

City of Guelph
Financial Condition Assessment
September 24, 2015



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Executive Summary



Executive Summary

The Financial Condition Assessment Report includes:

*Multiple Financial,
Affordability Socio-Economic
Indicators*

Trends

Peer Comparisons



*Financial Policies and
Strategies*

The City of Guelph has undertaken an update to a previous Financial Condition Assessment which was completed in 2010 to evaluate its past performance and financial outlook. The Financial Condition Assessment includes key financial, affordability and socio-economic indicators to evaluate the existing financial health and to identify future challenges and opportunities. The following provides a brief introduction to the Financial Condition Assessment:

- It is easy to draw erroneous conclusions by looking at indicators in isolation. As such, the Financial Condition Assessment includes multiple indicators which should be evaluated within the context of the “big picture”.
- Further, it is important to consider trends, rather than evaluating one point in time, as an indicator can be impacted by one-time events. Therefore, trends were used to help provide interpretive context.
- All municipalities have challenges, some of which are a result of specific factors unique to the municipality. A municipality’s financial health can vary significantly based on a number of factors including growth, age of infrastructure, policy decisions and how programs and services are delivered. Regardless of unique differences, it is well recognized, across Canada, that there are significant challenges faced by municipalities related to infrastructure funding gaps. As such, it is important to put the City’s financial condition into perspective. Additional context has been included in the report by providing comparisons of indicators to peer municipalities.
- Based on the analysis undertaken, suggested updates to existing policies and strategies have been made.

Socio-Economic Indicators

- ✓ *Planned modest population growth*
- ✓ *Relatively low unemployment rate and high employment rate*
- ✓ *Construction activity is relatively strong with a good mix of residential and new residential activity*
- ✓ *Assessment increases have been relatively strong*
- ✓ *Assessment on a per capita basis is above the average of peer municipal corporations*
- ✓ *Average household income is above the peer median*

Socio-economic indicators provide information regarding a municipality's ability to generate revenue and also economic and demographic characteristics that affect service demands.

Guelph has a number of positive socio-economic indicators reflecting a strong local economy.

As a cautionary note, in terms of demographics, Guelph, consistent with trends across Ontario, has an aging population. This trend is expected to continue and should be monitored as it may require a need to shift municipal service priorities.

Levy and Affordability

Property taxes were reviewed in relation to levy per capita, per \$100,000 of assessment and in relation to household income to provide an indication of affordability of services in the City of Guelph.

In comparison to its peer group, Guelph's municipal levy on a per capita basis is slightly above average as is the levy per \$100,000 of assessment. Guelph's property tax ratio to average household income is also slightly above the survey average. These affordability indicators should be closely monitored to ensure that property taxes remain competitive and continue to be affordable.



Financial Indicators

Reserves/Reserve Funds

Reserves and Reserve Funds are a critical component of the City's long term financial plan. Overall, Guelph's Discretionary Reserves as a percentage of taxation is lower than the peer average. It is also important to note that, over the past several years, Guelph's ratio has been trending down.



- Stabilization Reserves and Reserve Funds—The City should have sufficient stabilization reserves to manage the impact of unusual or unplanned cost increases or reserve reductions. The City's current policy for stabilization funds is to maintain a balance of 8-10% in relation to own source revenues. Guelph has approximately 2.5% in tax related stabilization reserves below the target. Also, the City has a number of reserves for stabilization purposes. Consolidating stabilization reserves would provide more flexibility to manage risk more effectively.
- Capital Reserves/Reserve Funds—Capital reserves form an important component of any capital financing plan. The City has a decentralized approach to financing capital asset replacement with 33 Capital Reserves. Segregating the reserves to this extent limits the flexibility to provide funding for high priority, high risk capital infrastructure replacement. It is also noted that, even though the value of capital assets have increased, the consolidated capital reserve balances have been trending down over the past several years. A leading practice is to prepare comprehensive asset management plans. The City should focus on implementing a detailed asset management and capital financing plan to drive future capital budgets and help ensure adequate funding is in place.
- Program Specific Reserves—The City has a large number of program specific reserves, some with little or no activity and some with no balances. A financial plan should be prepared for all program specific reserves.
- Water/Wastewater Reserves—Water and wastewater services have adequate stabilization reserves and the capital reserves are increasing and keeping pace with capital projects required for the future replacement needs over the next 10 years.

Reserves and Reserve Funds are trending down. Efforts are needed to reverse this trend

Stabilization Reserves are below target levels

Capital reserves are also lower than optimal levels to support the timely replacement of tax supported capital assets

Consolidation of "like" reserves will increase financial flexibility

Significant improvements to the water and wastewater reserves through planned and prudent reserve policies

Financial Indicators Continued

Debt Management

The City has a comprehensive debt policy that helps ensure the City has the appropriate financial capacity to service debt without jeopardizing services. The City's debt policy imposes a more conservative restructure on long-term debt than the Province allows. Debt service costs in 2014 were 4.7% of net revenues, well within the City's policy of 10%.

Financial Position

The financial position trend is important to monitor. A negative trend would indicate that capital and operating expenditures are exceeding reserves. A pattern of financial position decreases are not sustainable. The City's net financial position (Financial Assets-Financial Liabilities) is in a positive position, and has been trending upward. The City of Guelph's net financial position per capita is, however, below the average of the peer municipalities.

Tax Receivables

Monitoring taxes receivable provides an indication of the strength of the local economy. Taxes receivable as a percentage of taxes levied is at approximately 2%, amongst the lowest of the peer comparator group.

- ✓ *Debt levels are well below the City's policy limits as well as Provincial limits*



- ✓ *Financial position is positive and trending upward*



- ✓ *Taxes receivable are very low reflecting a strong local economy*

Summary

In summary, the City of Guelph's financial condition is favourable, however, similar to other Ontario municipalities, the City is facing a number of challenges to provide services and replace infrastructure given increased demands and limited resources. This will require long-term strategic thinking and establishment of a sound long-term financial plan to ensure the City continues to operate in a fiscally sustainable manner.

Report



Introduction—Financial Condition Assessment

As described by the (CICA), now known as Chartered Professional Accountants of Canada (CPA), the intent of providing an evaluation of a municipality's financial condition is to evaluate a municipality's financial outlook and performance. This will help form the foundation for the establishment of a long range financial plan.

Key financial and socio-economic indicators have been included to help evaluate the City's existing financial condition and to identify future challenges and opportunities. Industry recognized indicators that are used by credit rating agencies and/or recommended by Government Finance Officers' Association (GFOA) have been included.

"The usefulness of indicators is not in the numbers themselves but the analysis of what is driving the indicator. It may therefore be more useful to consider the combined results of several broad indicators in assessing performance rather than any one indicator on its own."

Local Government Financial Sustainability, Nationally Consistent Frameworks, published by Local Government and Planning Ministers' Council (Australia), May 2007

Excerpts from the Canadian Institute of Chartered Accountants (CICA) Regarding a Financial Condition Assessment

Sustainability

Whether a government is living within its means.

Sustainability is the ability to provide and maintain existing programs without resorting to unplanned increases in rates or cuts in service.

Flexibility

Whether a government can meet rising commitments by expanding its revenues or increasing its debt.

Flexibility is the degree to which a municipality can issue debt or generate revenues without affecting the credit rating.

Vulnerability

The extent to which a government relies on money it cannot control.

Vulnerability is focused on minimizing the level of risk that could impact its ability to meet financial obligations and commitments including the delivery of services.

Trend Analysis

The problems that create fiscal challenges seldom emerge overnight, rather they develop slowly, thus making potential problems less obvious. Analyzing the trends of the City's key financial performance and socio-economic indicators offer several advantages including:

- It provides information on changes in the City's financial health, revealing the most current trends;
- It shows how quickly a trend is changing;
- It will form the basis for future forecasting;
- It builds awareness and helps identify the potential need to modify existing policies or develop new strategies; and
- It provides a good indication of where the City is heading.

Peer Analysis

Peer analysis has also been included to gain perspective on the City's financial health in relation to other municipalities. Figure 1 summarizes the peer municipalities selected

Figure 1—Peer Municipal Comparator Group

Municipality	2014 Estimated Population	Land Area (sq. km.)	Density pop/sq.km	Municipal Tiers	Location	Region
Barrie	143,634	77	1,865	single	Simcoe	Simcoe
Brantford	95,532	72	1,327	single	Southwest	Brant
Burlington	187,292	186	1,007	two	GTA	Halton
Cambridge	133,880	113	1,185	two	Southwest	Waterloo
Kingston	130,274	451	289	single	Eastern	Frontenac
London	383,817	421	912	single	Southwest	Middlesex
Oakville	197,882	139	1,424	two	GTA	Halton
St. Catharines	134,416	96	1,400	two	Niagara	Niagara
Waterloo	102,076	64	1,595	two	Southwest	Waterloo
Guelph	128,926	87	1,482	single	Southwest	Wellington



Financial Condition Assessment—Questions to Consider

Finally, at the conclusion of the Financial Condition Assessment, the following questions will be addressed to help set the stage for the development of a financial forecast.

- 1. Can the City continue to pay for the services currently provided?*
- 2. Is there sufficient financial flexibility to address unexpected events, uncertainty and future liabilities?*
- 3. Is the City's infrastructure network sustainable and adequately funded?*



Financial Condition Assessment—Key Indicators

The Financial Health Assessment includes the following:

Growth and Socio-Economic Indicators

This includes an evaluation of the City's growth and socio-economic indicators which are largely external to the City's control but important to understand from a planning and forecasting perspective.

Population
Density
Employment Statistics
Building Construction Activity
Property Assessment
Household Income

Municipal Levy, Property Taxes & Affordability Indicators

This includes an evaluation of the cost of municipal programs and services and how these costs translate into municipal property taxes from a taxpayer affordability perspective to gain perspective on whether there are any affordability concerns.

Municipal Levy
Comparison of Relative Taxes
Municipal Property Taxes as a % of Income

Financial Position Indicators

This includes an evaluation of the City's financial framework upon which the City operates. These indicators help determine if modifications are needed to the City's existing financial policies and strategies as part of the development of the long range financial plan.

Reserves & Reserve Funds
Debt
Municipal Financial Position
Taxes Receivable



Section 1: Growth and Socio-Economic Indicators

Growth and Socio-Economic Indicators

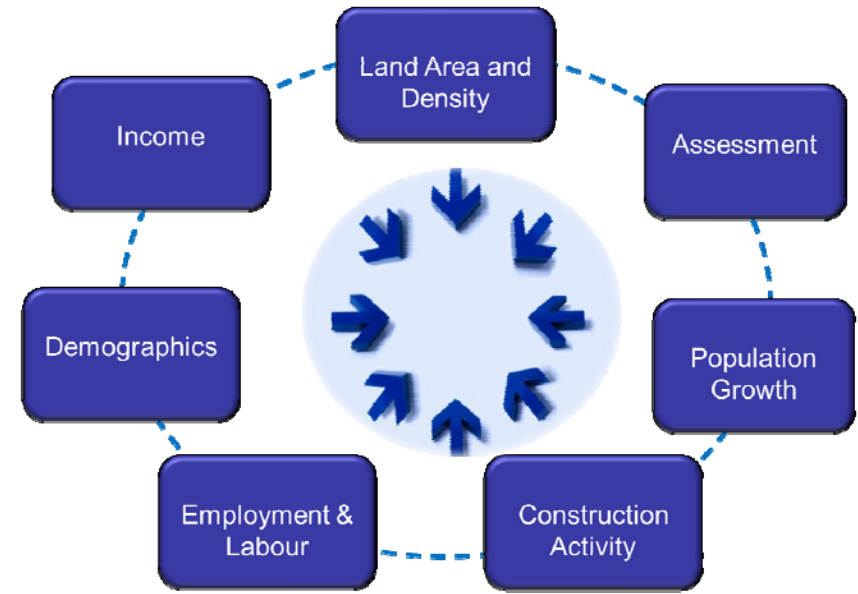
Growth and socio-economic indicators describe and quantify a community's wealth and economic condition and provide insight into the community's collective ability to generate revenue relative to the community's demand for public services. Strong population growth drives the economic health of a municipality and creates an environment that supports business. It also provides an evolving and vibrant labour force that the business community relies on to produce goods and services.

An examination of economic and demographic characteristics can identify, for example, the following types of situations:

- An inclining tax base and correspondingly, the community's ability to pay for public services;
- A need to shift public service priorities because of demographic changes in the community; and
- A need to shift public policies because of changes in economic and legislative conditions.

These indicators are closely interrelated and affect each other in a continuous cycle of cause and effect. Also important are the City's plans and potential for future development. The diversification of the commercial and industrial tax base was considered for its revenue-generating ability, employment-generating ability, vulnerability to economic cycles, and relationships to the larger economic region.

This section of the financial condition assessment explores the trends associated with growth and socio-economic indicators for the City of Guelph.

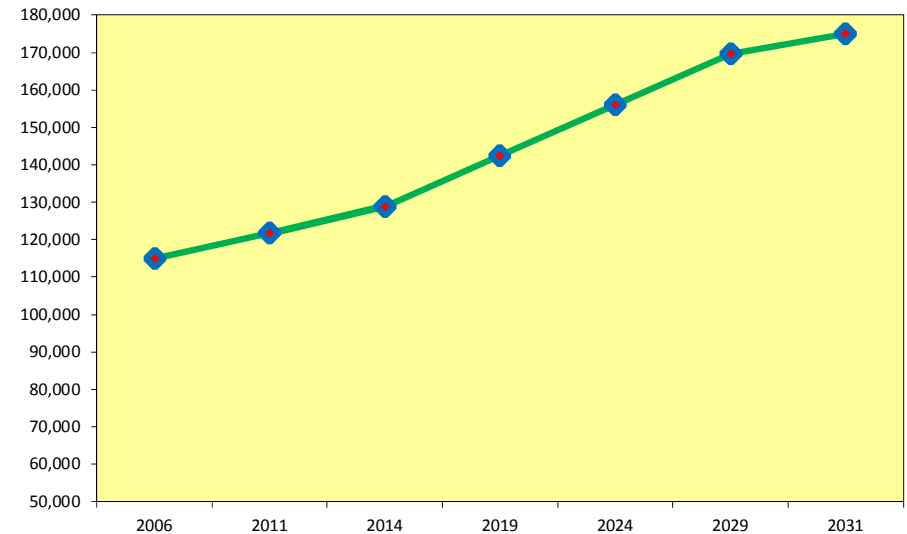


Population Changes

Changes in population directly impact both revenues (assessment base) and expenditures (service demand). The following summarizes key findings related to the City's population growth:

- The City of Guelph has grown from a population of 118,989 in 2009 to approximately 128,926 in 2014. This increase in population has resulted in new capital infrastructure which ultimately has to be replaced.
- Guelph has been forecasted to grow to 175,000 by 2031. The continued need for additional infrastructure to accommodate further growth will take place at the same time that the existing assets are reaching an age where their renewal/replacement is becoming critical and more costly.

Figure 2—City of Guelph—Population Changes



Source: Official Plan

Excerpts—City of Guelph Official Plan

The City will accommodate growth by:

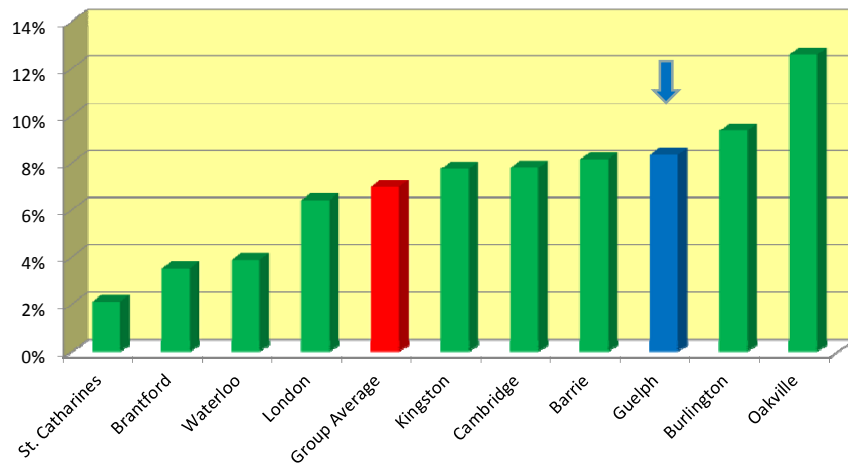
- Planning for a population forecast of 175,000 people by the year 2031;
- Promoting a steady rate of growth equivalent to an average population growth rate of 1.5% annually, which will allow growth to keep pace with the planning of future *physical infrastructure* and *community infrastructure*; and
- Ensuring the employment growth in the City is planned to keep pace with population growth by planning for a minimum of 92,000 jobs by the year 2031.



