REPORT OF THE

STANDING COMMITTEE ON FISCAL ISSUES

DATED SEPTEMBER 9, 1999

On motion of Councillor Clement, the Report of the Standing Committee on Fiscal Issues, dated September 9, 1999, was considered.

Moved by Councillor Clement,
That the Consent Agenda, Clause 1, be adopted.

Carried.

Amendment to the City's Debt Management Plan - Policy for Local Improvement Districts
Files SL-1 (Vol. 20) and F-1 (Vol. 15)

815 - 1. On May 11, 1999, the Riel Community Committee requested the Chief Financial Officer to submit for the consideration of Executive Policy Committee and onward transmission to the Standing Committee on Fiscal Issues recommendations for the development of a policy that will allow funding to be set aside for local improvement projects outside Council's annual local improvement capital borrowing limit, taking into consideration the recovery nature of the costs.

Pursuant thereto, the Chief Financial Officer advised in his report dated June 7, 1999, that traditional local improvements such as lane pavements, sidewalks, ornamental street lighting, watermains and wastewater sewers, are governed by Part 10 Local Improvements of The City of Winnipeg Act and the Local Improvement Regulation By-Law No. 98/72 which provides for the regulation of local improvements. A local improvement,

> "…means a work or service intended to be paid for or maintained wholly or partly by special assessments against the land benefited thereby as determined in the manner in this Part set forth, and the term "benefited" in the Part means specially or directly benefited."

The City of Winnipeg offers two different methods of adopting local improvement capital works, either by way of advertisement or "Petition For". Annually in March, the City advertises proposed local improvement capital works to be constructed that year. Throughout the year, property owners may also initiate local improvements through a "Petition For" process.

Traditional local improvements are assessed based on the frontage feet of the benefiting property, as described in the regulating by-law, and are added to the taxes for the property and collected in the same manner as ordinary municipal taxes. The City is also regarded as an owner for all City-owned lands and is subject to the same assessments and local improvement levies as private property owners.

Prior to 1998, Council allowed the use of surplus funds, accumulated from prior years, to be used to finance local improvement capital works. In 1997 and 1998, no new capital funds were provided for local improvements under the assumption that prior years' funds would be used for projects in the respective years. The new policy on "Unused Borrowing Authority for Financing Capital Projects" adopted by Council on March 20, 1998, requires that "when considering any new capital project, Unused Borrowing Authority cannot be used as a source of funding or financing". In the past, if the local improvement program was greater in any year than the authorized capital budget, surplus funds from previous years were used. This is no longer possible.

On July 22, 1998, Council adopted a new policy of advertising and approving new local improvements in one year, and funding and constructing the approved projects (advertised and "Petition For") in the following year. For example, successfully advertised local improvements in March 1999 and "Petition For's" received between the 1999 Capital Budget amendment deadline and the Spring of 1999 are included in the 2000 Capital Budget.

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On November 19, 1996, the Province of Manitoba adopted Bill 44 allowing the City of Winnipeg to implement the district local improvement concept. District local improvement legislation allows for full cost recovery of all construction performed within the designated district. To date, the City has not completed a district local improvement, but there is one project in the planning process, Fairfield Park, that will require approximately $9.2 million in capital funding over two years if a favourable vote is received by the benefiting property owners.

Due to the nature of local improvements, in that property owners primarily initiate them, the City is unable to predict how many projects and at what level the annual local improvement capital program should be in any one year. Presently, the local improvement annual budget forms part of Council's stringent guideline that capped tax-supported internal and external borrowing at $61 million, thereby forcing local improvements to compete with other capital projects that provide no revenue recoveries. The recovery component, inherent in every local improvement, is being overlooked. The property owner's portion of each local improvement project is recovered with interest and, as a result, does not affect the financial health of the City. In order to accommodate local improvements, which are difficult to predict within the Capital Budget, the property owner's portion of each local improvement should not be included within the $61 million cap.

The current Capital Budget policy states that new projects are to be introduced at the end of the Five-Year Capital Forecast. The result is that a benefiting property owner who has initiated an expensive local improvement successfully and is willing to pay interest and principal, may have to wait a number of years for its construction if it cannot be accommodated within the annual budget. This policy is inconsistent with Section 362(2) of The City of Winnipeg Act which states that Council must construct a successful local improvement within the next succeeding two years following the advertisement.

Traditional Local Improvements

The annual Local Improvement Capital Program comprises projects financed partly by a direct levy on the properties benefited (Property Owner's Share) and partly by a mill rate levy over the City-at-Large (City's Share). The amount recoverable from the property owners varies for each local improvement, but the City always recovers a minimum of three sevenths of the cost of the project. Section 372(1) of The City of Winnipeg Act states that, "… the city's share of the cost of an improvement shall not exceed 4/7 of the whole cost [of the project]…". Recently the recovery rate from private property owners has been higher than 3/7 (43%). The City averages over 50% recovery on most local improvements.

The special annual rate that is levied to all benefiting properties is calculated to be sufficient to pay interest on the debt and to pay the annual instalment of principal. An additional 1% administration charge is also levied to provide for the costs of assessment and collection. In other words, the property owner's share of the local improvement is fully recovered, interest and principal, within the life of the work.

