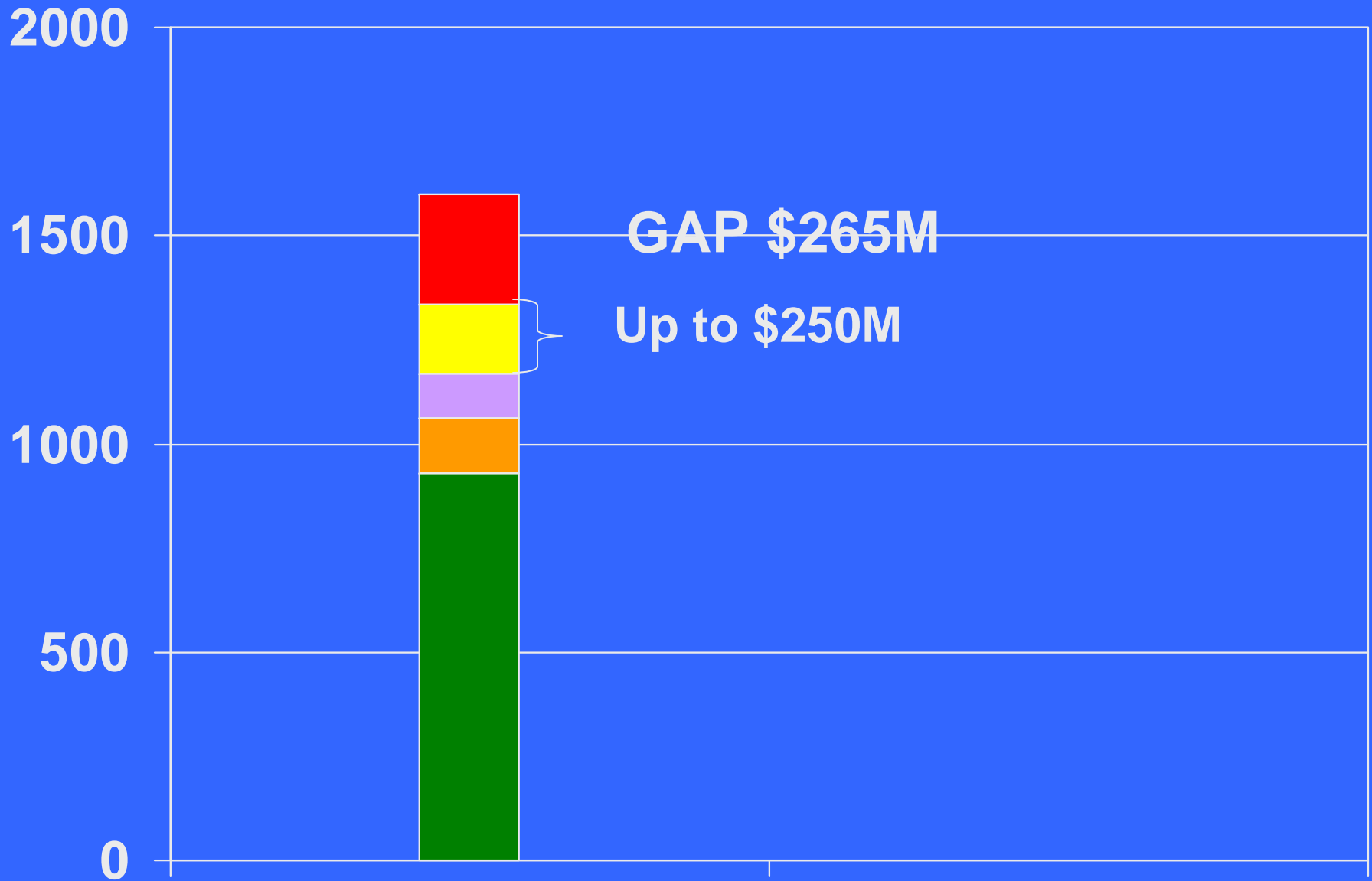
Risk Levers: 1x Transfers from Prov /Fed



