Oshawa Financial Strategy 2016-2019

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1.0 Introduction

A municipality is a no share capital corporation formed under the authority of the Municipal Act and does not have a profit motive. To be successful, it must plan for the future and use sound business principles while fulfilling its social service responsibilities. A municipality must also maintain and ensure flexibility to deal with future issues, both expected and unexpected.

For many municipalities, it is increasingly difficult to meet growing community needs and proactively plan for the future. Overall, the gap between the cost of services that municipalities must deliver (mandatory/ legislated services) and the services being requested by the public (discretionary services), and what a municipality can afford is growing. Infrastructure is reaching the end of its life, funds to maintain and replace infrastructure are harder to come by, the population is maturing and increasing in diversity requiring program and service adjustments, and demands for service remain high.

Fiscal restraint is the order of the day at all levels of government – federal, provincial, as well as at the municipal level. A strategic approach to financial management is critical to respond to the current fiscal reality and to ultimately ensure that Oshawa remains a livable and resilient community in the face of change.

Best practice indicates that to be a successful municipality, strategic financial planning with a multi-year perspective is a must in order to address the challenges of limited resources, increasing public expectations, competing priorities and the need for affordability both from a corporate and taxpayer's perspective.

This Financial Strategy can help avoid unsustainable financial practices[1] and is supported by a multi-year budget projection, as well as 10-year capital, debt and reserve forecasts, which are presented to Council as part of the annual budget process.

Our community vision and corporate mission (shown on the following page) are reflective of the goals in the refreshed Oshawa Strategic Plan, ***Our Focus, Our Future.*** They drive us to be the best we can be when facing known challenges and especially when facing unexpected challenges.

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[1] Unsustainable financial practices may include using one-time sources of revenue for ongoing costs, deferring costs to future generations, responding to immediate needs without concern for tomorrow's needs, and ignoring long-range or lifecycle costs and liabilities.

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This Financial Strategy:

- Advances the goals of the new Oshawa Strategic Plan, ***Our Focus, Our Future***.
- Is guided by the Council-endorsed principles of sustainability and financial stewardship which includes responsible taxation.
- Takes a long-term consolidated view and stimulates long-term visioning.
- Provides the community and business investors with an economic and financial snapshot for the City.
- Examines fiscal trends using key financial indicators to assess financial health and evaluate progress toward financial sustainability.
- Identifies fiscal pressures and challenges.
- Links strategy to the annual budget process through a multi-year budget projection and tax levy forecast.
- Provides financial transparency and accountability.

- Establishes a sound implementation plan increasing the City's probability of financial success.

The success of the Financial Strategy lies in the alignment between the Oshawa Strategic Plan goals, the economic snapshot, the strengths, weaknesses, opportunities and threats (SWOT) analysis, and the Financial Strategy five strategic areas. Success also lies in the Council endorsement of the Financial Strategy and the disciplined implementation, monitoring and reporting of the implementation plan.

2.0 Strategic Context

The context for this Financial Strategy is found in the new Oshawa Strategic Plan ***Our Focus, Our Future*** and the Council-endorsed principles of sustainability and financial stewardship.

Sustainability is defined as: ***"… meeting the needs of the present without compromising the ability of future generations to meet their own needs."*** Brundtland Commission, 1987

Sustainability requires us to think and act differently. It requires us to recognize, balance and act on the interdependence – the inseparability – of the strategic goals found in the Oshawa Strategic Plan. It requires us to make fully informed decisions with all facets of society and future generations in mind. The adoption of sustainability as a guiding principle helps ensure collaboration, cooperation and an integrated, balanced approach to tackling today's and tomorrow's issues.

In the fall of 2012, Council endorsed the principle of financial stewardship, which calls for the City to:

- Be proactive and innovative in providing cost effective core programs, services and facilities responsive to community needs while living within our means
- Focus attention on critical areas
- Make informed decisions that support sustainability
- Ensure responsible taxation
- Ensure a sound and sustainable financial future

This updated and comprehensive Financial Strategy advances the municipality's financial stewardship.

3.0 Economic Snapshot

Economic

Globally - It has been over seven years from the beginning of the longest and deepest recession since the 1930s according to TD Economics. Following the recession the rate of economic recovery was only 2.2% from 2009 - 2012 compared to the average rate of recovery following a recession of 4.4%. The Conference Board estimates fragile global growth of 3% in gross domestic product in 2015, up from 2.6% in 2014. Specific to the US, recent improvements in housing starts, increasing home prices, growth in retail sales and rising vehicle sales are all positive signs. The U.S. is expected to deliver growth of 2% in 2015 and 2.9% in 2016.

Nationally - Canada has weathered the recession comparatively well posting the strongest growth in real GDP in the G7. Canada's economy grew by 1.8% in 2013 and 2.2% in 2014. Inflation for 2014 reached 2.4%. The Federal government reported a balanced budget in 2015 and growth is forecast to be 1.1% in 2015 and 2.0% in 2016. The Canadian average unemployment rate was 7.1% in September 2015. The decline in the Canadian dollar is forecast to persist for 2016, a plus for manufacturing and tourism.

Specific to Federal Government funding for municipalities, the recent Federal election will see a new government in power, supportive of infrastructure funding. Municipalities will be awaiting the details to determine any new funding opportunities.

According to the Bank of Canada, the most important domestic risk to financial stability in Canada continues to come from the elevated level of household debt. Canadian household debt as a percent of disposable income was 163% per cent in the fourth quarter 2014 (Statistics Canada). Canada has taken steps to reduce this increased risk with tightened mortgage lending rules, shortening the maximum mortgage amortization length and imposing limits on how much people can borrow against their homes. The risk remains that given low interest rates, household debt could grow faster than household incomes.

Provincially – Ontario's deficit of $12.5 billion means a period of fiscal restraint as the Province is looking to achieve a balanced budget by 2017- 2018. The shift occurring from a goods-producing to a more technology-based, service-producing economy is underway. Although manufacturing still remains a key sector in Ontario, the pace of auto production will be influenced by producers opting for the U.S. and Mexico. The Ontario economy (real GDP) grew by 1.3% in 2012 and 2013, 2.2% in 2014 and is forecast to grow 2.6% in 2015 and 2.3% in 2016. The average unemployment rate was 6.9% September 2015. Specific to Provincial government funding for municipalities, the 2015 Provincial budget included a $2.6 billion increase in dedicated funds for Moving Ontario Forward for a total of $31.5 billion over 10 years ($29 billion was announced in the 2014 budget) and reaffirmed the Province's commitment to *Building Together,* a $100 billion commitment over 10 years. The budget clearly signals the Province's commitment to encourage consolidation and encourage efficiencies in the electricity distribution sector. The Province is also moving forward with a cap-and-trade system as its carbon pricing mechanism.

Regionally – The Region of Durham's 2014 annual business count surveyed 11,271 businesses operating in the Region employing more than 170,000 people, with 67% of the jobs being full-time. There was a 13% rise in house prices year-over-year in Durham Region in 2014. The Oshawa CMA, which includes Whitby, Oshawa and Clarington, is one of Canada's fastest growing economies according to the Conference Board of Canada. The Oshawa economy grew by 1.9% in 2012 and 1.8% in 2013 (9th out of the 28 CMA's studied) with the greatest growth occurring in the construction sector (residential and non-residential), and the business, personal services, and information and culture sector, the latter aided by the redevelopment of Oshawa's downtown. Much of the weakness was assigned to the manufacturing

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sector, which contracted by more than 30% during the 2008 - 2009 recession, and declines in transportation and warehousing. The Oshawa CMA's $11.3 billion economy is expected to have moderate growth of 2.5% in 2015. The Oshawa CMA reported unemployment rate was 8.6% September 2015 (Statistics Canada).

Locally – Specific socio-economic factors which contribute to the development of sound financial policies for the City of Oshawa can be found in the following sections.

Infrastructure

Key horizontal and vertical infrastructure, grey and green[2], is a significant contributor to Oshawa's quality of life. Oshawa is well connected by Highway 401, mainline CN and CP Rail, Oshawa Executive Airport and the Port of Oshawa. Growing inter-regional public transit, both Durham Region Transit and GO Transit, and cycling infrastructure provide greener travel options. GO Train service to Oshawa is now every 30 minutes during off-peak hours with more frequent service during peak hours. Reliable connections to water and sewer, telecommunications, fibre, electricity and natural gas can be found throughout Oshawa.

The expectation of a future GO Train station just south of downtown, the soon to be completed extension of Highway 407 to Harmony Road North and ultimately to Highway 115, and the potential for new Highway 401 interchanges at Harmony Road South and Simcoe Street South bring opportunities but also fiscal challenges in the years ahead.

Population

The City saw a 5.8% growth rate 2011 – 2014 (BMA Study), significantly above the BMA survey average of 2.3%. From July 2012 to July 2013, the Oshawa CMA registered the strongest population growth in Ontario (1.6%), with the second strongest growth from July 2013 to July 2014 (1.3%), behind the City of Toronto, (Statistics Canada). The total estimated population for Oshawa in 2015 is 160,051. The projected population by 2020 is 168,134 and by 2025 176,103.

[2] Horizontal and vertical, grey and green, infrastructure refers to roads and bridges (grey horizontal), buildings (grey vertical), creek corridors (green horizontal), and parks, trees and woodlots (green vertical).

The City must respond to this growing population but also to the change occurring in the City's age cohorts, as shown in Table 1 below.

Table 1
Age Cohort Percent Change 2001 - 2014

Age Cohort	2001	2006	2011	2014	Percent Change 2001-2014
0-9	18,535	15,670	16,350	16,949	-8.6%
10-19	19,170	19,715	18,720	18,186	-5.1%
20-29	18,510	17,930	19,770	21,038	13.6%
30-39	22,415	18,625	18,880	19,827	-11.5%
40-49	22,175	24,435	22,895	21,669	2.3%
50-59	16,015	19,090	22,340	25,272	57.8%
60-69	10,445	11,770	15,225	17,847	70.9%
70+	11,880	13,015	15,440	17,554	47.8%

Source: 2001, 2006 and 2011 Census

The age profile of a municipality may affect expenditures. For example, expenditures may be affected by seniors requesting higher service levels and families with young children requesting services for recreation programming. From 2001 to 2014, the younger age cohorts (0 -19) have declined by 13.7% while the 20-29 age group has seen an increase of 13.6% and the 50 plus cohorts have seen significant increases from 47% to 70%.