Peer Municipal Comparisons—Population Growth

- Over the past 5 years, City of Guelph's population growth was above the average and median for the peer group.

Figure 3—Population Changes—Peer Municipalities (2009—2014)



Source: Stats Canada and Manifold Data Mining (2014)

Population Density

Population density indicates the number of residents living in an area (usually measured by square kilometre). Density readings can lend insight into the age of a City, growth patterns and, zoning practices. As illustrated in Figure 4, the City of Guelph has the 3rd highest population density per km.

Figure 4—Population Density—Peer Municipalities

Municipality	2014 Estimated Population	Land Area (sq. km.)	Density pop/sq.km
Barrie	143,634	77	1,865
Brantford	95,532	72	1,327
Burlington	187,292	186	1,007
Cambridge	133,880	113	1,185
Kingston	130,274	451	289
London	383,817	421	912
Oakville	197,882	139	1,424
St. Catharines	134,416	96	1,400
Waterloo	102,076	64	1,595
Guelph	128,926	87	1,482

Source: Manifold Data Mining

Age Demographics and Quality of Life

The age profile of a population and change in demographics can affect City expenditures. For example, expenditures may be affected by seniors requiring higher public service costs and families with young children desiring enhanced services for recreational and related programs.

There are some notable differences in comparison to the average Ontario profile:

- The City has a higher percentage of residents that are in the 20—44 age range.
- The City has a slightly higher percentage of residents that are 14 years of age or under.
- The City has a low percentage of the population in the 65+ age group compared to the Ontario average.

- In addition, the 2011 census shows City of Guelph's population is aging; 13% of the population is 65 or older, compared with 12.4% in 2006. This population trend is expected to continue over the long term.
- An aging population increases the demand for some City services including recreation and public transit.



Figure 5—Age Profile

Age Profile	2006 Guelph	2006 Ontario	2011 Guelph	2011 Ontario
Age 0 - 14	18.4%	18.2%	17.7%	17.0%
Age 15 - 19	6.6%	6.9%	6.6%	6.7%
Age 20 - 44	38.6%	34.8%	36.2%	33.0%
Age 45 - 54	14.4%	15.3%	15.1%	16.0%
Age 55 - 64	9.6%	11.2%	11.3%	12.7%
Age 65+	12.4%	13.6%	13.0%	14.6%
Total	100.0%	100.0%	100.0%	100.0%

Source: Stats Canada

Employment and Labour Force Indicators

Labour force statistics are an important measure of the economy's potential.

The **unemployment rate** is the percentage of the labour force that actively seeks work but is unable to find work at any given time. The unemployment rate is a key indicator of the health of the economy and of society in general. When economic growth is strong, the unemployment rate tends to be low.

- As shown in figure 6, the unemployment rate is considerably lower in the Guelph CMA than the Provincial average.
- According to the Conference Board of Canada, a 6% or under unemployment rate is considered full employment.
- The rate of employment is a measure of, and an influence, on the community's ability to support its local business sector.
- Municipalities with higher employment rates are likely to have higher standards of living, other things being equal. The employment rate is higher in Guelph as compared to the Ontario average.

Figure 6—Labour Comparison

	Guelph CMA June 2015	Guelph CMA July 2015	Ontario June 2015	Ontario July 2015
Unemployment Rate (%)	3.4%	3.6%	8.0%	7.7%
Employment Rate (%)	70.1%	69.6%	59.6%	59.9%

Source: Guelph CMA, Stats Canada

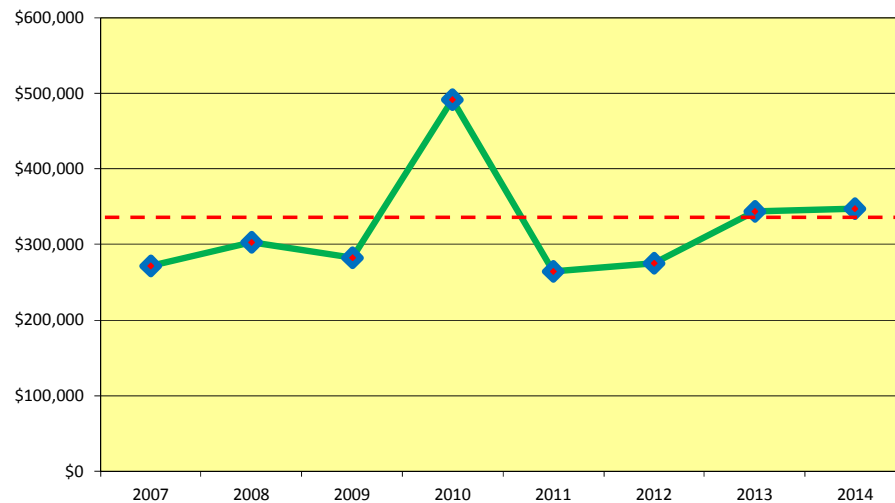


Construction Activity

Another growth related indicator is the construction activity within a municipality which provides information on both residential and non-residential development. Building permits and capital investment are strong indicators of how buoyant business feels about the economy. Changes in building activity impact other factors such as the employment base, income and property values.

- It is important to look at building cycles over a relatively long period of time to identify trends in construction activity.
- Figure 7 provides the trends experienced in the City of Guelph for the past 8 years.
- Construction activity has been trending upward since 2011

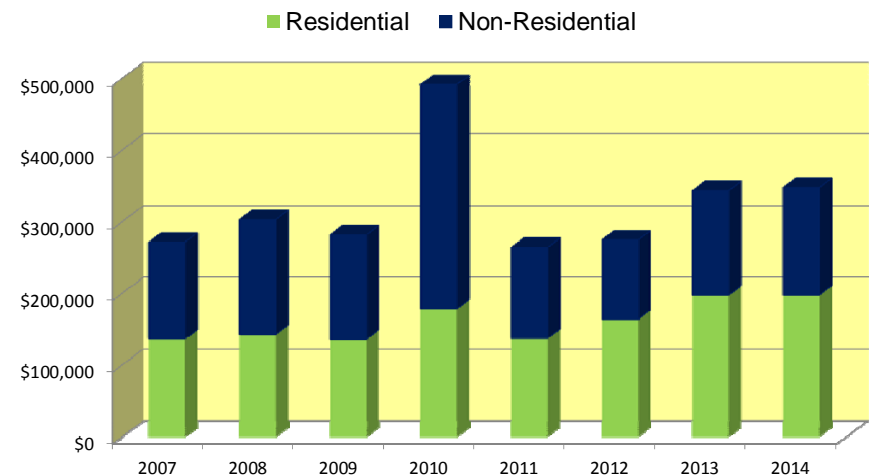
Figure 7—Total Construction Activity—City of Guelph (000's)



Source: FIRs

- Generally, a municipality's net operating costs (expenditure increase net of the associated growth in assessment) to service residential development is higher than the net operating cost of servicing commercial or industrial development because many services such as recreation, libraries and parks are provided for use by residents.
- The ideal condition is to have sufficient commercial and industrial development to offset the net increase in operating costs associated with residential development. Non-residential development is desirable in terms of developing a strong assessment base upon which to raise taxes and in providing employment opportunities.
- Over the past 8 years, the City of Guelph has had a good mix of residential/non-residential construction activity.

Figure 8—Residential and Non-Residential Construction Activity—City of Guelph (000's)



Source: FIRs

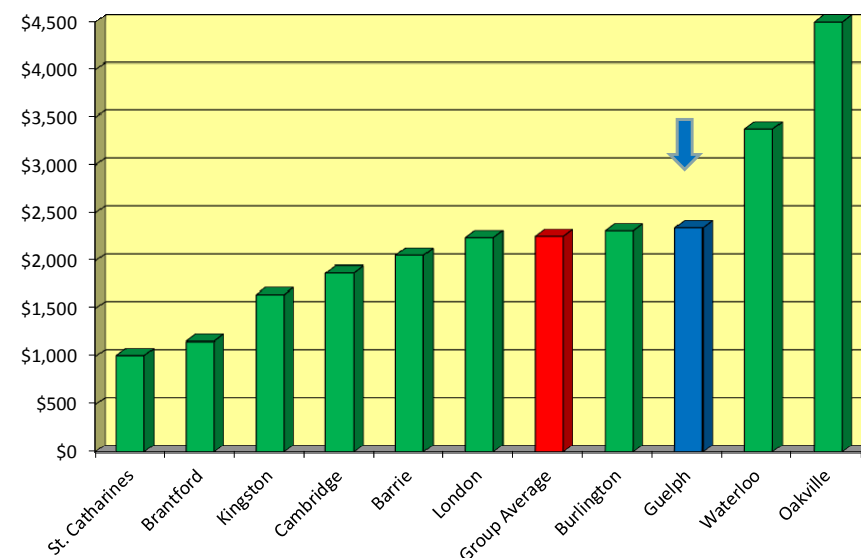
**Figure 9—Residential/Non-Residential Construction Activity—
Peer Municipal Comparators**

% Residential Construction Activity						
Municipality	2009	2010	2011	2012	2013	5 Year Average
Barrie	20%	51%	36%	57%	38%	40%
Brantford	29%	30%	27%	45%	78%	42%
Burlington	55%	61%	60%	53%	41%	54%
Cambridge	62%	39%	32%	36%	41%	42%
Kingston	39%	32%	39%	35%	51%	39%
London	49%	56%	35%	63%	71%	55%
Oakville	49%	69%	63%	29%	53%	53%
St. Catharines	24%	8%	36%	50%	30%	30%
Waterloo	37%	39%	78%	56%	58%	54%
Average	40%	43%	45%	47%	51%	45%
Median	39%	39%	36%	50%	51%	42%
Guelph	48%	36%	52%	60%	58%	51%

Source: BMA Municipal Studies and FIRs

- A comparison was undertaken of the type of construction across the peer municipalities over the last five years.
- As shown in figure 9, the City of Guelph's proportion of construction that is residential over the past five years is above the survey average.

Figure 10—Construction Activity Per Capita—Peer Municipal Comparators—3 Year Average (2011–2013)



Source: City year end construction reports and FIRs

- Building permit value per capita is used as an indicator of the relative construction activity within each peer municipality.
- As shown in figure 10, the average building permit value per capita from 2011-2013 in City of Guelph was above the survey of peer municipalities.

Assessment Composition

Property assessment is the basis upon which the City raises taxes. A strong assessment base is critical to a municipality's ability to generate revenues. Assessment composition provides an understanding of the mix of assessment.

- As shown in figure 11, the combined assessment in the commercial and industrial class is 16.2% in City of Guelph compared with the peer municipal average of 16.6%.
- As previously mentioned, it is more desirable to have a larger share of non-residential assessment as the municipal cost of service is generally lower than residential.

Figure 11—2014 Assessment Composition

	Residential	Multi-Residential	Commercial	Industrial	Pipelines	Farmland	Managed Forest
Barrie	77.0%	3.2%	17.2%	2.2%	0.2%	0.2%	0.0%
Burlington	78.7%	3.3%	14.3%	3.1%	0.2%	0.4%	0.0%
Cambridge	75.1%	4.1%	14.6%	5.8%	0.2%	0.2%	0.0%
Kingston	75.6%	6.3%	16.3%	1.1%	0.3%	0.3%	0.0%
London	80.5%	5.1%	12.2%	1.4%	0.2%	0.6%	0.0%
Oakville	83.9%	2.1%	11.6%	2.2%	0.1%	0.1%	0.0%
St. Catharines	79.3%	5.0%	13.3%	1.5%	0.2%	0.7%	0.0%
Waterloo	78.7%	5.0%	13.5%	2.6%	0.2%	0.0%	0.0%
Average	78.6%	4.3%	14.1%	2.5%	0.2%	0.3%	0.0%
Median	78.7%	4.6%	13.9%	2.2%	0.2%	0.3%	0.0%
Guelph	79.1%	4.5%	11.6%	4.6%	0.2%	0.0%	0.0%

Source: BMA Municipal Study using assessment bylaws

Changes in Assessment

- Assessment growth, the richness of the assessment base and assessment composition are important indicators of fiscal strength.
- Assessment increase includes changes in assessment related to growth as well as changes in market value of existing properties (which does not generate additional revenues). As shown in figure 12, from 2014-2015, the assessment increase in City of Guelph was higher than the peer median. This is the case in four of the seven year-over-year changes.

Figure 12—Changes in Unweighted Assessment

% Change in CVA							
	2008- 2009	2009- 2010	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015
London	6.6%	5.9%	5.6%	5.7%	3.4%	2.4%	4.6%
Barrie	6.7%	7.0%	6.9%	5.9%	2.5%	3.1%	3.3%
Brantford	8.2%	7.0%	5.7%	2.4%	0.7%	3.6%	N/A
St. Catharines	5.5%	6.0%	4.4%	4.9%	2.3%	3.6%	2.1%
Cambridge	6.1%	5.5%	6.9%	5.9%	3.8%	4.1%	3.8%
Burlington	8.9%	6.9%	8.2%	5.7%	5.4%	5.3%	6.2%
Kingston	10.3%	1.8%	12.1%	5.9%	5.1%	5.7%	1.3%
Oakville	9.2%	8.1%	8.2%	5.7%	6.4%	6.7%	7.7%
Waterloo	6.3%	6.3%	7.8%	6.9%	5.8%	6.8%	6.0%
Average	7.5%	6.1%	7.3%	5.4%	3.9%	4.6%	4.4%
Median	6.7%	6.3%	6.9%	5.7%	3.8%	4.1%	4.2%
Guelph	8.5%	4.7%	7.5%	6.0%	4.0%	3.3%	6.4%

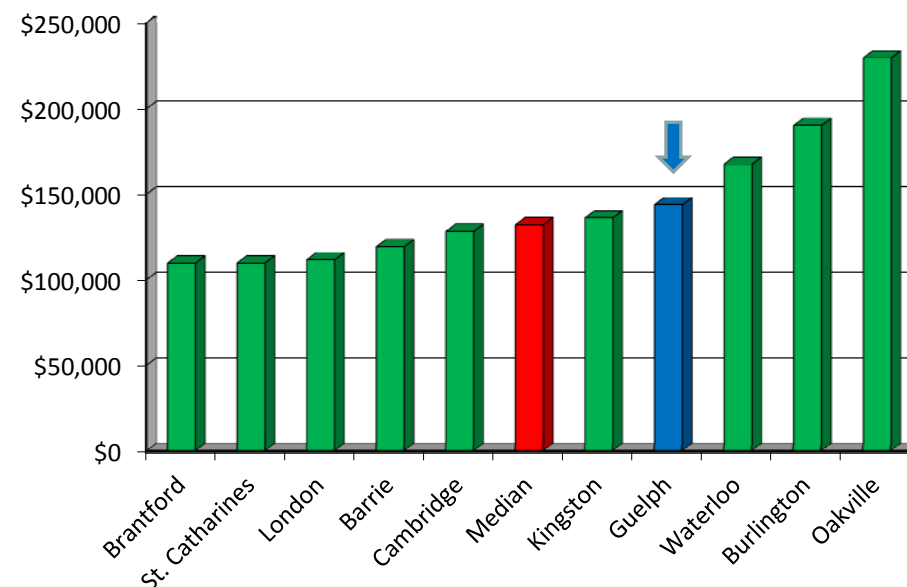
Source: BMA Municipal Studies using CVA

Richness of the Assessment Base

Assessment per capita statistics have been compared to provide an indication of the “richness” of the assessment base in each municipality, as well as changes in assessment from year to year.

- Weighted assessment reflects the basis upon which property taxes are levied after applying the tax ratios to the unweighted assessment.
- City of Guelph’s assessment base per capita is above the survey median of the peer municipal comparison.

Figure 13—2014 Weighted Assessment Per Capita



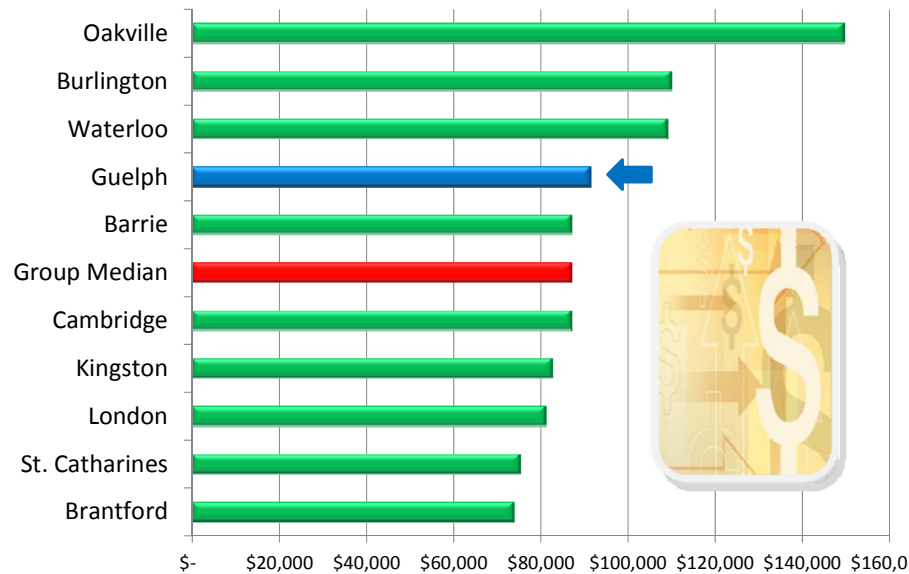
Source: 2014 FIR

Household Income

Household income is one measure of a community's ability to pay. Credit rating agencies use this indicator as an important measure of a municipality's ability to repay debt.








