REPORT OF THE

STANDING COMMITTEE ON FISCAL ISSUES

DATED JULY 13, 1998

On motion of Councillor Angus, the Report of the Standing Committee on Fiscal Issues, dated July 13, 1998, was considered.

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

Councillor Murray requested that Clause 1 be pulled from the Consent Agenda.

Source of Funding and Funding Requirements for 1998 Local Improvements File SL(1998) (Vol. 1)

877 - 1. The Standing Committee on Fiscal Issues has been advised that the annual Local Improvement Capital Program comprises projects financed partly by a direct levy on the properties benefitted (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 four-sevenths (4/7) of the cost of the project. The program is governed by Local Improvement By-law No. 98/72, and is subject to advertising and subsequent approval by the majority of ratepayers involved. The types of expenditures that generally fall within this category are: paving of local streets and lanes, sidewalks, boulevard construction, new water mains and sanitary sewers, ornamental street lighting, and lane lighting.

The City of Winnipeg offers two different methods of adopting local improvement capital works, namely: 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 can also initiate local improvements through a "Petition For" process.

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 at least one upcoming project that may require up to $10.0 million in funding beginning in the year 2000.

On December 15, 1997, Council adopted the 1998 Capital Budget. Traditionally, funding for local improvements is identified through the annual Capital Budget process, with financing provided from the General Reserve. Local improvements are not externally debt financed through the issue of debentures and, therefore, are not included in the annual Borrowing Authority By-Law.

Capital funding during the last six years was provided as follows:

1998	Nil	1995	$2,480,000
1997	Nil	1994	$1,000,000
1996	$1,030,000	1993	$4,980,000

No capital funding was provided for local improvements in 1997 and 1998, under the assumption that surplus funds accumulated from prior years would be used to finance any projects required for those years.

On March 16, 1998, the proposed Local Improvement Capital Program for 1998 was advertised, based on the assumption that surplus funds (from 1993 - 1996) were still available for use in 1998. The total cost of the advertised program was $1.7 million, as outlined in Appendix I. In addition, there was one successful “Petition For” representing an additional $30,000, as outlined in Appendix II. However, the results of the "Petition Against" process indicate that a maximum of $1.0 million may actually be required for the 1998 program, as outlined in Appendix III. The respective Community Committees, along with the Standing Policy Committee on Public Works

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have reviewed and made recommendations on these advertised local improvements. As of June 19, 1998, it has been determined that funding in the amount of $358,950 is required to carry out the recommended projects, as outlined in Appendix IV.

The new policy on "Unused Borrowing Authority for Financing Capital Projects", adopted by Council on March 20, 1998, states 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 practice is no longer possible under the new policy.

As a result, there is no funding available to undertake local improvements in 1998 and it has become apparent that a long-term strategy is required to resolve this matter.

The following represents four funding options for the 1998 Local Improvement Program, namely:

Option 1 Defer the 1998 Local Improvement Capital Program to 1999

The results of the recent advertisement are currently being communicated to the appropriate Committees of Council, and the scheduled dates of review are outlined in Appendix V. In order to keep the adoption schedule on track and allow for construction to possibly commence in the summer of 1998, the results have been communicated to the appropriate Community Committees, who are aware of the lack of funding. The Administration and Committees of Council may still proceed with the authorization of these local improvement projects, for construction commencing in 1999, assuming that 1999 capital funds are approved as included in the Five-Year Capital Forecast 1999 - 2003 as follows:

1999	$1,030,000	2002	$1,030,000
2000	$1,030,000	2003	$1,030,000
2001	$1,030,000		

A preliminary summary of the Community Committee and Standing Policy Committee on Public Works' recommendations for the advertised 1998 local improvements are outlined in Appendix IV. Not all of the projects have received formal recommendations to proceed. Currently, only $358,950 may be needed in the 1999 Local Improvement Capital Budget, assuming that this 1998 program will be deferred for construction to 1999. Additional funds will be required for successful "Petition For" local improvement projects received during the year.
Option 1 would result in a $13,015 impact on the 1999 tax-supported budget with respect to debt and finance charges, along with an increase in the 1999 maintenance costs for Winnipeg Hydro in the amount of $1,601. These expenditures would be partially offset by the capital construction interest revenue in the amount of $9,675 in 1999 that would be realized in the Current Budget. Revenues associated with the annual local improvement levy on the realty tax bill is not effective until the year following construction (ie. 2000). This revenue partially offsets the annual debt and finance charges. A summarized financial impact analysis entitled "Recommended 1998 Local Improvements - Construct in 1999" is outlined in Appendix VI.

Option 2 Exempt Local Improvement Capital Projects from the debt management policies adopted by Council

Council has adopted through the Financial Management Plan and recent Capital and Current Budgets, targets and guidelines for the City's debt and finance charges which limit the annual capital program and borrowing authority. Option 2 provides that local improvements not be included when calculating the City's cap of $61.0 million on debt. The policy governing the use of unused borrowing authority would not apply, as all local improvements are General Reserve financed, not through the issuance of debentures, thus would not be included in the annual Borrowing Authority By-Law.

