

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Monday, February 3, 2020
Subject	2019 Financial Condition Assessment and Proposed Long-term Financial Framework
Report Number	CS-2020-04

Recommendation

1. That the 2019 Financial Condition Assessment attached to report CS-2020-04 and dated February 3, 2020 be received.
 2. That the Long-term Financial Framework included as Attachment-2 to report CS-2020-04, be approved.
-

Executive Summary

Purpose of Report

To provide a summary of the 2019 Financial Condition Assessment findings and to outline the Long-term Financial Framework (LTFF) that will improve the City's financial sustainability, flexibility and vulnerability.

Key Findings

The overall financial condition of the City has improved since 2015, indicated by increased reserve and reserve fund balances, a continued solid credit rating score and a bettered financial position. One of the key drivers of this was the updated Reserve and Reserve Fund Policy completed in 2017. Staff committed to undertaking an external financial condition assessment with each term of Council and the results of the BMA Consulting (BMA) assessment can be found in Attachment 1 to this report.

The financial health of a municipality can be evaluated based on three measures, as per BMA:

- Sustainability – the ability to maintain services over an extended period of time
- Vulnerability – the level of resiliency to mitigate unexpected negative factors
- Flexibility – the ability to adapt to changing opportunities

The City's proposed LTFF will use these measures as the foundation needed to balance the maintenance of service levels and the City's financial health over the long-term. The LTFF will be used to inform policies and guide decision making. The situational analysis provided by the BMA assessment will be used to determine which policies and services need to be updated and aligned to mitigate against the risk of potential threats, capitalize on opportunities and resolve operational weaknesses.

The LTFF as proposed provides the foundation on which metrics and key performance indicators (KPIs) will be developed for the City's businesses and strategies.

Current challenges impacting the three LTFF measures relate to the following:

- aging infrastructure
- sufficiency of Reserve and Reserve Funds
- managing the cost of growth
- changing service and program demands (aging and growing population)
- impacts from changing revenue assumptions

In 2020 the focus of policy review and development will be on the following:

- Debt Management Policy – update
- Multi-year Budget Policy – new
- Revenue Policy – new
- Growth Cost Management Policy – new

Attachment-2 provides the policy to establish the LTFF, with Appendix A to it demonstrating the beginning of this process, the items shown are not exhaustive and in many cases are only in the preliminary stages of development. Staff's intention with bringing this to Council is to obtain approval to continue to develop the policies and measurements required to complete a robust LTFF.

Financial Implications

There are no direct financial implications from this report. BMA identified key challenges and opportunities that may have significant financial implications in the future. It is important that the City develop a LTFF to guide development of strategies to manage through the known risks, seize opportunities, and provide the foundation needed to achieve the goals and deliverables of the City's Strategic Plan.

Report

The City engaged BMA to undertake a financial condition assessment that evaluated the change in financial condition since the last assessment in 2015. At that time, staff committed to updating this assessment with each term of Council. The full report can be found in Attachment-1 to this report.

BMA uses trend analysis, comparator data and established best practices to measure results in three areas:

- growth and socio-economic indicators
- municipal levy, property taxes and affordability
- financial position

The following section provides the findings of BMA's situational analysis in four groups: strengths, weaknesses, opportunities, and threats. Strengths and weaknesses relate to internal factors while opportunities, and threats relate to external items. An item can be identified as a strength, weakness, opportunity, and threat; in cases where this occurs they will be identified under each section, and in policy development addressed holistically.

Based on BMA results, staff have developed a list of recommendations and a plan of implementation that will leverage the City's strengths to seize opportunities, mitigate against potential threats, and improve weaknesses.

Situational Analysis

Strengths

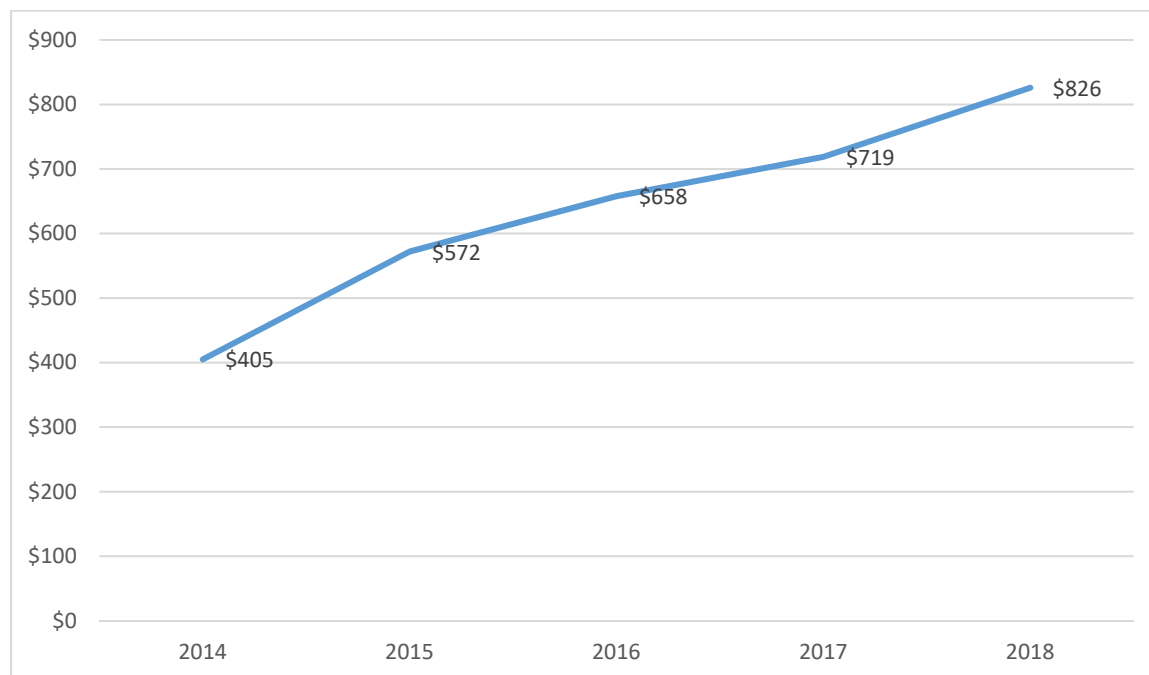
The City has a strong financial foundation based on sound financial policies that guide reserves, debt, and liquidity management aimed at improving its financial position.

Since the last BMA assessment, there has been a commitment to improve reserve and reserve fund balances through surplus allocations and contributions from the operating budget that has brought balances closer to target levels which is critical to the long-term financial stability of the City.

The 2019 credit rating score of AA+ reflects sound financial management, budget performance, healthy economy, low debt levels and a strong level of liquidity. A strong credit rating demonstrates that the City is well managed, financially healthy and able to meet all debt obligations. The rating influences the terms of future debt; such as the type of debt, the amortization period and the interest rate.

Financial position, as measured by financial assets less financial liabilities, is strong and has been steadily increasing since 2014 as reflected in Figure 1 below. The improvement is related to consistent increases in reserves and receivables and is above the median of the City's comparator municipalities. A positive balance indicates that the City's long-term funding strategies are ensuring that revenues are appropriately being maintained to fund expenditures and liabilities.

Figure 1 – Financial Position per Capita

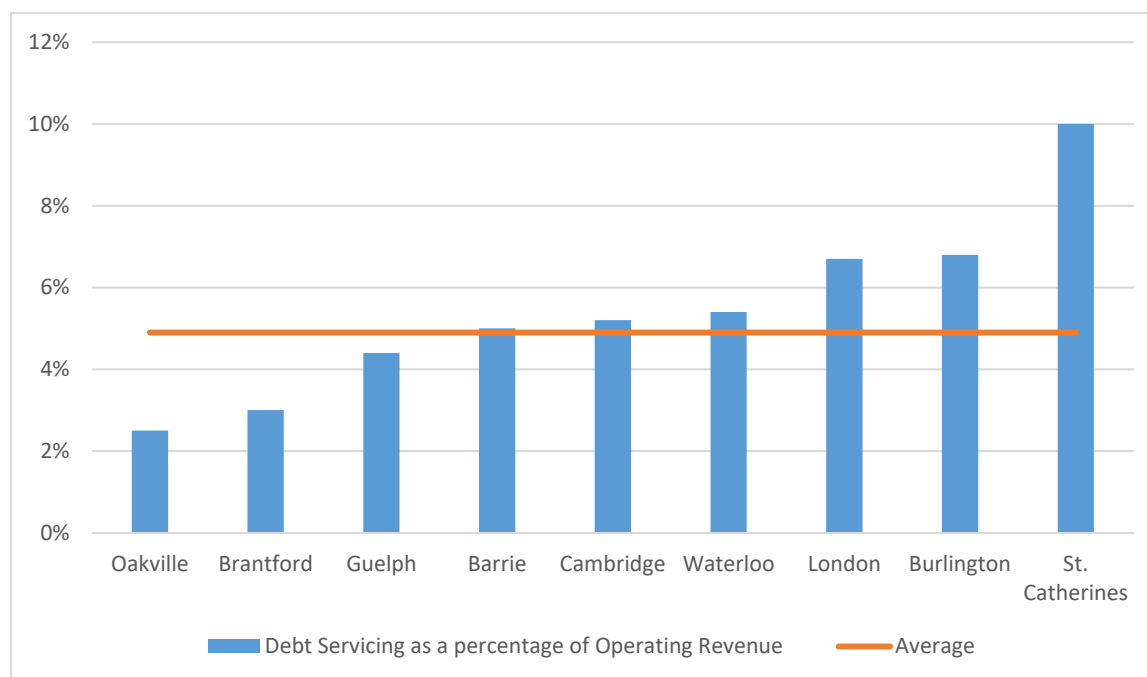


The City's tax base is very stable as represented by the low taxes receivable as a percentage of total taxes levied of 1.7 per cent, which is well below the comparator average of between two to five per cent.

The water and wastewater reserves and reserve funds are in good condition and continued investment in infrastructure renewal funding will ensure these reserve funds are sufficient to address asset management needs over the long-term.

Debt levels are below the comparator average and within industry best practices. The Municipal Act prescribes the maximum amount of debt a municipality can incur by the Annual Repayment Limit (ARL). The ARL limits total debt-servicing costs to 25 per cent of operating revenue. The City is well within this limit as well as the City's internal Debt Management Policy limits currently; the long-term capital plan will see future debt forecasts more fully leverage these allowances. Figure 2 below illustrates the total tax debt servicing charges as a per cent of own source revenues including the City's comparator group and shows that Guelph is currently managing tax supported debt within an acceptable range.

Figure 2 – Tax Debt-Servicing as a Percentage of Operating Revenue

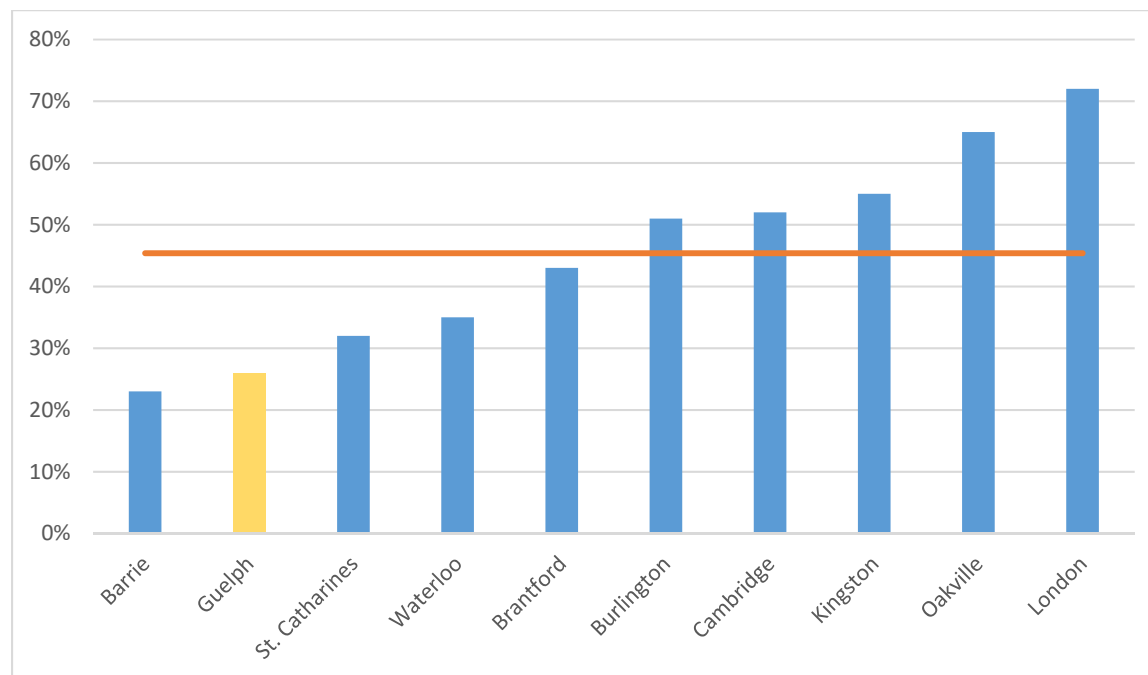


Weaknesses

The asset consumption ratio highlights the relative age of the City's assets and potential timing of asset replacement. It is the percentage of the written down value of tangible assets to their historical costs. The City's asset consumption ratios are higher than the comparator average and median; reflecting potentially greater replacement needs in the short to mid-term timeframe as compared to other municipalities.

Also consistent with annual reporting by staff, the collective tax supported discretionary reserves as a percentage of taxation is below the City's policy prescribed target and the comparator survey average as illustrated in Figure 3 below. While transfers have increased by eight per cent to these reserves since the previous assessment, the reserve balances as a per cent of taxation has remained stable, which indicates that spending has also increased. Without improvement in this ratio, the City's financial flexibility will be limited for responding to unforeseen expenditures and shortfalls in revenues.

Figure 3 – 2018 Tax Reserves as a Percentage of Own Source Revenues



The City's tax supported capital reserve funds are below recommended levels for managing aging infrastructure needs. The General Reserve and Reserve Fund Policy establishes targets for each of the capital reserve funds and currently they collectively are below target. Without sufficient capital reserve balances, the City is forced to rely on debt financing for major infrastructure renewal projects and has limited ability to respond to emergencies, unexpected policy changes from other levels of government or to take advantage of business opportunities. This puts the City at a risk when previously it was noted that its infrastructure is also more aged than our comparators.

Growth currently represents two areas of concern for the City: Development Charge (DC) debt capacity and the cost of growth not recoverable from DCs. The projected DC debt requirements, as identified in the 2018 DC Background Study exceed current limits set out in the City's Debt Management Policy. Staff have addressed this concern as part of the update to the Debt Management Policy. Changes in metrics for DC debt better align with the way in which DCs are calculated and collected, allowing for improved planning.

The City is required to plan to meet the growth targets as prescribed by the Province, however, the capital infrastructure needed to accommodate growth, and the front-ended timing of these projects creates significant financial challenges. Staff have identified this as a priority to examine in greater detail in 2020.