- As shown in figure 14, in 2013, average household income in the City of Guelph was \$91,342 which was higher than the peer municipal median (\$86,803).

Figure 14—2013 Gross Household Income



Source: Manifold Data Mining

Summary—Socio-Economic Indicators

Indicator	Trend, Observation	Rating
<i>Population Growth</i>	Planned modest growth	
<i>Population Density</i>	Third highest population density in the peer municipal survey	Neutral
<i>Demographics</i>	Aging population, consistent with trends across Ontario will have implications on services	
<i>Employment Rate</i>	Percentage growth higher than Provincial Average	
<i>Construction Activity</i>	Activity has been steady with a good mix of residential and non-residential construction and is higher than the peer municipal average over the past 3 years	
<i>Assessment Composition</i>	Slightly higher residential composition	Neutral
<i>Richness of the Assessment Base</i>	Assessment per capita, which is an indicator of the richness of the assessment base is above the peer median	
<i>Assessment Growth</i>	The assessment base continues to grow and is growing faster than the municipal comparators	
<i>Household Income</i>	Household income is above than the peer median	



Section 2: Municipal Levy, Property Taxes and Affordability

Municipal Levy, Property Taxes and Affordability

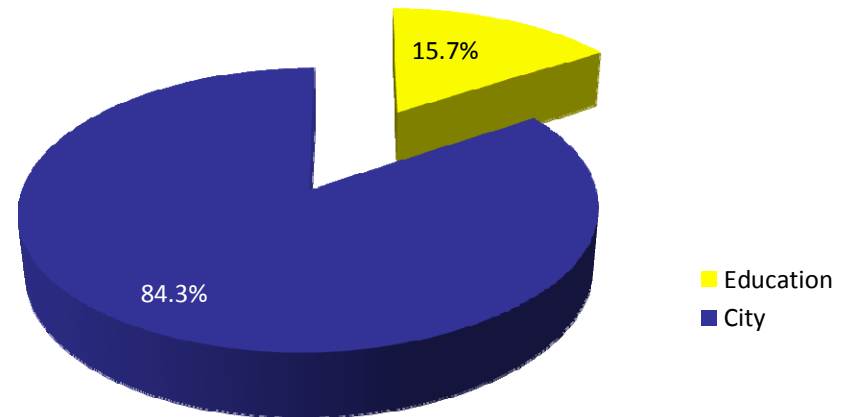
This section of the Financial Condition Assessment provides an overview of the cost of municipal services in the City of Guelph and in relation to peer municipalities. In addition, property taxes are reviewed in relation to household income to provide an indication of the affordability of services in the City of Guelph.



Municipal and Education Property Taxes

Property taxpayers in the City of Guelph receive municipal programs and services through a one-tiered government structure. As shown in the following pie chart, in 2015 approximately 84.3% of a residential tax bill is related to the City's cost of services, and 15.7% are related to education taxes.

Figure 15 - City of Guelph Residential Bill



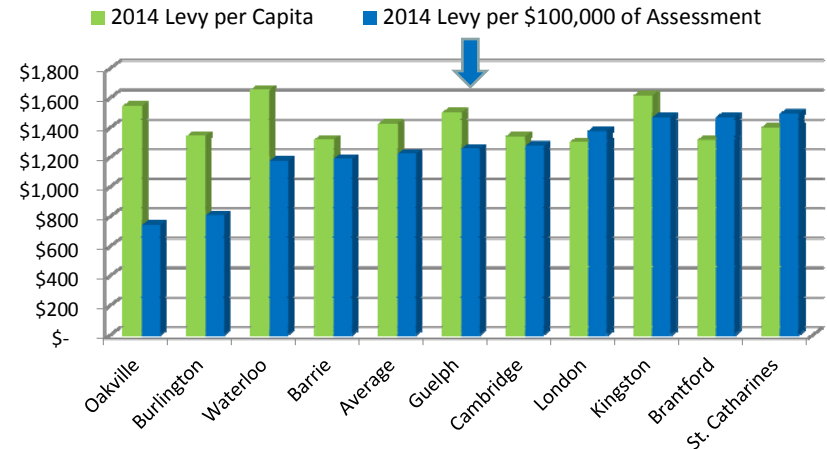
Municipal Levy Per Capita and Per \$100,000 of Assessment Comparison

In order to better understand the relative municipal tax position for the City, a comparison of net municipal levies was calculated based on a per \$100,000 of assessment as well as on a per capita levy basis. This analysis does not indicate value for money or the effectiveness in meeting community objectives as net municipal expenditures may vary as a result of:

- Different service levels;
- Variations in the types of services;
- Different methods of providing services;
- Different residential/non-residential assessment composition;
- Varying demand for services;
- Locational factors;
- Demographic differences;
- Socio-economic differences;
- Urban/rural composition differences;
- User fee policies;
- Age of infrastructure; and
- Use of reserves.

Note: These measures indicate the total net municipal levy (Upper Tier and Lower Tier) to provide services to the municipality.

Figure 16—2014 Levy Analysis



Source: BMA Municipal Study using 2014 Levy By-laws for each municipality

- As shown in figure 16, the City of Guelph has a slightly higher than average levy per capita.
- A comparison of the 2014 levy per \$100,000 of unweighted assessment provides an indication of the levy in relation to the assessment base upon which taxes are raised. Guelph's levy per \$100,000 of assessment is slightly higher than the survey average.

Affordability

The following table compares total property taxes based on a median valued house in each of the municipalities using the MPAC database as well as the average household income to get an appreciation of the tax burden on a typical home in each municipality.

- The median dwelling value in the City of Guelph is above the average of the survey of peer municipalities. This is reflective of the housing stock as well as house values.
- Property tax rates in City of Guelph are higher than the survey average, however, the property taxes paid on a residential property are lower than the average, driven by lower than average assessment values.
- Municipal property taxes in the City of Guelph in relation to average household income are 4.0% in City of Guelph which is slightly above the survey average. The inclusion of water/wastewater costs also reflects slightly higher than average total burden on a typical house.

Figure 17—Affordability Comparisons

Municipality	2014 Median Value of Dwelling	2014 Tax Rate	2014 Property Tax	2013 Average Household Income	Taxes as % Average Household Income	2014 Residential Water/WW Costs 200 m ³	2014 Total Municipal Burden as a % of Household Income
Oakville	\$ 557,877	0.8745%	\$ 4,879	\$ 149,522	3.3%	\$ 701	3.7%
Burlington	\$ 407,836	0.9106%	\$ 3,714	\$ 109,961	3.4%	\$ 701	4.0%
Waterloo	\$ 324,478	1.1792%	\$ 3,826	\$ 108,789	3.5%	\$ 754	4.2%
London	\$ 202,084	1.2481%	\$ 2,522	\$ 81,034	3.1%	\$ 737	4.0%
Cambridge	\$ 265,584	1.2485%	\$ 3,316	\$ 86,773	3.8%	\$ 901	4.9%
Barrie	\$ 266,608	1.3123%	\$ 3,499	\$ 86,833	4.0%	\$ 791	4.9%
St. Catharines	\$ 208,491	1.4843%	\$ 3,095	\$ 75,096	4.1%	\$ 828	5.2%
Kingston	\$ 257,961	1.4260%	\$ 3,679	\$ 82,558	4.5%	\$ 1,005	5.7%
Average	\$ 311,365	1.2104%	\$ 3,566	\$ 97,571	3.7%	\$ 802	4.6%
Median	\$ 266,096	1.2483%	\$ 3,589	\$ 86,803	3.7%	\$ 773	4.5%
Guelph	\$ 296,528	1.2464%	\$ 3,696	\$ 91,342	4.0%	\$ 808	4.9%

Source: MPAC (dwelling value), BMA Municipal Study (Property Taxes), Average Household Income Manifold Data Mining

Summary—Municipal Levy, Property Taxes and Affordability

Indicator	Trend, Observation	Rating
Municipal Levy Per Capita	The City of Guelph's total municipal levy per capita in 2014 is slightly higher than the peer survey average	Neutral
Municipal Levy Per \$100,000 of Weighted Assessment	The City of Guelph's total municipal levy per \$100,000 of unweighted assessment in 2014 is slightly higher than the survey average	Neutral
Residential Affordability	Property taxes as a percentage of income were compared using the median dwelling value in each area municipality. City of Guelph is slightly above the survey average	Neutral





Section 3: Financial Position

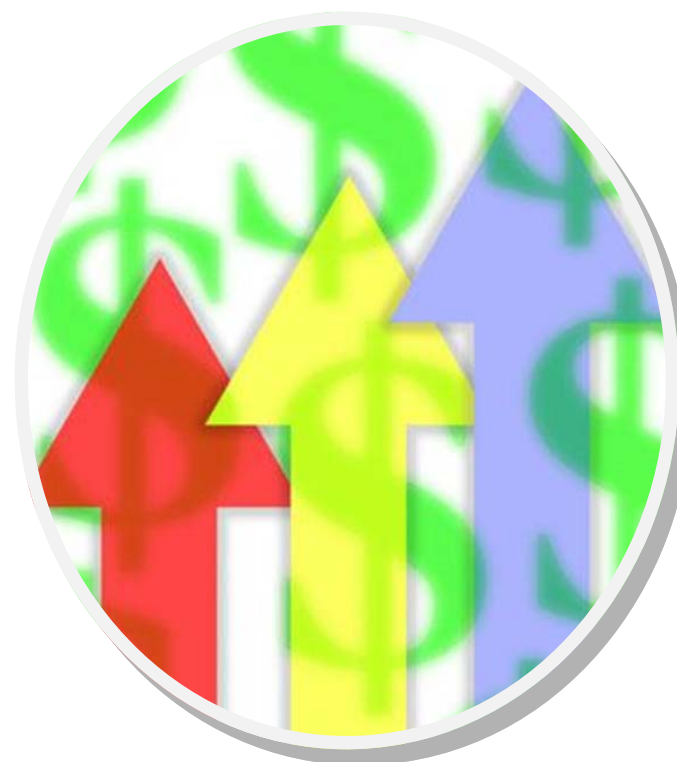
City of Guelph's Financial Position

Reserves/Reserve Funds are established by Council to assist with long-term financial stability and financial planning. By maintaining reserves, the City can accumulate funds for future or contingent liabilities; a key link to long-term financial planning practices. They also provide a cushion to absorb unexpected shifts in revenues and expenditures. Credit rating agencies consider municipalities with higher reserves more advanced in their financial planning.

Debt is an important indicator of the City's financial health and is an appropriate way of financing longer life items, especially new assets or new corporate initiatives that are not fully recovered through DCs since future taxpayers, that receive the benefit, will also pay through future debt charges. However, when debt levels get too high, it compromises the City's flexibility to fund programs and services.

Financial Position of the City is important to consider as this takes into consideration the City's total assets and liabilities.

Taxes Receivable as a percentage of taxes levied, is an indicator of the overall economic health whereby trends and industry benchmarks can be evaluated.



Introduction to Reserves and Reserve Funds

Maintaining sufficient reserves and reserve funds are a critical component of the City's long-term financial plan. The purposes for maintaining reserves are:

- ✓ To provide **stabilization** in the face of variable and uncontrollable factors (growth, interest rates, changes in subsidies) and to ensure adequate and **sustainable cash flows**;
- ✓ To provide financing for **one-time** or short-term requirements without permanently impacting the tax rates, thereby reducing reliance on long-term debt;
- ✓ To make provisions for **replacement of capital assets** to sustain infrastructure;
- ✓ To provide **flexibility** to manage debt levels and protect the City's financial position; and
- ✓ To provide for **future liabilities** incurred in the current year, but paid for in the future.

The City of City of Guelph maintains numerous Discretionary and Obligatory Reserve/Reserve Funds.

Obligatory Reserve Funds are created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality. Obligatory reserve funds can only be used for their prescribed purpose. Examples include Development Charges Reserve Funds, Lot Levies, Building Stabilization Reserve Fund.

Discretionary Reserve Funds are established, based on Council direction, to finance future expenditures for which the City has the authority to spend money or to provide for a specific contingent liability.



Discretionary Reserves/Reserve Funds as a % of Taxation

- The discretionary reserves/reserve funds as a percentage of taxation was evaluated, both the trends, as well, in relation to other peer municipalities. Note that this excludes obligatory reserve funds, (e.g. Development Charges).
- For benchmarking purposes Financial Information Returns (FIRs) were used to compare discretionary reserves as a percentage of taxation.
- As illustrated in Figure 18, Guelph's tax related discretionary reserves as a percentage of taxation is 41% compared to the survey average of 64%.
- It should also be noted that there has been a downward trend since 2010.



Figure 18—Tax Discretionary Reserves/RF as a % of Taxation

Municipality	2009	2010	2011	2012	2013
Brantford	32%	36%	43%	35%	34%
Barrie	72%	71%	53%	35%	31%
Cambridge	61%	56%	59%	54%	54%
St. Catharines	93%	93%	80%	78%	56%
London	49%	51%	51%	56%	61%
Waterloo	69%	57%	67%	73%	77%
Kingston	66%	69%	73%	74%	76%
Burlington	72%	72%	74%	76%	79%
Oakville	64%	99%	94%	94%	104%
Average	64%	67%	66%	64%	64%
Median	66%	69%	67%	73%	61%
Guelph	35%	52%	49%	42%	41%

Source: FIRs

Summary of Reserves and Reserve Funds 2010-2014

Figure 19—Reserves/Reserve Funds 2010-2014 Balances—Major Classifications

Summary (000's)	2010	2011	2012	2013	2014	5 Year Change
Stabilization	\$ 6,032	\$ 6,166	\$ 6,939	\$ 7,342	\$ 6,486	7.5%
Employee Future Benefits	\$ 17,016	\$ 14,924	\$ 11,900	\$ 11,599	\$ 11,703	-31.2%
Capital & Equipment	\$ 38,687	\$ 41,766	\$ 41,008	\$ 41,664	\$ 41,007	6.0%
Program Related Reserves	\$ 19,594	\$ 20,019	\$ 15,691	\$ 13,731	\$ 12,321	-37.1%
Tax Discretionary Reserves	\$ 81,329	\$ 82,875	\$ 75,538	\$ 74,335	\$ 71,517	-12.1%
Water	\$ 20,424	\$ 27,239	\$ 33,352	\$ 35,694	\$ 31,647	54.9%
Wastewater	\$ 25,989	\$ 31,024	\$ 38,620	\$ 45,990	\$ 38,092	46.6%
Total Water/WW	\$ 46,413	\$ 58,263	\$ 71,971	\$ 81,684	\$ 69,739	50.3%
Obligatory Reserve Funds	\$ 24,271	\$ 25,785	\$ 40,454	\$ 61,627	\$ 75,495	211.0%
Reserves/Reserve Funds Total	\$ 152,014	\$ 166,922	\$ 187,964	\$ 217,646	\$ 216,751	42.6%

- Reserves and reserve funds play a very important role in the City's finances and provide a strong indicator of the City's overall financial health. For this reason, the management of reserves and reserve funds is vitally important.
- Figure 19 provides a summary of the City's reserves and reserve funds year-end balances. The City's Tax Discretionary Reserves and Reserve Funds position decreased 12.1% since 2010.
- The next several pages provide an overview of the major classifications of Reserves/Reserve Funds including the purpose, year-end cash balances for each Reserve/Reserve Fund, a summary of the existing policies or practices, general observations and research, guiding principles and proposed policy updates.

Stabilization Reserves/Reserve Funds

Purpose

Unstable or unpredictable tax levies can adversely affect residents and businesses within the City of Guelph. In order to maintain stable and predictable levies, the City sets reserve and reserve fund targets that build sufficient reserves and reserve funds to manage the impact of unusual or unplanned cost increases or revenue reductions over multiple budget cycles. The Stabilization Reserves are used to:

- offset extraordinary and unforeseen expenditure requirements;
- fund one-time expenditures;
- fund one-time revenue shortfalls;
- avoid fluctuations on the tax levy; and
- manage cash flows; and provide sufficient liquidity.

