Schedule 7 to Bylaw No. 9096

20 Financing the Plan

Introduction

The purpose of the Finance section of the Official Community Plan is to provide an overview of the general principles which will be applied when apportioning costs of growth firstly, between different land uses in future development areas. This makes reference to the fact that different land uses place a different level of demand on new infrastructure, and financing strategies must reflect these different levels of demand to the extent possible.

There is a general recognition that the cost of providing new infrastructure to accommodate new growth should primarily be the responsibility of new growth. However, there is also some recognition that some new infrastructure will also be of benefit to present taxpayers and that cost-sharing methodologies should reflect this reality.

A Municipality's ability to finance new infrastructure to accommodate new growth is limited to powers granted by the *Local Government Act*. The Provincial Government, through legislation, has empowered municipalities to impose Development Cost Charges for arterial roads, water, sanitary sewer, drainage and park acquisition needs. Development Cost Charges, although a useful mechanism for financing new infrastructure, do have some limitations and require Council to consider whether the charges:

- are excessive in relation to the capital cost of prevailing standards of service
- will deter development, or
- will discourage the construction of reasonably priced housing or the provision of reasonably priced serviced land

Infrastructure, other than that specifically provided for in Section 933 of the *Local Government Act*, such as recreation facilities, municipal buildings, fire halls, local roads, etc., must be provided through a variety of other financing mechanisms which are specifically provided for in other sections of the Act. A combination of these financing mechanisms will be necessary in order to achieve the objectives outlined in the Official Community Plan:

- Long Term Debenture Borrowing authorized, after providing a counter petition opportunity or by Community Referendum
- Long Term Debenture Borrowing for major utility (water, sewer, drainage and landfill) purposes.
- Grants or cost sharing programs provided by Senior levels of Government
- Developer Contributions
- Formation of Benefiting (Specified) Areas - direct user pay

- Short Term Bank Loans - Five year maximum term
- Public/Private Partnerships
- Reserve Funds - Funds put away in prior years for specific future purposes (parking, equipment replacement)
- Pay-as-you-go (Taxation and Utility user rates)
- Latecomer Agreements - Off-Site services provided by Developers with recovery from benefiting property owners.

Financing Strategies - Capital Expenditures – Previous 20 Year Plan

The City's financing strategies and cost-sharing methodologies as reflected in the previous 20 Year Capital Expenditure Servicing Plan and Financing Strategy (1994) were based on general principles that can be summarized as follows:

- Development Cost Charges will be the primary method used to finance infrastructure required to service new growth where permitted by the *Local Government Act*.
- A reasonable sharing of servicing costs between new growth and the existing development, taking into consideration existing infrastructure deficiencies and the general benefit to all property owners.
- The general benefit to existing property owners is reflected in the D.C.C. Assist Factors which are currently established at 15% for Arterial Roads, 10% for Parks Acquisition and 1% for Water and Sewer. There is a need to review these assist factors from time to time.
- A general acknowledgement that some growth-related infrastructure costs, on a per unit basis, may be more costly in outlying areas than for inner urban or re-development areas. As a means of applying this principle, for some services the City was divided into service areas (sectors) and a different D.C.C. rate developed for each service area.
- Some initial recognition that utilizing Development Cost Charges, in the traditional sense, as a means of financing growth in new urban areas was not affordable. Some major extensions were not included in the plan where it was determined that developers would "front-end" services and recover the cost from other benefiting property owners in the area.
- Servicing Plan costs not recovered via Development Cost Charges would be funded by other financing mechanisms which may have a direct impact on property taxes and utility user rates.
- The level of funding assistance from senior levels of government was limited to funding already approved except that relative to the arterial roads program. Provincial funding was anticipated for roads that were under provincial jurisdiction (Highways 33 & 97 and Rutland Road) as well as for the North End Connector because of its benefit to traffic congestion relief of Highway 97.

