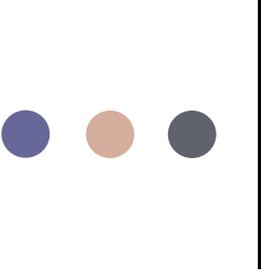


FEBRUARY 10, 2006
LIVEABLE PEEL CONFERENCE

**SUSTAINABLE MUNICIPAL
FINANCE: HOW DO WE GET
THERE?**

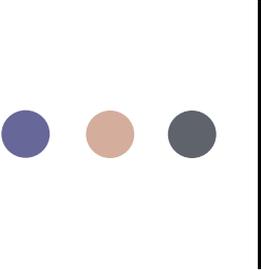
PRESENTATION BY CAM WATSON
C.N. WATSON AND ASSOCIATES LTD.



1. What is “sustainable municipal finance”? (Where is “there”?)

For example:

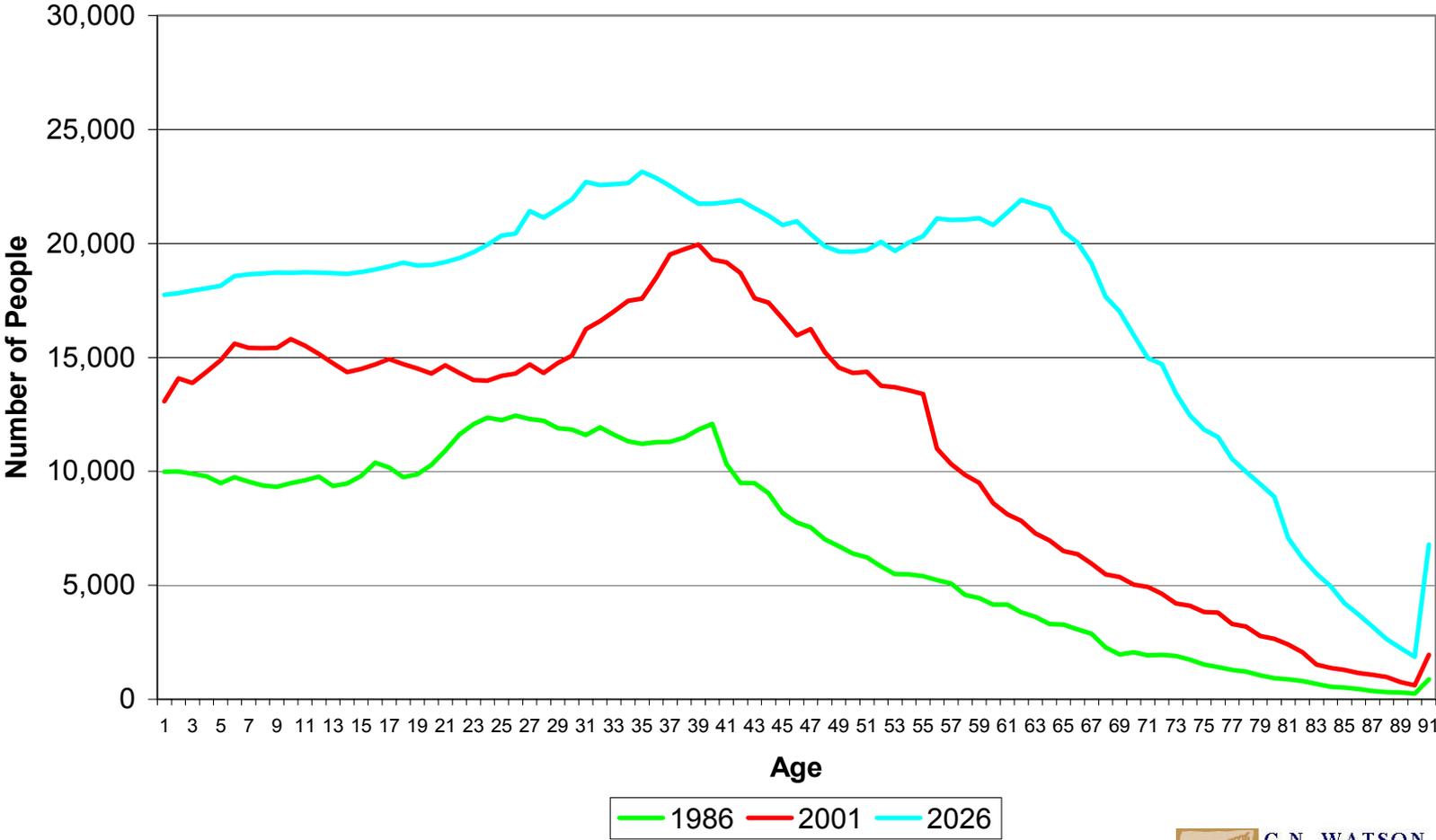
- 1.1 Adequate service levels and well-maintained assets;
- 1.2 Cost-effective service delivery, competitive with private sector alternatives;
- 1.3 Property taxes that don't exceed a defined % of property value and/or average household income;
- 1.4 Long term debt levels that are within standard carrying cost limits;
- 1.5 An adequate level of reserve funds, relative to forecast capital expenditures;
- 1.6 An acceptable long term financial plan;
- 1.7 Extensive use of full cost recovery user charges;
- 1.8 Restricted dependence on senior levels of government for funding