Figure 20—Stabilization Reserve Year End Balances 2010-2014
(000's)

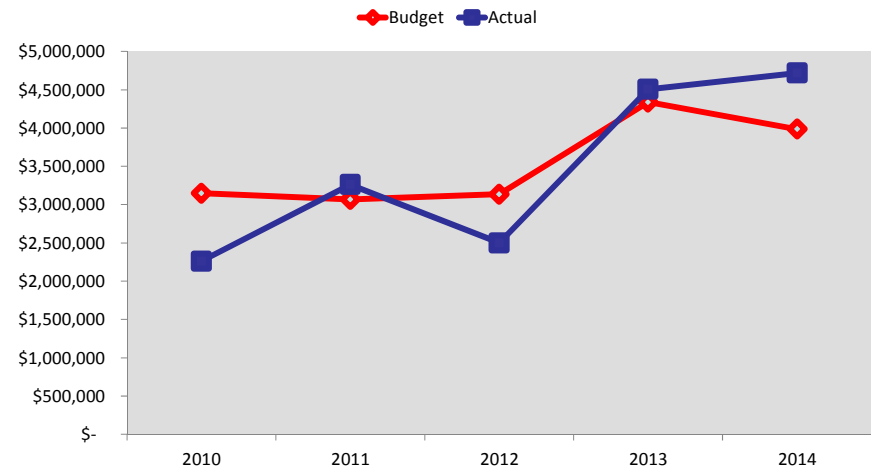
Stabilization Reserves (000's)	2010	2011	2012	2013	2014	5 Year Change
Salary Gapping	\$ 1,033	\$ 1,238	\$ 1,040	\$ 1,286	\$ 1,248	20.9%
Employee Benefit Stab.	\$ 2,726	\$ 2,132	\$ 3,102	\$ 3,259	\$ 3,105	13.9%
Tax Rate Stabilization	\$ 1,671	\$ 1,894	\$ 1,894	\$ 1,894	\$ 1,591	-4.8%
Operating Contingency	\$ 602	\$ 902	\$ 902	\$ 902	\$ 541	-10.1%
Stabilization Reserves Total	\$ 6,032	\$ 6,166	\$ 6,939	\$ 7,342	\$ 6,486	7.5%

Current Practices and Observations

- As shown in figure 20, the total Stabilization Reserve balance increased 7.5% since 2010 and includes separate reserves for salary gapping, employee benefits, tax rate stabilization and operating contingency.
- Separate targets have been established for Salary Gapping and Employee Benefits Reserves,
- The City's current policy for stabilization reserves states that the target range is 8-10% of own source revenues.
- **Salary Gapping Reserve** - Created in 2008 to set aside savings created through payroll gapping initiatives. The existing target reserve balance is \$1 million which is considered sufficient to cover any unforeseen employee compensation related costs in a year. The current balance is \$1.3 million. The reserve is funded through mandatory gapping of vacant positions. This reserve can be used to fund any variances related to the staffing program in any given year. There is also a budgeted transfer to the operating of \$1.8 million. Budgeted salaries and wages, excluding the Police is approximately \$108 million in 2015.
- The tax stabilization reserve is targeted at 10% of net taxation to a maximum of 20%.

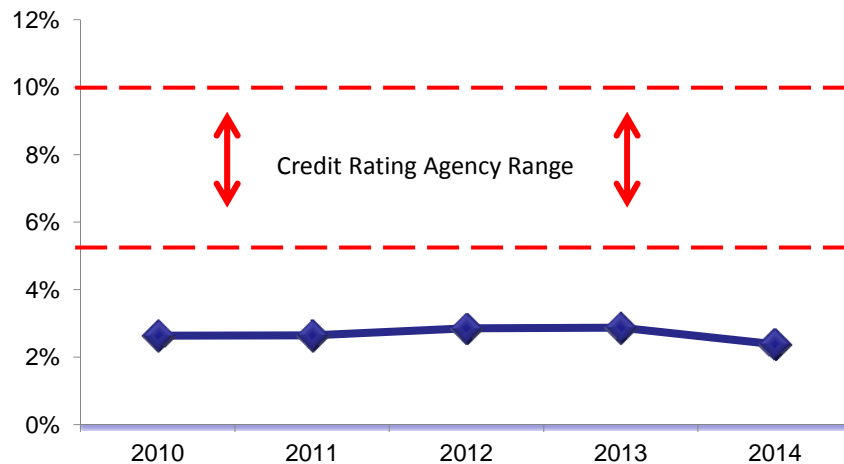
- **Employee Benefits Stabilization Reserve** - Created to accumulate positive variances related to employee benefit costs and to offset years where actual costs exceeded the budget. The City has established a target of a minimum of \$2 million to be maintained in the reserve to provide an adequate pool to support changes in benefits and smooth budgetary impacts. The current balance in the reserve is \$3.1 million. Budgeted employee benefits associated with this reserve is \$33 million.
- **Tax Rate Stabilization Reserve** - This Reserve is used to offset any one-time revenue shortfalls that may occur that would impact the tax levy. The balance in this reserve has declined since 2010 and is currently at a balance of \$1.6 million. This Reserve is funded through operating surpluses through the Year End Operating Surplus Allocation Policy which requires Council approval of the disposition of surpluses.
- **Operating Contingency Reserve** - This Reserve provides funds to offset the impact of unplanned events related to volatile expenditures such as energy and fuel costs and winter control. There is currently no target for this reserve. Severe winter events can have a considerable impact on a municipal budget and requires sufficient reserves to be available. The existing Operating Contingency Reserve with a balance of \$0.54 million is low in relation to winter maintenance costs and this reserve is also used to fund other operating contingencies.

Figure 21—Winter Maintenance Expenditures 2010-2014 (000's)



- As shown above, the actual expenditures have varied considerably over the past five years from a low of \$2.2 million in 2010 to a high of \$4.7 million in 2014; a difference of \$2.5 million.
- There has been a greater frequency of various climate change impacts in Ontario resulting in flooding, ice storms and severe winter conditions. This has caused municipalities to update policies for Stabilization policies and provide additional protection. For example, both the City of Burlington and the City of Mississauga amended their policies to establish a target balance of 50% of the five year average Winter Maintenance costs, adjusted for inflation.
- Research undertaken in other Ontario municipalities reflects a trend to consolidate Stabilization Reserves to increase flexibility and simplify administration. This takes into consideration all potential one-time and unforeseen requirements. This is the approach recommended in the City of Guelph.

Figure 22—Stabilization Reserve Year End Balances as a Percentage of Own Source Revenues



- As shown in Figure 22, the City has approximately 2.5% in stabilization reserves as a percentage of own source revenues.
- A policy of between 5%-15% is used by a number of municipalities including Mississauga, Vaughan, Barrie, Markham, Whitby, Peel Region and Burlington.

Guiding Principles—Stabilization Reserves/Reserve Funds

- A prudent level of Stabilization Reserves/Reserve Funds will be maintained to protect against reducing service levels or raising taxes because of temporary revenue shortfalls or unanticipated expenditures.
- The use of Stabilization Reserves/Reserve Funds will be restricted to extraordinary or unforeseen events and will not be used to balance Operating Budgets.
- Minimum balances, ceilings and targets will be established, where appropriate.

Policies/Recommendations

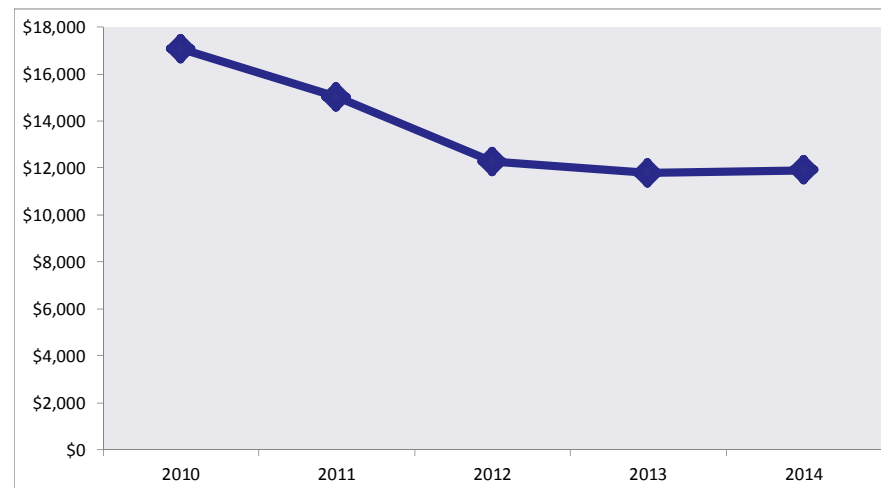
1. **Tax Stabilization Reserve Consolidation**—Consolidate Contingency, Salary Gapping, Employee Benefits and Tax Stabilization into one reserve to provide additional flexibility and to manage risk more effectively. The tax stabilization reserve should only be used to fund extra ordinary or one-term expenditures or revenue shortfalls and not used to offset the levy.
2. **Target Balance**—Stabilization Reserves of 8%-10% of the City's own source revenues. This is consistent with credit rating agencies as well as the practices of other municipalities.
3. It is recommended that a storm event reserve be established to offset the costs associated with major storm events. The ceiling for this reserve should be 50% of the average of winter maintenance costs for the past 5 years.

Employee Future Benefits Reserves

Purpose

- One of the measures of financial sustainability is that future generations are required to pay for services provided to the current generation. This takes into consideration that the City incurs liabilities that do not have to be paid immediately but funds should be set aside to address these liabilities in the future. For instance, the City will face future budget pressures as the City workforce ages and post-retirement or post-employment benefits start to be paid out.
- Employee wages, salaries and benefit costs represent a significant portion of annual operating costs and events such as government regulation changes, collective agreement negotiations, WSIB incidents, retirements and restructuring can have a significant impact on a budget in any given year. In accordance with best practices, policies to provide guidance for appropriate financial planning and accounting for these types of events provide performance standards for reserve balances.
- Employee Future Benefit Reserves are used to manage fluctuations in benefits payable, carry liabilities for sick time payable, maintain funds for severances, retiree benefits, union negotiations and job evaluation changes
- Prudent and sustainable financial management strategies are needed to ensure future generations are not required to absorb a disproportionate share of these costs. As such, the City has a number of Reserves to protect against the consequences of certain risks, liabilities and corporate programs in such areas as WSIB and employee benefits.

Figure 23—Employee Future Benefits End Balances 2010-2014
(000's)



Employee Future Benefits (000's)	2010	2011	2012	2013	2014	5 Year Change
Sick Leave	\$ 9,579	\$ 10,446	\$ 7,700	\$ 8,201	\$ 8,764	-8.5%
JJEC	\$ 206	\$ 329	\$ 329	\$ 436	\$ 260	26.5%
HR Contingency	\$ 322	\$ -	\$ -	\$ -	\$ -	-100.0%
Accrued Vacation	\$ 5,123	\$ -	\$ -	\$ -	\$ -	-100.0%
Early Retiree Benefits	\$ -	\$ 1,600	\$ 1,184	\$ 787	\$ 511	
Workplace Insurance	\$ 1,526	\$ 2,203	\$ 2,246	\$ 1,663	\$ 1,566	2.6%
Land Ambulance Severance	\$ 260	\$ 345	\$ 440	\$ 511	\$ 602	131.1%
Employee Future Benefits Reserves	\$ 17,016	\$ 14,924	\$ 11,900	\$ 11,599	\$ 11,703	-31.2%

- As shown above, the Employee Future Benefits total reserve balance declined since 2010 by approximately 31%. This is largely driven by the elimination of the Accrued Vacation reserve as this is accrued annually through the operating budget and is no longer needed. As will be discussed in the next section of the report, while the Sick Leave Reserve is at the target balance, there are a number of reserves that are below the targets established.

Observations

- In accordance with the City's policy, in order to assess the fiscal health of the City, performance standards related to the funding status of these reserves are required and are monitored annually and any excess/deficiencies of these reserves are to be incorporated into the next fiscal year's budgeted compensation rates.
- The City contracts the quantification of cumulative sick leave, severance, WSIB, and early retiree benefits to an actuarial firm annually. The actuarial valuation computes a present value of the estimated future cost of providing these benefits. Due to the accounting guidelines under the PSAB standards for future employee benefits, a full actuarial valuation of these costs is required every 3 years and an extrapolation of this valuation is used for the interim years.
- The extent of the unfunded liabilities associated with benefits varies across the municipal sector based on the underlying entitlements. Municipalities typically prepare financial plans for each reserve to ensure adequate funding of future liabilities, however, there is no consistent strategy identified in terms of the amount of coverage required or target balance.
- Because the liabilities do not all come due at the same time, it is reasonable to have some unfunded liabilities, however the challenge is to identify what a reasonable level is.
- **Sick Leave**—Employees under each of the collective agreements for Fire and Police have clauses that provide these employees with lump sum payment upon retirement for accumulated sick leave hours based on years of service. Additionally, while employed, these banked sick leave hours are used as a short-term disability program. The liability associated with sick leave as of December 31, 2014 was \$9.1 million, with a reserve balance currently estimated at \$8.8 million. The City's target performance standard is to maintain 95% of the sick leave liability in the reserve. As of 2014, the City achieved its target balance.
- **Workplace Insurance**—The WSIB Fund is used to fund WSIB claims and related expenses incurred by the City as a Schedule II employer. As a schedule II employer, under the Workplace Safety & Insurance Act, the City assumes the liability for any award under the Act. As of December 31, 2014, the estimated liability was \$5.0 million, with a current reserve balance of \$1.6 million. The City's target balance is 50% of the WSIB liability. This is reasonable given that these expenditures will not all come due at the same time that the liability is incurred. Instead, the City builds the annual cost of WSIB into the budgeted compensation rate and uses the reserve for funding negative variances in years of abnormally high benefit expenses. The reserve balance has been trending downward for the past 3 years. With a balance of \$1.6 million (31%), the reserve is currently below the target balance by approximately \$0.9 million.
- **JJEC** is the Joint Job Evaluation Committee Reserve to fund additional costs should a position be reclassified. There is no on-going funding source for this reserve and the balance remaining is over \$260,000.

- **Land Ambulance Severance**—Within the collective agreement for Land Ambulance employees, certain employees hired before July 1, 2010 are eligible for a lump sum retirement benefit based on years of service. The reserve was established to set aside funds over the service life on an employee to fund the estimate future cost of retirement benefits. The target is to maintain a minimum of 95% of the liability. The current balance in the reserve is below the target minimum balance.
- **Early Retiree Benefits**—Certain employees are eligible for health care, travel, dental and life insurance benefits upon retirement up to the date of normal retirement. Given that the nature of these expenditures are premium based, rather than one-time or lump sum payments, it is not necessary to accumulate a reserve equal to the liability. Instead, the City builds the annual cost of early retiree benefits into the budgeted compensation rate and uses the reserve to fund negative variances. The Early Retirement Benefits Reserve was \$1.6 million in 2011 with a liability of \$13.8 million. In 2014 the reserve balance has decreased to \$0.5 million with a liability of \$16.2 million. Based on the City's existing policy, the reserve is considered adequately funded if the year end balance of the reserve is \$2.0 million. The Early Retiree Benefits liability as of December 31, 2014 was \$16.2 million with a reserve balance of \$0.5 million, reflecting a reserve balance below the target balance.

Guiding Principles

- Operating Budget contributions to the Employee Benefit Reserves will take into consideration the liability associated with the Reserves.

Policies/Recommendations

1. A financial plan should be prepared for all Corporate Reserves/ Reserve Funds to ensure that there are adequate funds to sustain the operation and the plans will be reviewed annually in conjunction with the budget process. Depending on the extent of the liability, annual contributions should be made to the reserve, reflective of historical and forecast requirements to ensure that the liability does not continue to grow.
2. That the JJEC reserve be closed and any costs associated with job evaluations be absorbed within department budgets.