Decision Levers: Provincial Uploading



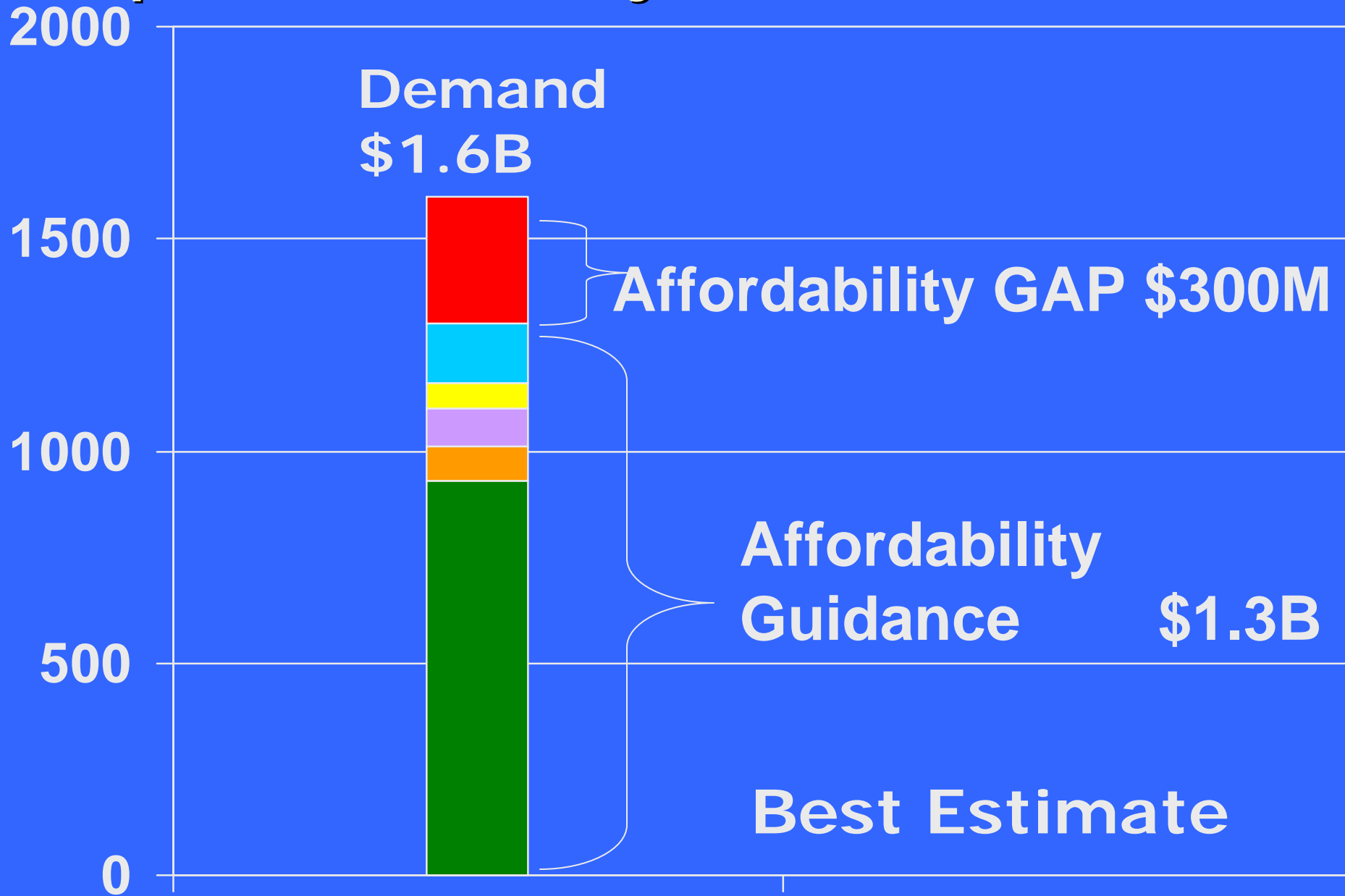
Decision Levers: Development Charges



Decision Levers: Debt – Up to \$400M



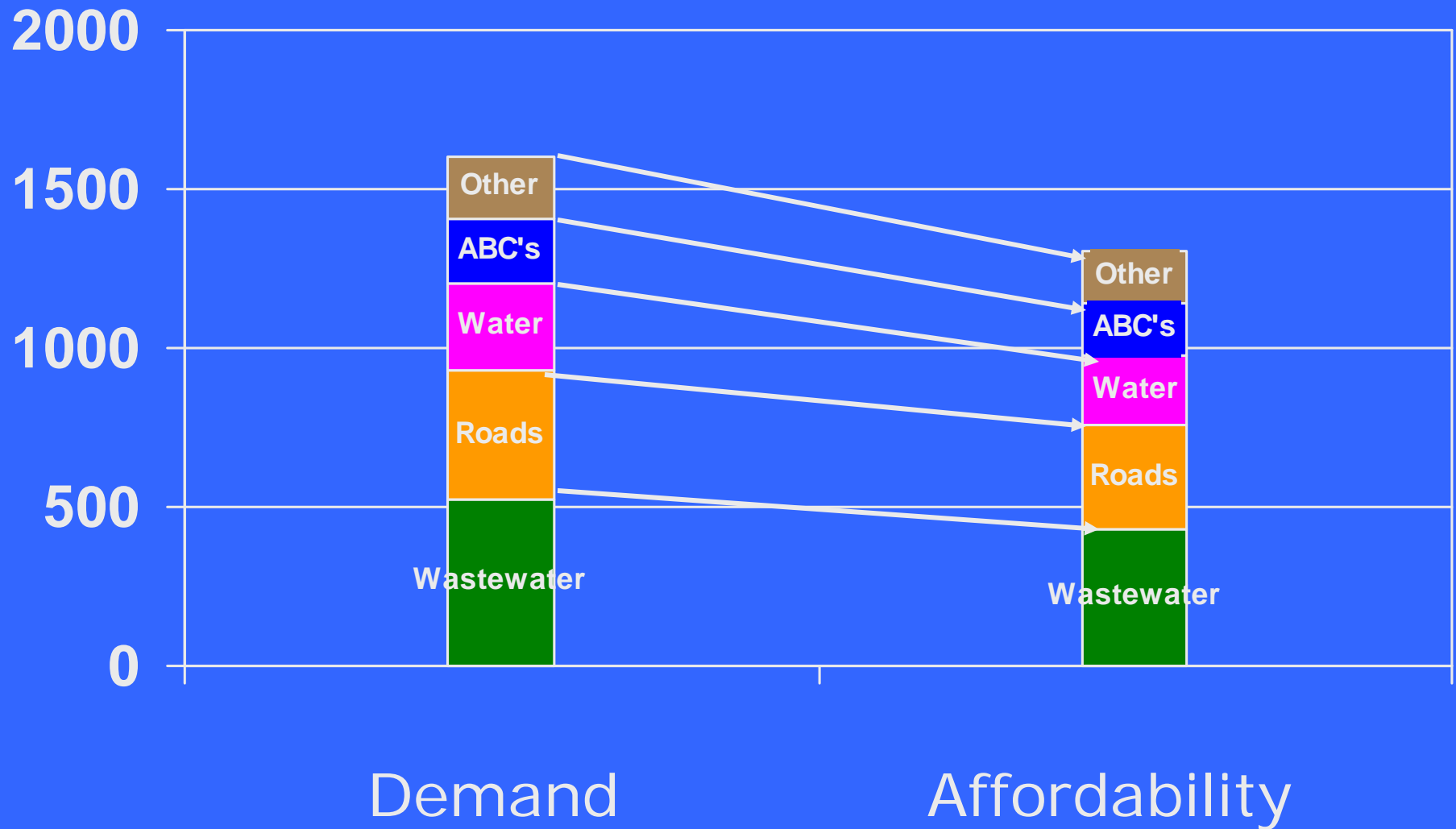
Capital Affordability – 10 Years



Affordability Best Estimate -10 Year Summary

◆ Base Case Cash	\$930 m
◆ One Time Transfer Risk	\$80 m
◆ Uploading Decision	\$90 m
◆ Developm't Charge Decision	\$60 m
◆ Debt Decision	<u>\$140 m</u>
10 Year Affordability	\$1,300 m

Closing the Gap -Allocation



Closing the Gap

- Prioritize

◆ Gap	<u>\$ 300 M</u>
◆ Reduce Scope	\$??? m
◆ Lower Cost	\$??? m
◆ Defer	\$??? m
◆ Delete	\$??? M
◆ Improve Productivity	\$??? m
◆ Reduce Service Levels	\$??? M
◆ Increase Rates /Taxes	\$??? m

Conclusion

- ◆ Can't do everything
- ◆ Prioritization /allocation necessary
- ◆ Levers to be managed (DCs/Transfers)
- ◆ Relieve annual 1%↑ from levy
- ◆ Affordable 10 Year Capital Plan
- ◆ Maintain Credit Rating
- ◆ Control Debt Within Policy for Annual Repayment Limit (ARL)

Next Steps

- ◆ Seek Council Guidance on Overall Affordability Level
- ◆ Develop Proposed 10 Year Capital Allocations to Program areas
- ◆ Confirm Allocations to Programs
- ◆ Prioritize by Program to Close Gaps
- ◆ Final Approval of 10 Year Envelopes
- ◆ Annual Budget Within Approved Envelopes
- ◆ 2009 Capital Budget

END

- ◆ Questions

- ?