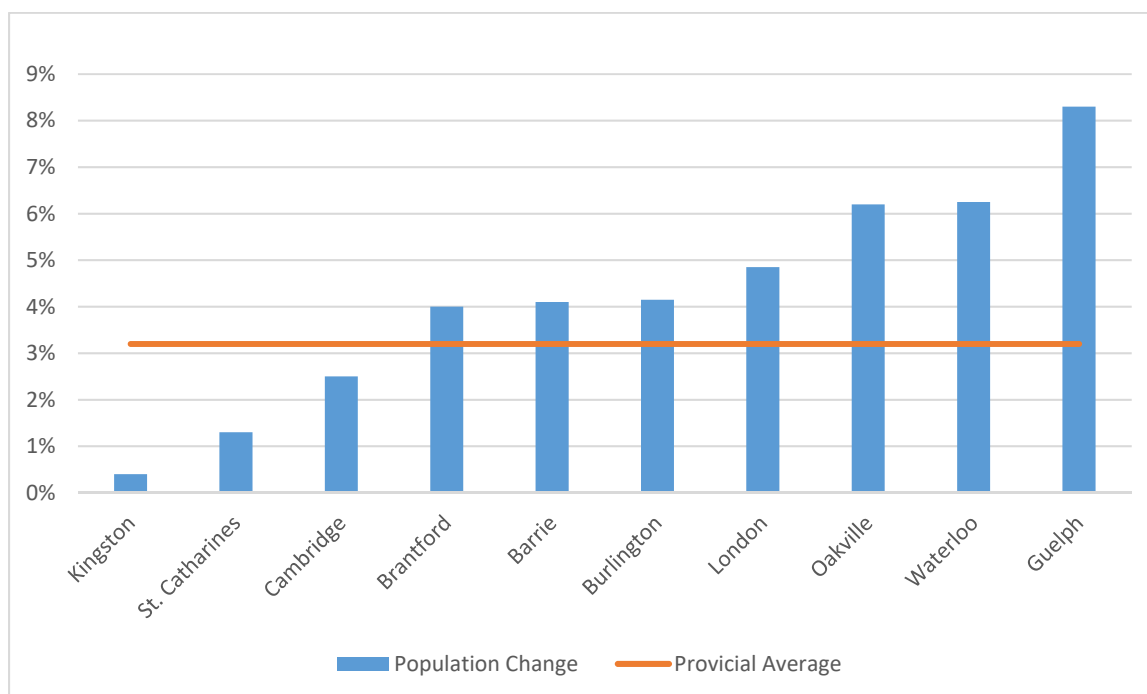
Property taxation affordability is a concern. The municipal property tax levy on a per capita basis is slightly above the comparator group average whereas the levy per \$100,000 of weighted assessment is just at the group average. This indicates that assessment value in Guelph is slightly higher than comparator municipalities. In terms of affordability, collectively including property taxes and user fees as a percentage of average income, Guelph is rated at 5.0% compared to the average of 4.7% which can be an indication of an uncompetitive municipal service cost as a percentage of income.

Finally, the City's non-residential tax ratios are higher than comparator municipalities, resulting in the property taxes per square foot for commercial and industrial properties just over the comparator group average. From a position of attracting businesses and jobs, a priority identified in the Strategic Plan, this could be viewed as a barrier to economic development, however, Guelph's results are fairly close to average.

Opportunities

The City is growing and intensifying. Strong population growth drives the economic health of a municipality and creates an environment that supports business. The City's population has grown 8.3 per cent between 2011 and 2016, as illustrated in Figure 4, which is 144 per cent faster than the Ontario average for that same period. A growing population results in an increased tax base and a greater ability to pay for public services and programs. However, accommodating the growing population through expansion of services and investment in infrastructure has created financial challenges as previously discussed and long-term financial planning should focus on addressing this risk.

Figure 4 – Population Growth 2011 to 2016



A significant portion of the City's growth has been through intensification of the built-up areas. Intensification has a number of benefits, including, reducing carbon footprint, improving access to public transit, using resources such as land, building and infrastructure effectively, enhancing community identity and creating active streets that promote healthier patterns of activity.

The City's assessment base is strong relative to comparator municipalities in terms of both value and diversification. A strong assessment base provides a stable revenue source and flexibility to raise revenues to meet service and program demands.

The composition of the weighted assessment base is 73 per cent residential and 27 non-residential. This favourable composition reflects the City's strong non-residential sector and provides the ability to allocate municipal costs to both residents and employers. It also helps with resiliency through economic downturns and changing employment/business patterns. A current study supported by the Region of Peel, has indicated that changing employment patterns in terms of work-from-home and the sharing economy are poised to create significant challenges for the realty property tax regime and possibly even income tax regimes. While the City's non-residential base is a significant benefit today, it will be important that financial strategies address this risk of shifting tax classes and the impacts it could have on the City.

Household income within the City is high relative to the municipal survey, indicating a reliable revenue stream and a strong ability to raise revenues to meet service and program demands.

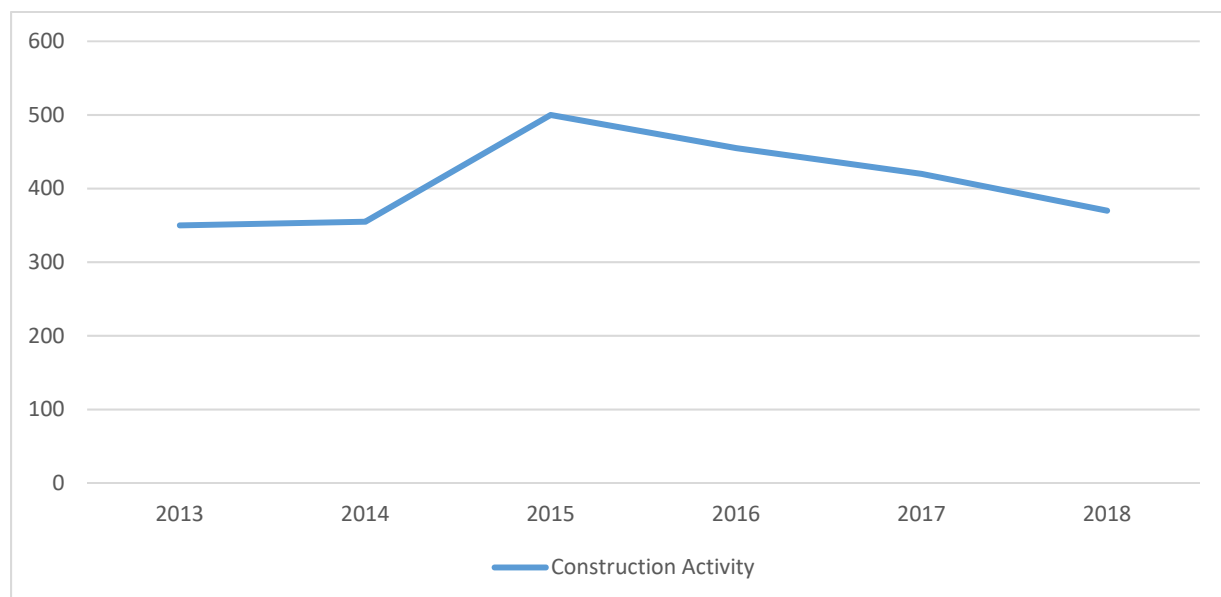
Threats

Guelph's population is aging. It is anticipated that by 2031, 30 per cent of the population will be above the age of 55 (as of 2016, 21.4% of Guelph's population is over the age of 65). This demographic shift will increasingly create pressure to change the design and delivery of municipal services and programs.

Legislation impacting how municipalities receive funding and deliver services has experiencing change. These changes from other levels of government create uncertainty and broader impacts as decisions must be made in order to continue service delivery without full information or sufficient time.

Construction activity in the City has been declining over the past five years as shown in Figure 5 below. It is still higher than comparators on a \$ value per assessment basis, however, this may signal the start of an economic decline which could negatively impact revenues and economic vitality.

Figure 5: Construction Activity



Strategic Recommendations

The financial health of a municipality can be evaluated based on three measures, as per BMA:

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- Flexibility – the ability to adapt to changing opportunities

The City's proposed LTFF will use these measures as the foundation needed to balance the maintenance of service levels and the City's financial health over the long-term. The LTFF will be used to inform policies and guide decision-making. The situational analysis provided by the BMA assessment will be used to determine which policies and services need to be updated and aligned to mitigate against the risk of potential threats, capitalize on opportunities and resolve operational weaknesses.

Policies provide a framework to develop specific strategies, by defining how outcomes and inputs will be measured we are able to determine the value created. Without policies, the variables are difficult to measure in terms that are relatable to taxpayers, Council, and staff. The end goal is to have a framework built on robust and mature policies which allows for strategy development, that maximizes value. Citizen value is maximized when the expected level of service is delivered from the appropriate assets at the minimum long-term operating and capital costs.

In order to ensure these outcomes, the City needs to put in place policies that help achieve this goal. Measuring progress in applying the policies and achieving the goal on a periodic basis is also required. Attachment-2 provides the policy to establish the LTFF, with Appendix A to it demonstrating the beginning of this process, the items shown are not exhaustive and in many cases are only in the preliminary stages of development. Staff's intention with bringing this to Council is to obtain approval to continue to develop the policies and measurements required to complete a robust LTFF.

The Debt Management Policy update provided to Council is the most recent development of this LTFF. The policy has been updated to better reflect the uses and requirements of borrowing in the municipal environment, supported by a robust review of external data from comparators and academia. It also includes adjusted performance metrics that more closely align with the risks and benefits of borrowing to fund long-term investments in capital infrastructure.

Staff are proposing to bring annual updates on progress towards the overall LTFF with specific focus on the items identified in the BMA assessment and aligned with the City's Strategic Plan. The items that follow will be the focus of work throughout 2020 and will involve staff from all areas of the corporation.

Aging infrastructure

In order to bring the condition of the City's assets to an acceptable level, the LTFF will focus on capital plan development policies to ensure that available funding is being used optimally. Also, service level policy integration into capital renewal decisions will be enhanced to provide a clearer picture of value being derived from investment in the various capital renewal activities.

Sufficiency of Reserves and Reserve Funds

The General Reserve and Reserve Fund Policy will continue to establish appropriate targets and uses for discretionary reserves to determine potential funding shortfalls. Staff will work to deliver enhanced reporting and guidance to Council to assist in decision-making processes at year-end and budget approval. The Budget Policy and Surplus Allocation Policy need to be updated to ensure provisions for discretionary reserve balances are made when required, and there is a continued investment in capital infrastructure renewal to reach sustainable funding.

Managing the cost of growth

A Growth Management Policy will be developed to guide decision-making to assist in ensuring growth materializes in an affordable manner that minimizes the impact on the existing tax and rate payers, while maintaining compliance with provincially-mandated growth targets and without hindering economic growth.

Changing service and program demands

The changing demographic composition of the City's expanding population will result in changing demands on services and programs. The first step to proactively address this risk is to establish a Service Level Policy which will identify the metrics to measure current level of service and enable decisions relating to service changes can be supported with strong empirical evidence. Servicing population growth will also require a strong understanding of the current level of service provided to existing residents.

Impacts from changes in revenue assumptions

In order to fully understand the various sources of funding the City uses to deliver services, a comprehensive set of revenue policies is required. This group of policies will assist business areas in developing individual strategies for addressing their specific revenue sources. It will cover items such as external funding, both one-time and ongoing, fee development and recovery rate target establishment, and revenue budget development. Of particular concern for this policy are the following:

- changes due to decisions by other levels of government
- competitiveness of fees and rates, including taxation and user-fees
- assessment growth use and reliance on in annual budget development

Financial Implications

There are no direct financial implications from the BMA assessment. BMA identified key challenges and opportunities that may have significant financial implications. It is important that the City develop a LTFF to manage through the known risks and opportunities, providing the foundation needed to achieve the goals and deliverables from the City's Strategic Plan.

Consultations

Capital Planning Steering Committee

Strategic Plan Alignment

The BMA assessment provides an important perspective that balances service levels with financial sustainability, which will strengthen all five pillars within the City's Strategic Plan.

The proposed LTFF is a specific deliverable of the Working Together for Our Future pillar.

Attachments

Attachment-1: 2019 BMA Financial Condition Assessment

Attachment-2: Long-term Financial Framework Policy

Departmental Approval

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Financial Condition Assessment

November



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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 completed a Financial Condition Assessment in 2015. This update report shows how the City’s socio-economic and financial performance over the last 5 years has changed and also identifies future challenges and opportunities. 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. 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”.
- 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.
- 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 has also been included.

Socio-Economic Indicators

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.



Summary of Findings

- ✓ *Guelph has grown in population from 2011-2016 by 8.3% (1.7% annually)*
- ✓ *Increasing density with increased intensification in urban settlement areas*
- ✓ *While the 65+ is the fastest growing cohort, similar to Ontario, the City has a strong working age population that is growing faster than Ontario population*
- ✓ *Relatively low unemployment rate and high employment rate*
- ✓ *Construction activity has been trending down over the last 3 years but on per capita basis is higher than the peer municipalities. Assessment on a per capita basis is above the average of peer municipal corporations*
- ✓ *Average household incomes are above the peer median*

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.

Water and wastewater costs were also compared against peer municipalities



Summary of Findings

- ✓ *In comparison to its peer group, Guelph's municipal levy on a per capita basis is slightly above average however the levy per \$100,000 of assessment is below the peer average reflecting a strong assessment base upon to raise taxes*
- ✓ *Guelph's property taxes in relation to average household income is slightly above the peer average and peer median*
- ✓ *Water/WW costs are at the peer average but slightly below the peer median*
- *Non-residential tax ratios are higher than the peer average.*
- *Tax Ratios should be reviewed annually to help ensure competitive tax positioning.*

Financial Indicators

Summary of Findings

Reserves and Reserve Funds will be a critical component of the City's sustainable long term financial plan which is currently being developed.

- *Overall, Guelph's Tax Discretionary Reserves as a percentage of taxation and own source revenues are lower than the peer average. Over the past five years, Guelph's ratio of reserves as a percentage of taxation has been stable.*
- *Corporate Contingency Reserves - City should have sufficient stabilization reserves to manage the impact of unusual or unplanned cost increases or reserve reductions. These reserves increased 66% in the past 5 years and many of the policy targets are being met. In cases where they are not, strategies have been put in place to move toward the target levels.*
- *Program Specific Reserves – Targets have been established for sick leave, WSIB and paramedic retirements. These reserves are largely meeting target levels and on a consolidated basis have increased 41% over the past 5 years.*
- *Capital Reserves/Reserve Funds—Capital reserves form an important component of any capital financing plan. A legislated requirement is to prepare comprehensive asset management plans which the City has completed. Strategies have been put in place to increase the contributions to the capital program to fund the replacement of capital assets and support financial sustainability.*
- *Non-Tax Supported Capital Reserves - The water and wastewater reserves are in strong position which is important for future financial sustainability as the asset age of these assets in Guelph are higher than peer municipalities reflecting a greater need to replace capital assets. Stormwater Capital Reserves are well below the target level and is an area that will require additional financial contributions.*



Financial Indicators Continued

Debt Management

- The City has established debt policy limits to help ensure the City has the appropriate financial flexibility to service debt without jeopardizing services or causing large spikes in tax rates. Tax-related debt levels are below the City's target maximum. The development charge debt charges represent approximately 19% of revenues collected. DC funded debt is exceeding existing policy limits. The debt management policy should be updated so that the ratios used to limit DC debt are more aligned with the development charge revenues.