Asset Management and Capital Reserves/Reserve Funds

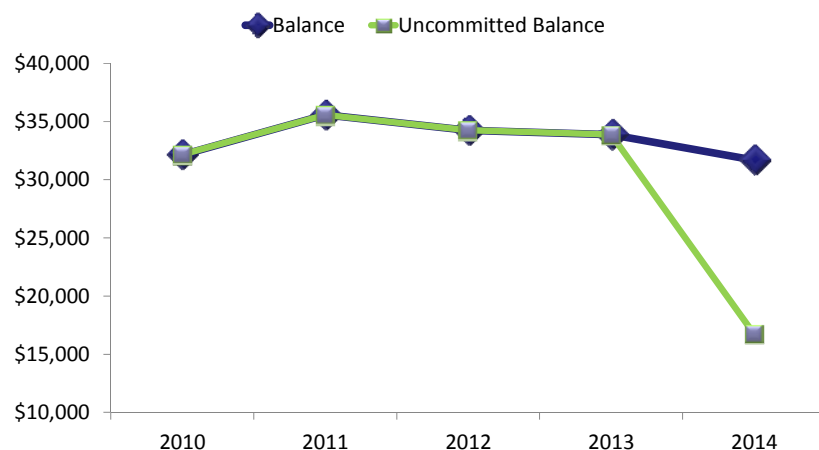
Purpose

- Capital Reserves and Reserve Funds form an important component of any Capital Financing Plan and are used extensively to finance the capital program for maintenance and replacement of capital assets.
- Capital Reserves/Reserve Funds are used to assist in financing the capital program. They provide flexibility and liquidity as well as enhancing the City's capacity to handle current and future capital infrastructure needs. Capital assets must be supported by contributions to Reserves/Reserve Funds to address their eventual rehabilitation and/or replacement.
- Part of the capital budgeting process is planning for the long range costs of owning and maintaining the asset (the "full-life" cycle costs), therefore, policies will assist in managing capital asset acquisition, maintenance, replacement and retirement.
- **Existing Policy**—According to the City of Guelph's capital financing guideline, the City can use an amount up to, but not exceeding 20 per cent of the previous year's net tax levy to fund capital projects; allocating these funds to capital reserves or using them to pay back (debt servicing). The City has contributed up to 19%, however, this has decreased to 16% in the 2015 budget.

Observations

- In 2012, the City completed a Sustainable Infrastructure Report for water, wastewater, storm and transportation which identified a considerable infrastructure funding gap in each of these areas.
- In 2013, Council approved a Corporate Asset Management Policy to standardize and enhance the organization's approach to capital asset management.
- In lieu of detailed lifecycle plans for each asset, on an interim basis, the intent was to have planned contributions to Capital Reserves/Reserve Funds, however, the City has not benchmarked contributions in the budget to this figure.
- The City carefully assesses and prioritizes more than 350 capital plans and projects to determine how to meet the long-term needs of the community in a way that is affordable for tax payers.
- There are numerous reserves available to support capital replacement but many do not have a funding source.
- The City has a decentralized approach to asset management resulting in 24 Capital Reserves. By segregating the reserves to the extent that is currently in place in the City of Guelph, there is less flexibility to fund capital projects of highest need.
- A trend seen across municipalities is to consolidate a number of the capital reserves to improve flexibility.

Figure 24—Capital Reserve Balances 2010-2014 (000's)



- As shown above and in the table to the right, the City has an extensive number of capital reserves to support the wide range of capital assets.
- Since 2011, the capital reserves, on a consolidated basis, have been trending downward.
- Further, the uncommitted balance in 2014 is \$16.7 million, significantly below the year end balance of \$31.7 million.
- As will be shown later in the report, there are also numerous equipment and vehicle reserves.
- There are a number of Capital Reserves with zero balances and a number that have had limited activity.

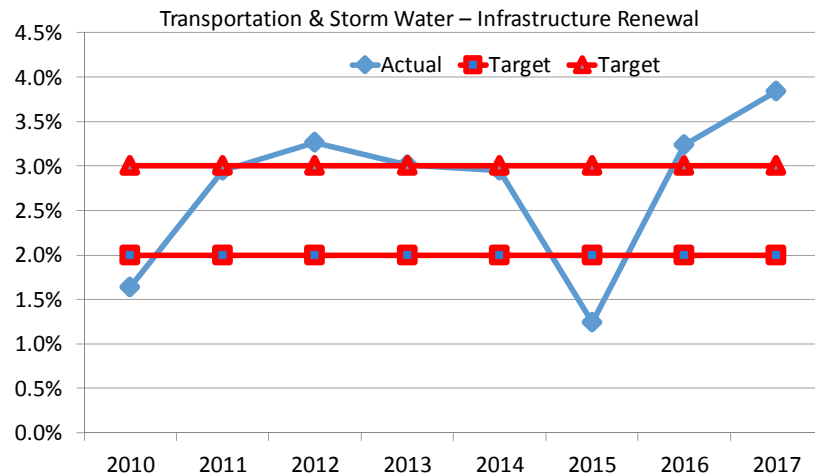
Departmental Capital Total	2010	2011	2012	2013	2014	5 Year Change	Commitments	2014 Uncommitted Balance
Capital Taxation	\$ 697	\$ 2,520	\$ 1,644	\$ 504	\$ 2,711	288.9%	\$ -	\$ 2,711
Asset Renewal	\$ 13,738	\$ 14,093	\$ 14,359	\$ 14,820	\$ 8,925	-35.0%	\$ 1,562	\$ 7,363
DC Exemptions	\$ 2,248	\$ 3,157	\$ 2,009	\$ 2,852	\$ 3,085	37.2%	\$ 159	\$ 2,926
Subtotal	\$ 16,683	\$ 19,770	\$ 18,012	\$ 18,176	\$ 14,720	-11.8%	\$ 1,721	\$ 12,999
Road Infrastructure	\$ 2,312	\$ 2,993	\$ 3,440	\$ 2,649	\$ 3,132	35.5%	\$ 2,365	\$ 767
Road Widening	\$ 930	\$ 954	\$ 973	\$ 994	\$ 852	-8.4%	\$ -	\$ 852
Museum Development	\$ 56	\$ 58	\$ 252	\$ 305	\$ 242	329.0%	\$ 141	\$ 101
McCrae House Development	\$ 130	\$ 137	\$ 142	\$ 160	\$ 146	12.8%	\$ -	\$ 146
River Run Centre Capital	\$ 158	\$ 195	\$ 113	\$ 127	\$ 112	-28.9%	\$ 18	\$ 94
Landfill Compensation	\$ 139	\$ 134	\$ 126	\$ 102	\$ 100	-27.9%	\$ 29	\$ 72
Building Operations Maintenance	\$ 100	\$ 81	\$ 61	\$ 61	\$ 61	-38.5%	\$ -	\$ 61
Sleeman Centre	\$ 31	\$ 31	\$ 42	\$ 56	\$ 35	10.9%	\$ 1	\$ 33
Sleeman Centre Naming Rights	\$ 29	\$ 9	\$ 3	\$ (35)	\$ 5	-82.5%	\$ 5	\$ 0
Public Transit Improvement	\$ 801	\$ 594	\$ 21	\$ 0	\$ 0	-100.0%	\$ 0	\$ 0
Police	\$ 2,244	\$ 2,556	\$ 2,916	\$ 3,055	\$ 3,051	36.0%	\$ 2,961	\$ 89
Transit	\$ 275	\$ 555	\$ 1,496	\$ 1,682	\$ 2,189	696.0%	\$ 2,231	\$ (42)
Parking	\$ 3,589	\$ 1,961	\$ 1,300	\$ 1,018	\$ 1,270	-64.6%	\$ 1,238	\$ 31
Operations	\$ 363	\$ 551	\$ 445	\$ 1,123	\$ 1,126	210.0%	\$ 920	\$ 205
Library	\$ 850	\$ 828	\$ 849	\$ 848	\$ 1,015	19.3%	\$ 256	\$ 759
Building Life Cycle	\$ 802	\$ 655	\$ 876	\$ 227	\$ 868	8.2%	\$ 833	\$ 35
Roads	\$ 1,063	\$ 1,396	\$ 972	\$ 622	\$ 648	-39.0%	\$ 313	\$ 335
Policy Planning	\$ 38	\$ 60	\$ 245	\$ 458	\$ 517	1247.6%	\$ 404	\$ 113
Stormwater	\$ 205	\$ 181	\$ 237	\$ 257	\$ 489	138.2%	\$ 337	\$ 152
Accessibility Capital	\$ 393	\$ 505	\$ 514	\$ 472	\$ 411	4.6%	\$ 395	\$ 16
Waste Management	\$ 292	\$ 493	\$ 695	\$ 381	\$ 294	0.6%	\$ 288	\$ 5
Information Services	\$ 149	\$ 153	\$ 74	\$ 715	\$ 249	67.0%	\$ 231	\$ 17
Culture	\$ (13)	\$ 124	\$ 171	\$ 280	\$ 157		\$ 64	\$ 93
Strategic Capital Priorities	\$ -	\$ -	\$ 15	\$ 15	\$ 16		\$ -	\$ 16
Recreation	\$ 99	\$ 103	\$ 0	\$ 0	\$ 0	-100.0%	\$ -	\$ 0
Economic Development	\$ 40	\$ 71	\$ 22	\$ 22	\$ 0	-100.0%	\$ -	\$ 0
Museum	\$ 40	\$ 41	\$ -	\$ -	\$ -	-100.0%	\$ -	\$ -
Corporate Property	\$ 99	\$ 14	\$ 25	\$ 26	\$ (0)	-100.0%	\$ -	\$ (0)
Fire	\$ 198	\$ 281	\$ 132	\$ 53	\$ (1)	-100.3%	\$ -	\$ (1)
Park Planning	\$ 51	\$ 83	\$ 75	\$ 37	\$ (8)	-115.9%	\$ 230	\$ (238)
Subtotal	\$ 15,464	\$ 15,799	\$ 16,234	\$ 15,711	\$ 16,976	9.8%	\$ 13,261	\$ 3,714
Departmental Capital Total	\$ 32,148	\$ 35,569	\$ 34,246	\$ 33,887	\$ 31,696	-1.4%	\$ 14,982	\$ 16,714

Figure 25—Analysis of Capital Contributions

Tax Supported Contributions	2015 (000's)
Capital Funding Available for Projects and Reserves	\$ 18,514
Debt Servicing	\$ 13,069
Total Capital Contribution	\$ 31,583
Total Tax Historical Amortization - 2014	\$ 32,532

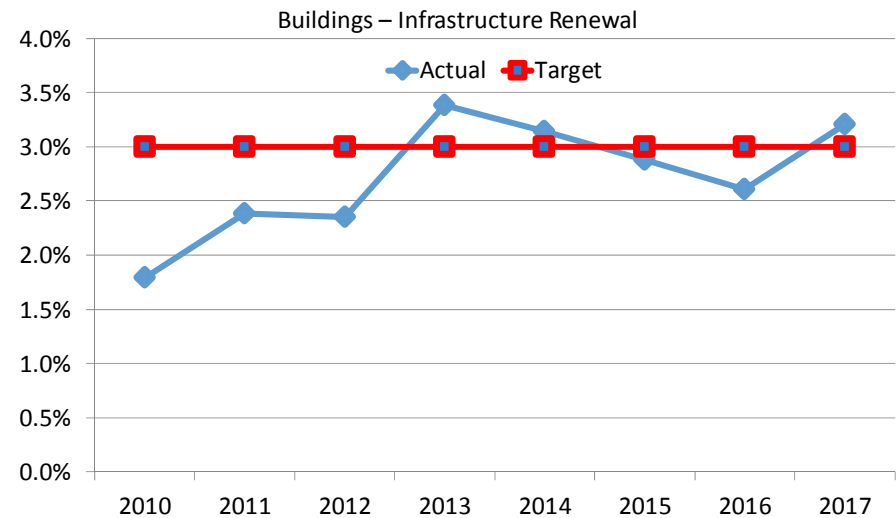
- Note: It should be noted the capital funding from the operating budget is not solely for capital replacement, it also includes DC exemption contributions and capital contingency.
- Consistent and stable funding sources for the timely and periodic renewal and/or replacement of capital assets is needed.
- As shown in Figure 25, annual contributions to the capital replacement of tax supported assets is \$31.6 million compared with an annual historical amortization expense of \$32.5 million, reflecting a funding shortfall.
- Generally, municipalities attempt to ensure that the annual contributions are greater than or equal to the annual historical amortization in an effort to ensure that sufficient funds are available for the replacement of the existing assets. Municipalities also must consider past deficits.
- The annual replacement amortization expense is yet to be determined or the full lifecycle costing which is currently underway. Based on work undertaken in other jurisdictions, the replacement cost is considerably higher than the historic replacement costs as many of the assets were purchased or constructed decades ago.
- The following summarizes some of the existing strategies and practices employed by the City of Guelph:
 - **Tax Capital Reserve**—Monies received from the operating budget or the sale of surplus lands and used as a corporate capital contingency.
 - **DC Exemptions**—Funds received from tax supported sources that are to be transferred to DC reserve funds to compensate for DC exemptions.
 - **Accessibility Reserve**—Funds transferred from operating budget to support capital projects that improve accessibility.
 - **Asset Renewal**—Funds received from the disposition of a note receivable from Guelph Hydro are used to finance the renovation and replacement of existing City structures and facilities. The Asset Renewal Reserve declined as the funds were used for a one-time litigation settlement. The intended use of the reserve is for the exclusive purpose of financing capital assets as identified in the City's strategic priorities. It may also be used to leverage funding from other sources (such as grants or partnerships), to loan for a project which might require outside debt or to provide bridge funding for an emergency infrastructure project.

Figure 26—Capital Contributions to Transportation



- **Roads Infrastructure**—Monies transferred in from operating to fund road infrastructure. The existing target is to transfer 2-3% of the historical asset value into the reserve annually. As shown above, the 2015 contribution was below the target contribution but is projected to increase in 2016 and 2017.

Figure 27—Capital Contributions to Building



- **Building Life Cycle**—Monies transferred in from the operating budget and used to fund capital life cycle investments. The existing policy is to transfer 3% of the historical cost of buildings into the reserve annually. The contributions to the Building Life Cycle is slightly below the target contributions.

Equipment Reserves

Purpose

Municipalities establish vehicle and equipment reserves to ensure that there are sufficient funds available for the timely replacement of assets. This is also undertaken to smooth the impact on the tax levy as some vehicles and equipment are expensive to replace (e.g. Fire truck, transit vehicles).

Observations

- The City's existing policy is to have a target reserve fund annual contribution to be based on 10% of the value of the relevant assets for vehicles and equipment.
- As shown below, there has been a gradual increase in the contributions made to the Equipment Replacement Reserves over the past five years and this is expected to continue over the next 10 years.
- The City's Vehicle and Equipment Reserve balance increased 42.4% from 2010 to 2014. This is driven, in part, by adhering to the policy guideline for annual reserve contributions. The uncommitted balance in 2014 is \$3.1 million. A policy of 10% of the asset value assumes an average useful life of 10 years. Through the development of an asset management plan, it is anticipated that this will be further refined based on the lifecycle of each asset.