The 2014 BMA Study (latest version available) indicates Oshawa has a slightly more mature age profile than the Greater Toronto Area (GTA) with 15% of the Oshawa population 65 plus versus 12% for the GTA. Oshawa also has a corresponding lower 0 - 19 population of 23% versus 26% for the GTA. This aging can be seen in the increase in the City's median age from 36.5 in 2001 to 39.4 in 2006 to 40.6 in 2011.

Another change on the City's horizon is increasing ethnic diversity. The major source of population growth for Oshawa is immigration, the GTA receiving most of the international immigration to Ontario.

In 2011, visible minorities comprised 20.7% of Durham Region population up from 16.8% in 2006 and 12.4% in 2001. In 2011, 9.3% of the City's population was comprised of visible minorities compared to 8.1% in 2006 and 6.1% in 2001 (Statistics Canada). More recent data from Environics reports that Oshawa visible minorities comprise 9.6% of the population and is projected to reach 10% by 2017 and 11% by 2024.

As the population grows, matures and diversifies, the City will see impacts on infrastructure, services and programs as needs and demands change. Accompanying this change in population characteristics will need to be an increasing awareness of and respect for personal differences – in attitudes, beliefs, experiences, traditions and approaches to problem-solving.

Residential Development

The City continues to set building records. In 2014, the City had the highest total construction value of building permits ever recorded in any year of $506.8 million. This value was split 52.4% residential, 41.7% industrial/commercial and 5.9% institutional/government. There were 805 new residential units created in Oshawa in 2014 consisting of 434 single detached dwelling units, 210 apartment units, 150 townhouse units, 2 duplexes, 2 semi-detached dwelling units and 7 accessory dwelling units. The first half of 2015 continued to break records, with over $300 million in construction value.

According to the 2014 BMA Study (latest version available), 82.8% of Oshawa's assessment is from the residential sector, including multi-residential. This percent is just above the BMA survey average of 81.3% and the GTA average of 82% but a reminder of the need for economic diversity and growth in the commercial and industrial sectors. Fortunately, growth in this sector remains strong with a healthy supply of approximately 6,077 units in proposed and approved draft plans, and registered plans without building permits issued, as of end of June 2015.

The following table shows the growing number of private households in Oshawa from 2001 – 2014. The number of households increased 4.9% from 2001 – 2006, 7% from 2006 - 2011 and 4.9% from 2011 - 2014.

Table 3
Number of Private Households, 2001 – 2014

2001	2006	2011	2014
52,350	54,920	58,795	61,697

Source: 2001, 2006 and 2011 Census; 2014 City Housing Monitoring Report

The City offers a variety and range of housing options and is considered one of the more affordable housing communities in the GTA. Recently, Money Sense Magazine's recognized Durham Region and the Oshawa CMA as 10th out of 35 in its Best Places to Buy Real Estate list.

Housing options include planned subdivisions, historic/mature neighbourhoods, urban condominiums, rental apartments, and retirement living. The provision of student housing has also been accommodated in the City's Official Plan and Zoning By-law. In terms of ownership, in 2014, 71% of those living in existing housing stock at the end of 2014 owned their home while 29% rented. The private rental apartment vacancy rate in the Oshawa CMA was 1.7% April 2015, down from 2.2% in the fall 2014 (CMHC Rental Market Report, Spring 2015). The average price of a single detached home in the City as of October 2015 was $378,510 up from $339,967 same time last year (Durham Region Association of Realtors). The following table shows the housing mix for 2001, 2011 and 2014.

Table 4
Private Housing Unit Distribution by Type, 2001, 2011 and 2014

Type	2001	Percent	2011	Percent	2014	Percent
Single detached	28,730	55%	32,845	56%	34,252	55%
Semi detached	5,525	11%	5,275	9%	5,370	9%
Townhouses	4,630	9%	5,220	9%	5,454	9%
Apartment units	13,380	25%	15,355	26%	16,621	27%
Total	52,375	100%	58,795	100%	61,697	100%

Source: 2001 and 2011 Census; 2014 City Housing Monitoring Report

The distribution of dwelling types has seen little change from 2006 to 2014. According to the 2014 BMA Study, Oshawa has a high density rating with a land area of 146 square kilometres and a population density of 1,087 persons per square kilometre. Population density is indicative of the age of a city, growth patterns, zoning practices, new development opportunities and the level of multi-family unit housing. Density also affects the cost of municipal goods and services. More compact boundaries and high population density can result in a lower cost per household for municipal services.

Over the long term, it is expected that the housing mix will change as a result of higher density development in response to provincial intensification guidelines that call for increased density of residential and employment lands. Oshawa's downtown, in particular, is designated as an Urban Growth Centre by the Provincial Growth Plan, which extends to 2031. It requires the City meet a target of 200 persons and jobs/hectare for the Urban Growth Centre, while other urban areas within the city's built-up area must meet a target of 50 persons and jobs/hectare. The 2031 targets established for the City are 90,790 total employment (currently estimated at 77,749) and 197,000 population (currently estimated at 160,051).[3]

Commercial and Industrial Development

The City continues to advance a robust economic development program and market to its key sectors. Partnerships with the Durham Economic Development Partnership (DEDP) are fostered to advance foreign direct investment. In 2013, Oshawa was ranked the 11th Best Place to Run a Business in Canada by the Canadian Federation of Independent Business. Healthy manufacturing, construction and wholesale and retail trade is expected to lead to a 2.5% GDP growth in the Oshawa CMA in 2015 (Conference Board of Canada, Metropolitan Outlook Winter 2015).

Despite these opportunities and a Development Charge exemption, industrial growth continues to trail residential and commercial development because of the lack of serviced industrial land and slow economic recovery. A number of U.S. based businesses such as Buffalo Wild Wing, Kids Foot Locker and Fresh Del Monte have, however, chosen Oshawa as an entry point into the Canadian market, the latter repurposing former vacant industrial space.

The City continues to see significant investment in the commercial sector by RioCan, Smart Centres, Rice Group, Marriott Hotels and the Oshawa Centre. Ongoing investment in the downtown continues with the construction of the Holiday Inn Express Hotel and Oshawa Conference Centre, as well as the growth of the creative economy through Core 21. The Oshawa Executive Airport continues to play a key role in business attraction with new aviation related businesses operating from the Airport.

In 2014, the City had the highest total construction value for building permits issued in the commercial category ever recorded. The following table demonstrates the City's recent level of activity in the commercial, industrial and institutional/government sectors:

[3] Current estimates are from BMA Study

Table 5
Building Permit Data, Year End 2012 - 2015

Sector	2012	2013	2014	End of Sept 2015
Commercial	$54,173,200	$41,433,000	$182,844,100	$25,360,000
Industrial	$12,525,800	$8,579,000	$28,333,500	$11,500,300
Institutional/Government	$34,449,100	$32,201,000	$30,063,600	$31,114,900

In Oshawa and throughout Durham Region, the business start-up scene is heating up, largely in part to the support and resources available through organizations such as the Business Advisory Centre Durham and the Spark Commercialization and Innovation Centre (the newest of 14 Ontario Regional Innovation Centres) located in CORE 21 in downtown Oshawa. Offering mentoring, training, connections and access to Angel Funding, the Spark Centre offers new start-ups access to all the services they need to take their business to the next level.

Downtown Revitalization

The revitalization of downtown Oshawa has been a high priority of the community and City Council.

More than 2,500 students are attending classes through University of Ontario Institute of Technology's Faculty of Social Science and Humanities and Faculty of Education. In 2014, a number of entrepreneurs chose downtown Oshawa for their business location. From collaborative community projects to new businesses and investment, Oshawa's downtown has grown into a proven hub for professional services, education, entertainment and a vast array of restaurants. New businesses include many international restaurants, live music clubs, cafés and bistros, and many more. Downtown Oshawa is also the destination for many of the region's best festivals and events, including the Oshawa Peony Festival, Fiesta Week Parade, Durham Craft Beer Festival, Bikes on Bond and Autofest Kick-Off.

Downtown is home to one new hotel - La Quinta Inn & Suites - a 59-room boutique hotel that opened in November 2013, while a $21 million, 125-room Holiday Inn Express and Oshawa Conference Centre is under construction, scheduled to open in late 2015. Also under construction is a new mixed-use high-rise development in downtown Oshawa at 100 Bond Street East that will contain 239 condominium units and ground floor commercial use.

CORE21, one of the area's newest co-working office facilities located at 21 Simcoe Street South has doubled in size with the opening of floor 2 of the facility. The primary resident on this new level is the Spark Centre, who in partnership with the City of Oshawa has launched The Loft - a 90-seat start-up incubation space. The Loft is a new ecosystem where innovative entrepreneurs and partners can collaborate with Spark Centre in a truly unique environment.

The City has supported many more initiatives from new tree plantings to a sidewalk café program, and offers a number of incentive programs (community improvement plans) to support private investment and development in the downtown core. The new comprehensive and community led Plan 20Twenty for downtown Oshawa has been adopted to ensure that downtown Oshawa develops as a vibrant, attractive and animated downtown where people come together to live, work, shop, meet and engage.