Financial Position

- The financial position trend is important to monitor. A negative trend would indicate that capital and operating expenditures are exceeding reserves. The City's net financial position (Financial Assets-Financial Liabilities) is in a positive position, and has been trending upward over the past 5 years. The City of Guelph's net financial position per capita is above the median 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 1.7%, 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

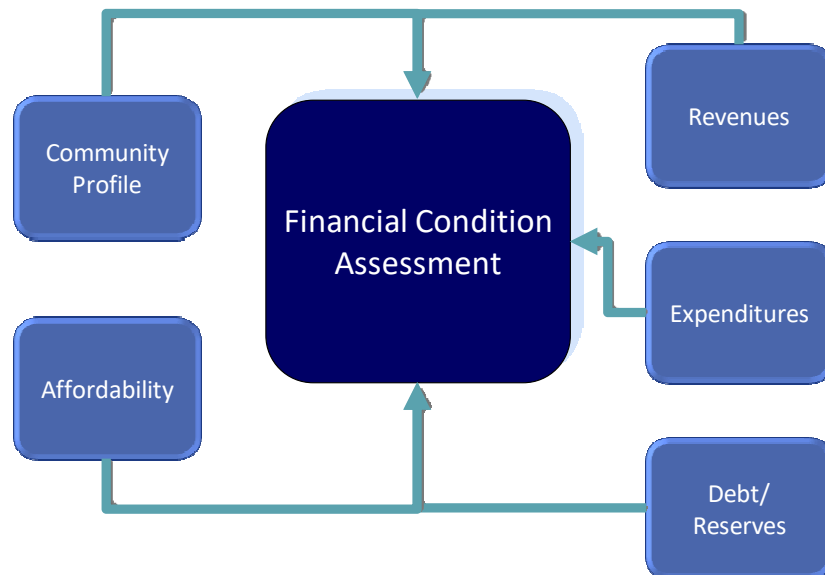
In summary, the City of Guelph's financial condition has been improving and is reflective of strong financial policies. Consistent with other Ontario municipalities, the City is facing a number of challenges to provide services and replace infrastructure given increased demands and limited resources. This will require a long-range financial plan to ensure the City continues to operate in a fiscally sustainable manner.

Introduction

The intent of a Financial Condition Assessment is to evaluate, through trend analysis, assessments, performance indicators, benchmarking, the City's past performance, financial outlook, and to identify key areas of focus.

Regular and timely financial condition assessments can provide an early warning of potential fiscal problems and provide information necessary for timely corrective action. To this end, BMA Management Consulting Inc. (BMA) was engaged by the City of Guelph to undertake a financial condition assessment in 2010 and 2015. BMA was engaged in 2019 to provide an update on the results.

As described by CPA Canada, an evaluation of a municipality's financial condition considers an evaluation of the following elements of resiliency:



Financial Condition

Sustainability

The ability to provide and maintain existing programs without resorting to unplanned tax rate increases or cuts to services.

Flexibility

The ability to issue debt responsibly without impacting the credit rating. Also, the ability to generate required revenues.

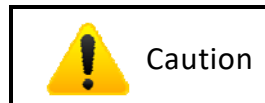
Vulnerability

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

At the conclusion of each section, a performance dashboard has been included to summarize the results of the key metrics. This provides the 2015 ratings as well as the 2019 ratings to provide perspective on how the City has performed over time.

The following provides the legend that was used to summarize the results.

Legend



City of Guelph's Commitment to Long Range Financial Planning

The following provides highlights that reflect the City's strong commitment to financial sustainability and the provision of services in the most efficient and effective way.

AA+ Credit Rating Affirmed—August 2019



"We expect the City of Guelph to continue generating robust operating margins, although we believe that elevated capital spending will pressure its budgetary performance in the next two years."

- *We expect that the city will finance its capital plan without material borrowing in the next two years, and that robust cash generation will allow it to maintain an extremely strong liquidity position.*
- *We are affirming our 'AA+' long-term issuer credit and senior unsecured debt ratings on Guelph and maintaining our stable outlook.*
- *The stable outlook reflects our expectation that, in the next two years, Guelph's after-capital balances will erode but remain in surplus on average. We also expect the city will maintain tax-supported debt well below 30% of operating revenues through 2021 while preserving a very healthy liquidity position.*
- *The civil service is experienced and qualified to effectively enact fiscal policies.*
- *S&P recommends that the City should move toward a multi-year budget.*

Positive Financial Trends and Prudent Financial Policies

Guelph has developed solid financial policies that guide corporate decisions, including the development of the annual budget. This work has consistently been recognized and is reflected in the City's credit rating. Analysis of trends over the past five years reflects **improvements on the majority of financial indicators**. Further, the City has continued to fine tune financial policies and targets and to track performance and incorporate new strategies into the budget.



Strategic Plan Priorities

- **Powering Our Future**—Contribute to a sustainable, creative and smart local economy that is connected to regional and global markets and supports shared prosperity for us all.
- **Sustaining Our Future**—Care for our environment, respond to climate change and prepare our community for a net-zero-carbon future.
- **Navigating Our Future**—Foster easy, accessible movement through trails, paths, roads and corridors to tie our community together and connect our economy with other regions.
- **Working Together For Our Future**—Run an effective, fiscally responsible and trusted local government with engaged, skilled and collaborative employees.
- **Building Our Future**—Make strategic investments that nurture social well-being, provide landmark beauty and offer a safe place where everyone belongs.

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 offers several benefits including:

- Information on changes in the City's financial health, revealing the most current trends;
- How quickly a trend is changing;
- Forms the basis for future forecasting; and
- Builds awareness and helps identify the potential need to modify existing policies or develop new strategies.

Financial Indicators must be continually monitored and regularly evaluated to help ensure decisions are fully informed and financially responsible.

Better Information = Better Decisions



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	Estimate 2019 Population	Land Area (sq. km.)	Density per sq. km.
Barrie	150,638	99	1,521
Brantford	103,952	72	1,435
Burlington	195,621	186	1,054
Cambridge	137,213	113	1,214
Kingston	129,093	415	311
London	410,966	420	978
Oakville	209,187	139	1,506
St. Catharines	139,578	96	1,452
Waterloo	113,347	64	1,770
Average	176,622	178	1,249
Median	139,578	113	1,435
Guelph	143,912	87	1,650

Source: Population—Manifold Data Mining, Land Area—Stats Canada



Financial Condition Assessment—Key Indicators

The Financial Condition Assessment includes the following:

Growth and Socio-Economic Indicators

These indicators are largely external to the City’s control but important to understand from a planning and financial forecasting perspective.

Population
Employment Statistics
Building Construction Activity
Property Assessment
Household Income

Municipal Levy, Property Taxes & Affordability Indicators

These indicators include an evaluation of the cost of municipal programs and services and how these costs translate into municipal property taxes to gain perspective on whether there are any affordability concerns.

Municipal Levy
Comparison of Relative Taxes
Municipal Property Taxes as a % of Income
Water/WW Costs as a % of Income
Non-Residential Taxes
Tax Ratios

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 provide insight into the community's collective ability to generate revenue relative to the community's demand for public services. As noted by Standard & Poor's bond rating agency, "demographic characteristics factor heavily into economic analysis".

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

- An increasing 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.



Growth and Socio-Economic Indicators

Growth and socio-economic indicators are closely inter-related and affect each other in a continuous cycle of cause and effect. Many of these indicators are largely uncontrollable by the municipality. Also important are the City's plans and potential for future development.

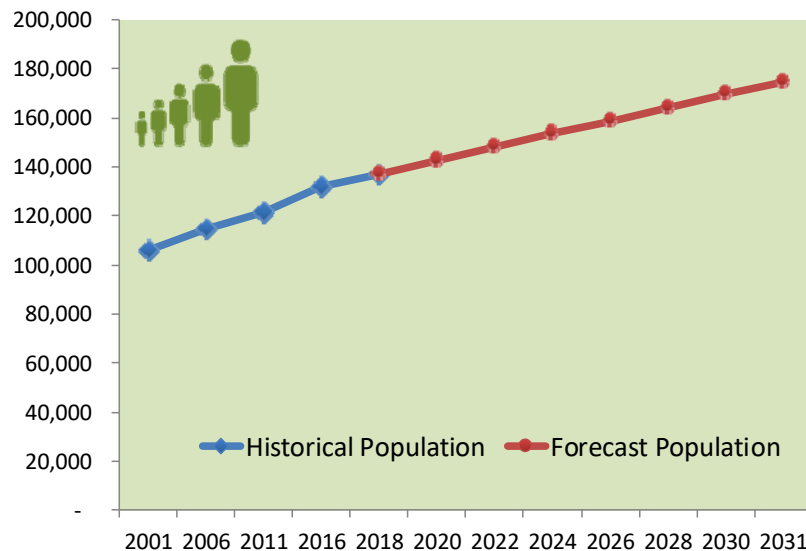


Population Changes

Strong population growth drives the economic health of a municipality and creates an environment that supports business. Also, it provides an evolving and vibrant labour force that the business community relies on to produce goods and services. Changes in population directly impact both revenues (assessment base) and expenditures (service demand). The following summarizes key findings related to the City's current and projected population growth:

- Guelph has grown from a population of 121,688 in 2011 to over 131,794 in 2016 (8.3% increase), an annual increase of approximately 1.7%
- Population is forecast to grow to 175,000 in 2031.

Figure 2—City of Guelph—Population Changes



Source: Stats Canada (Historical), Ontario Ministry of Finance forecast

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.

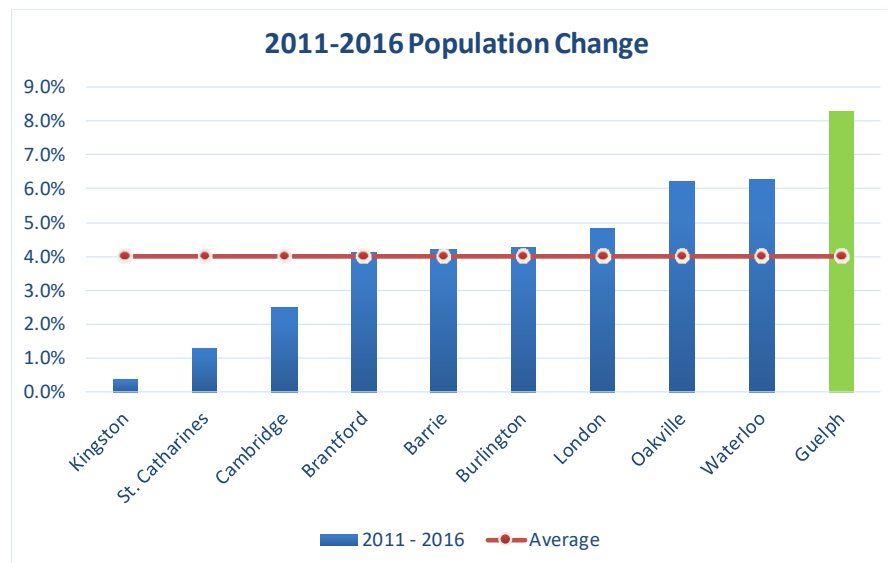


- The cost of growth not recoverable from DC's is \$78.5 million over the next 10 years. This includes 10% deduction, ineligible services, and forecasted exemptions. Funding new infrastructure and increased operating expenditures to maintain the expanded system while at the same time replacing existing infrastructure places additional pressure on the tax base and utility rates.

Peer Municipal Comparisons—Population Growth

- From 2011-2016, Guelph's population increased 8.3%, highest in the peer survey.
- Over the same period, the Ontario average grew by 3.2%. Guelph is one of the fastest growing municipality in the Province.

Figure 3—Population Changes—Peer Municipalities



Source: Stats Canada

Excerpts—MoneySense 2019

Guelph, Ont., June 10, 2019—MoneySense has ranked Guelph as the **second best city to buy real estate in Canada**. Guelph has been among MoneySense's top five places to buy real estate since 2017. MoneySense ranks cities based on three criteria:

- **Value:** how affordable the community is compared to the surrounding area and the region overall.
- **Momentum:** how quickly prices are appreciating in a community with an emphasis on long-term appreciation.
- **Expert insight:** grading of communities as desirable by an extensive panel of real estate agents.

MoneySense

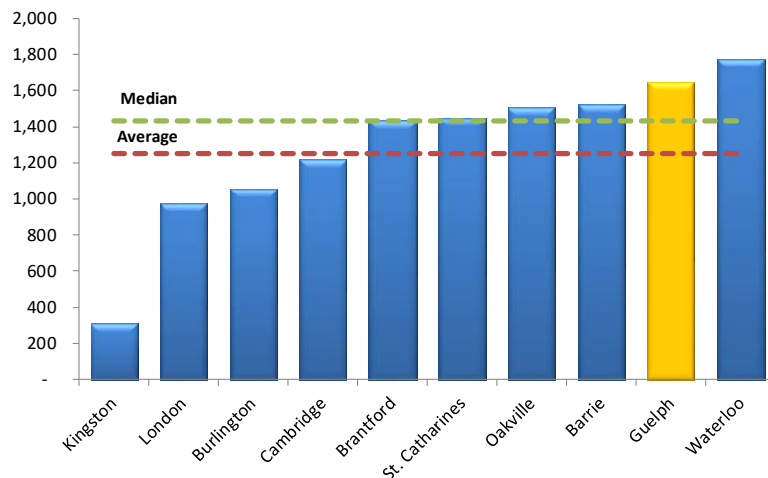


Population Density

Population density indicates the number of residents living in an area (usually measured per square kilometre). Density readings can lend insight into the age of a city, growth patterns, zoning practices, new development opportunities and the level of multi-family unit housing. As illustrated in Figure 4, Guelph has the second highest population density per km².

Intensification is the development of a municipal area at a higher density than currently exists, through development, redevelopment, infill and expansion or conversion of existing buildings. Intensification has a number of benefits, including, reducing carbon footprint, improving access to public transit, using resources such as land, buildings and infrastructure effectively, enhancing community identity and creating active streets that promote healthier patterns of activity.

Figure 4—Population Density per km² —Peer Municipalities



Excerpts—Corporate Asset Management Plan, 2017

According to Places to Grow and the related Growth Plan for the Greater Golden Horseshoe, Guelph is targeted to increase its population to 175,000, including 30,000 more jobs, by 2031. The Provincial legislation established that 40 per cent of that growth must occur in “established areas”. This means putting denser, mixed use developments into existing built-up areas of the city, and improving existing infrastructure to support this development.

Excerpts—City of Guelph Official Plan Settlement Area Boundary

The City will meet the forecasted growth within the settlement area through:

- i) promoting compact urban form;
- ii) intensifying generally within the built-up area, with higher densities within Downtown, the community mixed-use nodes and within the identified intensification corridors; and
- iii) planning for a minimum density of 50 residents and jobs per hectare in the greenfield area.

To achieve the intensification targets of this Plan, significant portions of new residential and employment growth will be accommodated within the built-up area through intensification.

Age Demographics

The age profile of a population has an impact on spending plans, especially around the type and level of service required. The needs of residents shift over the course of their lives.

An analysis was undertaken of the 5 year trend in Guelph in relation to the Ontario average.