Currently, surplus local improvement funds exist in the amount of $1.6 million from 1993 to 1996. These funds have not been cashflowed, as the actual financing requirements are determined yearly and vary depending on the amount, type of projects undertaken, and the assessable frontage costs that can be recovered by the property owners.

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Option 2 results in a financial impact of $11,140 on the 1998 tax-supported budget with respect to debt and finance charges, along with an increase in the 1998 maintenance costs for Winnipeg Hydro in the amount of $1,601. These expenditures would be partially offset by the capital construction interest revenue of $10,549 in 1998 that would be realized in the Current Budget. A summary of the "City's full cost financial impact" is outlined in Appendix VI. A further breakdown of the tax-supported and utility allocations with respect to debt and finance, maintenance costs, etc. are still required for 1999 to 2002.

Option 3 Direct the three initiating departments to review their authorized capital projects to identify surplus funds for the 1998 Local Improvement Capital Program

Local improvements are initiated from three City departments - Public Works, Water and Waste, and Winnipeg Hydro. These departments may have surplus 1998 capital funds that are cashflowed that could be transferred to the Local Improvement Capital Program. A breakdown by Department of the $358,950 that may be required for the 1998 Program is as follows:

Winnipeg Hydro	$54,950
Public Works	53,000
Water and Waste	251,000
Total	$358,950

Winnipeg Hydro, Public Works, and Water and Waste Departments have all indicated that there are no unused surplus funds that have been cashflowed from their authorized Capital Budgets that could be transferred to the local improvement funding centre. There may, however, be opportunities to re-priorize projects and additional information may be forthcoming that could identify the required funds.

Option 4 Direct the three initiating departments to review their Current Budgets to identify surplus funds for the 1998 Local Improvement Capital Program

As previously outlined, local improvements are initiated from three City departments. These departments may have surplus 1998 Current Budget funds that could be transferred to the Local Improvement Capital Program. However, Winnipeg Hydro, Public Works, and Water and Waste Departments have all indicated that there are no surplus funds from their 1998 Current Budgets that can be transferred to the local improvement funding centre.

Option 5 Authorize the establishment of a new financing mechanism for local improvements that would utilize the annual local improvement levies as the main source of funding for future local improvement capital

Local improvements are initially financed by the City of Winnipeg, however, a portion of the cost is recovered from the benefitting property owners through an annual levy on the realty tax bill. For example, if a lane pavement local improvement is constructed at a cost of $170,000, the City will recover a minimum of $97,000, plus interest, over a ten year amortization period.

The Local Improvement Reserve, if established, could be funded through repayment of local improvement levies. The annual levy, plus interest, collected from benefitting property owners would provide annual revenue to the reserve, though not enough to make it self-sustaining. Additional capital appropriations or other sources of funding, such as the annual proceeds from the sale of surplus City property, would have to be supplied. An annual funding source of $1.5 to $2.0 million would be required for a minimum of six to seven years before the reserve could be self-reliant.

This reserve could be used for both traditional and district local improvements, as the latter will be become more of an issue in the next couple of years.

However, Option 5 could not be implemented until 1999, and, therefore, does not provide a legitimate option for the 1998 funding issue.

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The Standing Committee on Fiscal Issues recommends:

I. That beginning in 1999, the City adopt a policy of advertising and approving new local improvements in one year, and that the approved projects (advertised and "Petition For") be budgeted and constructed in the following year.

II. That all 1998 successfully advertised and successful "Petition For" local improvement projects be deferred for construction until 1999, and that provision for these projects be made in the 1999 Capital Budget, unless a department can identify appropriate funding.

III. That during the 1999 budget process, the Administration explore the possibility of implementing a new financing mechanism for local improvements that would utilize the annual local improvement levies as the main source of funding for future local improvement capital projects.

IV. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related hereto.

Copy of attachments referred to in the above clause are on file in the office of the City Clerk.

Moved by Councillor Angus,
Adoption of the clause.

The Speaker advised that Recommendation No. II would be considered separately.

Recommendation Nos. I, III and IV were put.

The Speaker called for the yeas and nays, which were as follows:-

Yea: Councillors Angus, Lazarenko, Lubosch, Murray, O'Shaughnessy, Phillips, Thomas, Timm-Rudolph, Deputy Mayor Eadie, Her Worship Mayor Thompson and Councillor Clement. 11

Nay: Councillors Silva and Steek. 2

and the motion for the adoption of Recommendation Nos. I, III and IV was declared carried.

Recommendation No. II was put.

The Speaker called for the yeas and nays, which were as follows:-

Yea: Councillors Angus, Lazarenko, O'Shaughnessy, Phillips, Timm-Rudolph, Deputy Mayor Eadie, Her Worship Mayor Thompson and Councillor Clement. 8

Nay: Councillors Lubosch, Murray, Silva, Steek and Thomas. 5

and the motion for the adoption of Recommendation No. II was declared carried.