Education

Oshawa is a centre of life-long learning as a result of its well established academic sector. In February 2015, 55.5% of working adults 25 to 64 years in the City held a post-secondary certificate, diploma or degree (BMA Study). The City also has over 22,000 full-time and part-time post-secondary students as follows:

Institution	**Enrollment** (latest available)
UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY	10,000 full-time, of which 2,500 students are located in the downtown campus
DURHAM COLLEGE SUCCESS MATTERS	8,287 full-time

Institution	**Enrollment** (latest available)
TRENT UNIVERSITY | DURHAM	810 full-time students (estimated to reach 1,500 students by September 2016)
Queen's UNIVERSITY	Queen's University/Lakeridge Health Education and Research Network (LHEARN) has 16 family medicine residents as part of its Family Medicine Satellite Program

The City has over 22,000 full-time post-secondary students, with approximately 2,500 in the downtown. Oshawa is also home to five career colleges/trade schools including triOS and Trillium.

Employment

The key sectors in the Sector Analysis and Cluster Development Strategy being pursued as part of the City's economic development program include advanced manufacturing, health and bioscience, energy generation, multimodal transportation and logistics, and information technology. In particular, since 2008, Oshawa has experienced significant growth with the expansion of the education and health care sectors. This together with an established energy and manufacturing sector and emerging industries in logistics and information technology, has resulted in a more diversified economy. Today, Oshawa has over 10,000 employed in health care, over 10,000 employed in education, over 8,000 in energy and over 4,000 in automotive industries (the latter to be reduced with the planned reduction in GM).

Oshawa is home to the following major employers:

Private Sector

- Auto Warehousing Company (Automotive)

- Cleeve Technology (Global HQ)
- EHC Global (Global HQ, R&D Centre and Manufacturing Facility)
- Fresh Del Monte Produce Inc. (first Canadian facility)
- General Motors of Canada (HQ, Regional Engineering Centre, Assembly Facility)
- Mackie (Logistics)
- Minacs (Contact Centre)
- Nuflow Technologies (Canadian HQ)
- Oshawa Clinic (largest privately owned medical clinic and surgical centre in Canada)
- Pival (Logistics)

Public Sector

- Canada Revenue Agency
- Children's Aid Services
- Durham College
- Durham District School Board
- Durham Region Provincial Courthouse
- Lakeridge Health Hospital
- Ministry of Finance
- Ontario Power Generation
- Region of Durham
- Trent University Durham
- University of Ontario Institute of Technology

Not-for-Profit Sector

- Big Brothers Big Sisters of Oshawa – Whitby
- Boys' and Girls' Club of Durham
- Durham Deaf Services
- Durham Family YMCA
- Grandview Childrens Centre
- John Howard Society
- Literacy Council of Durham Region
- Rose of Durham
- Salvation Army Community Services

- Simcoe Hall Settlement House
- United Way of Durham
- Victorian Order of Nurses, Durham Region
- YWCA Durham

The Greater Oshawa Chamber of Commerce is a local resource for business, which partners with various government agencies to ensure companies in Oshawa have access to a selection of programs and incentives. Such support is critical given small businesses are significant drivers of the local economy. Oshawa's long-standing support for entrepreneurs is evidenced by the 2014 Canadian Federation of Independent Business, which ranked Oshawa 4th in major Canadian cities for entrepreneurial policy.

To achieve the employment forecasts contained in the Provincial Growth Plan, the Durham Regional Official Plan contains an employment forecast for the City of Oshawa showing steady growth in employment, as follows:

Table 6
Employment Forecast

Year	Employment	Percent Change
2011	68,270	n/a
2016	75,305	10.3%
2021	84,660	12.4%
2026	86,835	2.6%
2031	90,790	4.6%

As of October 2015, the percentage of Oshawa adults 15 years and older working (employment rate) is 57.84% and the percentage of Oshawa adults 15 years and older working or looking for work (participation rate) is 63.39%. Despite a positive employment forecast, Oshawa experienced a peak in unemployment in 2012 as a result of the global economic climate but has returned to a lower unemployment rate. The Oshawa CMA unemployment rate of 7.5% was on par with the Provincial average unemployment rate of 7.6% in December 2013. The labour force and unemployment rate trends for the City of Oshawa are shown below.

Table 7
City of Oshawa Labour Force and Unemployment Rate 2001 - 2015

Measure	2001	2006	2012	Nov 2013	Oct 2015
Labour Force	73,245	76,350	82,644	83,043	85,204
Unemployment Rate	7.2%	7.6%	10.5%	7.5%	8.75%

Sources: 2001-2006 Statistics Canada; 2012, 2013 and 2015 Manifold Data Mining

Household Income

Household income is one measure of a community's economic health and ability to pay. Higher income usually means a lower dependency on government service, recreation and social assistance. Three key measures of income are average household income, disposable household income and discretionary household income. Table 8 shows the impact of the economic recession with a decrease in disposable and discretionary incomes in 2008. The rise in income since 2008 is evidence of an economic recovery.

Table 8
Oshawa City 2005 – 2014 and CMA 2005 – 2013 Income

Income	City of Oshawa					Oshawa CMA			
	2005	2008	2011	2013	2014	2005	2008	2011	2013
Average Household Income	$65,893	$70,654	$80,476	$82,838	$83,840	$77,095	$84,809	$92,456	$100,950
Disposable Income per Household *	$57,565	$51,046	$62,271	n/a	n/a	$66,656	$61,274	$70,682	n/a
Discretionary Income per Household +	$31,253	$16,024	$22,545	n/a	n/a	$37,259	$21,442	$27,138	n/a

Source: 2005-2011 FP Markets. 2013 from the 2014 BMA Study; 2014 Manifold Data Mining
**Disposable income per household is income after federal and provincial tax and statutory deductions*
+Discretionary income per household is disposable income per household less food, shelter, transportation, clothes and health care costs

Statistics Canada also reports on other community economic health indicators. One indicator is the percent of household income derived from market income and government transfers. In 2010, 85.3% of private household income in the City of Oshawa was derived from market income with 14.7% from government transfers.[4] This is compared to the Ontario income composition of 87.7% from market income and 12.3% from government transfers. This ratio informs understanding around taxpayer's ability to pay.

[4] Government transfers are comprised of CPP, QPP, Old Age Security, Guaranteed Income Supplement, Employment Insurance Benefits and Child Benefits. Statistics Canada, National Household Survey

In 2010, 14% of persons in private households in Oshawa were categorized as low income,[5] which is the same as the provincial average but less than the national average of 14.9%. In terms of Oshawa seniors, 5.9% of persons 65 years and over living in private households in 2010 were reported to have low income after tax. This is compared to 8.3% for Ontario and 13.4% for Canada. The city's oldest citizens are largely on fixed income and many are no longer living independently. It is anticipated that as the baby boomers mature, this segment of the population may be healthier and more financially secure.

In terms of lone parent families, in 2010 Oshawa had 8,290 lone parent families representing 20% of all economic families (as defined by Statistics Canada). The median after tax income for Oshawa lone parent families was $42,272, below both the provincial and federal medians.

Conclusion

The global economy is still fragile and all levels of government are facing tightened fiscal conditions. For Oshawa, this economic reality impacts investment income and program revenues, affects assessment growth that is relatively dependent on a higher service cost residential sector, maintains uncertainty around senior government funding programs and influences the taxpayers' ability to pay.

The City's growing and diversified economy is supported by a solid and expanding infrastructure base. The City's population and number of private households are increasing. Building permit values are at record levels. Significant investment continues in the residential and commercial sectors. U.S. based businesses are moving into Oshawa. Support for business development is high. The downtown's second hotel is under construction. The City boasts four post-secondary institutions. Household income is on the rise. All of these factors provide a strong base from which to build upon the City's strengths, address remaining weaknesses, take advantage of opportunities and mitigate threats.

[5] A person living alone with after-tax income below $19,460 and a household of four with after-tax income below $38,920 would be considered low income. (Statistics Canada)

4.0 SWOT Analysis

To ensure a comprehensive understanding of both the internal and external forces influencing or affecting Oshawa, a strengths, weaknesses, opportunities and threats (SWOT) analysis with a long-term focus was undertaken. The SWOT analysis is part of the City's strategic planning process where it connects its objectives and strategies to actionable tactics.

Strengths provide an analysis of an organization's key advantages and can serve to minimize threats and weaknesses. Threats explore the external environment that could impact an organization, including technological, environmental and regulatory factors. The SWOT also contributes to an understanding of internal and external risks.

The detailed results of the SWOT analysis can be found in Appendix 1.

5.0 Strategic Areas

Five strategic areas have been identified in response to the SWOT Analysis and the need to ensure financial sustainability and stewardship. They are:

5.1 Infrastructure Investment
5.2 Reserve Fund
5.3 Debt Management
5.4 Revenue Sources
5.5 Operating Costs

Each strategic area includes the following components:

- Goal
- Current Situation
- Pressures and Challenges
- Recommended Strategies (compiled in Appendix B)

The goal provides the description of the desired outcome to be achieved over the long term. The current situation addresses where the City is currently, existing financial policies and includes key financial indicators and comparisons against peer municipalities[6]. Pressures and challenges facing the City are discussed. Each section concludes with recommended strategies, which if endorsed by Council and implemented, will help achieve financial sustainability and responsible stewardship of the public dollar.

[6] The comparator municipalities of Pickering, Ajax, Whitby, Clarington, Kitchener, Cambridge, St. Catharines, Richmond Hill, Burlington and Oakville ensure a comparison against other Durham lakeshore communities, as well as against municipalities of similar size with similar economic realities.

5.1 Infrastructure Investment

Goal

Ensure long-term planning and commitment of adequate funds to build, maintain and renew City infrastructure including addressing the existing infrastructure funding gap to protect the City's investments and ensure infrastructure continues to meet the needs of the community within the financial capacity of residents and businesses.