- The fastest growing cohort is residents aged 65+, reflecting the entry of many “baby boomers” into those years. In the City of Guelph, the number of residents that are age 65+ has increased 21.4% over the 5 year period, compared with the Ontario average increase of 18.3% but overall this age cohort is still lower than the Provincial average.
- The number of residents age 0-19 has increased by 4.0% compared with a reduction of 2.2% across Ontario. The City benefits from a young and growing population and working age population 20-64 which has increased greater than the Provincial average.

Figure 5—Age Profile Trend

Age Profile	Guelph			Ontario		
	2011	2016	% change	2011	2016	% change
Age 0-19	29,535	30,721	4.0%	3,167,813	3,096,780	-2.2%
Age 20-44	44,085	47,066	6.8%	4,410,879	4,458,936	1.1%
Age 45-64	32,230	34,786	7.9%	3,836,128	3,927,160	2.4%
Age 65+	15,838	19,221	21.4%	1,951,480	2,309,176	18.3%
Total	121,688	131,794	8.3%	13,366,300	13,792,052	3.2%

Source: Stats Canada

Figure 6—Age Profile Comparison

Age Profile	Guelph	Ontario
	2016	2016
Age 0-19	23.3%	22.5%
Age 20-44	35.7%	32.3%
Age 45-64	26.4%	28.5%
Age 65+	14.6%	16.7%
Total	100.0%	100.0%

Source: Stats Canada



- These demographic changes may put pressure on the City to provide services that reflect the changing demographic needs while still keeping taxes affordable.

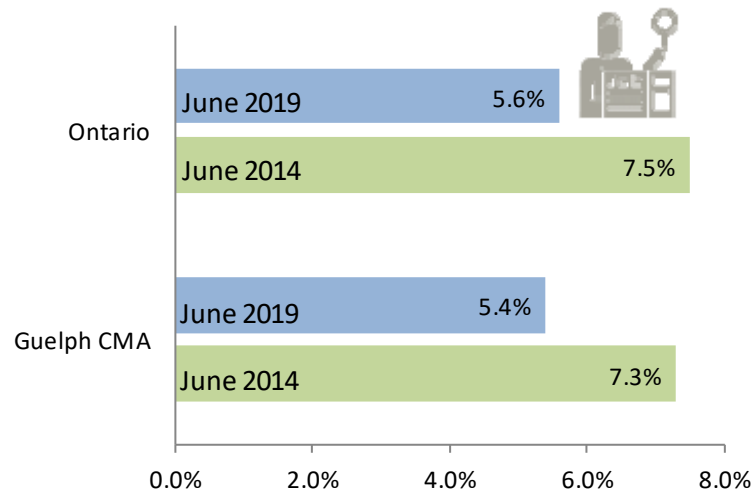
Excerpts—Older Adult Strategy

“It is projected that by 2031, Guelph will have almost 53,000 adults aged 55 years of age or older representing 30% of all residents. The impact of this demographic shift on the design and delivery of municipal services presents both opportunities and challenges.”

Employment and Labour Force Indicators

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

Figure 7—Unemployment Rates—June 2019



Source: Stats Canada

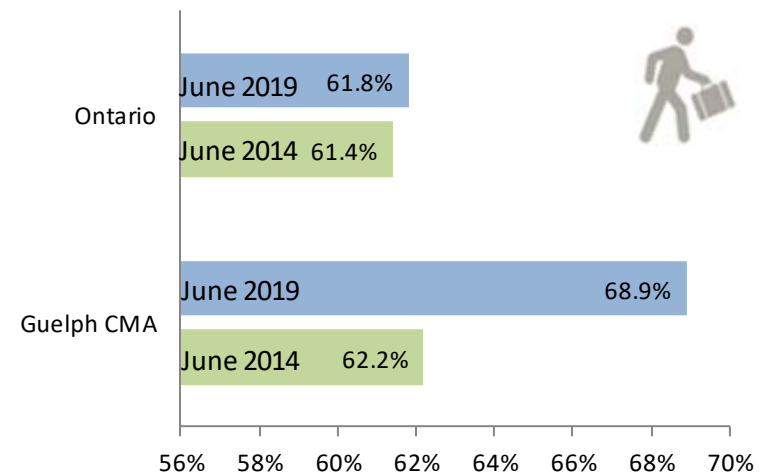
- The **unemployment rate** in Guelph CMA is estimated to be approximately 5.4% (June 2019), lower than the Ontario average. The unemployment rate in Guelph also declined from 2014 to 2019.

Excerpts—Labour Force Survey

"Guelph's economy and labour force continue to outperform not only neighbouring communities, but also communities across Canada. Guelph is a resilient community built for success as evidenced by having the highest employment rate in Canada."

- The **employment rate** is the percentage of total number of working-age people (includes working age people not actively seeking employment) who have jobs. The employment rate shows a community's ability to put its population to work and thereby generate income to its citizens.
- 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.
- As shown in figure 8, the employment rate in the Guelph CMA increased from 2014-2019 and is higher than the Ontario average over the last 5 years.

Figure 8—Employment Rates—June 2019

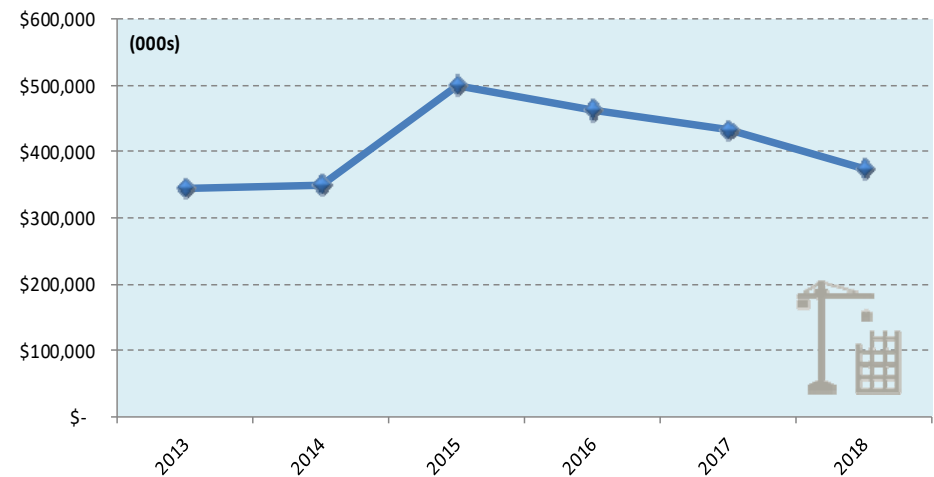


Source: Stats Canada

Construction Activity

- Another growth related indicator is the construction activity within a municipality which provides information on both residential and non-residential development. 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 9 provides the trends in building permit activity experienced in the City of Guelph for the past 6 years.
- Construction activity has been trending down from 2015 to 2018.

Figure 9—Total Construction Activity—City of Guelph (000's)

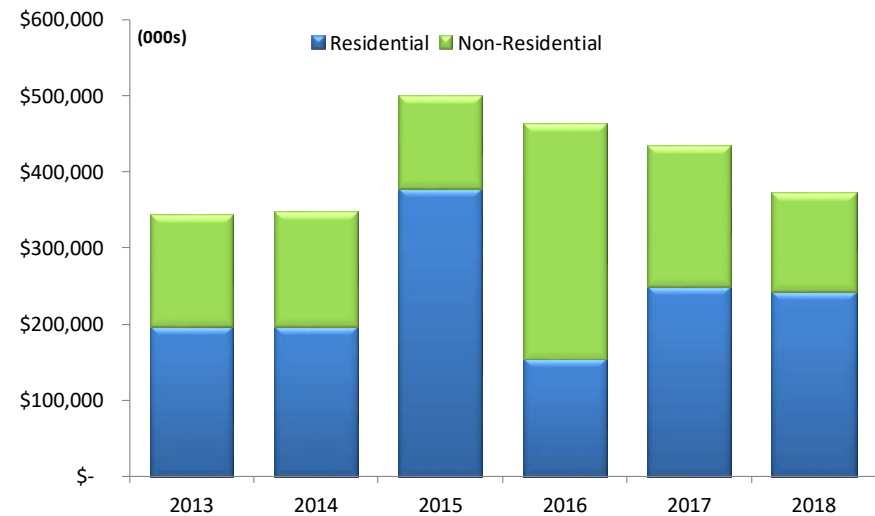


Source: Year End Building Reports and FIR



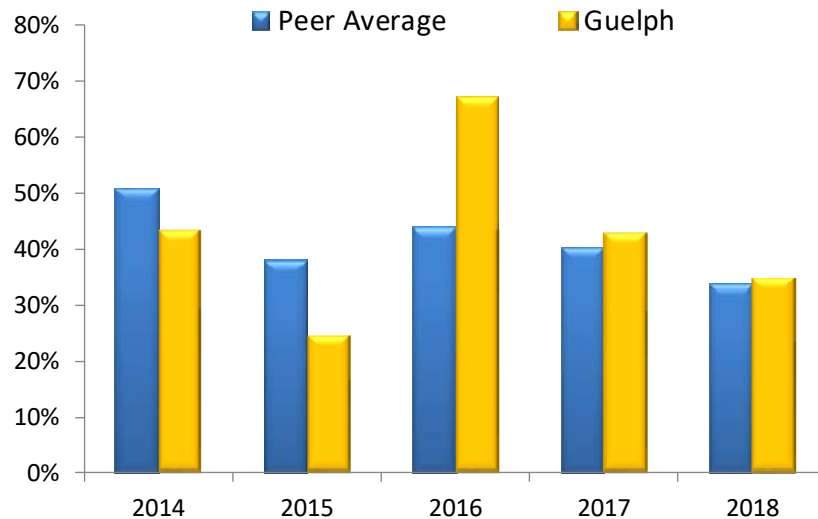
- It is also important to look at the type of construction being undertaken.
- Generally, a municipality's net operating costs (expenditure increase net of the associated growth in assessment) to service residential development is higher than the net operating cost of servicing commercial or industrial development because many services such as recreation, libraries and parks are provided mainly 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 6 years, residential/non-residential construction activity (on a \$ of construction) is a 58/42 split in the City of Guelph, representing a good balance between residential and non-residential development.

Figure 10—Residential and Non-Residential Construction Activity



Source: Building year end reports

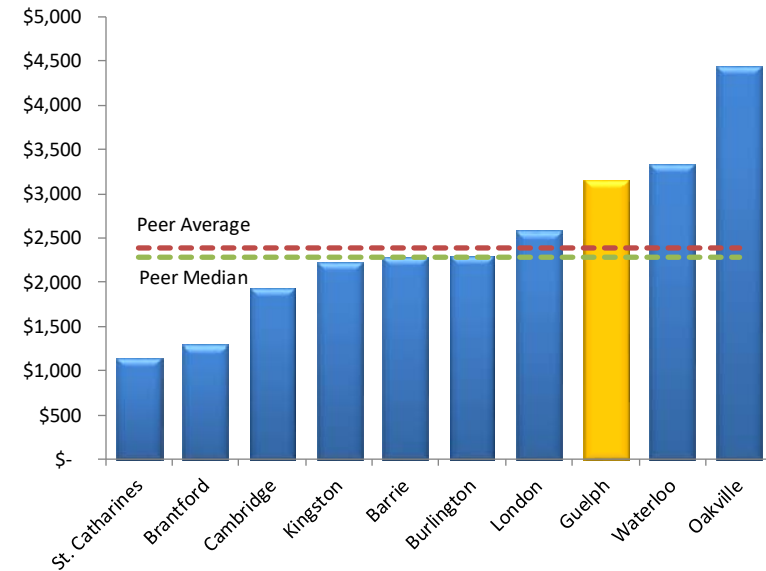
Figure 11—% Non-Residential Construction Activity—Peer Municipal Comparators



Source: BMA Municipal Studies

- A comparison was undertaken of the type of construction across the peer municipalities and over the last five years.
- As shown in figure 11, Guelph's proportion of non-residential construction activity was higher in 2016-2018.

Figure 12—Construction Activity Per Capita—Peer Municipal Comparators—5 Year Average



Source: City year end construction reports

- Building permit value per capita is used as an indicator of the relative construction activity within each peer municipality.
- As shown in figure 12, the five year average building permit value per capita from 2014 to 2018 in Guelph was the third highest in the survey of peer municipalities.
- The trend above is consistent with the trends experienced in the study in 2015.

Assessment

Monitoring assessment is important because taxation is the largest source of revenues to support City programs, services and the replacement of assets. A strong assessment base provides a stable long-term funding source. There are three aspects that should be monitored when reviewing assessment, which are important indicators of fiscal strength:

1. **Residential/ Non-Residential Composition:** 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. In comparison to the peer municipalities, Guelph has a slightly higher proportion of non-residential assessment. As shown in figure 13, the weighted combined assessment in the non-residential sector is 27% in Guelph as compared with the peer average of 26%.
2. **Growth in Assessment:** Assessment increases include 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 14, from 2014-2019, the assessment increase in Guelph was higher than the peer average and except for 2015-2016.

Figure 13—2019 Assessment Composition

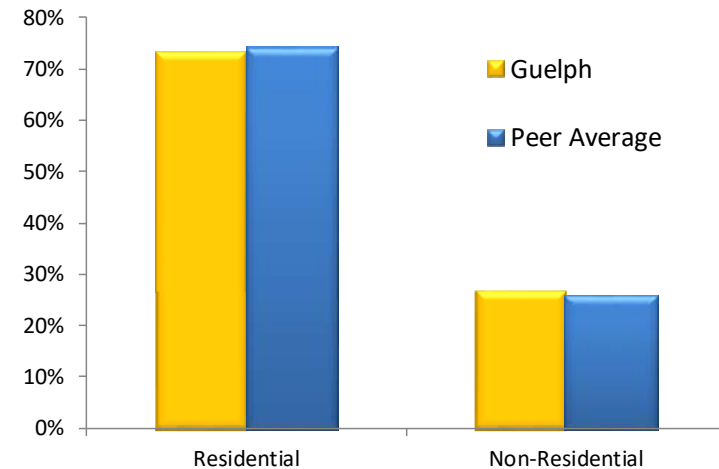
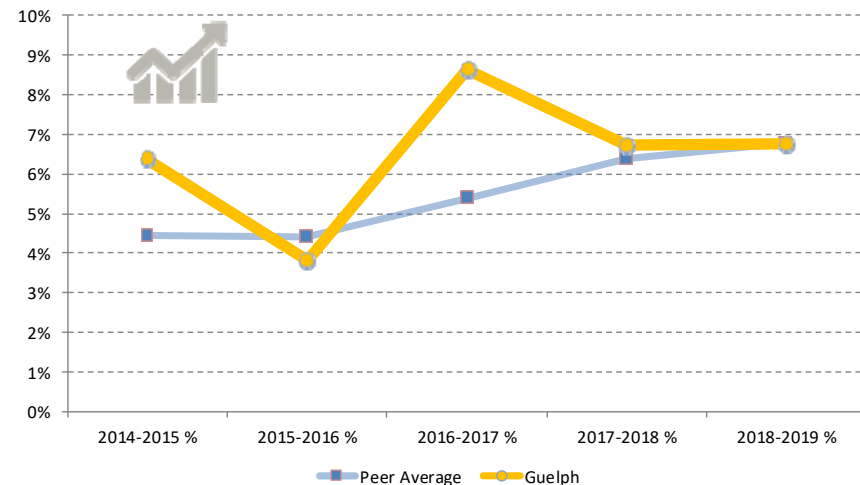