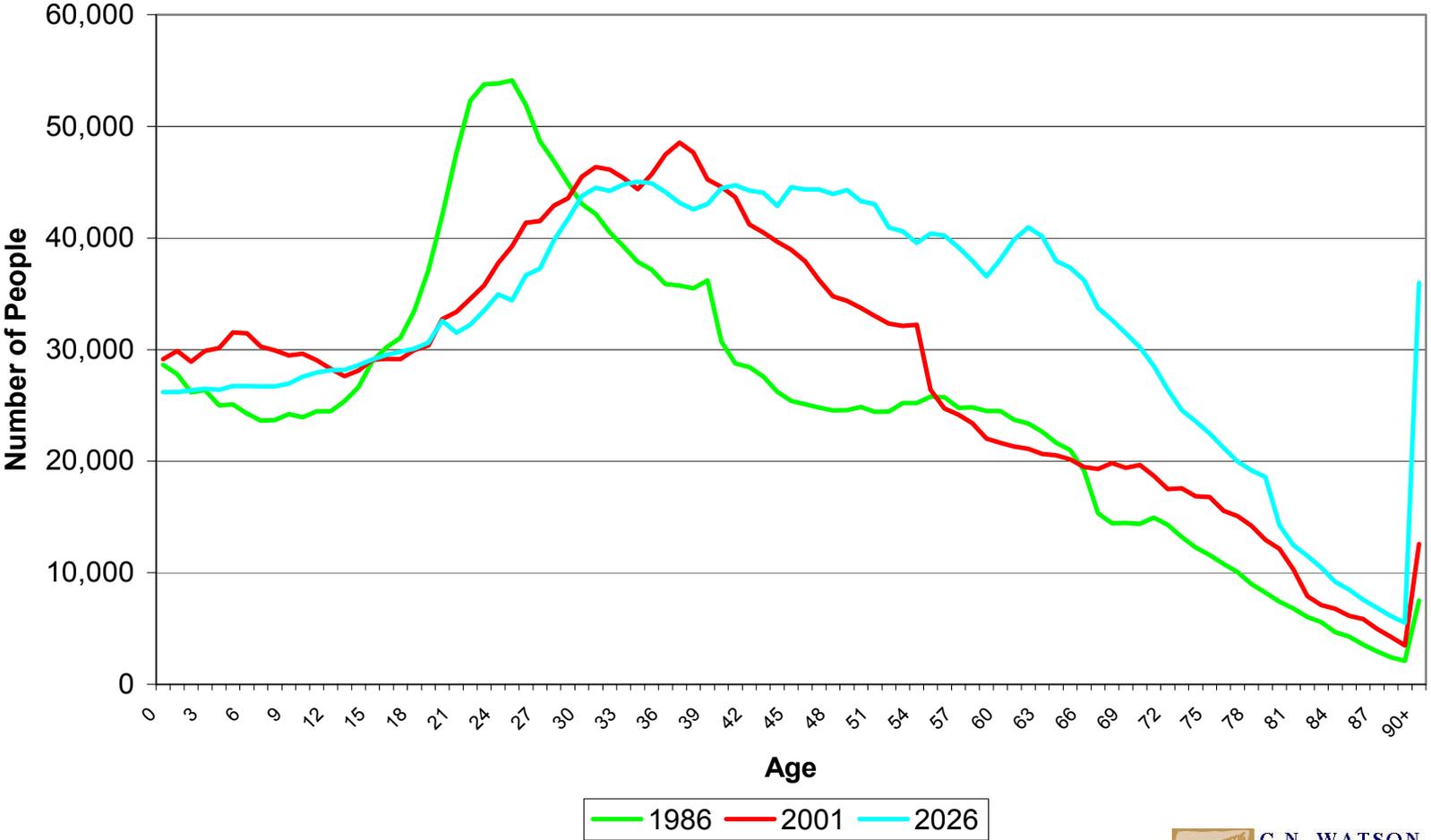
2. What is Peel facing in the long-term future?

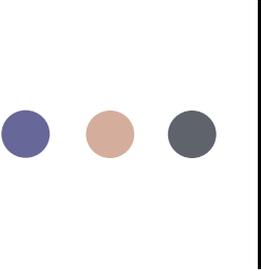
- 2.1 Massive asset/infrastructure renewal, 30-60 years following its high growth period
- 2.2 Major technological change, e.g. reduced operating costs? e-Transportation? Energy costs?
- 2.3 Population aging and changing via net migration
 - changing municipal service needs
 - incomes reduced by retirement
 - altered housing needs, but Peel's stock relatively fixed
- 2.4 Changing municipal structure, service responsibilities, environmental standards, similar to "Who does What", GTSB, School Board restructuring, GO funding realignment, electrical utility changes, municipal amalgamation, etc.