Current Situation

For decades, municipalities have under-invested in infrastructure resulting in an infrastructure deficit. Oshawa is no different. Through the development of the 2015 Capital Budget and as reported in report CM-14-32, an infrastructure gap of $212M was identified. The completion of the City's Asset Management Plan will analyze this significant gap and provide a framework for effectively managing the City's infrastructure assets. In addition, asset management will:

- provide a more consistent and strategic approach to decision making, investment and identification of replacement needs in a sustainable manner both in the short and long-term;
- report on the state of the City's infrastructure including the condition of assets by service area and identify funding gaps (i.e. infrastructure deficit);
- analyze existing service levels to ensure alignment with the Asset Management Plan;
- recommend leading practices for asset management including implementing life cycle costing;
- identify appropriate maintenance funding required to extend the life of the City's assets; and
- prioritize investment in capital assets to ensure existing assets are maintained and new capital investments are appropriate.

As illustrated in the following table, as of December 31, 2014 the City of Oshawa has over $789 million in infrastructure, excluding land, which will require eventual replacement to sustain the community's overall quality of life and the economic health for future generations.

Historical Value of Tangible Capital Assets (excluding Land)
As of December 31, 2014

Asset Class	Historical Cost
Land Improvements	$40,907,162
Buildings	$222,865,170
Machinery and Equipment	$18,758,660
Vehicles	$21,543,697
Furniture	$2,037,806
Linear Assets	$445,276,786
Other Assets	$15,630,686
Work in Progress	$22,127,446
Total	**$789,147,413**

Prudent asset management principles suggest that, at minimum, annual contributions to the capital program for asset replacement be at least equivalent to historical amortization expense, the annual consumption or utilization expense of an asset. The City currently has sustainable funding strategies in place for a portion of its existing assets including vehicles, equipment and playground equipment. Other asset classes such as the City's vertical infrastructure, green infrastructure, linear and storm water management infrastructure do not have sustainable funding strategies.

The following table illustrates the City's 2014 depreciation expense by asset class. The average annual contribution to asset renewal is well below the 2014 depreciation expense of $24.6 million. This is not a unique situation to Oshawa and is a challenge that is faced by virtually all municipalities across Ontario. Without additional infrastructure investment, there is a significant risk that Oshawa's assets will deteriorate further and potentially impact community health, safety and services.

2014 Depreciation Expense by Asset Class

Asset Class	2014 Depreciation Expense
Land Improvements	$1,522,982
Buildings	$6,942,060
Machinery and Equipment	$1,782,305
Vehicles	$1,488,298
Furniture	$295,882
Linear Assets	$11,560,154
Other Assets	$1,049,442
Total	**$24,641,123**

In addition to maintaining the City's existing infrastructure, the City needs to build new infrastructure including roads, bridges, parks, trails, recreation facilities and fire halls to service growth. While development charges paid by developers cover a large portion of the City's growth related capital costs there is still a significant portion that municipalities must fund, in addition to the operating costs required to service new growth.

The provincial and federal governments recognize the importance of sound business practices. Through recent funding programs, policies and legislation senior levels of government are ensuring all municipalities adopt and follow a sound Asset Management Plan.

In 2012, the Ontario government released the *Building Together: Municipal Infrastructure Strategy*. The goals of this strategy includes making good asset management planning universal; moving toward optimal use of a full range of infrastructure financing tools; and addressing the structural challenges facing municipalities. As recommended in this policy document, Council, as part of the 2014 budget, endorsed a 10-year capital plan as well as moved up the approval process for time-sensitive capital budget items. The shift to a longer-term 10-year capital forecast is consistent with municipal best practice and reflects improved business planning processes resulting in improved decision making and allocation of the City's limited funding for infrastructure renewal and replacement. An inadequate investment in renewal and replacement of City capital assets has a negative impact on the City's annual operating budget due to higher maintenance costs required to prolong the life of assets.

The 10-year capital plan improves communications, provides greater clarity for work being undertaken between departments, especially between engineering groups and maintenance/operations groups, and allows a larger contract and single tender for similar projects. The construction industry has acknowledged the benefits of a 10-year capital plan, which allows for advanced planning for their work, including resource allocation, staffing, specialty training, and equipment acquisition, and the opportunities for better pricing with tenders early in the year.

The City also adopted a new capital project and major initiatives prioritization model for the 2014 budget, which complements the formalization of an Asset Management Plan. This model is currently used to prioritize capital projects and direct funding based on sound asset management principals including alignment with the City's strategic priorities, risk assessment, service levels and sound financial principles.

The federal government as part of recent federal budgets announced a 10-year commitment beginning in 2014 – 2015 to provide a total of $53 billion in infrastructure funding through the new "Building Canada Plan". Included in this plan is renewed and increased federal gas tax funding and HST rebates for municipalities. The Building Canada Plan also includes application-based infrastructure grant funding for provinces and municipalities. The City is awaiting further details on eligibility criteria and the application process.

The City has established the following policies to address the existing infrastructure funding gap and protect the City's investments to ensure the City's infrastructure continues to meet the needs of the community.

Infrastructure Renewal/Replacement Reserve Policy

The Infrastructure Renewal/Replacement Reserve shall be maintained to provide funding for the major renewal and replacement of the City's infrastructure. It shall be funded from annual operating budget contributions with annual contributions increasing until they reach 2.5% of the value of the City's vertical grey infrastructure (i.e. buildings).

Use of One-Time Revenue Policy

One time revenue shall be set aside in the City's Major Facility Reserve for the major repair or replacement of City facilities.

Debt Retirement Policy

When a debenture has been retired, the debt payments shall be reallocated to the Debt Management Reserve and Infrastructure Reserves.

Pressures and Challenges

The goal to ***"ensure long-term planning and commitment of adequate funds to build, maintain and renew City infrastructure including addressing the existing infrastructure funding gap to protect the City's investments and ensure infrastructure continues to meet the needs of the community within the financial capacity of residents and businesses"*** is challenged by a number of factors, including:

Aging Infrastructure - The City, like many other municipalities has aging infrastructure requiring maintenance, rehabilitation and/or renewal which is placing additional pressure on operating and capital budgets. The annual BMA study reports an asset consumption ratio that shows the net book value of the tangible capital assets relative to their historical costs. This ratio seeks to highlight the aged condition of the assets and the potential asset replacement needs. A higher ratio may indicate significant replacement needs. However, if adequate funding has been set aside and assets are renewed and replaced in accordance with an asset management plan a high ratio should not be cause for concern. The following table shows the asset consumption ratio for Oshawa and its comparator municipalities:

Asset Consumption Ratio for Oshawa and Comparator Municipalities 2009 - 2013

Municipality	2009	2010	2011	2012	2013
Oshawa	33.9%	35.7%	35.7%	37.0%	38.3%
Ajax	21.7%	26.4%	26.6%	26.3%	25.9%
Burlington	32.2%	32.5%	31.6%	32.3%	32.6%
Cambridge	38.1%	39.1%	38.2%	39.3%	40.4%
Clarington	32.7%	34.1%	34.9%	36.1%	37.4%
Kitchener	35.5%	34.7%	33.2%	33.7%	33.8%
Oakville	29.2%	29.6%	29.7%	30.0%	31.0%
Pickering	47.9%	49.2%	49.5%	50.2%	50.7%
St. Catharines	43.5%	40.4%	40.8%	39.9%	40.3%
Whitby	28.5%	29.6%	31.8%	32.8%	34.1%
Comparator Average	**34.6%**	**35.1%**	**35.2%**	**35.9%**	**36.2%**
Survey Average	**35.6%**	**35.6%**	**34.9%**	**33.0%**	**37.6%**

Source: BMA Study

As illustrated in the above table Oshawa's asset consumption ratio continues to grow and is higher than both the comparator average as well as the survey average. This indicates that Oshawa's assets are closer to the end of their useful life.

Need of an Overall Strategic Asset Management Plan – A strategic plan based on lifecycle, risk, financial and level of service for the effective and efficient management of the City's assets at the lowest lifecycle cost is required. It is important that all infrastructure for which the City is responsible for maintaining, renewing/replacing and building is included in the City's Asset Management Plan, including the General Motors Centre, Robert McLaughlin Gallery, etc. The City's Asset Management Plan is projected to be completed in 2016 and will address this current weakness.

Funding Challenges – Federal and provincial funding has historically been focused on linear assets as opposed to vertical assets. Starting in 2014/2015 the Federal Gas Tax funds can be used for a broader range of infrastructure renewal and expansion including recreation and culture facilities. Unfortunately, the amount of funding has not increased significantly. In addition, no sustainable infrastructure funding exists for vertical infrastructure used for general government and operational purposes.

Inadequate Reserve Funds for Capital Infrastructure Requirements –The City has two reserves, namely the Facility Replacement Reserve and Condition Audit Reserve to fund capital renewal and replacement of the City's vertical grey infrastructure including recreation facilities, fire halls, parking facilities, depots and other structures. The total 2015 tax levy contribution to these two reserves was $2.0 million. The 2014 annual depreciation for the City's vertical grey infrastructure was $6.9 million. The current funding level is not sustainable. Without increased contributions to these reserves the City's vertical grey infrastructure will continue to deteriorate and major rehabilitation and replacement projects will have to be funded by debt.

Changing Demographics – The City is experiencing changing demographics including a more culturally diverse and aging population. These demographic changes will continue to cause a shift in demand for different types of facilities, programs and services.

Provincial Accessibility Legislation - Provincial accessibility legislation concerning the design of public spaces and the Ontario Building Code are in place for new construction and major changes to existing facilities and public spaces (i.e. recreational trails, paths of travel and service areas). This new legislation will require the City to invest in the removal and prevention of accessibility barriers related to the City's infrastructure.

Growing Community - Oshawa is a growing community and additional infrastructure (i.e. roads and road infrastructure, erosion control, fire halls, equipment, recreation facilities, parks and trails, etc.) is required to respond to growing needs. Exemptions, deductions and limitations in the current Development Charge Act restrict municipalities' ability to respond. Fiscal impact studies carried out by the Municipal Finance Officers' Association (MFOA) show that approximately 25% of growth-related capital costs are ineligible for funding from Development Charges, leaving the property tax base as the only source of funding available to municipalities. Limited tax funding often results in municipalities having to prioritize between growth-related capital costs and maintaining and rehabilitating existing assets.