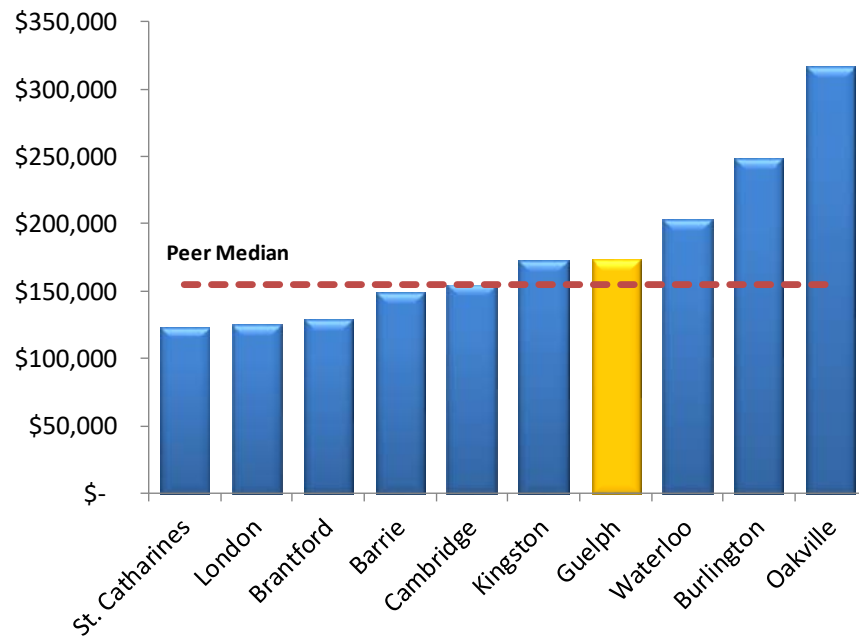
Figure 14—Changes in Unweighted Assessment



Source: for figure 13 and 14 BMA Municipal Studies using Assessment By-laws

3. **Richness of Assessment Base:** Assessment on a per capita has been used to compare the “richness” of the assessment base. A strong assessment base is critical to a municipality’s ability to raise revenues. Weighted assessment reflects the basis upon which property taxes are levied after applying the tax ratios to the unweighted assessment. As shown in figure 15, Guelph’s weighted assessment per capita is above the median of the peer municipal comparison, reflecting a higher base upon which to raise taxes.

Figure 15—2019 Weighted Assessment Per Capita



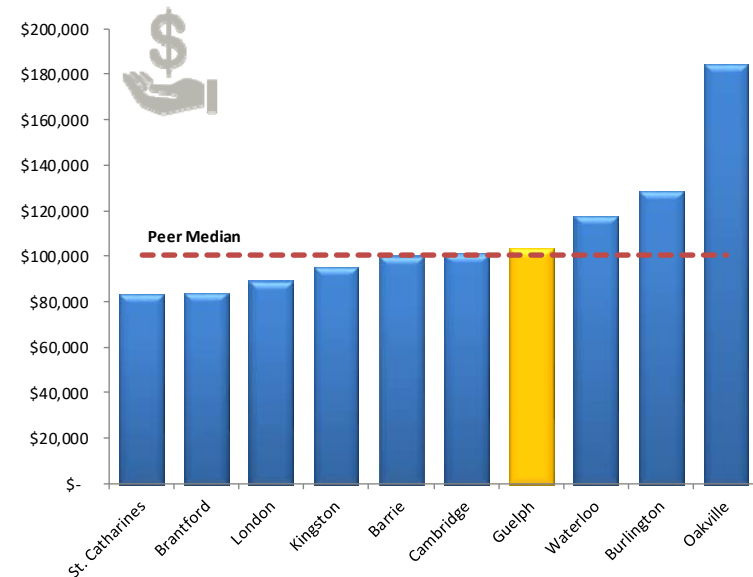
Source: BMA Municipal Studies using CVA

Household Income

Household income is one measure of a community’s ability to pay and is an indicator of the financial well-being of residents. Credit rating agencies use household income as an important measure of a municipality’s ability to repay debt. This indicator is also important to the economic health of businesses operating in Guelph.

- As shown in figure 16, in 2019, average household income in the City of Guelph is estimated at \$103,289 which was higher than the peer municipal median (\$100,178).
- A lower household income creates potential affordability challenges. Median was used to avoid skewing the average as a result of Oakville.

Figure 16—2019 Average Household Income



Source: Manifold Data Mining

Summary—Growth and Socio-Economic Indicators

- **Population** from 2011 to 2016 grew by 8.3%, highest in the survey of peer municipalities. Population is forecasted to exceed 175,000 by 2031, reflecting growth of approximately 2% annually. The City was ranked second best to buy real estate in Canada (June 2019 MoneySense)
- **Population density** is second highest in the survey which is reflective of a faster growth in population since over the past 5 years than peer municipalities and increased density in urban areas.
- **Demographics**—The number of residents that are ages 65+ has increased by a greater extent than the Ontario population over the last 5 years. The City benefits from a young and growing population and working age population 20-44 which is higher than the Provincial average.
- The **unemployment rate** is estimated at 5.4% which is lower than the Ontario average of 5.9% in June 2019 and has decreased from 2014.
- **Construction activity** has been trending down since 2015, however is above the peer average and reflects a good balance of residential and non-residential construction.
- The City's **property assessment** base is well diversified which helps provide a stable revenue source. The assessment base is above the peer median, reflecting a higher base upon which to raise taxes.
- Average **household incomes** in Guelph are above the peer median.

	Socio-Economic Indicator	2015 Rating	2019 Rating
	Population Growth		
	Population Density		
	Age Demographics		
	Unemployment and Employment Rates		
	Construction Activity		
	Assessment Composition		
	Richness of the Assessment Base		
	Assessment Growth		
	Household Income		



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 Guelph in comparison to other municipalities. Finally, this section of the report compares the competitiveness of non-residential property taxes and water and sewer costs.

Tax supported operating strategy

2019 approved operating budget

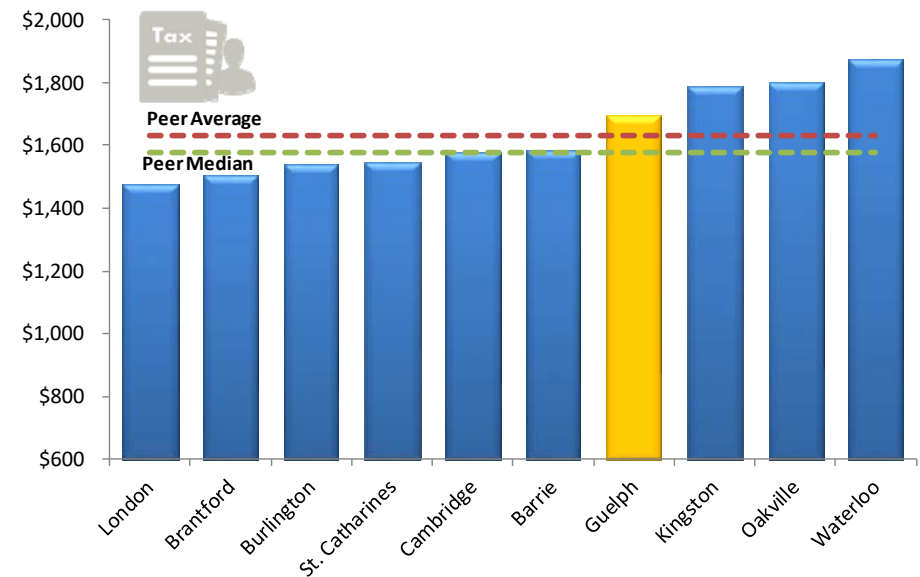


Municipal Levy Per Capita and Per \$100,000 of Assessment Comparison

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.

Figure 17—2019 Levy Per Capita Analysis



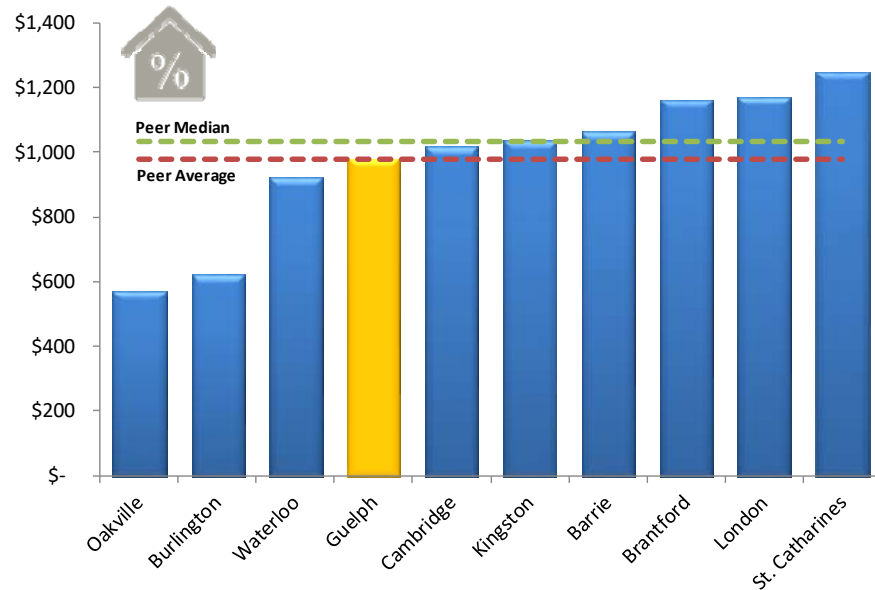
Source: BMA Municipal Study using 2019 Levy By-laws for each municipality

- The City of Guelph has a slightly higher than average municipal spending on a per capita basis.

Excerpts—2019 Operating Budget

The approved 2019 tax supported operating budget is the City of Guelph's realistic plan to build a stable financial foundation for the City. The tax supported operating budget was prepared in accordance with the Council approved Budget, Debt Management, and General Reserve and Reserve Fund policies.

Figure 18—2019 Levy Per \$100,000 of Weighted Assessment



Source: BMA Municipal Study using 2019 Levy By-laws for each municipality

- A comparison of the 2019 levy per \$100,000 of weighted assessment provides an indication of the levy in relation to the assessment base upon which taxes are raised.
- As shown in figure 18, the City of Guelph's levy per weighted assessment is below the median and at the average in relation to peer municipalities.



Excerpt—2019 Operating Budget

The approved 2019 budget reflects an increased net levy requirement of 2.69%. The approved budget takes into consideration inflationary cost pressures such as compensation, hydro and natural gas, fuel and diesel, software maintenance costs and other contractual increases. Further to this, the budget includes estimated increases for outstanding labour contract negotiations, impacts of previous Council decisions, operating impacts from capital approved during the 2018 budget deliberations, and the one per cent dedicated infrastructure levy.

Affordability

The following table compares total property taxes based on an average 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. In addition, this includes the water and wastewater cost of service also in relation to average household income.

Figure 19—Affordability Comparisons

Municipality	2019 Median Value of Dwelling	2019 Total Taxes on an Average Dwelling Value	2019 Average Household Income	Property Taxes as a % of Income	2019 Water/ Sewer Cost	W/WW % of Income	Combined Affordability Metric
Oakville	\$ 777,644	\$ 5,711	\$ 184,178	3.1%	\$ 873	0.5%	3.6%
Burlington	\$ 539,870	\$ 4,231	\$ 128,863	3.3%	\$ 873	0.7%	4.0%
Waterloo	\$ 385,348	\$ 4,191	\$ 117,592	3.6%	\$ 908	0.8%	4.3%
London	\$ 236,289	\$ 3,167	\$ 88,713	3.6%	\$ 887	1.0%	4.6%
Cambridge	\$ 322,812	\$ 3,823	\$ 100,582	3.8%	\$ 1,132	1.1%	4.9%
Brantford	\$ 258,594	\$ 3,439	\$ 83,802	4.1%	\$ 867	1.0%	5.1%
Barrie	\$ 335,300	\$ 4,132	\$ 100,178	4.1%	\$ 931	0.9%	5.1%
St. Catharines	\$ 247,660	\$ 3,520	\$ 82,730	4.3%	\$ 920	1.1%	5.4%
Kingston	\$ 311,765	\$ 4,229	\$ 94,838	4.5%	\$ 1,149	1.2%	5.7%
Peer Average	\$ 379,476	\$ 4,049	\$ 109,053	3.8%	\$ 949	0.9%	4.7%
Median	\$ 322,812	\$ 4,132	\$ 100,178	3.8%	\$ 908	1.0%	4.9%
Guelph	\$ 370,153	\$ 4,222	\$ 103,289	4.1%	\$ 929	0.9%	5.0%

Source: MPAC (dwelling value), BMA Municipal Study (Property Taxes)

- The median dwelling value in the City of Guelph is below the average of peer municipalities but above the median.
- Property taxes on a typical dwelling in Guelph are higher than the peer average and median.
- Property taxes as a percentage of household income in Guelph is slightly above survey average.
- Water and wastewater costs in Guelph are below the peer median and at the peer average in relation to household income.



Municipal Tax Ratios

- Tax ratios define each property classes' rate of taxation in relation to the rate of the residential property class.
- The tax ratio for the residential class is set by the province at 1.00. The different relative burdens are reflected in the tax ratios. These relative burdens are used to calculate the municipal tax rate of each property class in relation to the residential class.
- As shown in figure 20, the tax ratios in the City of Guelph are above the average for peer municipalities but lower than the median in Multi-residential and Industrial properties.
- All else being equal, higher than average tax ratios will increase the burden on non-residential properties.
- A low commercial and industrial ratio supports economic development by providing a low property tax environment for non-residential properties.

Figure 20—2019 Tax Ratios

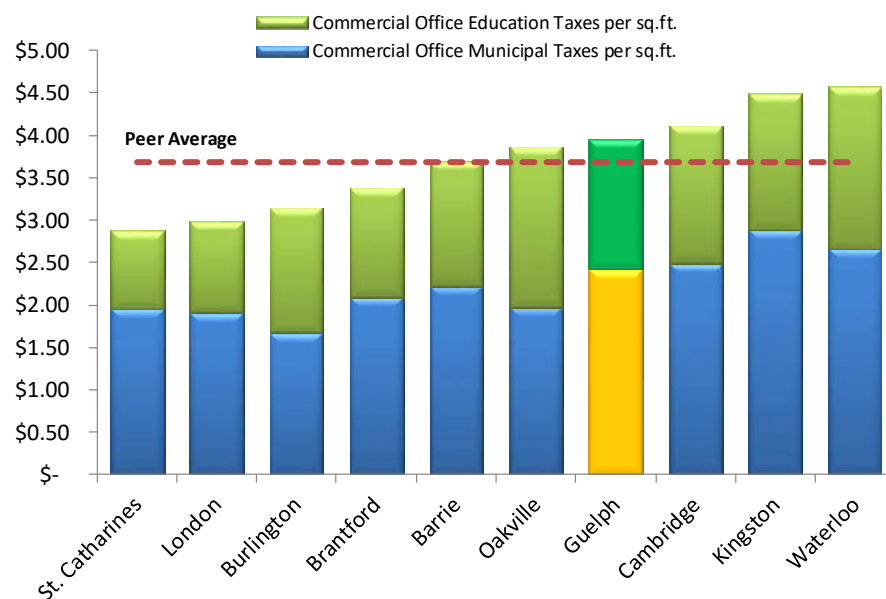
Municipality	Multi-Residential	Commercial	Industrial
Barrie	1.00	1.43	1.52
Brantford	1.88	1.79	2.27
Halton	2.00	1.46	2.36
Waterloo	1.95	1.95	1.95
Kingston	1.80	1.98	2.63
London	1.75	1.92	1.92
Niagara	1.97	1.73	2.63
Peer Average	1.76	1.75	2.18
Median	1.88	1.79	2.27
Guelph	1.83	1.84	2.20

Source: 2019 BMA Municipal Study using Tax by-laws

Non-Residential Municipal and Education Taxes Commercial Office

A comparison was made of the non-residential municipal property taxes on a per square foot basis for commercial office properties across the peer comparative municipalities to gain perspective on the municipal taxes paid. This takes into consideration the tax ratios, municipal and education taxes and the current value assessments.