Figure 28—Equipment Reserve Contributions 2010-2014 (000's)

Total Contributions (000's)	2010	2011	2012	2013	2014
Fire	\$ 480	\$ 1,181	\$ 1,889	\$ 2,875	\$ 1,149
Transit	\$ 1,454	\$ 1,035	\$ 1,156	\$ 1,416	\$ 1,902
Police	\$ 500	\$ 503	\$ 801	\$ 1,458	\$ 1,517
Waste Management	\$ 650	\$ 689	\$ 745	\$ 225	\$ 888
Computer	\$ 810	\$ 570	\$ 1,117	\$ 1,454	\$ 953
Play Equipment	\$ 299	\$ 159	\$ 75	\$ 170	\$ 466
Operations Fleet	\$ 1,939	\$ 1,840	\$ 3,766	\$ 4,001	\$ 3,830
Total Contributions	\$ 6,132	\$ 5,977	\$ 9,548	\$ 11,599	\$ 10,704

Figure 29—Equipment Reserve Year End Balances 2010-2014 (000's)

Equipment (000's)	2010	2011	2012	2013	2014	5 Year Change	Commitments	2014 Uncommitted Balance
Fire	\$ 624	\$ 356	\$ 1,503	\$ 2,164	\$ 641	2.7%	\$ 494	\$ 147
Transit	\$ 686	\$ 219	\$ 118	\$ 193	\$ 1,946	183.8%	\$ 1,732	\$ 215
Police	\$ 427	\$ 268	\$ 114	\$ 500	\$ 1,099	157.2%	\$ 1,074	\$ 26
Waste Management	\$ 945	\$ 1,335	\$ 2,013	\$ 1,364	\$ 1,162	23.0%	\$ 890	\$ 273
Computer	\$ 866	\$ 459	\$ 558	\$ 929	\$ 374	-56.9%	\$ 383	\$ (10)
Play Equipment	\$ 397	\$ 345	\$ 295	\$ 23	\$ 58	-85.5%	\$ 53	\$ 5
Operations Fleet	\$ 2,594	\$ 3,215	\$ 2,161	\$ 2,604	\$ 4,032	55.4%	\$ 1,564	\$ 2,467
Equipment Total	\$ 6,539	\$ 6,197	\$ 6,762	\$ 7,776	\$ 9,311	42.4%	\$ 6,189	\$ 3,123

Best Practice Research

- GFOA recommends that municipalities should adopt a policy to assess the condition of all major assets. This requires a clear understanding of the asset inventory and the renewal adequacy. Research supports the need for regular reviews of the remaining life and condition of assets to determine that the annual reserve contributions for infrastructure rehabilitation/replacement can be met.
- Research indicates that it is preferred to smooth the annual reserve/reserve fund transfers to avoid significant tax rate increases in any given year. This requires an analysis of the underlying assets, their condition and lifecycle to determine the appropriate annual transfer required to ensure that sufficient funds are available for replacement at the end of the assets useful life.
- A financing strategy to deal with infrastructure gaps is a key element of a long range financial plan.
- Given the challenge with respect to affordability, the majority of the municipalities are not able to immediately put in place policies to fully meet infrastructure requirements. As such, some of the policies focus on strategies to ensure that the infrastructure gap does not widen or is gradually reduced, with consideration being given to taxpayer affordability. Policy examples include:
 - **Restricted Capital Reserve Uses**—Some municipalities establish restrictions on the use of Capital Reserves to fund only the replacement or refurbishment of existing assets whereby reserves are not used for the acquisition of new assets. This is the practice in the City of Burlington and the City of Barrie.
 - **Operating Surplus/Deficit**—A number of municipalities direct year end operating surpluses to Capital Reserves to help increase funding for infrastructure replacement and avoid relying on surpluses to help reduce property taxes.
 - **Dividend Income**—Recognizing the significant capital needs, some municipalities with hydro or other dividends direct some or all these revenues to fund Capital Replacement. This is the practice in the City of Markham.
 - **New Assets Lifecycle Contribution Requirements**—As new assets are added, the operating budget must include an annual contribution for the replacement of the assets in the future, using lifecycle costing. This is the practice in the City of Burlington. The Town of Oakville utilizes a 5 year phase-in to full replacement amortization to help lessen the impact on the operating budget for new facilities.
 - **Annual Reserve Contribution Targets**—Municipalities typically establish contributions to the Capital Reserves and Reserve Funds for asset replacement through calculated annual contributions from the Operating Budget based on capital replacement costs. However, in recognition of the affordability challenges, some municipalities establish a minimum contribution based on historical amortization with phase-in strategies to move toward lifecycle costing based on replacement costs.

- **Debt Retirement**—Some municipalities utilize the operating budget room created on the retirement of debt to increase the contribution to capital reserves. For example, in the City of Barrie, as debt charges mature, the annual amount that is no longer required from the operating budget in the year of maturity is transferred for that year and subsequent years to the Tax Capital Reserve in order to build a reserve for future major refurbishment, renovation, capital improvement or replacement expenditures.
- **Timely Closure of Capital Projects**—A number of municipalities have experienced problems associated with capital projects not being closed on a timely basis. In some cases, there are unspent funds that could be redirected to the Capital Reserves to help fund unfinanced or unaffordable projects. Some municipalities have clauses that specifically identify when capital account closures are to be made.
- **Establishing Targets or Limits**—The Town of Milton has established a policy for the balance in the Vehicle and Equipment replacement reserve. The policy is that the target balance of the reserve will be related to the average annual replacement requirements based on lifecycle costing information as determined by the equipment replacement analysis. The Region of Peel has a target for Capital Reserves to fully fund the forecasted Reserve shortfall for the tax supported program. The City of Ottawa has a minimum balance of \$50 million in the Tax Capital Reserves to ensure emergency repairs can be managed.
- **Infrastructure or Special Levies**—A number of municipalities have established a Special Infrastructure Levy. These special levies typically compound annually, resulting in a significant opportunity to reduce the gap. This is the practice in the City of Vaughan, the City of Barrie, the Town of Oakville, the City of Burlington and the Town of Halton Hills. Some municipalities establish a Special Levy for areas of highest concern. For example, the Town of Halton Hills has a Roads Pavement Levy. The City of Mississauga established a Special Capital & Debt Levy of 2% of the prior year's levy to help address the City's Infrastructure needs. On average, 1% of the levy increase will be allocated to the City's Tax Capital Reserve, with the other 1% being used to pay for debt servicing costs related to capital replacement projects.
- **Portfolio Approach for Capital Reserves**—A number of municipalities use a portfolio approach to manage capital reserves. Under this approach, individual reserves are pooled together. Pooling reserves helps to mitigate financial volatility and risk that a specific capital program reserve might otherwise experience. This approach also provides additional financial flexibility to address priority needs. This approach also reduces the overall risk to the City's reserves as it balances the peaks and troughs of spending across programs instead requiring each program to maintain a separate reserve.
- **Assessment Growth**—Assessment growth is typically used to help reduce property taxes. However, some fast growth municipalities have utilized a portion of the assessment growth to reduce the infrastructure gap. Utilizing a portion of the assessment growth annually toward the replacement of capital infrastructure helps to fund the infrastructure gap.

Excerpts—Capital Investment Strategy: 2014—2023

“When prioritizing investment in land, buildings, roads, sewers, parks, trails, vehicles, and other capital assets, the City’s first consideration is the health and safety of people living, working, studying, visiting and travelling in Guelph.

Keeping Guelph’s facilities and infrastructure in good repair, ensuring accessibility, and meeting Guelph’s legislated requirements are critical parts of every municipal budget, and have been at the core of Guelph’s capital investment strategy for several years.”

Guiding Principles—Asset Management and Capital Reserves

- International Infrastructure Management Manual, describes the key elements of asset management as:
 - Taking a lifecycle approach;
 - Developing cost-effective management strategies for the long-term;
 - Providing a defined level of service and monitoring asset performance;
 - Gap identification; and
 - Long Range Funding Strategy.
- Asset management is a systematic process of maintaining, upgrading, and operating physical assets cost effectively. It combines engineering principles with sound business practices and economic theory, and it provides tools to facilitate a more organized, logical approach to decision making for the replacement/refurbishment of tangible capital assets in a sustainable manner. Thus, asset management provides a framework for handling both short and long-range planning.
- Sustainable infrastructure funding required to sustain assets in such a manner that meets present infrastructure needs without compromising the ability of future generations to meet their infrastructure needs
- Asset acquisition and construction will be subject to a cost-benefit analysis that considers lifecycle costing and ongoing operating costs. All assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs. The City will consider that the cost of delaying repairs/replacement compared to the cost to restore at the appropriate time.
- Capital Reserves and Reserve Funds will be used to reduce the reliance on external financing for replacement of existing capital assets.
- A focus on renewal could consume every available dollar. While recognizing the priority of renewal, some resources will be allocated for capacity additions reflecting the highest priority needs of the community.

Capital Reserve Policies/Recommendations

1. Maintain a minimum threshold cash balance in the consolidated Capital Reserve Fund, equivalent to one year's worth of the 10 year average of the tax-supported capital expenditure requirements., approximately \$29 million. This ensures that one year of tax based funding is available in reserves to maintain liquidity.
2. The annual contribution to the Capital Reserves should be at least equivalent to the annual amortization charge of capital assets.
3. With limited financial resources and competing priorities, Capital Reserves should be managed, on a consolidated basis, for effective management of the capital financing program and to ensure that the City's most critical needs continue to be addressed. Pooling reserves helps to mitigate financial volatility and risk that a specific capital program reserve might otherwise experience. This approach also provides additional financial flexibility to address priority needs. New facilities and infrastructure will include a contribution for the replacement of the assets.
4. Capital Reserves and Reserve Funds will be used to fund the replacement or refurbishment of existing assets. New assets related to growth or program enhancements will be budgeted for and financed separately. For any new assets internally financed from the Capital Reserves and Reserve Funds, a debt repayment schedule will be prepared and funds will be repaid, including interest, to the reserve from future operating budgets. This will to help ensure that sufficient funds are available for the replacement and refurbishment of all existing assets. Once debt charges have been repaid related to new assets, an annual contribution to the Reserve and Reserve Funds will be made based on the annual amortization and lifecycle costing.
5. The City should focus on implementing a detailed asset management plan to drive future capital budgets.

Program Related Reserves and Reserve Funds

Program Related Reserves and Reserve Funds are established from time to time by Council based on the needs of the community. This section of the analysis includes Miscellaneous Discretionary Reserves and Reserve Funds.

Figure 30 — Program Related Reserves/RF (000's)

Program Related (000's)	2010	2011	2012	2013	2014	5 Year Change	Commitments	2014 Uncommitted Balance
Brownfield Strategy	\$ 546	\$ 512	\$ 205	\$ 539	\$ 1,249	128.9%	\$ 2	\$ 1,247
Heritage Redevelopment	\$ 673	\$ 908	\$ 950	\$ 1,084	\$ 1,166	73.3%	\$ -	\$ 1,166
Downtown Improvement	\$ 200	\$ 360	\$ 207	\$ 302	\$ 349	74.5%	\$ 0	\$ 349
Insurance	\$ 1,081	\$ 1,328	\$ 1,593	\$ 1,616	\$ 1,973	82.6%	\$ -	\$ 1,973
Ontario Municipal Board / Legal	\$ 681	\$ 4,054	\$ 3,040	\$ 2,131	\$ 1,379	102.5%	\$ -	\$ 1,379
Industrial Land	\$ 2,562	\$ 4,254	\$ 1,757	\$ 1,931	\$ 1,189	-53.6%	\$ 1,941	\$ (752)
POA Relocation	\$ 172	\$ 179	\$ 790	\$ 700	\$ 985	473.8%	\$ 27	\$ 959
Strategic Initiatives	\$ -	\$ 1,100	\$ 2,413	\$ 1,013	\$ 747		\$ -	\$ 747
Information Technology Licence	\$ 100	\$ 210	\$ 320	\$ 464	\$ 608	508.0%	\$ -	\$ 608
Greenhouse Gas	\$ 408	\$ 527	\$ 687	\$ 401	\$ 464	13.8%	\$ 241	\$ 223
Affordable Housing	\$ 581	\$ 653	\$ 637	\$ 470	\$ 429	-26.1%	\$ -	\$ 429
Downtown TIBG	\$ -	\$ -	\$ -	\$ 110	\$ 342		\$ -	\$ 342
Library Bequests	\$ 170	\$ 174	\$ 196	\$ 238	\$ 283	66.3%	\$ -	\$ 283
POA Contingency	\$ -	\$ -	\$ 26	\$ 77	\$ 223		\$ -	\$ 223
HR Negotiations	\$ 59	\$ 89	\$ 374	\$ 181	\$ 198	236.0%	\$ -	\$ 198
Election Costs	\$ 183	\$ 314	\$ 441	\$ 536	\$ 165	-9.8%	\$ -	\$ 165
Social Housing	\$ 1,094	\$ 300	\$ 200	\$ 200	\$ 143	-86.9%	\$ -	\$ 143
Investing in Ontario	\$ 4,122	\$ 2,154	\$ 1,123	\$ 1,055	\$ 100	-97.6%	\$ 90	\$ 10
Investment Strategy (Grants)	\$ 20	\$ 50	\$ 50	\$ 85	\$ 89	346.4%	\$ -	\$ 89
Public Art	\$ -	\$ 203	\$ 206	\$ 207	\$ 75		\$ 46	\$ 29
Brownfield Capital (IMICO)	\$ -	\$ -	\$ 347	\$ 259	\$ 59		\$ 51	\$ 7
Westminster Woods	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	0.0%	\$ -	\$ 35
Greening	\$ -	\$ 81	\$ 57	\$ 59	\$ 35		\$ 25	\$ 10
Transportation Demand Manager	\$ 20	\$ 21	\$ 21	\$ 22	\$ 22	9.0%	\$ -	\$ 22
Moon-MacKiegan Artifacts	\$ 13	\$ 13	\$ 14	\$ 16	\$ 14	11.0%	\$ -	\$ 14
Tree Donation Program	\$ -	\$ -	\$ 0	\$ 0	\$ 0		\$ -	\$ 0
Locomotive 6167	\$ 1	\$ 1	\$ 1	\$ 1	\$ -	-100.0%	\$ -	\$ -
City RInC	\$ 734	\$ 6	\$ (0)	\$ (0)	\$ (0)	-100.0%	\$ -	\$ (0)
City Infrastructure Stimulus	\$ 6,141	\$ 2,494	\$ (0)	\$ (0)	\$ (0)	-100.0%	\$ -	\$ (0)
Program Related Reserves Total	\$ 19,594	\$ 20,019	\$ 15,691	\$ 13,731	\$ 12,321	-37.1%	\$ 2,422	\$ 9,899

Observations

- Best practice research indicates that Program Specific Reserves/ Reserve Funds should be reviewed annually and have an associated financial plan.
- The City has a large number of reserves and reserve funds (29) for program specific purposes, which by comparison to other jurisdictions is high. For the purposes of this analysis Miscellaneous Reserves and Miscellaneous Discretionary Reserve Funds have been included in this section of the report.
- A number of reserves have limited or zero balances and have limited activity.
- There has been a reduction in the ending balance for total program related reserves from 2010-2014.

The following provides an overview of the key Program Related Reserves:

- **Tax Increment Based Grant Reserves**—(Heritage, Brownfield and Downtown). As recommended in Committee Report FIN-12-01, the City's Tax Increment Based Grant (TIBG) program awards annual grants to eligible redevelopments over a maximum ten year period. The funding for the program is transferred from the operating budget. From 2010 to 2014, approximately \$1.15 million has been utilized from the three reserves.
- **Insurance**—Surplus amounts from the annual insurance budget are transferred to the insurance reserve to be used for insurance payouts and to lower premiums. Over the past 5 years, the reserve balances have grown considerably (82.6%).
- **OMB/Legal**— Approved transfers from operating are used to pay fees and payments resulting from Court/OMB settlements and expenses relating to retaining outside experts and consultants that assist the City in legal proceedings. This varies considerably from year to year.
- **Industrial Land**—Revenues received from the sale of city-owned industrial or commercial land used to fund servicing costs, related debt payments and new land purchases. From 2010-2014, \$11.5 million in land sales have been transferred to the reserve with \$12.2 million being used to offset servicing costs and new land purchases.
- **IT Licence Renewal**—This reserve is used every five years to smooth the impact of significant licencing funded through annual operating budget transfers and used to fund the purchase of MS Office licence renewals. The reserve balance has increased from \$100,000 in 2010 to over \$600,000 in 2015 which will be used in 2016.
- **Affordable Housing**—Approved transfers from operating that are used to support affordable housing projects within the City. There is no ongoing source of funding for this reserve.

- **Strategic Initiatives**—To provide funds to supported strategic initiatives as identified in the City’s Corporate Strategic Plan. Funds were transferred in through a one-time contribution as a result of a review of several of the City’s operating contingency reserves in 2011 and 2012 to create a base source of funding for these initiatives. From 2012-2014, approximately \$1.9 million has been drawn from this relatively new reserve to fund strategic priorities of Council. This includes a transfer to Guelph Municipal Holdings Inc. of \$0.8 million. Other initiatives include business case tools and capacity building, records and information management program, community wellbeing initiatives, employee engagement survey, summits and round tables, open government strategy, public affairs, organizational assessment and other strategic initiatives. With no ongoing funding source, this reserve relies on one-time commitments based on Council approval.

Program Specific Reserves/Reserve Funds Research

- Best practice research indicates that Program Specific Reserves/Reserve Funds should be reviewed annually and have an associated financial plan. It is prudent for municipalities to regularly review the ongoing need for each of the reserves/reserve funds based on future planned activities, ongoing sources of funding and existing reserve balances.

Policies/Recommendations

1. Need and Funding—Prepare a financial plan for all Program Specific Reserves/Reserve Funds to ensure that there are adequate funds to sustain the program requirements. The plans will be reviewed annually in conjunction with the budget process.
2. Use—Spending from any Program Specific Reserves/Reserve Funds in any one year will not exceed the uncommitted balance in the reserve fund at the end of the preceding year. All funds transferred from reserve funds should be approved by Council.
3. Rationalize—Based on an analysis of the Program Related Reserves, there is a need to rationalize the reserves and determine if there is an opportunity to consolidate/close reserves.