Based on the City's 2014 Development Charge Background Study, the City requires approximately $380.2 million in capital funding for new parks, trails, roads, sidewalks, streetlights, traffic signals and watercourse improvement projects to support expected growth. Of this total, $140.3 million is not eligible for development charge funding. It is expected that contributions from developers and property owners will fund $116.0 million of this gap, leaving $24.3 million to be funded by the City.

Harbour Land Improvements – On July 15, 2010, City Council entered into a Settlement Agreement with the Federal Crown, the Oshawa Harbour Commission and the City in respect to a number of matters relating to the Harbour. The Agreement provided for the conveyance of approximately 19.4 hectares (48 ac.) of land to the City subject to various terms. The City has accepted ownership of all the lands outlined in the Settlement Agreement, namely the North Parcel, Southeast Corner, West Wharf and Marina Lands. In addition, the City has acquired the lands at 1609 Simcoe Street South.

Under the Settlement Agreement, the City is required to, at a minimum, improve the transferred lands south of Harbour Road for "municipal public purposes" by early 2017. The initial step towards this is to bring the lands into compliance with Provincial environmental standards through the preparation and filing of Records of Site Condition. This environmental work is currently underway.

Staff is currently working towards improving the lands for municipal public purposes (i.e. parkland) to meet the minimum requirements of the Settlement Agreement and the 2014/2015 capital forecasts included sufficient funding to do this (including the ongoing environmental work and connecting trail). Additional funding would be required and can be addressed in annual capital budgets should the City decide to go beyond the minimum legal obligations of the Settlement Agreement to undertake relatively minor additional work such as replacing the trail bridge over Oshawa Creek. The estimated costs in 2009 for additional environmental remediation to deal with contaminated marina basin dredgeate and removal of other contaminated soil if the existing marina basin is to be enlarged; construction of a new marina and public boat launch; parking; extra parkland features; amenities; and additional trails were in the range of ±$22 million and there is no funding source for this. Staff will continue to look for funding partners and grant programs to offset the costs of improving the City harbour lands. The sale of the North Parcel is a potential revenue source.

In the event that the City does not improve the lands to permit, at a minimum, municipal public purposes, the Settlement Agreement has penalty clauses involving payment of approximately $2.356 million to the Federal Crown for not improving the West Wharf lands and $1.7 million for not improving the Marina Lands. However, it is anticipated that the City will be able to meet the minimum requirements of the Settlement Agreement.

Provincial Transportation Initiatives – Various provincial government transportation initiatives including the Hwy 407 east extension, Hwy 401 interchange improvements and GO Transit expansion will require the City to invest in linear infrastructure in order to accommodate these provincial improvements.

Airport Capital Requirements – As outlined in the draft 2015 – 2019 Oshawa Airport Business Plan, there is an estimated $6.5M in capital requirements over the next five years. A significant portion of the capital projects is expected to be funded from land sales at the airport.

Parks Recreation Library and Culture Needs Assessment Study – the study was finalized by Council on November 9, 2015 and contains recommendations related to the City's facility needs for consideration in future capital budgets. The financial implications of any such recommendations are not known at this time.

Recommended Strategies

Based on the above analysis, the following strategies are recommended to move the City toward the stated goal.

- Complete the City's Asset Management Plan and implement its recommendations.
- Undertake a regular review and rationalization of City assets to ensure investment in the City's infrastructure is limited to those assets and facilities which are required to meet service demand, service levels and safety regulations.
- Seek sustainable senior government funding for infrastructure projects supported by a business case and can be justified independently of the senior government funding.
- Complete the fiscal impact study for Kedron Part II Plan Area and other significant growth areas to determine financial impact (i.e. increased revenues, operating and capital costs).
- Continue to investigate implementation of a storm water pond maintenance fee, subject to applicable legislation.
- Investigate new user fee initiatives (e.g. stormwater utility rate) and funding models (i.e. dedicated capital levy) to provide sustainable funding for the life-cycle costs of assets.
- Complete comprehensive business plans (including life-cycle costs, operating impacts, alternative funding and capital, and service delivery options) prior to significant reinvestment in existing infrastructure or investment in new infrastructure.
- Continue to work with the Region and neighbouring municipalities when developing long-term capital plans to ensure alignment of transportation related projects.
- Ensure that green infrastructure is adequately addressed in the City's Corporate Asset Management Plan.
- Develop a comprehensive financial infrastructure policy document to consolidate all of the City's financial policies that support the long-term planning and sustainable funding of the building, maintenance and renewal of the City's infrastructure.

- Continue to increase annual reserve contributions to the Condition Audit Renewal Reserve and Facility Renewal/Replacement Reserve until the annual contribution reaches 2.5% of the value of the City's vertical grey infrastructure.
- Transfer any year-end surplus funding in General Motors Centre operating program to a dedicated reserve for renewal of the facility and related assets as long as the transfer will not result in an overall year-end deficit.
- The Infrastructure Renewal/Replacement Reserve was established in 2008 to provide funding for major repair/retrofit/replacement projects of the City's facilities. A one-time contribution was made in 2008 and was used to fund the City's share of Federal & Provincial Infrastructure grant programs for various facilities. It is recommended that we reactivate this reserve fund to accumulate funds for infrastructure renewal/replacement projects as approved by Council. The multi-year budget should be adjusted to reflect a contribution to this reserve commencing in 2016 that is approximately 0.25% of the total tax levy and grow the contribution in future budget years until the annual percentage reaches 1% of total tax levy.
- Combine the Facility Replacement Reserve with the Infrastructure Renewal/Replacement Reserve and replace all references to the Major Facility Reserve with Infrastructure Renewal/Replacement Reserve.
- Continue to investigate the replacement of existing street lighting with LED technology to reduce the City's carbon imprint and potentially achieve energy cost savings.

5.2 Reserve Funds

Goal

Build and maintain reserves to fund major or unforeseen expenditures that cannot be funded within a one year period, maintaining financial resiliency and buffering the municipality from major swings in tax levy requirement.

Current Situation

Reserves are a critical component of a municipality's long-term financial strategy as they provide flexibility, minimize the City's vulnerability and ultimately help contribute to sustainability. Reserves are established to:

- Respond to year-end deficits, or unexpected extraordinary expenses such as a large assessment appeal;
- Buffer a municipality from major swings in the tax levy requirement when a significant funding need arises;
- Provide financing for one-time or short term requirements without permanently impacting tax rates;
- Provide for replacement or construction of new major assets such as roads, buildings, parks and vehicles;
- Provide a source of internal financing;
- Ensure adequate cash flows; and
- Provide flexibility to manage debt levels.

The City has 44 reserves (reduced from 56), holds three reserves for the Library and groups its reserves into the following categories:

	Non-Discretionary Reserves	**Discretionary Reserves**
Capital reserves	18 development related reserves	Airport Development
	Federal Gas Tax	City Equipment Replacement
		Civic Property Development
		Capital Contribution
		Condition Audit Reserve
		Debt Management & Capital
		Facility Replacement
		Growth Related Non DC Portion
		Industrial/Commercial Development
		Information Technology
		Parkland/Open Space Reserve
		Park and Recreation Facilities
		Public Art Reserve (new)
		Recreation Facility Surcharge
		Transportation
Operating Reserves	Building Permit	27th Pay Reserve
		Employees' Termination Sick Leave
		Insurance Claims (Auto/Liability/Property)
		Municipal Election Reserve

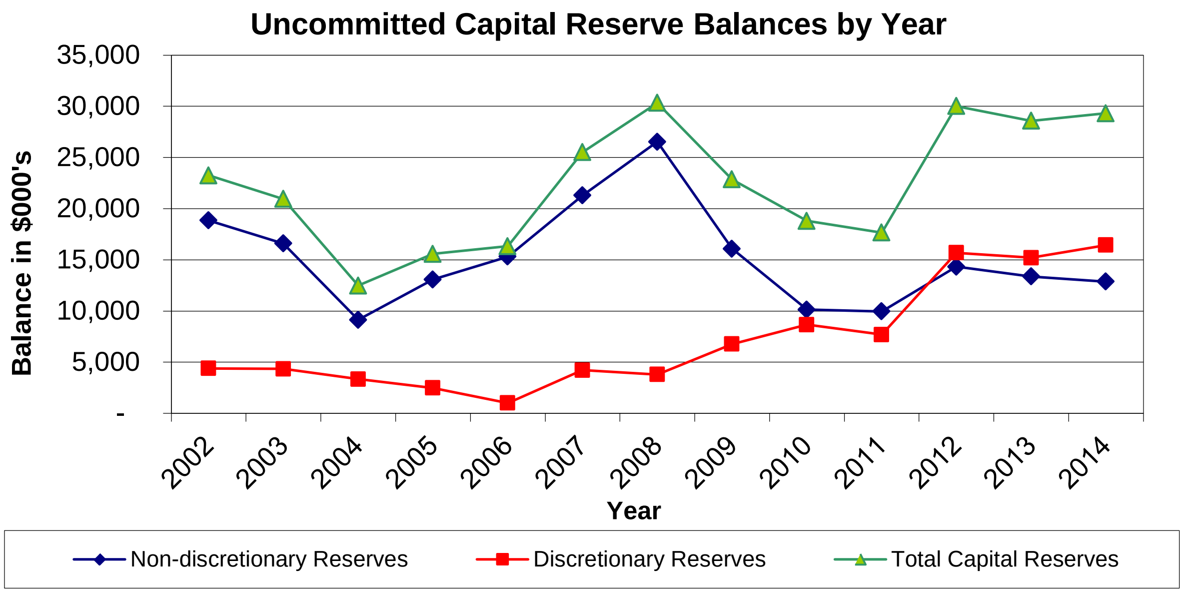
	Non-Discretionary Reserves	Discretionary Reserves
		Renaissance Community Improvement Plan
		Tax Appeal Reserve
		Tax Rate Stabilization
		Winter Control
		Workers’ Compensation

The City has both discretionary and non-discretionary reserves. Discretionary reserves are established by Council for specific projects or initiatives and may be repurposed by Council. These reserves are normally funded by tax levy or outside sources. Non-discretionary reserves are established whenever a statute requires revenues received for specific purposes to be segregated from general municipal revenues (e.g. development charges). Use of these funds is determined by outside statute or agreement such as the Development Charge Background Study or external funding agreements. Council cannot change the use of these reserves.