Figure 21—2019 Property Taxes per Square Foot



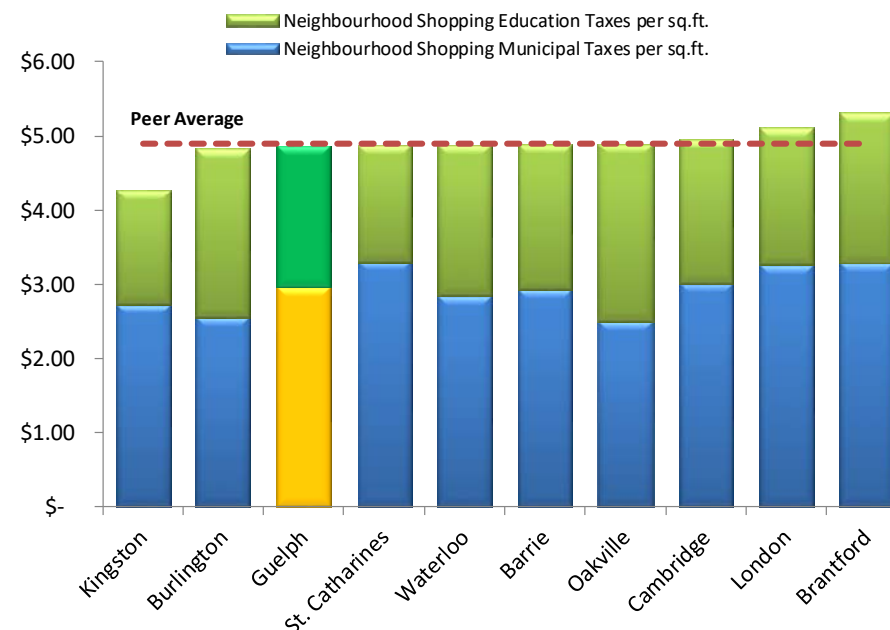
Source: BMA Municipal Study

- The non-residential municipal property taxes per square foot is slightly above the average of the comparator municipalities for office properties.

Non-Residential Municipal and Education Taxes Neighbourhood Shopping

A comparison was made of the non-residential municipal property taxes on a per square foot basis for neighbourhood shopping properties across the peer comparative municipalities to gain perspective on the municipal taxes paid. This takes into consideration the tax ratios, municipal and education taxes and the current value assessments.

Figure 22—2019 Property Taxes per Square Foot



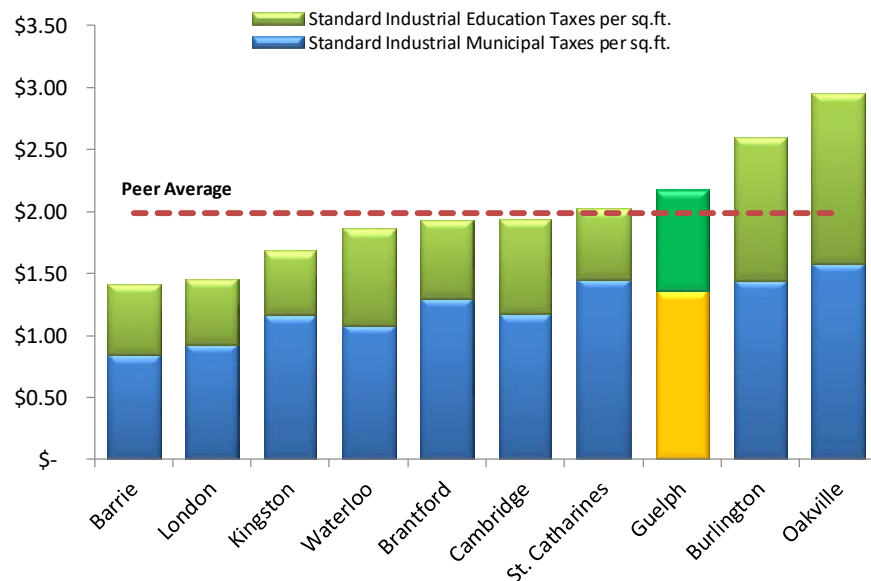
Source: BMA Municipal Study

The non-residential municipal property taxes per square foot is below the average of the comparator municipalities for neighbourhood shopping properties.

Non-Residential Municipal and Education Taxes Standard Industrial

A comparison was made of the non-residential municipal property taxes on a per square foot basis for industrial properties across the peer comparative municipalities to gain perspective on the municipal taxes paid. This takes into consideration the tax ratios, municipal and education taxes and the current value assessments.

Figure 23—2019 Property Taxes per Square Foot



Source: BMA Municipal Study

- The non-residential municipal property taxes per square foot is above the average of the comparator municipalities for industrial properties.

Summary—Municipal Levy, Property Taxes and Affordability

- **Municipal levies** in relation to the assessment base reflects positively for the City of Guelph, however is higher than average compared on a per capita basis. This reflects that with a relatively high assessment base upon which to raise taxes, the City's spending is below average. Note this analysis does not compare service levels.
- The average **municipal property taxes** paid in relation to average household income in Guelph are slightly above the peer average and also above the survey average in relation to household incomes.
- The City's non-residential **tax ratios** are higher than peer municipalities which increases the relative amount of taxes that are recovered from these classes. This is a cautionary indicator in terms of competitive tax positioning for non-residential properties.
- Non-residential property taxes per square foot in the office **commercial sector** in Guelph are above the peer average and slightly lower than the peer average in the neighbourhood shopping category.
- Non-residential property taxes per square foot in the **industrial sector** in Guelph is above the peer average.

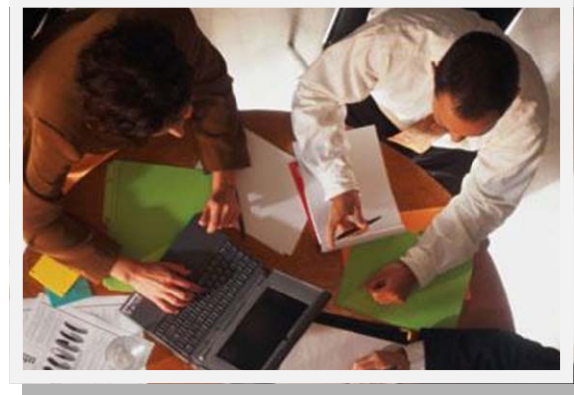
	Indicator	2015 Rating	2019 Rating
	Municipal Levy Per Capita		
	Municipal Levy Per \$100,000 of Weighted Assessment		
	Residential Affordability		
	Non-Residential Tax Ratio		
	Non-Residential Property Taxes per Square Foot - Commercial		
	Non-Residential Property Taxes per Square Foot - Standard Industrial		



Section 3: Financial Position

Guelph's Financial Position

Industry recognized indicators that are used by credit rating agencies and/or recommended by Government Finance Officer's Association (GFOA) and the Ministry of Municipal Affairs and Housing Canadian Institute of Chartered Accounts (CICA) defined financial condition of a municipality's financial health as:



Sustainability

- **Financial Position per Capita** of a municipality is important to consider as this takes into consideration the municipality's total financial assets and liabilities.
- **Asset Consumption Ratio** highlights the relative age of the assets and the potential timing of asset replacements.

Vulnerability

- **Taxes Receivable as a percentage of Taxes Levied** is an indicator of the economic health of the community.

Flexibility

- **Reserves/Reserve Funds** are established by Council to assist with long term financial stability and financial planning. Credit rating agencies consider municipalities with higher reserves more advanced in their financial planning.
- **Debt** is an important indicator of the municipality's financial health. Debt is an important indicator of the municipality's financial health. Debt is an appropriate way of cashflowing longer life items, however when debt levels get too high, it compromises the municipality's flexibility to fund programs and services.

Introduction to Reserves and Reserve Funds

Maintaining sufficient reserves and reserve funds are a critical component of a 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.

In accordance with leading practice, each year the City provides an update to the balances of reserves and how they compare to the targeted funding balances and a recommended plan to achieve **target balances**.

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.



Reserves/Reserve Funds as a % of Taxation

- The discretionary reserves/reserve funds as a percentage of taxation was evaluated, both the trends, as well as in relation to other peer municipalities. Note that this analysis 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 shown in figure 24, the City of Guelph's discretionary reserves as a percentage of taxation are below the group survey average and have remained stable over the 5 year period.

Figure 24—Tax Reserves/Reserve Funds as a % of Taxation

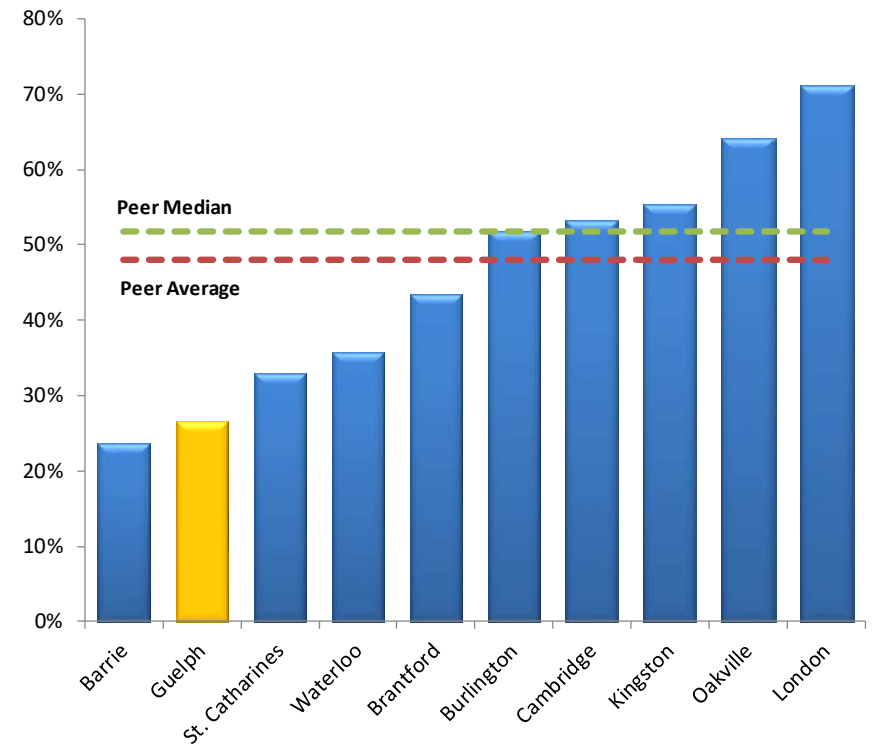
Municipality	2014	2015	2016	2017	2018	Trend
Barrie	30%	31%	31%	30%	29%	Stable
St. Catharines	53%	41%	43%	45%	47%	Decreasing
Waterloo	88%	76%	55%	54%	56%	Decreasing
Brantford			42%	36%	60%	Increasing
Cambridge	56%	64%	64%	63%	71%	Increasing
Burlington	78%	80%	84%	84%	74%	Decreasing
Kingston	73%	80%	80%	86%	83%	Increasing
Oakville	132%	113%	112%	104%	91%	Decreasing
London	76%	78%	81%	88%	94%	Increasing
Average	73%	70%	66%	66%	67%	
Median	74%	77%	64%	63%	71%	
Guelph	36%	33%	36%	30%	35%	Stable

Source: FIRs

Reserves as a % of Own Source Revenues

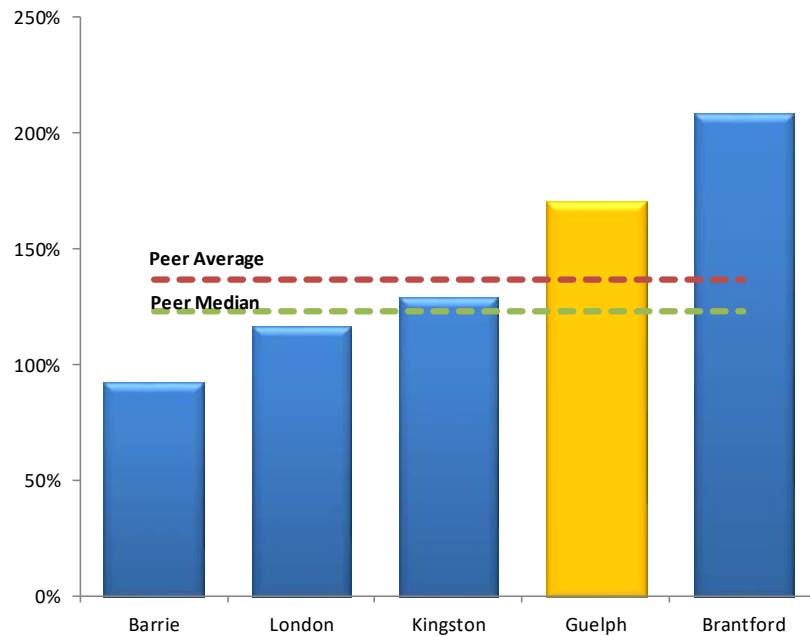
- As shown in figure 25, the tax reserves as a % of own source revenues for Guelph is below the peer average and median and the second lowest in the group of peer municipalities surveyed.
- As will be discussed later in the report, the City has implemented a number of financial policies to support reserves.