The Preliminary Annual 2000 Capital Estimates and the Five-Year Capital Program include $800,000.00 and $750,000.00 respectively from the General Reserve for local improvement capital works. This budget includes both the property owner's share and the City's share of the cost of the improvements. Given that the City is legislated to recover a minimum of 3/7 of the cost of the project, but has been recovering an average of 50%, if the annual Capital Budget was reduced to reflect only the City's share of the local improvements, the budget could be reduced to $400,000.00 in 2000 and $350,000.00 in the following five years. Annually, the City will have to borrow to cover the cost of the property owner's share of local improvements. This will require borrowing authority from the Province of Manitoba and should be considered separate from our self-imposed borrowing cap.

District Local Improvements

A local improvement district, on the other hand, "… [is] a work or service for the benefit of lands within the district that is intended to be paid for by special assessments against all the lands within the district." Section 392.1(4) of The City of Winnipeg Act specifically states that:

> "The Council shall not pass a district improvements by-law unless the taxation provided for in the by-law is calculated to generate enough revenue to pay the entire cost of the proposed local improvements other than, where work in connection with a proposed improvement is to be carried out outside the district, the portion of the cost of that work that is attributable to lands outside the district."

The said legislation allows for full cost recovery, principal, interest, carrying costs, administration costs, etc., for all improvements made within the district. District local improvements are essentially paid in full, with no impact on the mill rate or long-term financial health of the City. Costs associated to lands outside the district or to City-owned properties would continue to be the City's share, consistent with traditional local improvements.

Currently, no capital funds exist for district local improvements. Only recently, with the successful "Petition of Interest" for Fairfield Park, have funds been needed. Given that full cost recovery is available with district local improvements, only the minimal portion of City share costs should form part of the tax-supported borrowing by-law. The costs recovered from property owners within the district should be excluded from this limit.

This policy change would allow large local improvement capital projects to be constructed that would otherwise be stymied by budget restrictions or relegated to the fifth year of the Five-Year Capital Program. Due to full cost recovery of the projects, the commitment of the property owners to pay for the works requested, and the fact that a policy change will create room for other projects within the budget, will make it easier to advance local improvement projects.

Policy Alternatives

Alternative 1: Adjusted Cap

The borrowing cap could be reduced each year by an amount equal to the property owner's share of local improvements in recognition of the fact that part of the current cap is attributable to this. The overall effect of this would not affect the financial position of the City. The reason is that even though the property owner's share of local improvements is part of the existing cap, by collecting this money from the property owners the City is effectively limiting the amount of new general reserve financing, and thereby new debt and finance charges, to the amount of the cap less what is collected from property owners. This alternative would have no impact on projected debt and finance charges.

Alternative 2: No Adjustment to Cap

The removal of the property owner's share of local improvements from the $61.0 million cap Council previously approved would mean that the combined internal and external borrowing authorized by Council each year would increase by an amount equal to the property owner's share of local improvements. This translates into an increase of $400,000.00 for the year 2000, and $350,000.00 for each of the five years thereafter, which would be available for other capital projects.

It should be noted that in 1998 and again in 1999, Council approved a reduction in this cap to $39.5 and $41.5 respectively. The recent Capital Estimates introduced to Council also includes recommendations for further reductions of this cap for the period 2000 to 2003. This would have the effect of increasing projected debt and finance charges by approximately $36,000.00 per year.

Alternative 3: No change

A third alternative available to Council is to maintain the current practice in which case the property owner's share of local improvements would continue to be considered within, and part of, the existing cap.

On July 6, 1999, the Standing Committee on Fiscal Issues considered and concurred in the recommendations put forth by the Chief Financial Officer, namely:

1. That Council exclude the property owner's recoverable portion of the local improvement cost from the annual tax-supported borrowing cap as it has no impact on the financial health of the City of Winnipeg;

2. That the annual tax supported borrowing cap (internal and external borrowing limit) be adjusted so that the exclusion of the property owner's recoverable portion of the local improvement would be neutral to the City's Debt Management Plan;

3. That all district local improvement capital projects be considered independently from the tax-supported borrowing cap due to the legislated full cost recovery of the improvements, however, if any City share exists, it shall be financed through the General Reserve and considered in the annual tax-supported borrowing cap as is the current policy;

and forwarded same to the Executive Policy Committee for favourable consideration.

Executive Policy Committee at its meeting held on July 14, 1999, laid over consideration of this matter, and referred the matter back to the Standing Committee on Fiscal Issues for further review.

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Having considered the matter further the Standing Committee on Fiscal Issues rescinds its previous recommendations, and now recommends:

I. That Council exclude the property owner's recoverable portion of the local improvement cost from the annual tax-supported borrowing cap as it has no impact on the financial health of the City of Winnipeg.

II. That all district local improvement capital projects be considered independently from the tax-supported borrowing cap due to the legislated full cost recovery of the improvements, however, if any City share exists, it shall be financed through the General Reserve and considered in the annual tax-supported borrowing cap as is the current policy.

III. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Adopted by consent.