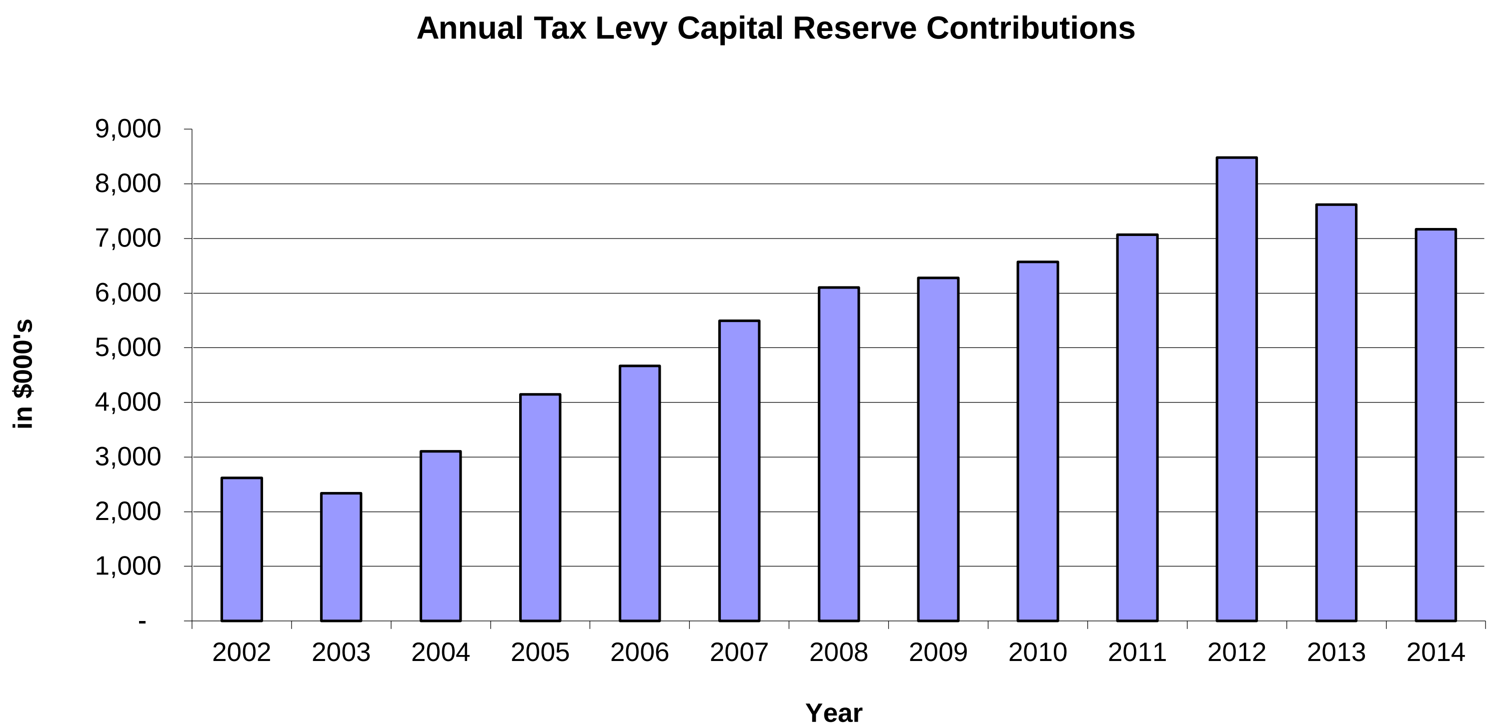
In an effort to more effectively leverage development charges, a review was conducted by Watson & Associates to examine the historical utilization of development charge funding. Watson’s review concluded that the City could have utilized more development charge funding for the construction of the Legends Centre and advised that the City could retroactively apply the funding to the project. Through the 2015 Capital Budget process, it was determined that a maximum amount of $1.947 million could be redirected from the development charge reserves to offset the debt servicing costs for the Legends Centre. Funding the debt servicing charges from the development charge reserve created tax levy capacity to fund additional capital projects.

Capital Reserves

Within the capital reserves, the City has both discretionary and non-discretionary reserves. The following graph illustrates the year-end December 31, 2014 uncommitted capital reserve balances in both the discretionary and non-discretionary capital reserve funds for the past 13 years.



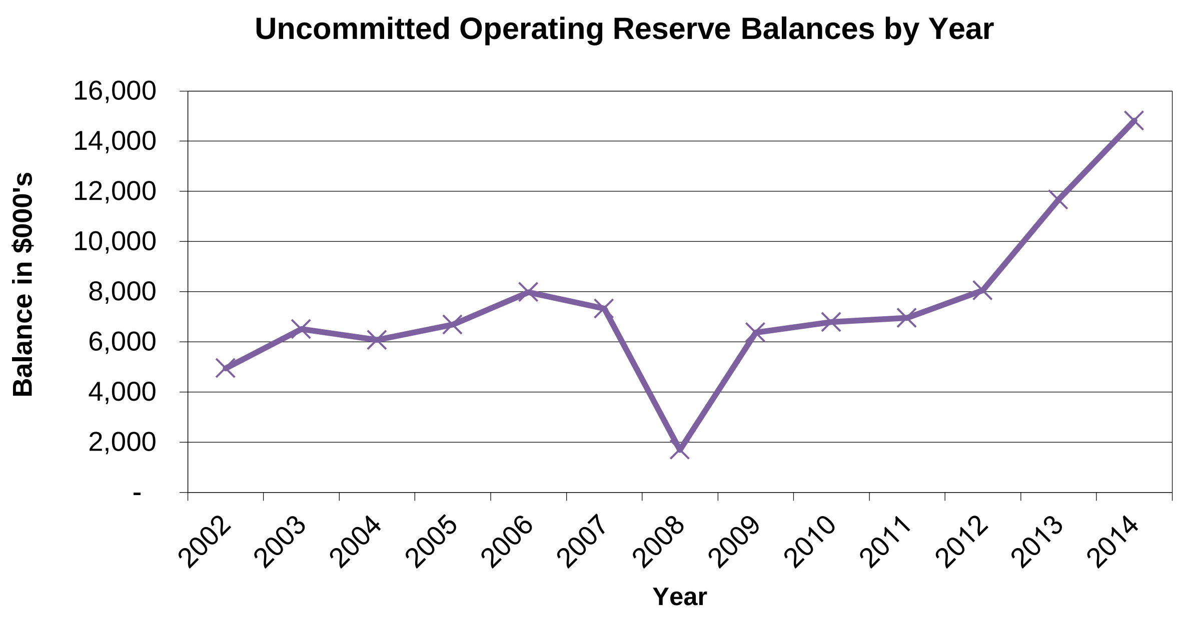
Contributions to capital reserves come from a number of sources including tax levy contributions, development charges, federal/provincial funding, developer contributions and interest. The following graph illustrates the annual tax levy contributions to the capital reserves for the past 13 years. The graph illustrates that annual tax levy contributions to capital reserves have been increasing year over year. The significant increase in 2012 was the result of the $1,073,200 increased reserve fund contributions resulting from the partial retirement of the municipal parking debenture. The decrease in 2013 is the result of this funding being redirected to pay off the $14.3 million interfund note for the Amazing Spaces and Courthouse projects in accordance with Council's October 24, 2012 direction. The slight decrease in 2014 is the result of a redirection of a portion of capital reserve contribution to the Winter Maintenance Operating reserve in order to fund the December 2013 ice storm.



Operating Reserves

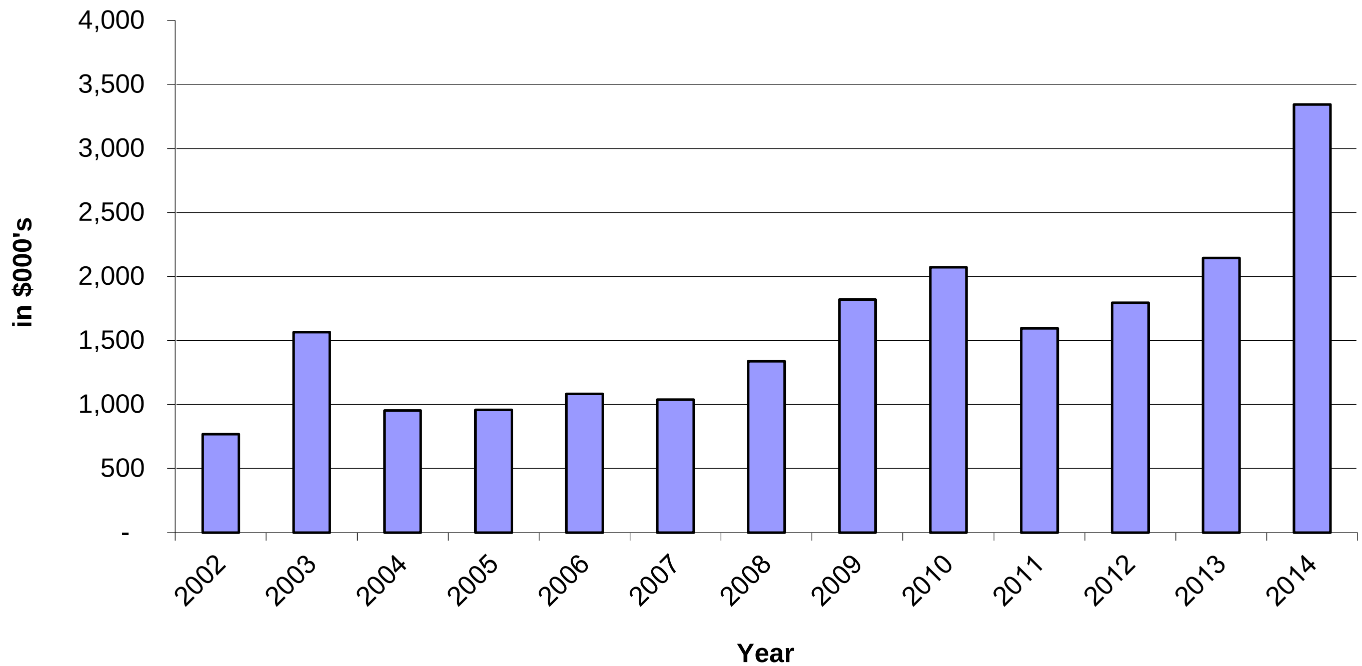
The City's operating reserves are all discretionary funds with the exception of the Building Permit Reserve, which is non-discretionary. Operating reserves are used to fund unexpected and extraordinary operating items such as winter storms, operating deficits and large tax appeals. Operating reserves are also used to protect against the consequences of certain risks and liabilities including insurance claims, WSIB payouts and post-employment benefits.