Figure 25—2018 Tax Reserves as a % of Own Source Revenues



Source: FIRs

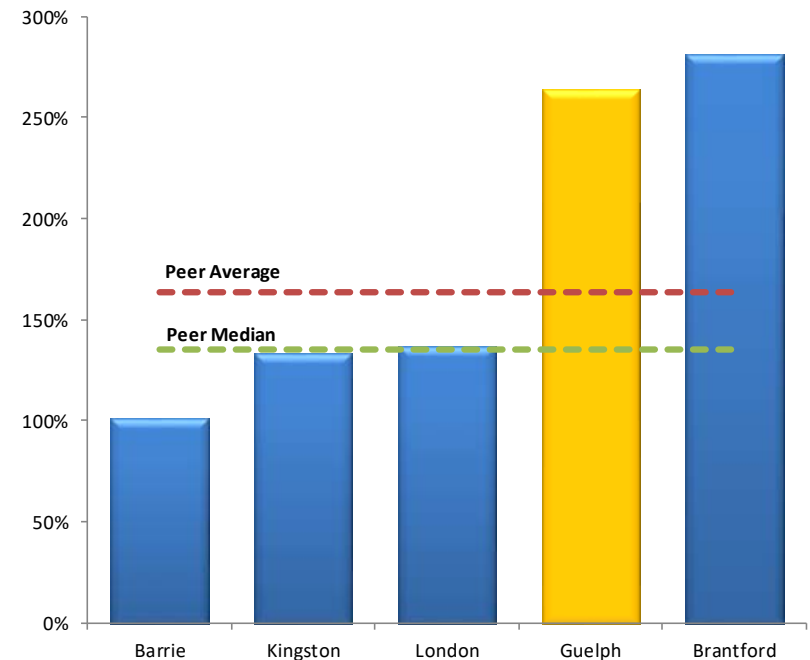
Figure 26—2018 Water Reserves as a % of Own Source Revenues



Source: FIRs

- As shown in figure 26, the water reserves as a % of own source revenues for Guelph are above the peer average and the second highest percentage in the group. Note that this indicator only includes one tier municipalities as two tier municipalities have treatment services provided at the Regional level.
- Note on the next page of the report, the City's asset consumption ratio for water in Guelph is the highest in the survey which indicates a need for strong capital replacement reserve balances.

Figure 27—2018 WW Reserves as a % of Own Source Revenues



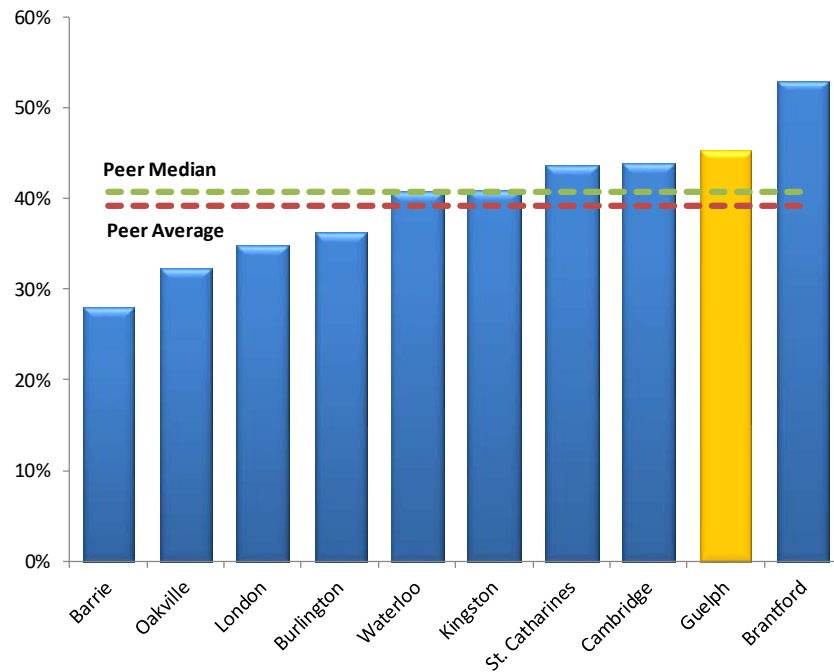
Source: FIRs

- As shown in figure 27, the wastewater reserves as a % of own source revenues for Guelph are above the peer average and the second highest percentage in the group. Note that this indicator only includes one tier municipalities as two tier municipalities have treatment services provided at the Regional level.
- Similar to the situation in water, the City's asset consumption ratio for wastewater in Guelph is the highest in the survey which indicates a need for strong capital replacement reserve balances.

Asset Consumption Ratios

- The asset consumption ratio shows the written down value of the tangible capital assets relative to their historical costs. This ratio highlights the relative age of the assets and the potential timing of asset replacements.
- As shown below, the City's asset consumption ratios are higher than the peer average and median, reflecting potentially greater replacement needs in the short to mid term than other municipalities. This reflects the need to continue to investment in infrastructure renewal and funding the asset management plan.

Figure 28—Tax Asset Consumption Ratio



Source: FIRs

Figure 29—Water Asset Consumption Ratio

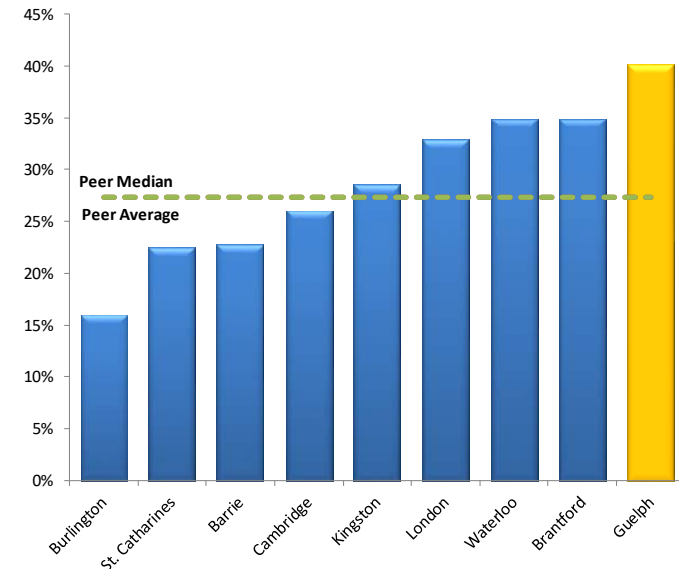
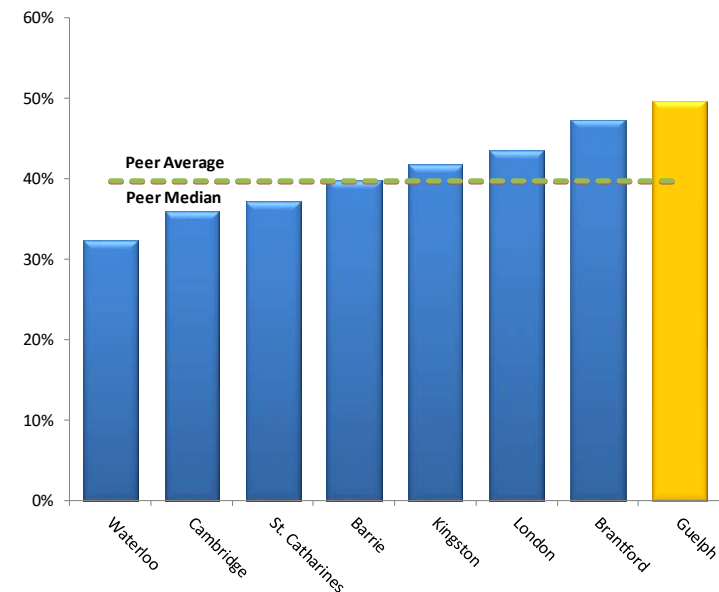


Figure 30—Wastewater Asset Consumption Ratio



Summary of Reserves and Reserve Funds 2013-2018
Figure 31—Reserves/Reserve Funds 2013-2018 Balances—Major Classifications

Reserve and Reserve Funds (000's)							
Reserve & Reserve Fund Balances	2014	2015	2016	2017	2018	5 Year Change %	2018 Uncommitted Balance
Corporate Contingency Reserves	\$ 12,403	\$ 12,545	\$ 19,601	\$ 19,249	\$ 20,630	66%	\$ 19,903
Program Specific Reserves	\$ 10,901	\$ 11,901	\$ 12,131	\$ 13,689	\$ 15,324	41%	\$ 15,324
Strategic Reserves	\$ 6,010	\$ (601)	\$ (327)	\$ (7,117)	\$ (3,667)	--- 100%	\$ (13,455)
Program Specific Reserve Funds - Operating	\$ 910	\$ 754	\$ 826	\$ 825	\$ 1,460	60%	\$ 1,432
Program Specific Reserve Funds - Capital	\$ 4,847	\$ 3,909	\$ 5,180	\$ 5,905	\$ 4,396	-9%	\$ 1,785
Program Specific Reserve Funds - Corporate	\$ 33,501	\$ 36,349	\$ 38,471	\$ 30,160	\$ 35,842	7%	\$ 9,116
Tax Supported TOTAL	\$ 68,572	\$ 64,858	\$ 75,882	\$ 62,710	\$ 73,984	8%	\$ 34,105
Program Specific Reserve	\$ 5,055	\$ 7,339	\$ 9,099	\$ 9,537	\$ 9,626	90%	\$ 9,626
Program Specific Reserve Funds	\$ 67,651	\$ 80,726	\$ 108,518	\$ 121,952	\$ 131,448	94%	\$ 74,648
Non-Tax Supported TOTAL	\$ 72,705	\$ 88,065	\$ 117,617	\$ 131,489	\$ 141,074	94%	\$ 84,274
Corporate	\$ 19,179	\$ 16,686	\$ 14,246	\$ 18,992	\$ 18,012	-6%	\$ 7,706
Development Charges	\$ 56,415	\$ 44,870	\$ 39,705	\$ 46,661	\$ 46,372	-18%	\$ 1,772
Obligatory TOTAL	\$ 75,594	\$ 61,556	\$ 53,951	\$ 65,653	\$ 64,385	-15%	\$ 9,478
GRAND TOTAL	\$ 216,872	\$ 214,479	\$ 247,450	\$ 259,852	\$ 279,443	29%	\$ 127,857

As shown in figure 31, the City's total reserves/reserve funds increased 29% since 2014. The last column reflects the uncommitted 2018 year end balances.

- **Tax Supported Reserves** have increased 8% since 2014.
- **Non-Tax Supported Reserves** have increased over 94% since 2014.
- **Obligatory Reserves** have decreased 15% since 2014.

Debt Management

Municipalities have limited options with respect to raising funds to support municipal programs and services. Debt used strategically is a useful way to cashflow funding for capital expenditures. 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.

Debt is frequently issued and considered a standard practice in municipalities for new capital projects that are long-term in nature that benefit future taxpayers, thereby spreading the costs across future years. Under the most favourable circumstances, the City's debt should be proportionate in size and growth to the City's tax base; should not extend past the useful life of the facilities which it finances; should not be used to balance the operating budget; should not require repayment schedules that put excessive burdens on operating expenditures and should not be so high as to jeopardize credit ratings. A debt management policy is an important element in the establishment of a sustainable long term program that supports financial discipline and stability.

Excerpts—2019-2028 Proposed Capital Budget and Forecast

- Debt is an important part of the City's strategy for investment in assets that have a long standing useful life.
- Debt is a way to match the cost of construction with those that will use the service and minimize variation in the tax and non-tax rates for significant projects.

Excerpts—Debt Management Policy—City of Guelph

Debt Service Cost to Net Revenue Fund Revenue

- This ratio is a measure of the principal and interest payable annually as a proportion of revenue fund revenues. It should not exceed a target of 10%.

Direct Debt to Operating Revenue

- This measure identifies the percentage of annual operating revenues that would be required to retire the City's net debt. It is also the prime measure used by Standard and Poor's when assessing the debt burden of the municipality. A target rate of less than 55% should be maintained.

Development Charge Debt Servicing Ratio

- This ratio is a measure of the debt service cost of the debt issued to support the DC reserve funds as a percentage of the average revenue forecast as identified in the DC background study. It should not exceed a target of 20% for hard services (Roads, Storm water, Water works, Waste water) and 10% for all other Development Charge reserve funds.

Figure 32—Total Debt Outstanding (000's)

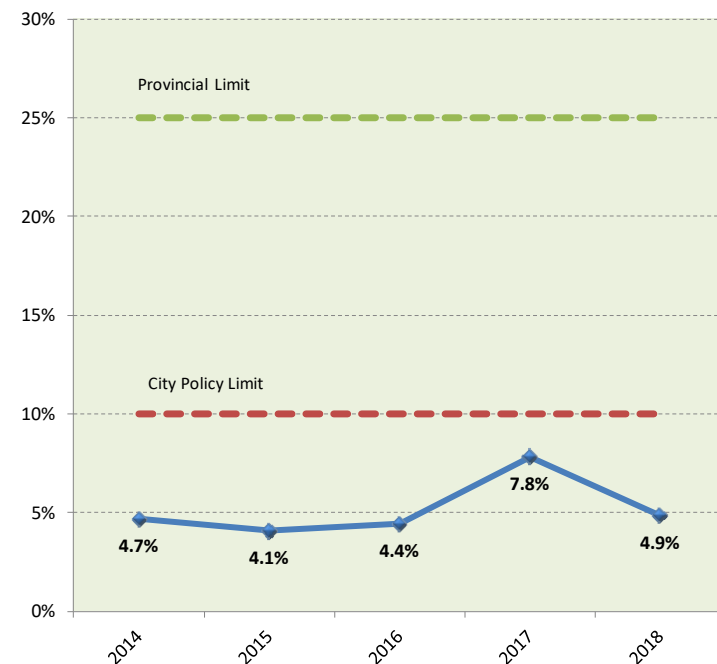
	2018 Debt Outstanding (000's)
Tax Debt	\$ 53,753
DC Debt	\$ 28,921
Elliott	\$ 4,229
Sleeman Centre	\$ 5,305
Stormwater	\$ 513
POA	\$ 3,710
Water	\$ -
Wastewater	\$ -
Total	\$ 96,432

- As shown in figure 32, the City of Guelph at the end of 2018, the City has \$96.4 million of outstanding debt, with an additional \$33 million approved for debt issuance in 2019.
- Tax supported debt is \$53.8 million and is related to a number of services including waste management, roads, fire, police and transit.
- The Elliott is funded from the operating budget and the City collects revenues to repay this debt.
- POA debt is Enterprise related and does not impact the tax levy.
- Development Charge Debt has a current outstanding balance of \$28.9 million which will be repaid through development charge revenues. This includes \$1.4 million in outstanding debt for water/wastewater (non-tax DC).

Debt Service Cost to Net Revenue Fund Revenue

The Province regulates the amount of debt that municipalities issue by setting an annual repayment limit for each municipality. This is the maximum amount by which a municipality may increase its debt. The repayment limit is set at 25% of a municipality's own source revenues. This is the upper limit. If the City were to reach the limit, future operating budgets would be severely constrained or tax and other revenues would have to increase significantly.

Figure 33—Total Debt Charges as a % of Own Source Revenues

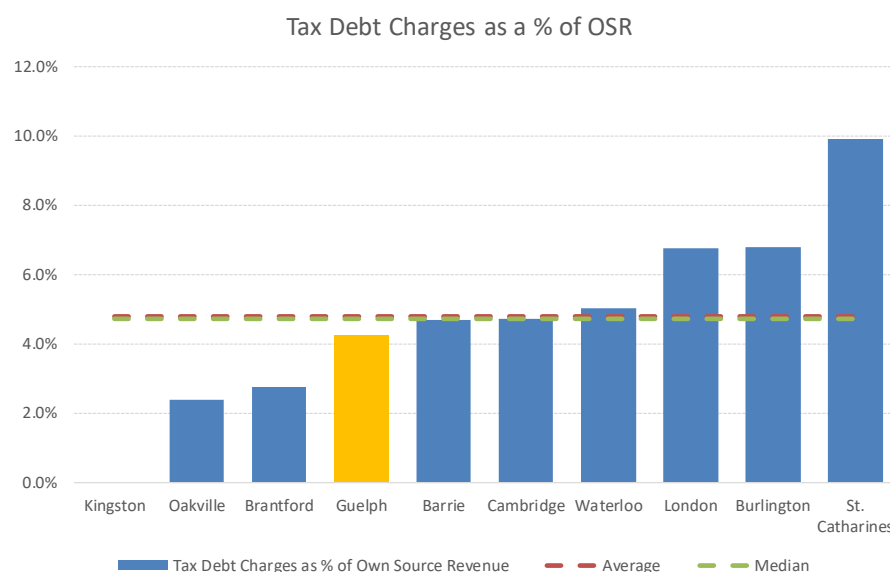


- As shown in figure 33, the City's debt levels are well below the Provincial limit which is set at 25% and the City's policy of targeting less than 10% of own source revenues.