- ?

- ?

- ◆ Thank you

Capital Cash Demand – 10 Years

	<u>Million</u>
◆ Unfunded Projects	\$187 million
◆ Waste Management	26
◆ Water	273
◆ Wastewater	518
◆ Roads	416
◆ Police	53
◆ Technology	50
◆ Facilities & Fleet	42
◆ Community Services	55
◆ Public Health	9
◆ NRH	39
◆ NPCA	32
◆ Works in Progress	<u>(100)</u>
Cash Demand	\$1,600 million

Unfunded Projects (“Bow Wave”) (work in progress)

◆ Initiated	\$ 614 m
◆ Uninitiated	<u>\$ 118 m</u>
“Open” Projects	\$ 732 m
◆ Reserve funded	\$(382)m
◆ Debt	\$ (63)m
◆ External	<u>\$(100)m</u>
◆ Unfunded projects	\$ 187 m

Preserve more of ODSP “Uploading Room”??

- ◆ ODSP Uploading annual impacts:
 - Total once fully implemented \$34 million /yr
 - 2008 amount (\$6 million)
 - 2009 amount (\$4 million)
 - Remainder 2010-11 \$24 million
 - Potential OMPF loss (\$8 million)
 - Other est. downloading offsets (such as OW/ EMS etc) (\$6 million)
 - New capacity for capital (est.) \$10 million

Can “new capacity for capital” above be increased beyond \$10 million?

More aggressive “development pays” strategy??

◆ PW 10 Year Forecast –Growth Component	
◆ Water	\$33 m
◆ Wastewater	\$107 m
◆ Roads	<u>\$111 m</u>
Total	<u>\$251 m</u>
Vs DCs	
◆ (Past 5 year average: \$8.5m)	
◆ Enhancement (15 m/yr x 10=)	<u>\$150 m</u>
◆ “Growth Gap”	<u>\$101 m</u>

Cash Enhancements

Base /Best Est. /Max

◆ Transfers	\$20m	/+ \$80m	/+ \$50m
◆ Uploading	\$0m	/+ \$90m	/+ \$20m
◆ DCs	\$85m	/+ \$60m	/+ \$105m

Best Estimate **+\$ 230 mil**

Increased Debt Levels

- ◆ Legislated Annual Repayment Limit:
 - (25% own source) \$100 mil
- ◆ Internal Policy Annual Repayment Limit:
 - (20% own source) \$ 80 mil
- ◆ Long Term Fixed Charges (\$ 30 mil)
- ◆ Annual Debt Charge capacity \$50 mil

Practical Debt Capacity \$ 400 mil

Constraints

- ◆ Credit Rating
- ◆ Current Budget Impact

Cash Effects of Debt

Debt Effect:

Reissue existing debt	\$240 mil
Renew existing Debt Charges	(\$172 mil)
Issue new debt	\$140 mil
New debt charges	<u>(\$68 mil)</u>
Net Debt effect	<u>\$140 mil</u>

Future Debt

- ◆ Existing /not maturing \$20 mil
- ◆ Reissue existing \$240 mil
- ◆ Issue new \$140 mil

Practical debt capacity \$400 mil

Past 10 Year Spending

- ◆ \$1,211 million (per 1999 to 2008 approved capital budgets)
- ◆ Equates to $(1,211/1,579=)$ 77% of TCA Cost
- ◆ (caveats re: historical cost /growth)