The following graph illustrates the year-end December 31st uncommitted operating reserve balances for the past 13 years. The importance of having adequate reserves was illustrated in 2008 where a significant drop in reserve balance occurred primarily due to funding of a major tax appeal and a 27th employee pay (normally 26 pays in a year). These two significant items occurred within one year and were funded without significant increases in the tax levy.



Contributions to the City’s discretionary operating funds are from tax levy, operating surpluses and interest. The following graph illustrates the annual tax levy contributions to the operating reserves over the last 13 years. The graph illustrates that annual tax levy contributions to operating reserves have generally been increasing year over year. Contributions were temporarily increased in 2009 and 2010 to establish the Winter Maintenance Reserve and further in 2014 to position the reserve to fund the clean-up costs from the December 2013 ice storm. The Province has agreed to pay $1.2M towards the City’s ice storm clean-up costs and is evaluating the eligibility of $0.4M in incremental clean-up costs.

Annual Tax Levy Operating Reserve Contributions



To ensure long-term, financial sustainability and not place undue financial burden on taxpayers, the City has established the following reserve fund policies:

Tax Rate Stabilization Reserve Policy

A minimum balance of $500,000 shall be maintained in a Tax Rate Stabilization Reserve to ensure sufficient funds are available to meet possible deficits, to minimize the adverse effect of any shortfalls in annual revenues or unforeseen increases in annual expenditures and to help offset increases in the tax rate. The reserve fund balance shall be capped at 2% of annual operating expenditures with any surplus funding transferred to the Tax Appeal Reserve to avoid excessive balances from accumulating. The primary source of funding for the tax rate stabilization reserve shall be year-end surpluses, and to a much lesser degree, net financing (excesses minus shortfalls) from completed capital projects.

Tax Appeal Reserve Policy

A Tax Appeal Reserve shall be maintained to minimize the financial impact of major property tax appeals in any one year. It shall be funded by annual operating budget contributions and available funding transferred from the Tax Rate Stabilization Reserve.

Winter Maintenance Reserve Policy

The Winter Maintenance Reserve shall be maintained to minimize the adverse effects of major winter storms. It is funded by annual contributions of $250,000 to a maximum balance of $1 million. Year-end surpluses from winter maintenance savings shall also be transferred to the Reserve.

Infrastructure Renewal/Replacement Reserve Policy

The Infrastructure Renewal/Replacement Reserve shall be maintained to provide funding for the major renewal and replacement of the City's infrastructure. It shall be funded from annual operating budget contributions with annual contributions increasing until they reach 2.5% of the value of the City's vertical grey infrastructure (i.e. buildings).

Use of One-Time Revenue Policy

One time revenue shall be set aside in the City's Major Facility Reserve for the major repair or replacement of City facilities.

Debt Retirement Policy

When a debenture has been retired, the debt payments shall be reallocated to the Debt Management Reserve and Infrastructure Reserves.

In addition to these financial policies, Council, as part of the 2005 – 2009 Strategic Financial Plan, also introduced a number of key annual incremental reserve fund contributions to infrastructure reserves to respond to the City's infrastructure deficiencies. The following is a summary of the annual incremental reserve fund increases approved:

- $500,000 annual incremental contribution to the Major Facility Reserve until annual contributions reach approximately 2.5% of the capital costs of the City's facilities;
- $100,000 annual incremental contribution to the Growth Related Parks and Trail Reserve to fund the costs of growth related park and trail development that is not eligible for funding from development charges;
- $100,000 annual incremental contribution to the Growth Related Transportation Reserve to fund the cost of growth transportation development that is not eligible for funding from development charges; and
- $250,000 increase to the Playground Equipment Reserve to ensure sufficient funding for scheduled replacement of playground equipment at the end of its useful life.

Due to other competing financial pressures, reserve fund contributions increased between 2005 and 2009 but not to the full amount projected in the 2005 – 2009 Strategic Financial Plan.

Also, on November 2, 2012, Council, as part of discussions of the draft Financial Strategy, approved an increase to the annual contributions to reserves beginning with $500,000 in 2013, increasing to $600,000 in 2014 and increasing to $700,000 in 2017 and future years, with staff allocating the incremental contributions to the reserves in most critical need. The increase in contributions was below the ideal range of $700,000 to $900,000, however, given consideration of the tax levy impact and the issue of affordability, a lesser amount was considered appropriate.

With the policies and direction on reserve fund contributions in place, the majority of the City's reserves are adequately funded at this time, however, a number of the City's reserves are underfunded, and increased incremental contributions are required to ensure the fiscal sustainability of the City. Without additional contributions, the City will be at risk of not being able to meet its annual financial obligations and address emergencies.

The need for the City to increase contributions to tax levy reserve funds is further supported by the annual BMA Study. Two key reserve fund indicators included in the BMA study are Tax Discretionary Reserves as a Percent of Taxation and Discretionary Reserves as a Percent of Own Source Revenues. The following two tables illustrate Oshawa's situation in relation to these two indicators compared to municipal comparators for 2009 to 2013.

In terms of tax discretionary reserves (discretionary reserves funded from property taxes) as a percent of taxation (following table) the comparator average in 2013 is 83%. Oshawa shows an increase from 31% in 2009 to 38% in 2013, but the City is the second lowest. The City's low ratio indicates reduced flexibility for the City to respond to unforeseen emergencies and future obligations without impacting the tax rate.

Tax Discretionary Reserves as a Percent of Taxation

Municipality	2009	2010	2011	2012	2013
Oshawa	31%	33%	30%	39%	38%
Ajax	94%	83%	104%	107%	115%
Burlington	72%	72%	74%	76%	79%
Cambridge	61%	56%	59%	54%	54%
Clarington	138%	132%	133%	160%	139%
Kitchener	25%	21%	26%	29%	34%
Oakville	64%	99%	94%	94%	104%
Pickering	60%	61%	66%	61%	53%
Richmond Hill	n/a	n/a	n/a	256%	n/a
St. Catharines	93%	93%	80%	78%	56%
Whitby	102%	93%	101%	108%	112%
Comparator Average	**74%**	**74%**	**77%**	**96%**	**83%**
Survey Average	**74%**	**64%**	**65%**	**68%**	**70%**

Source: BMA Study; n/a – not available

The following table illustrates Oshawa's tax discretionary reserves as a percent of own source revenues compared to municipal comparators, 2009 to 2013. Oshawa shows an increase from 24% in 2009 to 29% in 2013. This indicates that Oshawa is continuing to build its discretionary reserves but at a much slower rate than most municipal comparators and is still well below the comparator average of 57%. Without adequate reserves the City is not as flexible and able to respond effectively to emergencies without impacting the tax rate.

Tax Discretionary Reserves as a Percent of Own Source Revenue

Municipality	***2009***	***2010***	***2011***	***2012***	**2013**
Oshawa	24%	26%	23%	30%	29%
Ajax	40%	52%	65%	64%	77%
Burlington	41%	48%	47%	51%	53%
Cambridge	38%	37%	37%	37%	39%
Clarington	91%	93%	90%	110%	102%
Kitchener	9%	8%	10%	12%	14%
Oakville	42%	48%	61%	65%	71%
Pickering	41%	43%	47%	47%	41%
Richmond Hill	n/a	n/a	n/a	126%	n/a
St. Catharines	66%	67%	58%	58%	42%
Whitby	49%	59%	70%	75%	72%
Comparator Average	**44%**	**48%**	**51%**	**61%**	**57%**
Survey Average	**46%**	**45%**	**45%**	**47%**	**50%**

Source: BMA Study; n/a – not available

Pressures and Challenges

The goal to ***"build and maintain reserves to fund major or unforeseen expenditures that cannot be funded within a one year period, maintaining financial resiliency and buffering the municipality from major swings in tax levy requirement"*** is challenged by a number of factors, including:

Underfunded Reserves - As outlined above, the majority of the City's reserves are adequately funded at this time, however a number of the City's reserves are not funded, and continued incremental contributions are required to ensure the City is able to meet its annual financial obligations and address emergency situations.

Major Tax Appeals – The City is continuously vulnerable to major tax appeals. There are currently a number of appeals which, based on potential success rates, could require refunds in the range of up to $12 to $15 million. The Major Tax Appeal Reserve, established to avoid large swings in tax levy requirements, is underfunded with a balance of approximately $5.8 million. When established it was recommended that this reserve have a cap of between $2 to $3 million. Based on the financial impact of the assessment appeals from the last two reassessment cycles, the cap needs to be increased to $15 million. The 2015 tax levy contribution to this reserve was $870,000. Increased annual contributions to this reserve are required in the short term to ensure sufficient funding is available for the potential property tax refunds. In the short-term, should one or more major appeals be successful and require refunds that exceed the reserve's balance, the excess would be charged to current operations, and ultimately funded from the Tax Rate Stabilization Reserve (see Legal Claims below).