- Infrastructure improvements providing a city-wide benefit and of benefit to both existing taxpayers and new growth were cost-shared on the ratio of existing to projected total population at the end of the planning horizon. This principle was applied to a number of arterial roads in the plan as well as for:
    - All two lane rural roads being improved to two lane urban roads
    - One half of bridge costs where there is an existing bridge in place
    - Sidewalks on arterial roads
    - Bicycle paths on arterial roads
- Provision was made for a differential rate for apartment units as compared to single family units to reflect the lower level of demand for most services.
- Commercial, industrial and institutional ratios as compared to single family residential were modified for some services to better reflect the relative demand on services of those land uses.
- Implementation of a storm drainage Development Cost Charge which reflects the relative demand of different land uses on infrastructure.
- Development of a different cost-sharing model for infrastructure needs in the South Mission Sector Plan area, as approved by Council.

Financing Strategies - Capital Expenditures – Relationship to New Official Community Plan

The financing strategies and cost-sharing methodologies must now be linked to the land use objectives outlined in the Official Community Plan. The Official Community Plan is a reflection of the City's vision for the future as articulated in the Strategic Plan. The plan is committed to the development of a more compact urban form by increasing densities within existing urban areas, and to provide for higher densities within future urban areas.

Many of the general principles that were used to develop the previous 20-Year Servicing Plan and Financing Strategy continue to be principles that can be used to develop the current financial plan. However, in order to ensure that financing strategies are not in conflict with the objectives of the Official Community Plan there is a need to re-examine those principles and modify them as necessary. Some of the issues that have been addressed are:

- The risk factor associated with reliance on Development Cost Charges as primary growth financing mechanism and the extent to which D.C.C.'s impact on general taxation and utility rates.
- Revenues from D.C.C.s are generated in direct relationship to growth. If major infrastructure is provided in anticipation that growth will continue at the rate projected in the O.C.P., there is a real danger that the shortfall will have to be made up from general taxation if the growth rate falls short of projections. This is particularly true as it relates to expansion of major sewer treatment facilities and water systems. Ongoing analysis may determine that some projects have to be delayed as a result of cash flow deficiencies.

- The level of assist that will be provided from general taxation and utility rates to provide new infrastructure. There is no way to measure, with any amount of precision, the level of benefit that existing development will receive from new infrastructure. The level of assist must be linked to other financing objectives and Council's obligation to consider the impact of charges on new growth and housing/land affordability.

- Growth must be carefully staged, which implies that the need for new infrastructure will be staged, so that the City does not overextend itself by servicing too many new urban growth areas at the same time.

- In some new development areas, it may be necessary to facilitate the provision of new infrastructure by the development community who in turn will recover a proportional level of cost from other benefiting property owners through a system of Development Cost Charge credits, Latecomer Payments or a combination of both.

- The demand on new infrastructure must be more closely aligned with the Development Cost Charge levy, particularly to differentiate between the demands placed on the system by a single family dwelling as compared to higher density residential development.

- Although there is considerable theoretical merit in aligning the cost of provision of services with the beneficiaries of those services in different geographic areas of the City, there are some practical constraints such as cash flow deficiencies due to the unpredictability of growth by area of the City that necessitates a re-examination of this cost-sharing methodology. In some cases it may be possible to consolidate some service areas (sectors) without a major shift of the cost burden.

There are two significant changes that have been incorporated in the 20 Year Servicing Plan methodology for the first time:

- DCC’s associated with drainage have been consolidated into the arterial roads service component. Considerable analysis, in conjunction with development servicing bylaw revisions, has resulted in a more affordable community – wide model for storm water management. The Arterial Roads Assist Factor will remain at 15%.

- Implementation of a density gradient approach to residential DCC application. This approach recognizes the servicing cost savings, on a per unit basis, where a higher density of development is achieved.