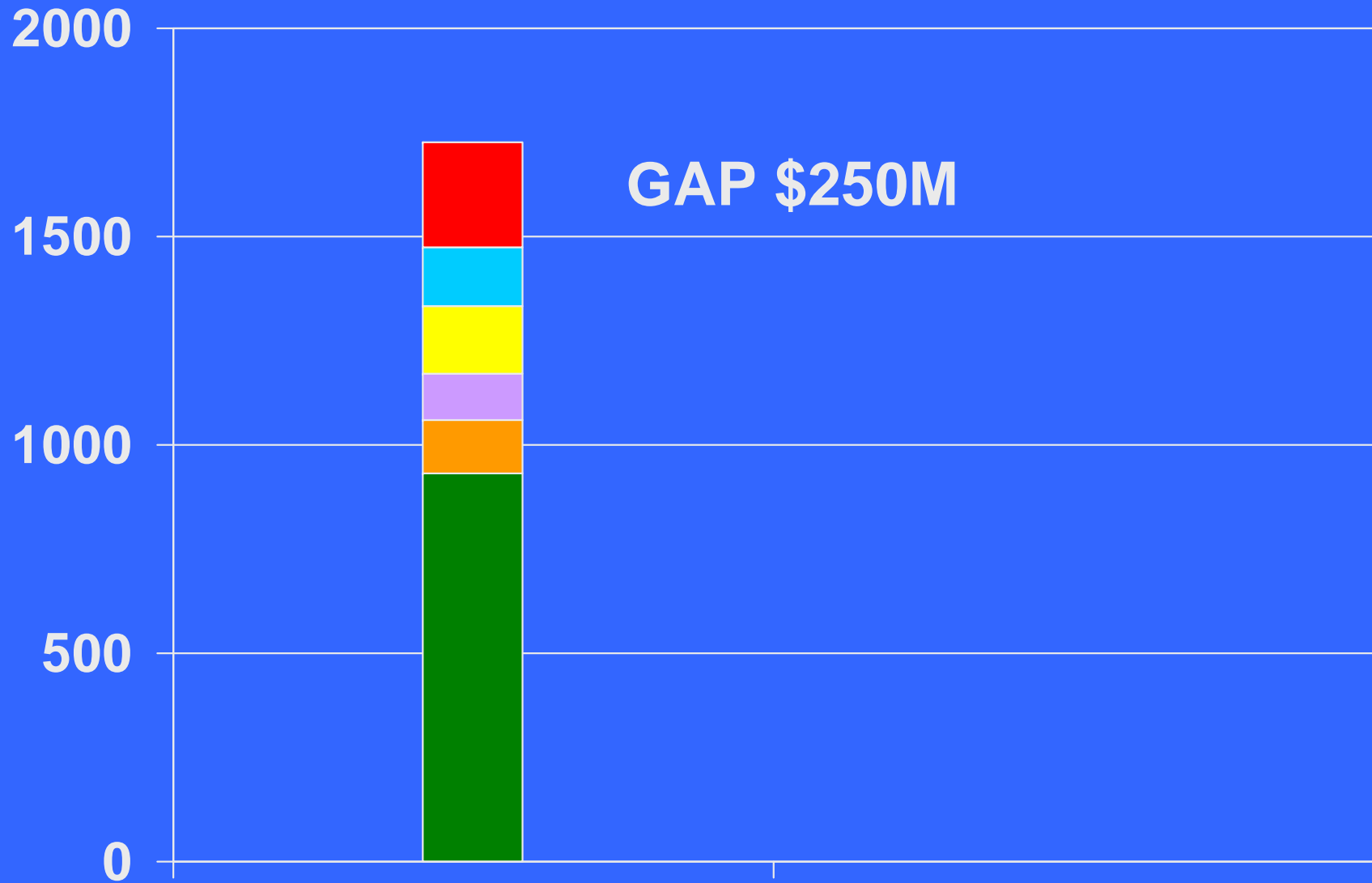
Substantial investment in past 10 years

Un-included Demand

- ◆ Project Niagara
- ◆ Wainfleet W&WW Servicing
- ◆ Burgoyne Bridge Replacement
- ◆ Area Municipal Road Transfers
- ◆ NASCAR Servicing

- ◆ Approximately \$127 million

Decision: Un-included Demand - \$125M



Potential Implications

- ◆ CSO Tanks?
- ◆ Grow South?
- ◆ Uploaded Roads?
- ◆ Uploaded Pumping Stations?
- ◆ Project Niagara?
- ◆ Wainfleet?
- ◆ Other projects not included?

Note re: Long Term Contracts – Waste, etc

- ◆ Conversion of capital spending to long term contracts
 - Collection
 - Landfill
 - Composting
- ◆ Affordability challenges still to be addressed in current budget

Historical Capital Budgets

Millions