Tax Debt Charges as a % of Own Source Revenues

- Figure 34 provides a comparison of tax debt charges as a percentage of own source revenues in 2018 against peer municipalities.

Figure 34—Tax Debt Charges as a % of Own Source Revenues



Source: FIRs

- As shown above, the City's tax debt charges as a percentage of own source revenues are below the survey average and median.

Direct Debt to Operating Revenue

- As described earlier, the City has a debt policy that measures the percentage of annual operating revenues that would be required to retire the City's net debt, with a target rate of less than 55% should be maintained. As of December 31, 2018, the City's direct debt to operating revenue was 26%, well below the maximum.

Development Charge Debt Servicing Ratio

- DC debt requirements as identified in the 2018 DC Background Study exceed current limits set out in the debt policy, thereby making it difficult to execute on the growth related capital budget within current policy thresholds. The debt management policy is currently being revised *to limit dc supported debt with more appropriate ratios and limits*. This will help ensure adequate funds are available to support the City's growth plans and to repay the debt issued for growth-related development.

Financial Position

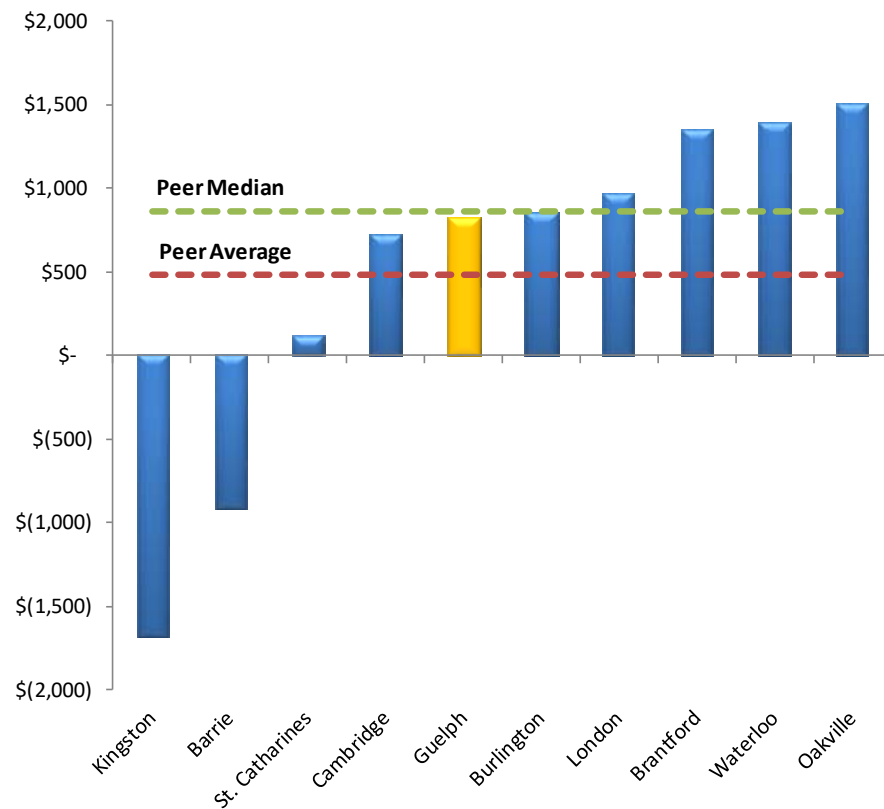
A municipality's financial position is defined as the total fund balances including equity in business government enterprises less the amount to be recovered in future years associated with long term liabilities. A comparison was made of the City's overall financial position (financial assets less liabilities) from 2014 to 2018.

- Guelph's financial position has trended upward since 2014.
- From 2014 to 2018, the City's reserves, investments and receivable revenues increased, resulting in an improvement in the overall financial position, as shown in figure 34.
- Figure 35 helps to explain the City's change in financial position from 2014-2018.
- The City's financial assets increased by \$66.6 million from 2014-2018, primarily in cash and investment.
- Debt which includes water and wastewater increased by \$32.6 million (which includes liability for contaminated sites) and post employment benefits increased by approximately \$6.5 million.
- It is important that a municipality understands what is driving this indicator and monitor its trend.

Figure 35– City of Guelph—Financial Position

Financial Position (000's)					
(000's)	2014		2018		% change
Assets					
Cash & Investments	\$	299,531,436	\$	410,833,694	37.2%
Receivables	\$	27,967,377	\$	34,620,798	23.8%
Other	\$	1,332,976	\$	2,644,698	98.4%
Total Assets	\$	328,831,789	\$	448,099,190	36.3%
Liabilities					
Accounts payable	\$	48,600,941	\$	70,382,306	44.8%
Deferred Revenue	\$	95,820,506	\$	88,170,491	-8.0%
Temporary loans	\$	970,000	\$	-	-100.0%
Long Term Liabilities	\$	90,762,624	\$	96,431,676	6.2%
Solid Waste Management Facility Liabilities	\$	4,164,000	\$	4,435,000	6.5%
Post Employment Benefits	\$	36,239,773	\$	42,755,816	18.0%
Liability for contaminated sites	\$	-	\$	27,000,000	0.0%
Total Liabilities	\$	276,557,844	\$	329,175,289	19.0%
Net Financial Position	\$	52,273,945	\$	118,923,901	127.5%

Figure 36-Financial Position Per Capita



Source: 2018 FIRs

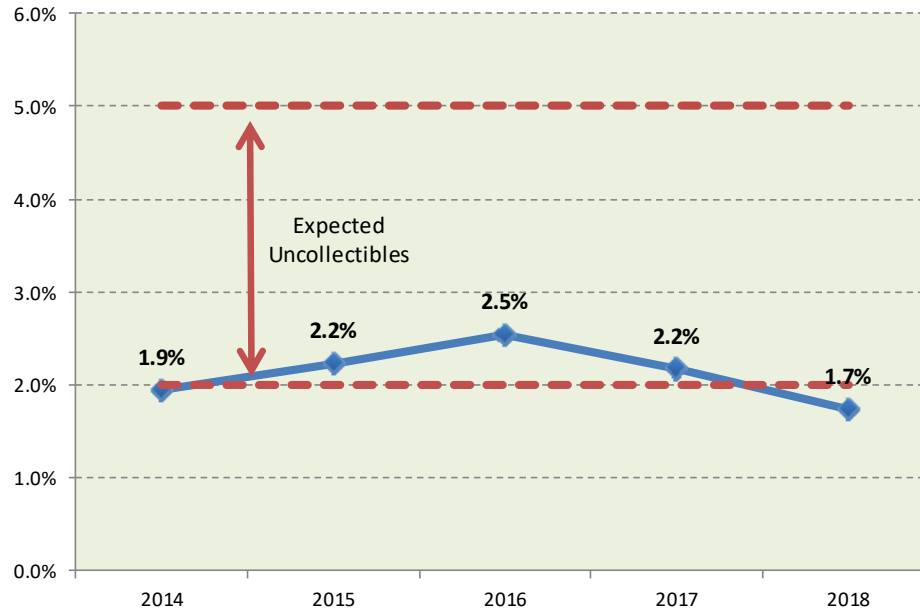
- To provide a comparison with other municipality's financial position, a per capita analysis was undertaken. As shown in figure 36, the City of Guelph's financial position per capita exceeds the peer average.

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. Credit rating agencies assume that municipalities normally will be unable to collect 2 - 5% of its property taxes within the year that taxes are due. 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.

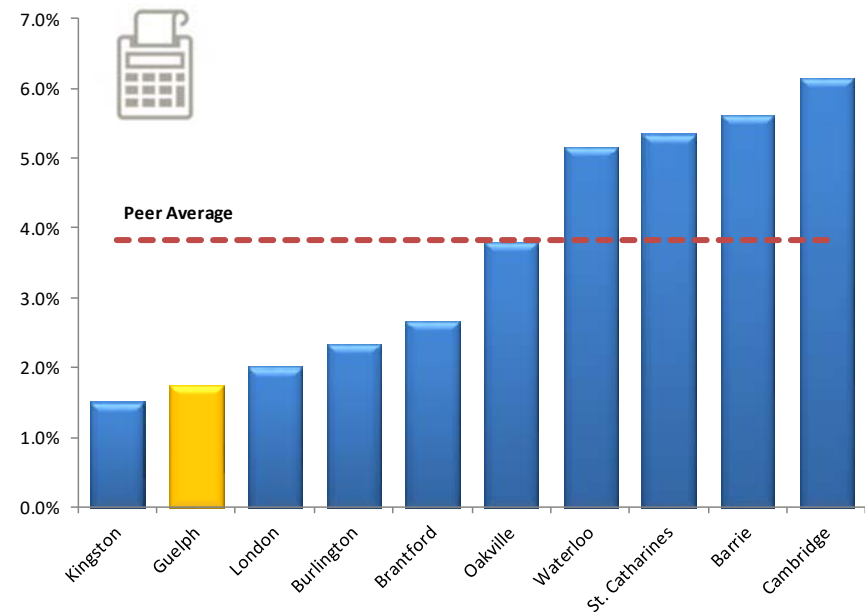
- Guelph's ratio has remained within the credit rating limit in every year.

Figure 37—Taxes Receivable as a % of Taxes Levied



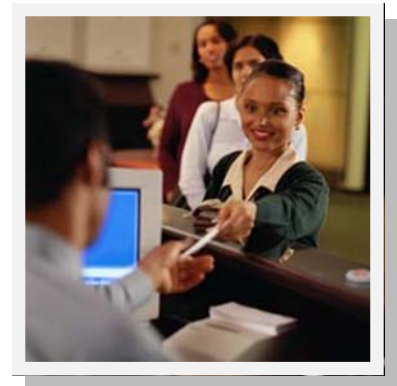
Source: FIRs

Figure 38—2018 Taxes Receivable as a % of Taxes Levied



Source: 2018 FIRs

- In comparison to other municipalities surveyed, taxes receivable in Guelph was below the survey average.



Summary—Financial Position

- **Reserves/Reserve Funds** assist with long term financial stability and financial planning.
 - The City of Guelph's discretionary reserves as a percentage of taxation are below the peer survey average.
 - Guelph has established a number of targets and policies for their reserves, the majority of which have been met and where they have not been met, strategies have been established to move to target balances.
- The City's **asset consumption** ratio reflects older infrastructure in relation to the peer average. In the case of water/ww operations, this is supported by strong reserve positions. It is recommended that the City continue its investment to the capital reserves to support a timely replacement of assets.
- **Debt** is an important indicator of the City's financial health and is an appropriate way of financing longer life capital infrastructure. The debt levels are below peer averages and within industry leading practice standards.
- **Financial Position** of the City is important to consider as this takes into consideration the City's total assets and liabilities. Guelph's financial position has been trending up since 2014. The City's financial position is higher than the peer average.
- **Taxes Receivable** are below the peer average and below the expected level of receivables.

Indicator	2015 Rating	2019 Rating
Discretionary Reserves as a % of Taxation		
Tax Reserves as a % of Own Source Revenues		
Water Reserves as a % of Own Source Revenues		
WW Reserves as a % of Own Source Revenues		
Tax Asset Consumption Ratios		
Water Asset Consumption Ratio		
WW Asset Consumption Ratio		
Tax Supported Reserves/Reserve Funds - Corporate Contingency		
Tax Supported Reserves - Program Specific		
Tax Supported Reserves - Strategic		
Tax Supported Reserves Funds - Operating		
Tax Supported Reserves Funds - Capital		
Non-Tax Supported Reserve/Reserve Funds - Program Specific (Contingency)		
Debt Management		
Financial Position		
Taxes Receivable		

Corporate Policy and Procedure



Policy	Long term Financial Framework
Category	Corporate
Authority	Finance
Related Policies	Debt Management Policy General Reserve and Reserve Fund Policy General Operating and Capital Budget Policy Investment Policy
Approved By	Council February 24, 2020
Effective Date	Monday, February-24-2020
Revision Date	Sunday, January 01, 2023

Policy Statement

That all policy documents developed by the City of Guelph adhere to the measures outlined in the Long-term Financial Framework (LTFF) of; Sustainability, Vulnerability and Flexibility.

Purpose

The LTFF will guide decision-making as it relates to policy development. The policies together will provide the basis for metric and key performance indicator (KPI) development within the City strategies, master plans and operational business plans (plans).

Definitions

Flexibility

The ability of the organization to adapt to changing environment to both capitalize on opportunities and avoid threats.

Sustainability

The ability to maintain services over an extended period of time, providing continuous service at the expected level to all intended customers.

Vulnerability

The level of resiliency within the organization to mitigate unexpected negative factors while maintaining financial and service commitments.

Application

The LTFF will be used to assemble all relevant policies applicable to strategy and plan development in a concise and consistent manner.

Review and development of policies will require the evaluation of each using the three measurers identified above.

Use of the various policies during development of city plans is required. Service areas are required to demonstrate within their plan how they have aligned with the applicable policies. Specific metrics and KPIs are required that will demonstrate achievement of the stated goals relative to the applicable policies.

Any subsequent updates regarding the plan require the established metrics or KPIs to be updated and reported.

Reporting

The City Treasurer will be responsible for providing an annual update of appendix A to Council at each fiscal year end.

Reporting will include a revised appendix A, including current updates to the policies and metrics included.

As new policies are added to the LTFF reporting to Council of their inclusion will occur at the next annual update.

Authority

The Treasurer has authority to adjust metrics and format of the LTFF, as required, due to changes in City policies.

Policy Review

This policy will be revised at the beginning of each term of Council.

Appendix A Long-term Financial Framework

Policy	Last or Planned update	Sustainability	Vulnerability	Flexibility
General Reserve and Reserve Fund	2017	Achieving target balances	Dependable inflows	Appropriate and allowable uses, support the Strategic Plan priorities
Procurement	2018	Focus on full cost of purchasing	Proper internal controls and guidelines	Innovative options for new ideas
Debt Management	2020	Target % of revenue	Maximum % leveraged	Prescribed purposes and types
Revenue	2020 (planned)	Cost recovery targets and reliability	Expanded sources	Relative to peers
Multi-year Budget	2020 (planned)	Robust guidelines	Identification of risk factors	Options for adjustment
Capital Plan	2021 (planned)	Funded, structured and current	Linkage to Asset Management principles	Opportunities to adjust
Asset Management and Service Level	2020/21 (planned)	Corporate mandate and implementation	Data driven and supported	Innovative and responsive
Growth	2021 (planned)	to be determined	to be determined	to be determined
100RE	2020 (planned)	to be determined	to be determined	to be determined
Internal Controls	2022 (planned)	to be determined	to be determined	to be determined