Water and Wastewater Reserves and Reserve Funds

- **Stabilization Reserves**—The water and wastewater stabilization reserves are funded from operating budget surpluses, and are used to prevent sudden rate increases and to cover revenue shortfalls. These reserves are important tools for providing financial stability and sustainability. The reserves are reviewed each year to ensure compliance with Council policies.
- **Capital Reserves**—The City makes annual contributions to the Water and Wastewater Capital Reserves. Funds are transferred in as contributions from the operating budget or any remaining surplus not committed to another reserve upon closing individual capital projects. These reserves are then used to fund the City's share of capital works. The City's policy is to make annual contributions to these reserves, at a minimum, equal to the annual depreciation expense. In addition, there is an infrastructure deficit that is being addressed through a phased program. There are a number of studies underway to fully identify the replacement cost of the existing assets. As such, while the reserves appear to be in a healthy position by the end of the forecast period, there is a need to maintain sufficient financial flexibility to fund any new requirements. Further, while there is a combined \$42.2 million in water/ww capital reserves, the uncommitted balance is only \$23.4 million.
- **DC Exemption Reserve Funds**—This is used to fund approved growth related costs not eligible under the Development Charges Act and is funded through water and wastewater rates. It is maintained to repay any Council approved or legislated exemptions that reduce the amount of development charges collected. Annual contributions should equal the last known value of Council approved exemptions.

Figure 31 — Water and Wastewater Reserves (000's)

Water Reserve (000's)	2010	2011	2012	2013	2014	5 Year Change	Commitments	2014 Uncommitted Balance
Water Rate Stabilization	\$ 2,114	\$ 2,114	\$ 2,114	\$ 2,310	\$ 2,003	-5.3%	\$ -	\$ 2,003
Water Capital	\$ 16,385	\$ 22,469	\$ 28,768	\$ 33,270	\$ 29,122	77.7%	\$ 18,305	\$ 10,817
Water Infrastructure Stimulus	\$ 1,010	\$ 958	\$ (0)	\$ (0)	\$ (0)	-100.0%	\$ -	\$ (0)
Water DC Exemptions	\$ 915	\$ 1,698	\$ 2,469	\$ 113	\$ 522	-43.0%	\$ 308	\$ 214
Water Reserve Total	\$ 20,424	\$ 27,239	\$ 33,352	\$ 35,694	\$ 31,647	54.9%	\$ 18,613	\$ 13,034

Wastewater Reserve (000's)	2010	2011	2012	2013	2014	5 Year Change	Commitments	2014 Uncommitted Balance
Wastewater Rate Stabilization	\$ 1,542	\$ 2,242	\$ 2,342	\$ 2,550	\$ 2,829	83.5%	\$ -	\$ 2,829
Wastewater Capital	\$ 22,522	\$ 26,095	\$ 33,787	\$ 41,530	\$ 33,094	46.9%	\$ 20,551	\$ 12,543
WW Infrastructure Stimulus	\$ 1,161	\$ 1,143	\$ -	\$ -	\$ -	-100.0%	\$ -	\$ -
Wastewater DC Exemptions	\$ 764	\$ 1,543	\$ 2,491	\$ 1,910	\$ 2,169	183.9%	\$ 953	\$ 1,216
Wastewater Reserve Total	\$ 25,989	\$ 31,024	\$ 38,620	\$ 45,990	\$ 38,092	46.6%	\$ 21,504	\$ 16,588

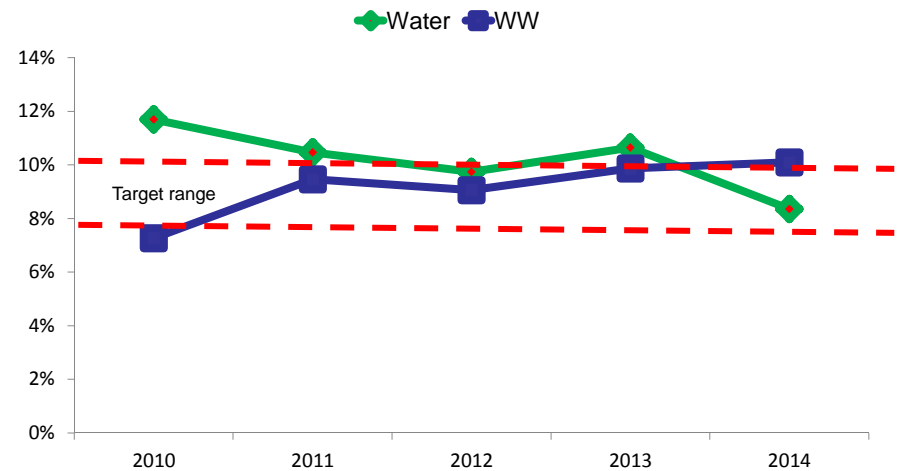
Observations

- As shown above, the Water Capital and Wastewater Capital Reserves have increased over the past five years and is keeping pace with projections for the future replacement needs over the next 10 years.
- Annual contributions to the Capital Reserves have met the minimum target of contributions equal to or greater than historical amortization. This will be required based on the capital forecast requirements.
- With strong capital reserves in water and wastewater operations, the City has been able to internally finance its capital requirements and avoid debt over the past 5 years.
- With the strategies and policies in place, it is anticipated that the City will continue to be able to finance its capital requirements internally over the next 10 years.

- The City has established a target of Stabilization Reserve balances at 8% - 10% of Operating Revenue. As shown in figure 32, as of December 31, 2014, the Stabilization Reserves as a percentage of own source revenues was 8.4% and 10.1% respectively for water and wastewater operations within the targeted range.
- Healthy Stabilization Reserves are particularly important given that water production has been declining while population has been increasing. This is expected to continue due primarily to the success of the water conservation program, climate change, and customer driven efficiencies encouraged by increasing rates. While this reduces the overall consumption of water which aids in conservation and future capital requirements, this places increased pressure on rates and the potential for revenue shortfalls which will require healthy reserves to be in place.



Figure 32 — Water and Wastewater Stabilization Reserves as a % of Own Source Revenues (000's)



Obligatory Reserve Funds

An Obligatory Reserve Fund is created when a provincial statute requires that revenue for special purposes be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute. The following summarizes the Obligatory Reserve Funds:

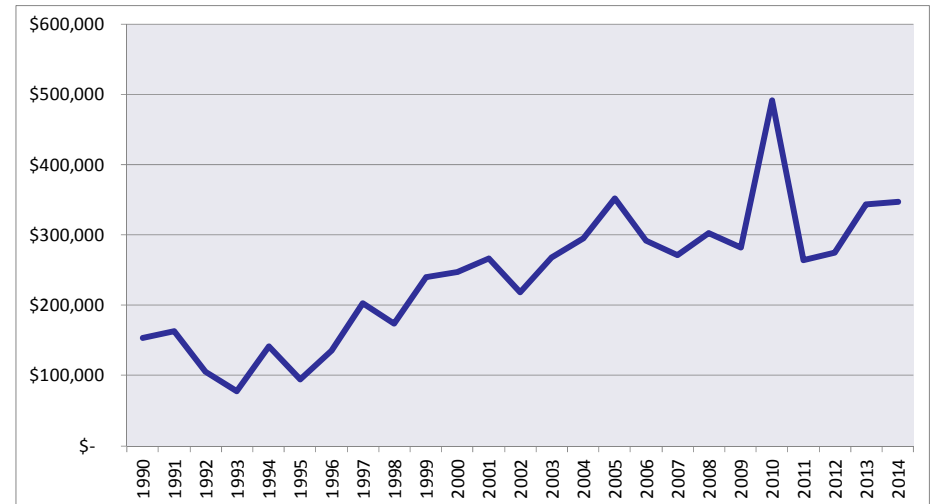
1. **Parkland Dedication**—This reserve has been set up as per Provincial legislation (subsection 42 (14) and (15) of the *Planning Act* for the purpose of requiring the payment of cash-in-lieu of conveyance of land for a park or other public recreation purpose. The balance in this reserve fund is \$2.2 million and has been growing significantly over the past five years.
2. **Downtown Parkland Dedication**—This reserve fund has been set up as per Provincial legislation (subsection 42 (14) and (15) of the *Planning Act* for the purpose of requiring the payment of cash-in-lieu of conveyance of land for a park or other public recreation purpose specifically from development in the downtown. The balance in this reserve is \$0.3 million.
3. **Federal Gas Tax**—Funds received from the Federal government through the “new Deal for Cities and Communities” program to support environmentally sustainable municipal infrastructure projects that can demonstrate progress towards clean air, clean water, and reduced greenhouse gas. The balance in this reserve fund is \$12.0 million and the uncommitted balance as of December 31, 2014 was \$2.5 million.
4. **Development Charges**— (15 individual reserve funds) - As set out under Subsection 16 (1) of the *Development Charges Act*, Development Charge (DC) reserve funds are comprised of development charges received at building permit or at subdivision agreement. These reserve funds are restricted by the Province’s development charge legislation which dictates these funds are to be used for growth related infrastructure. The uncommitted balance is \$15.35 million.

Figure 33 — Obligatory Reserves and Reserve Fund (000's)

Obligatory Reserves Total (000's)	2010	2011	2012	2013	2014	5 Year Change	Commitments	Uncommitted Balance
Building Services Stabilization	\$ 978	\$ 1,285	\$ 1,369	\$ 2,034	\$ 2,188	123.8%	\$ 16	\$ 2,172
Parkland Dedication	\$ 336	\$ 531	\$ 873	\$ 1,407	\$ 2,246	568.0%	\$ -	\$ 2,246
Downtown Parkland Dedication	\$ -	\$ -	\$ -	\$ 263	\$ 330		\$ -	\$ 330
Dedicated Provincial Gas Tax	\$ 1,141	\$ 1,561	\$ 1,812	\$ 1,782	\$ 2,335	104.7%	\$ 1,018	\$ 1,317
Federal Gas Tax	\$ 3,812	\$ 5,128	\$ 8,757	\$ 10,997	\$ 11,981	214.3%	\$ 9,438	\$ 2,543
Transit Infrastructure	\$ 488	\$ 150	\$ 16	\$ (0)	\$ (0)	-100.0%	\$ -	\$ (0)
Ontario Bus Replacement	\$ 670	\$ 118	\$ 69	\$ (0)	\$ (0)	-100.0%	\$ -	\$ (0)
Infrastructure Stimulus	\$ (0)	\$ (1)	\$ 0	\$ 0	\$ 0	-100.0%	\$ -	\$ 0
RInC Grant	\$ 1	\$ 4	\$ (0)	\$ (0)	\$ (0)	-100.0%	\$ -	\$ (0)
Development Charges	\$ 16,845	\$ 17,008	\$ 27,558	\$ 45,143	\$ 56,415	234.9%	\$ 41,070	\$ 15,345
Obligatory Total	\$ 24,271	\$ 25,785	\$ 40,454	\$ 61,627	\$ 75,495	211.0%	\$ 51,542	\$ 23,953

5. **Building Services Stabilization**— O.Reg. 305/03 is the regulation arising from the *Building Code Statute Law Amendment Act, 2002*. The regulation states that as surpluses arise in the delivery of building service these funds must be transferred into a segregated Reserve Fund to be utilized for the purpose of the *Building Code Act*. Based on legislation, this Reserve Fund cannot be used for any other City purpose (segregated) and, as such, is retained specifically to fund shortfalls in Building operations and/or capital projects related to Building related activities.
- This Stabilization Reserve manages the risk associated with an economic downturn, is available to fund one-time capital requirements and to avoid fluctuations in fees and spikes in revenue recovery requirements. Further, this reserve fund is intended to spread the impact of market fluctuations across an economic cycle.
 - The balance as at December 31, 2014 is \$2.2 million. The City's existing target policy is to maintain a reserve balance equal to approximately one year of operating expenditures. This practice is consistent with strategies employed in other municipalities where target balances typically range from 100%-300% depending on the extent of building activity cycles.
 - Without reserve funds, future changes in activity would need to be funded from changes to the fees annually which poses challenges to the building industry in managing their budgets.

Figure 34 — Building Services Construction Value (000's)



- Figure 34 provides a summary of the construction activity since 1990. As shown above, the activity varies considerably from year to year.
- Without sufficient reserve funds, economic downturns could result in budgetary pressures and the loss of competent, difficult-to-replace, certified Building Services staff.

Debt Management

Municipalities have limited options with respect to raising funds to support municipal programs and services. The City of Guelph is not unique, as virtually all municipalities across Ontario are facing increasing infrastructure backlogs, funding gaps, and increasing financial pressures in infrastructure management. These challenges have been driven by several trends over the last decade, specifically:

- Aging infrastructure that create large needs for capital replacement, renewal, and rehabilitation;
- Limited ability to raise funds from property taxes, due to public and business resistance to increases in property taxes; and
- Resulting competition for resources, from other municipal responsibilities, growth and new initiatives.

Using debt strategically can provide capital funding flexibility by allowing certain infrastructure to be built and used before sufficient revenue has accumulated to offset the needed investment. Debt is frequently issued and considered a standard practice in municipalities for capital projects that are long term in nature and that benefit future taxpayers, thereby spreading the costs across future years.

One of the challenges associated with issuing debt occurs when a municipality does not have a supporting debt policy. In this circumstance there is a risk that the municipality will take on too much debt that cannot be supported by the growth, resulting in reduced future financial sustainability and flexibility. Increasing levels of tax supported debt that are growing faster than tax revenues will also begin squeezing out other program and future capital priorities and also reduce the amount of discretionary spending in the operating budget.

To mitigate these concerns, municipalities need to strike a balance with debt. Too little debt can severely restrict the funds available for financing infrastructure, while too much debt is fiscally unsustainable over the long-term.

Hence, municipalities need to ensure that:

- Future debt service payments can be made in full and on time, without jeopardizing the provision of essential services;
- Outstanding debt obligations will not threaten long-term financial stability of the municipality; and
- The amount of outstanding debt will not place undue burden on residents and businesses.

Observations

- The province authorizes municipalities to incur long-term debt for municipal infrastructure as long as annual debt servicing (principal and interest) does not exceed 25% of own source revenues.
- The *City's debt policy* imposes a more conservative annual repayment of 10% of own source revenues and restricts the total debt outstanding to less than 55% of annual own source revenue.
- In 2014, the City's debt servicing was 4.7% of net revenues and total debt was 38.7% of net revenues, well within the City's existing policy.

Figure 35 —Total Approved Debt (000's)

Service Area	Principal Outstanding December 31, 2014
Tax Supported Debt	\$ 83,240
The Elliott and Public Health	\$ 11,573
Industrial Development	\$ 10,000
Enterprise (POA)	\$ 4,434
Development Charges	\$ 15,074
Total Debt O/S	\$ 124,321

- As shown in figure 35, the City of Guelph currently has approved external debt totally \$124.3 million that relates to capital infrastructure and partner loans.
- Tax supported debt is \$83.2 million and is related to a number of services including waste management, roads, fire, police and transit. Tax supported debt increased from 2010-2014 but is forecast to decline from 2017 onward.
- The Elliott and Public Health Debt is funded from the operating budget and the City collects revenues to repay this debt.
- Industrial Development debt of \$10 million will be repaid through land sales related to the Hanlon Business Park.
- POA debt is Enterprise related and does not impact the tax levy.
- Development Charge Debt has a current outstanding balance of \$15 million which will be repaid through development charge revenues.

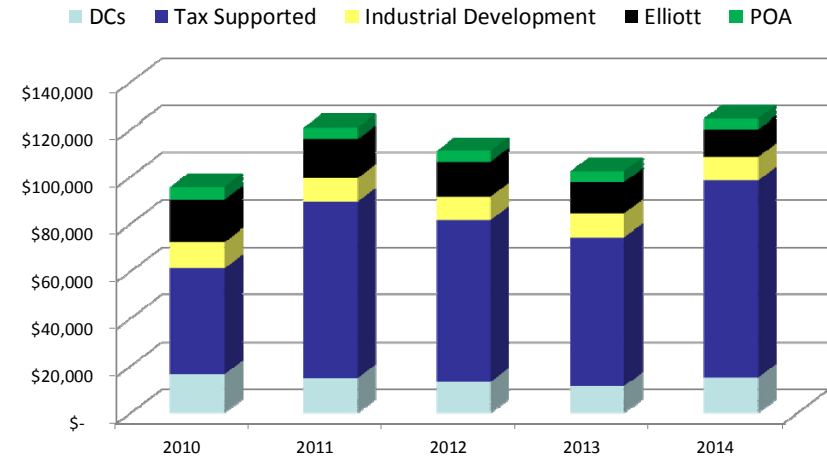
Figure 36 —Debt Outstanding Trend (000's)

Figure 37–2013 Debt Indicators

Municipality	Tax Debt Charges as % Own Source Revenues	Debt Outstanding per \$100,000 Unweighted Assessment	Debt Outstanding per Capita	Debt Outstanding % of Own Source Revenues	Debt to Reserve Ratio
Cambridge	1.6%	\$ 111	\$ 118	10%	0.3
Oakville	4.2%	\$ 135	\$ 288	24%	0.3
Burlington	6.0%	\$ 219	\$ 370	35%	0.7
London	9.0%	\$ 1,052	\$ 1,002	49%	0.9
Waterloo	7.9%	\$ 445	\$ 628	46%	1.3
St. Catharines	8.5%	\$ 595	\$ 558	54%	1.3
Kingston	5.8%	\$ 1,914	\$ 2,129	78%	1.3
Barrie	8.2%	\$ 1,807	\$ 2,023	103%	4.2
Average	6.4%	\$ 785	\$ 889	50%	1.3
Median	6.9%	\$ 520	\$ 593	48%	1.1
Guelph	4.6%	\$ 659	\$ 795	33%	0.6

Source: 2013 FIRs

Debt Indicators

A number of key indicators have been analyzed as follows:

- At year end 2013, debt charges as a % of tax own source revenues was 4.6%, lower than the survey average of 6.4% and well below the City's target of 10%.
- Tax debt outstanding per \$100,000 of weighted assessment and tax debt outstanding per capita are also below than the survey average.
- Debt outstanding as a percentage of own source revenue is lower than the survey average.
- The City's debt to reserve ratio of 0.6 reflects low levels of debt relative to reserves.
- All indicators reflect that the City has relatively low levels of debt.