**FIGURE 1
REGION OF PEEL
POPULATION BY AGE
1986- 2026**



**FIGURE 2
CITY OF TORONTO
POPULATION BY AGE
1986-2026**





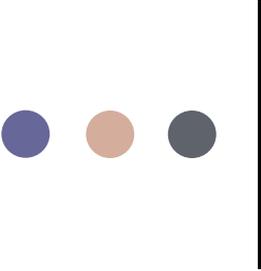
Demographic Forecasts

- Peel's population should increase in all age categories by 2026, whereas Toronto's is expected to remain relatively stable under age 40.
- Will Peel eventually mirror Toronto in this regard?
- By 2026, the baby boom is a plateau edge and no longer a peak. Age 90+ starting to peak, particularly in Toronto.
- These are among the relatively foreseeable changes that Peel needs to plan for (but what is it that should be done today, in anticipation of an anticipated long term changes?)

What municipal services in Peel will experience the greatest risks re fiscal sustainability?

One answer – those which are most reliant on tax funding (rather than user rate funding)

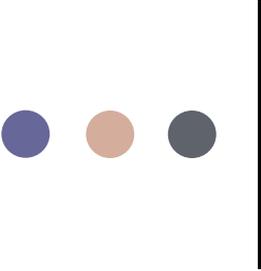
| Service | % of all 4 Peel Municipal <u>Net</u> Operating Spending (Upper and Lower Tier) |
|--|--|
| 1. Police | 16.9 |
| 2. General Government | 15.2 |
| 3. Parks, Recreation, Libraries and Cultural | 11.5 |
| 4. Social and Family Services | 10.7 |
| 5. Roads and Other Transportation | 10.3 |
| 6. Fire | 8.2 |
| 7. Social Housing | 5.7 |
| 8. Waste Management | 5.4 |
| 9. Transit | 4.5 |
| 10. Other (Planning, Health, Other Protection, etc.) | 11.6 |
| | 100.0 |



What municipal services in Peel will experience the greatest risks re fiscal sustainability?

A second answer – those which are the most subject to relatively uncontrollable external forces:

- Police
- Social and family services
- Social housing



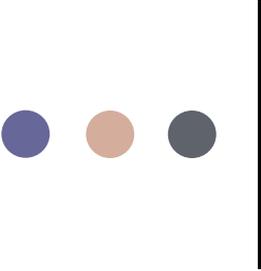
What municipal services in Peel will experience the greatest risks re fiscal sustainability?

A third answer – those which have the largest stock of assets to be maintained and replaced

- Roads
- Sewer, water (rate funded)
- Social housing
- Recreation

A fourth answer – those which are least essential:

- ?



How have Peel municipalities been doing re fiscal sustainability?

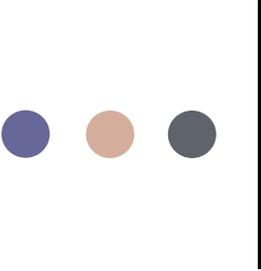
Generally:

- comparatively low tax rates and user rates
- low debt levels
- high reserve fund levels
- high service levels

Peel municipalities have a strategic location and a very high level of major infrastructure and have taken full advantage of those assets

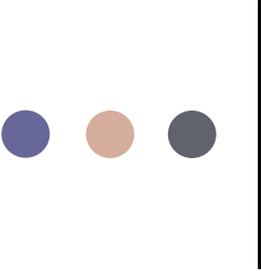
How do Peel's Financial Circumstances Compare with those of its Less Financially Sustainable Neighbour?

| | Peel (all 4 municipalities) | Toronto |
|----------------------------|--------------------------------|---------------------|
| Operating Expenditures: | | |
| o Transit | \$50/capita | \$120/capita |
| o Police | \$190/capita | \$297/capita |
| o SFS | <u>\$120/capita</u> | <u>\$183/capita</u> |
| | \$360/capita | \$600/capita |
| 2004 Capital Expenditures: | | |
| o Total | \$668/capita | \$411/capita |
| o Long Term Debt Funding | - | \$375 million |
| Assessment Base: | | |
| o Residential | \$76,000/capita | \$86,000/capita |
| o Non-Residential | \$22,000/capita | \$21,000/capita |



How fiscally significant will the build-out of Peel's greenfield development be?

- DC's fund most development-related capital – the need will greatly diminish
- Loss of the annual growth “tax float” prior to all spending increases being incurred
- Reduced increase possible in tax base for funding replacements and service level increases
- More stable operations – reduced demands on Planning - shift emphasis to intensification



Conclusion

- An essential means of properly addressing the question of “How We Get There”, is to establish a solid long term forecast of municipal capital and operating expenditures and tax and non-tax revenues.
- Municipal readiness will come from financial preparedness:
 - Full cost recovery rates
 - Lifecycle cost reserve fund provision
 - Adequate capital spending from current budget
 - Low debt leveland from a planned adjustment to services and assets designed to match relatively foreseeable changes in demographic requirements (e.g. health, recreation and social services)
- Forecast annual deficits may remain after revenue increases are maxxed out, as part of funding reasonable service levels. In that case, additional revenue sources or service off-loading may be required to achieve fiscal sustainability.