Financing Strategies - Capital Expenditures – Upgrades / Existing Deficiencies

Different areas within the City have different levels of service, particularly in the area of local roads, sidewalks, curb and gutter and storm drainage. The City has generally allocated the cost of such upgrading to those property owners benefiting from this service by way of Local Improvement initiatives, however, where an overall community benefit is apparent, some level of contribution from general taxation or utility revenue may be appropriate.

The financial capability of providing upgraded services through a Local Improvement initiative has been greatly diminished due to the level of contribution from general taxation, particularly on Local Road Improvement Projects. Service upgrades will likely only be possible in the future if the property owner pays a larger portion of the cost than the City's policy currently requires.

Expansion of sewer service to non-serviced areas of the City has traditionally been done by forming a Specified Area whereby the benefiting property owner pays for the entire cost of the service. In some cases the cost of these expansions has been reduced by Provincial Grants of 25% or 50%. The City has facilitated sewer service in some locations in advance of the forming of a specified area through the creation of a sewer connection charge. Where a service has been installed by new development in an area designated as a future specified area, provision for reimbursement is made through a servicing agreement as new and existing units connect.

Capital expenditures associated with services that are of benefit to all residents of the City have traditionally been paid for from taxation or utility revenues. Costs include those associated with rectifying existing deficiencies which would be required irrespective of whether or not growth occurred, replacing aging infrastructure, or costs not eligible to be recovered through Development Cost Charges.

Financing Strategies - General Taxation/Utilities

The principles that have been used in developing financing strategies for the ongoing operation of the water, sewer, electrical and landfill operations are:

- All utility operations will be self-financing by developing user rates that consider the demand that users place on the system to the extent practical. In the Water and Sewer utilities this had not been possible prior to the installation, in 1998, of water meters in residential dwellings which measure consumption. User rates, over time, are being phased-in to more closely reflect a user pay methodology;

- Demand side management techniques will be used for the purpose of conserving energy and delaying future capital expenditures to the extent possible. One example of demand side management in the Landfill Operation is the reduction of the number of bags of garbage allowed to be disposed of by each household to encourage recycling and reuse as well as back yard composting.

The City has been working towards self-sufficiency in other municipal service related functions and has developed plans and models to incorporate this principle in both the Parking and Cemetery functions.

Some of the principles that have been incorporated into the City's long-range planning as it relates to general taxation demand are:

- Progressively moving to a pay-as-you-go policy for capital projects that are of city-wide benefit such as parks development, rectifying infrastructure deficiencies and upgrading existing infrastructure. To date this has been accomplished by applying approximately 50% of the new growth taxation revenue to capital as opposed to using those funds for operational purposes;

- Establishing reserve funds which provides for the systematic replacement of public works and fire equipment, provides some measure of self-insurance, ensures that adequate working capital is available to minimize the need for temporary borrowing and to minimize the impact of sudden changes in the economy;

- Minimize long-term borrowing to the extent possible, and resultant debt financing costs, thereby providing increased operational flexibility in the future. There is a need to develop a more comprehensive debt management plan to ensure that there is an adequate balance between debt financing and pay-as-you-go capital financing;

- Identify services which can be closely linked to beneficiaries of those services and ensure the level of user rates reflect that direct benefit. The challenge in the future will be to develop more equitable ways of recovering costs by developing an overall corporate decision matrix for each type of service provided.

– **Related Policies in Other Chapters.**

  - Note Chapter 5 – Growth Management Policy 5.1.1 Ensure DCC's Reflect Costs.

  - Note Chapter 6 – Urban Centres Policy 6.1.1 Financing Structure.

  - Note Chapter 8 – Housing Policies 8.1.1 Financing Structure, 8.1.2 DCC's and 8.7.19 Housing Reserve Fund.

  - Note Chapter 10 – Industrial Policy 10.1.2 Financing Structure.

  - Note Chapter 14 – Parks and Leisure Services Policies 14.1.13 Park Acquisition Reserve, 14.1.14 Facilities Reserve, 14.1.15 DCC's.