Debt Principles

- Outstanding and planned debt levels will not exceed an amount that can be supported by the existing and projected tax revenue base. Debt policies will focus on:
 - projected debt requirement;
 - limits and benchmarks;
 - impact on credit rating; and
 - term and structure of debt.
- The term of the debt repayment must match or be less than the expected useful life of the asset.
- Long-term debt for replacement and refurbishment of existing capital assets be reduced and ultimately eliminated.
- The overall measure of the affordability of debt is the burden of principal and interest relative to City's own source revenue (i.e. not including government grants).
- The total amount of debt issued must not compromise the City's credit rating.
- Where debt is issued on behalf of development charges, the repayments to be recovered from future development charge revenues, including interest, be tracked separately.
- Long term debt for the replacement and refurbishment of existing capital assets will be reduced and a planned process will be developed whereby an annual contribution will be made to meet lifecycle needs of all assets.

Recommended Updates to Debt Policies

A debt management policy improves the quality of decisions, identifies policy goals and demonstrates a commitment to long-term financial planning, including a multi year plan. Adherence to a debt management plan signals to rating agencies and capital markets that the municipality is well managed and should meet its obligations in a timely manner. The following includes the City's existing policies and some additional recommended policies:

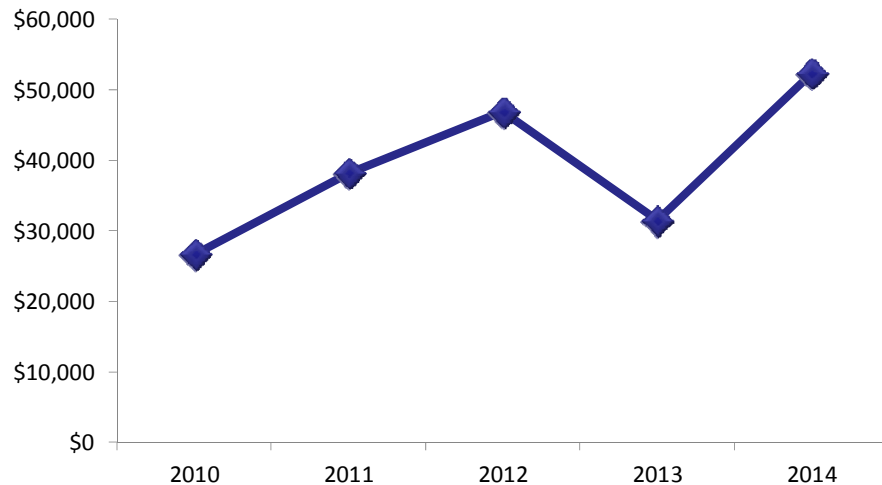
1. Total debt outstanding should be less than 55% of annual own source revenue.
2. All debt charges as a percentage of own source revenues shall not exceed 10%.
3. All debt charges for DC borrowings as a percentage of own source revenues shall not exceed 1%.
4. Before borrowing for growth-related capital projects, all developer related advanced financing arrangements that are in accordance with the Development Charges legislation should be exhausted.
5. The total debt charges related to Development Charges in each year is not to exceed 10% of the DC reserve fund balance.
6. The term of debt will be structured for the shortest period to reduce overall financing costs while considering current and future taxpayer benefit. The preferred term is 10 or 15 years to the extent possible.

7. Debenture financing shall be utilized only for capital projects where the expected life of the asset exceeds the term of the debenture.
8. As debt charges decline through the retirement of debt, the City will apply savings toward the achievement of full lifecycle costing of the City's infrastructure.
9. Long-term debt for replacement and refurbishment of existing capital assets will be used as a last resort, if insufficient reserves are available.
10. Debt financing will be considered for:
 - Projects tied to third party matching funds
 - Project costs not recoverable from Development Charges
 - Projects where the cost of deferring expenditures exceeds debt servicing costs
 - Projects that have a useful life greater than ten years
11. When new debt is approved, to phase in increases, 50% of the annual debt charge should be included in the current year budget and any portion not required for actual debt charges be established as a budgeted transfer to the Infrastructure Sustainability Reserves.

Financial Position

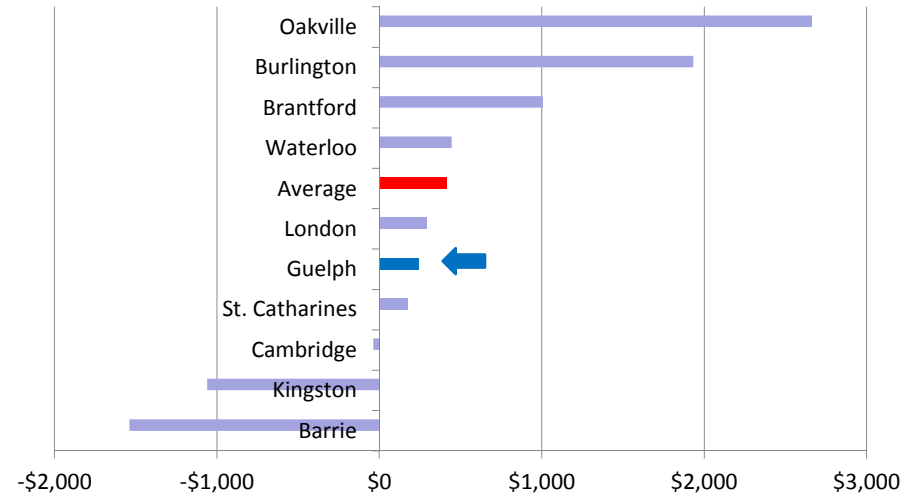
- **Financial Position** of the City is important to consider as this takes into consideration the City's total assets and liabilities.
- A municipality's financial position is defined as the total fund balances including equity in business government enterprises less the amount to be recovered in future years associated with long-term liabilities. A comparison was made of the City's overall financial position (financial assets less liabilities) from 2010 to 2014.
- City of Guelph's financial position has been trending up and has increased by 96% from 2010-2014. The City's financial assets increased by \$25.7 million during this time.

Figure 38—2010-2014 Financial Position (000's)



Source: FIRs

Figure 39— Financial Position Per Capita



Source: FIRs includes upper and lower tier financial position for two tier municipalities

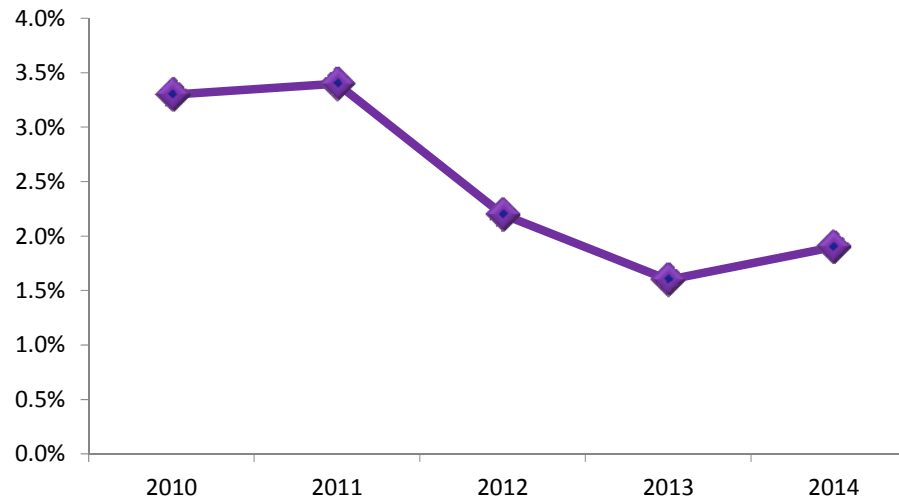
- To provide a comparison with other municipality's financial position, a per capita analysis was undertaken. As shown in figure 39, the City of Guelph's financial position per capita is lower than the survey average however is in a positive position.

Taxes Receivable

Every year, a percentage of property owners are unable to pay property taxes. If this percentage increases over time, it may indicate an overall decline in the municipality's economic health. If uncollected property taxes rise to more than 8%, credit rating firms consider this a negative factor because it may signal potential instability in the property tax base. The City of Guelph is *within the range considered to be acceptable*.

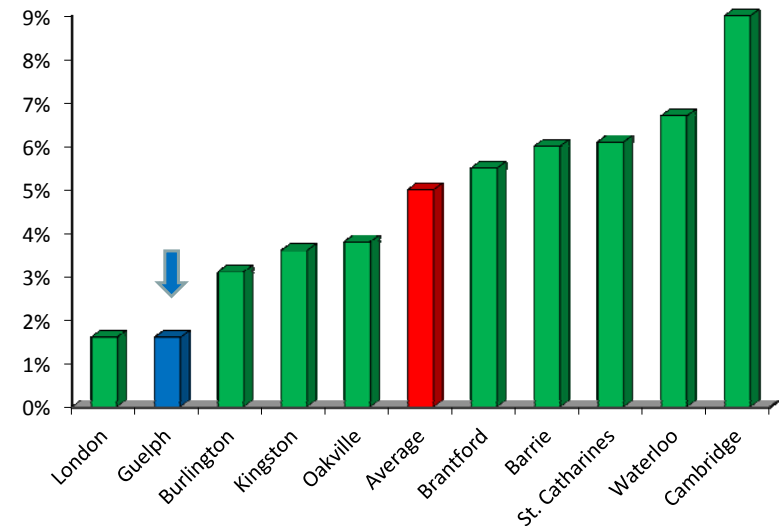
- City of Guelph's ratio has remained well below the credit rating limit in every year.
- Guelph's taxes receivable as a percentage of taxes levied has been trending downward.

Figure 40—Taxes Receivable as a % of Taxes Levied



Source: FIRs

Figure 41—2013 Taxes Receivable as a % of Taxes Levied



Source: 2013 FIRs

- As shown in figure 41, City of Guelph's taxes receivable as a % of Taxes Levied is amongst the lowest in the survey.



Financial Sustainability

The Government Finance Officers Association recommend that municipalities engage in long-term financial planning. They recommend that a municipality should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs and assumptions and that develop appropriate strategies to achieve its goals.

Long-range financial planning is a strategic process that provides municipalities with the insights and information needed to support financial sustainability. *Financial Sustainability* which is defined as the enduring ability of the City to ensure that it can deliver the level and types of programs and services to the community, while proactively assessing and managing associated risks, at acceptable levels of taxation and fees.

The City of Guelph has prepared an asset management policy and now must focus on preparing a detailed asset management plan.

Recommendation—Financial Sustainability

1. It is recommended that the City of Guelph continue to engage in long-term financial planning. The City should consider developing a comprehensive asset management and financial plan that incorporates new capital programs and initiatives with growth and replacement programs. By doing so, the City would be better positioned to understand the full extent of the challenges, opportunities and priorities. This also ensures a good balance between new initiatives and maintenance of existing assets.



Summary—Financial Position

Indicator	Trend, Observation	Rating
Discretionary Reserves as a % of Taxation	The City of Guelph's Discretionary Reserves as a Percentage of Taxation has been trending down since 2010 and is lower than the peer average.	
Stabilization Reserve Funds	The existing consolidated reserve position is below the recommended GFOA target but has been relatively stable over the past five years.	
Employee Future Benefits Reserves	Targets have been established for a number of these reserves. The Sick Leave Reserves is at target, however, the Workplace Insurance Reserve is considerably below the target as well as the Early Retiree Benefits Reserve.	
Capital Reserves—Tax Supported	There continues to be an infrastructure deficit and the Capital Reserves have experienced growth over the past 5 years.	
Equipment Reserves	Equipment Reserves have been trending up over the past 5 years and the City has in place a prudent policy to ensure annual contributions are made for the timely replacement of these assets.	
Water/WW Reserves	The Water/WW Reserves have increased considerably over the past 5 years and is moving toward financial sustainability.	
Debt Management	The City's debt levels are well within industry standards.	
Financial Position	The financial position is positive and has been trending upward, however, below the survey average.	
Taxes Receivable	The taxes receivable ratio is below the industry benchmarks and is below the peer municipal survey average.	

Conclusion

Based on the analysis undertaken, the following questions have been addressed to help set the stage for the development of the long range financial plan.

- 1. Can the City continue to pay for the services currently provided?*
- 2. Is there sufficient financial flexibility to address unexpected events, uncertainty and future liabilities?*
- 3. Is the City's infrastructure network sustainable and adequately funded?*



1. Can the City continue to pay for the services currently provided?

A number of positive indicators support the City's ongoing ability to pay for services, including:

- Good mix of residential and non-residential construction activity
- Average municipal levy (per capita)
- Low unemployment
- High employment
- Planned modest population growth
- Stable assessment growth
- Household income above peer median

There are a number of challenges, however, that the City must plan for in the future:

- City of Guelph, like other Canadian municipalities, is facing a gap in infrastructure. This situation may result in deterioration in the quality of its infrastructure which, in turn, will increase maintenance costs and could affect some service levels.
- Stabilization Reserves are relatively low which create some risk related to unforeseen events.
- Aging population increases the demand for some services.

To be able to pay for services currently provided, the City must ensure that:

- There is recognition that some of the City's costs are increasing at a rate faster than inflation.
- It continues to stay on its path toward financial sustainability and resiliency through well planned and executed strategies.
- There is an alignment between the programs and services provided with shifts in demographics and the community's willingness to pay for services.

2. Is there sufficient financial flexibility to address unexpected events, uncertainty and future liabilities?

Financial flexibility is the degree to which a municipality can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. Guelph has a long standing history as it relates to financial planning and developing fiscally prudent policies. These include establishing financial performance metrics for debt and reserve balances to ensure that the City maintains financial flexibility and is operating in a financially prudent manner.

The City of City of Guelph has a number of positive indicators that reflect a reasonable level of financial flexibility including:

- Low taxes receivable;
- Relatively low levels of debt;
- Positive financial position; and
- Solid water and wastewater reserves.

The City, however, faces some challenges that should be considered in a long range financial plan including:

- Finding the right balance between delivering services demanded by the community in an affordable manner;
- Providing adequate funding for asset renewal needs;
- Increasing the Stabilization Reserves to industry target levels.

3. Is the City's infrastructure network sustainable and adequately funded?

Municipalities are responsible for a disproportionately large portion of public infrastructure in relation to the revenue sources available. There are a number of challenges the City is facing:

- The City owns \$1.8 billion of infrastructure assets (excluding vehicles, machinery and equipment) based on the historical value. A commitment to maintain infrastructure is a key strategic goal in the City of Guelph's Strategic Plan. However, due to funding constraints, not all asset renewal needs can currently be met. The City needs to prepare a comprehensive asset management plan with funding strategies to gradually address these needs.
- Even with these enhanced infrastructure funding strategies as detailed above, the City of Guelph, like all municipalities in Ontario, will continue to require increased infrastructure funding support from provincial and federal governments to close the infrastructure gap.
- As Guelph ages, infrastructure renewal requirements will accumulate at a pace similar to which they were constructed. Consequently, it is vital to enhance Guelph's current plan for this eventuality and further develop funding policies to protect and sustain the foundation of the community.
- As the City moves forward, financial sustainability must continue as one of Guelph's key priorities. Over the next decade, the City of Guelph is expected to undergo managed growth at the same time that there will be increasing infrastructure renewal costs.

The City of Guelph is facing a number of challenges to provide services and infrastructure given increasing demands and limited revenues. This will require long-term strategic thinking about how best to accommodate and make the most of new opportunities and to consider new strategies to support financial sustainability as outlined in this report. The existing principles and practices governing municipal finance must be monitored and revised, as required, to ensure that the City continues to provide the services expected and valued by citizens as set out in the strategic plan without jeopardizing its financial sustainability.