Employee Sick Leave Payout – The City's Employee Sick Leave Reserve is a discretionary reserve that provides funding for payments to eligible employees for the portion of unused sick leave owing to them upon leaving the corporation. Current annual contributions of $616,400 are not sufficient to meet the liability. Based on anticipated retirements, additional contributions are required to return this reserve to a sustainable level.

Insurance Claim Costs – The City has discretionary insurance reserve funds which fund the portion of insurance claim costs and settlements that are below the City's deductible. The City has paid or is expected to pay out approximately $6.1 million for claims filed between 2004 and 2014. The projected annual average claims payout is $500,000, which is due to the increased frequency and severity of claims, the dollar value of awards and the impacts of joint and several liability. The total 2015 tax levy contribution to these three reserves was $745,000, an increase of $144,000 over the 2014 tax levy contribution. The reserves have a total combined deficit of $561,000, which will continue to grow if contributions remain at their present level. Additional contributions are required to return this reserve to a sustainable level.

Legal Claims – The City of Oshawa is currently facing a number of significant legal claims. Should the City be unsuccessful in defending these claims the City would be required to fund significant legal awards. The City's Tax Rate Stabilization Reserve is the funding source for large legal awards/settlements. The current policy caps the balance of this reserve at 2% of annual operating expenses or approximately $3.2 million based on 2014 operating expenses. A review of municipal comparators shows that the City's cap for this reserve is extremely low and should be increased in light of significant legal claims against the City.

Growth Related Capital Costs Not Eligible for Development Charges Funding – According to the 2014 Development Charge Background Study, the City requires approximately $380.2 million in funding for new parks, trails, roads, sidewalks, streetlights, traffic signals and watercourse improvement projects to support expected growth. Of this total, $140.3 million is not eligible for development charge funding. It is expected that contributions from developers and property owners will fund $116.0 million of this gap, leaving $24.3 million to be funded by the City.

The City currently has two discretionary reserves, namely Growth Related Parks and Trail Reserve, and Growth Related Transportation Reserve, to fund the portion of growth related capital projects that are not eligible for development charge funding. The total 2015 tax levy contribution to these two reserves was $1.0 million. The reserves have a total combined uncommitted balance of $1.7 million. Additional contributions over the term of this Financial Strategy are required to fund the cost of growth related capital works not eligible for funding from development charges. One reserve rather than two, with a broader scope, would increase the City's flexibility.

Capital Infrastructure Funding Requirements – The City's capital infrastructure requires significant investment to maintain and extend its useful life. The City is currently working on an Asset Management Plan, which will include a State of Infrastructure Report that will highlight the City's current infrastructure deficit and identify optimal annual funding levels to adequately maintain the City's infrastructure. For the purposes of this Financial Strategy, annual depreciation is used as a benchmark for the annual contribution to reserves for infrastructure renewal and replacement.

The City has two reserves, namely Major Facility Reserve and Condition Audit Reserve to fund capital maintenance and renewal of the City's vertical grey infrastructure including recreation facilities, fire halls, parking facilities, depots and other structures. The total 2015 tax levy contribution to these two reserves was $2.0 million. The 2014 annual depreciation for the City's vertical grey infrastructure was $6.9 million. The current funding level is not sustainable. Without increased contributions to these reserves the City's vertical grey infrastructure will continue to deteriorate and major rehabilitation and replacement projects will have to be funded by debt.

Climate Change Impacts – Climate change has resulted in increased severe weather incidents including storms with high winds, which result in significant clean-up costs and cause considerable damage to the City's tree canopy. The City does not have a reserve to fund clean-up costs associated with significant weather storms, excluding snow and ice storms, and as a result these costs are charged to the annual operating budget. If significant, such impacts could create a year-end deficit. In order to address this issue, a broader scope, a higher cap and a change in name of the City's Winter Maintenance Reserve to include funding for all severe weather related storm clean-up costs would increase the City's flexibility.

Presumptive Legislation and Resulting Impact on WSIB Costs – The City has a discretionary Workers Compensation Reserve to fund unforeseen workers compensation assessments and significant one time disability, medical, pension and administration costs awarded on individual claims. In the spring of 2014, the provincial government approved an amendment to the Workplace Safety and Insurance Act which added a number of additional work related cancers for fire fighters covered by the Act. The full impact of this change in legislation is not yet known but is expected to be significant as many of these cancers are quite common and will apply to claims dating back to 1965.

The 2015 tax levy contribution to this reserve is $105,000. The reserve has an uncommitted balance of $2.0 million. Additional contributions will be required given the provincial government's recent amendments to presumptive legislation to include additional diseases.

Development Charge Leveraging – Funding debt payments for the Legends Centre at $1.947 million per year will cause the Parks & Recreation Development Charge Reserve to remain in a deficit position beyond 2025. Negative cash flow will affect the availability of funds and flexibility to respond to future recreation related capital infrastructure projects.

Recommended Strategies

Based on the above analysis, the following strategies are recommended to move the City toward the stated goal.

- Increase annual reserve fund contributions by $100,000 to the City's discretionary reserves to stabilize the position of the City's reserves Transfer any year-end surplus funding in the Taxes Written Off operating program at year-end to the Tax Appeal Reserve as long as the transfer will not result in an overall year-end deficit.
- Increase the cap on the Tax Appeal Reserve from between $2 to $3 million to $15 million and increase annual budget contributions.
- Revise the Tax Rate Stabilization Reserve policy to increase the cap on the reserve fund balance from 2% to 5% of operating expenses (approximately $3.2 million to $8.0 million based on 2014 operating expenses).
- Combine the Growth Related Parks and Trail Reserve, and Growth Related Transportation Reserve into one reserve called Growth Related Capital Reserve, and expand the scope of the reserve to fund the capital cost of all growth-related projects that are not eligible for development charges funding.
- Rename the Winter Maintenance Reserve to the Operations Reserve and expand the purpose of the reserve to include funding for all severe weather-related storm clean-up costs and unforeseen events such as giant hogweed, sink holes, infestations, etc.
- Rename the Parks Rec Facility reserve to the Parks Rec Infrastructure reserve to broaden the flexibility and use of the reserve to cover replacement of non-facility assets (i.e. Gazebos, Planters, etc.) in addition to facility needs.
- Establish a dedicated General Motors Centre reserve to fund the renewal of the facility and related capital asset needs
- Transfer any year-end surplus funding in the General Motors Centre operating program to the General Motors Centre reserve.as long as the transfer will not result in an overall year-end deficit.
- Transfer any year-end surplus funding in the WSIB operating account to the WSIB Reserve as long as the transfer will not result in an overall year-end deficit.
- Any surpluses resulting from benefit plan rebates also be transferred to the employee related reserves including WSIB and sick leave payout.

- Develop a formal comprehensive reserve fund policy document that consolidates the City's existing reserve fund policy statements and reflects the additional strategies approved as part of this Financial Strategy.
- Investigate and determine the appropriate level of development charge leveraging to improve cash flow in the Parks & Recreation Development Charge Reserve while still freeing up additional funding for capital projects.

5.3 Debt Management

Goal

Manage existing and future debt levels to minimize the impact of debt servicing costs on taxpayers and create a balance between the use of debt and a pay-as-you-go approach.

Current Situation

Debt is an instrument used by many businesses and governments to provide financing for various initiatives. The City uses a mix of both external and internal debt. The repayment of debt is managed through the City's annual operating budget.

External debt consists of debt held by external lenders in the form of debentures. The Region of Durham issues debt on behalf of itself and its lower tier municipalities. The Region's AAA credit rating is reflective of "prudent, conservative fiscal management which, along with multi-year planning, allows the Region to successfully deal with economic and fiscal challenges".[7] The AAA credit rating helps to obtain low competitive interest rates for external debentures. External debt cannot be retired early and is reserved for the financing of capital projects and not operating initiatives.

Internal debt to fund various initiatives is issued in the form of Interfund Notes (IFNs), which document the use of surplus cash that would otherwise be invested in short term instruments. IFNs are structured similar to external debt with annual repayment to the originating fund via principal and interest payments. The benefits of using IFNs as a form of financing are:

- Less expensive method of financing as legal and other issuance costs associated with external debentures are avoided;
- Lower interest rate is paid (the City's IFNs are issued at prime less ½ percent; the current interest rate for IFNs is 2.35%);
- The interest paid is retained by the City thus avoiding payment to outside parties;

[7] Standard and Poor's Rating Services, January 13, 2015 as reported in Regional Municipality of Durham Five-year Economic & Financial Forecast and Guidelines for the 2015 Regional Business Plans and Property Tax Budget Report 2015-F-1.

- Internal debt provides the City with complete flexibility to retire the debt in whole or in part at any time prior to maturity; and
- The City has the ability to tailor the annual repayment amount to the incremental revenue or cost savings associated with the initiatives funded from the IFN.

To ensure long-term financial sustainability and not place undue financial burden on taxpayers, the City has established a debt limit and other debt policies, as follows:

Debt Limits
Debt servicing costs shall not exceed 15% of taxation revenues.

The City uses this debt cap to ensure that debt obligations will not threaten the long-term financial stability of the organization and place undue financial burden on taxpayers. The City is currently well within this debt limit at a projected 11.4% as of December 31, 2014.

Interfund Notes
The total amount of outstanding interfund notes shall not exceed 30% of the City's minimum cash balance.

The interfund note policy allows for the use of interfund notes as an alternative means to provide required financing. This policy was temporarily suspended by Council on October 24, 2012 solely for the purpose of establishing an interfund note to fund the remaining balance from the Amazing Spaces and Courthouse projects. The City's total amount of outstanding interfund notes as of December 31, 2014 represented approximately 39% of the City's minimum cash balance. It is expected that the City will be in compliance with this policy by 2017.

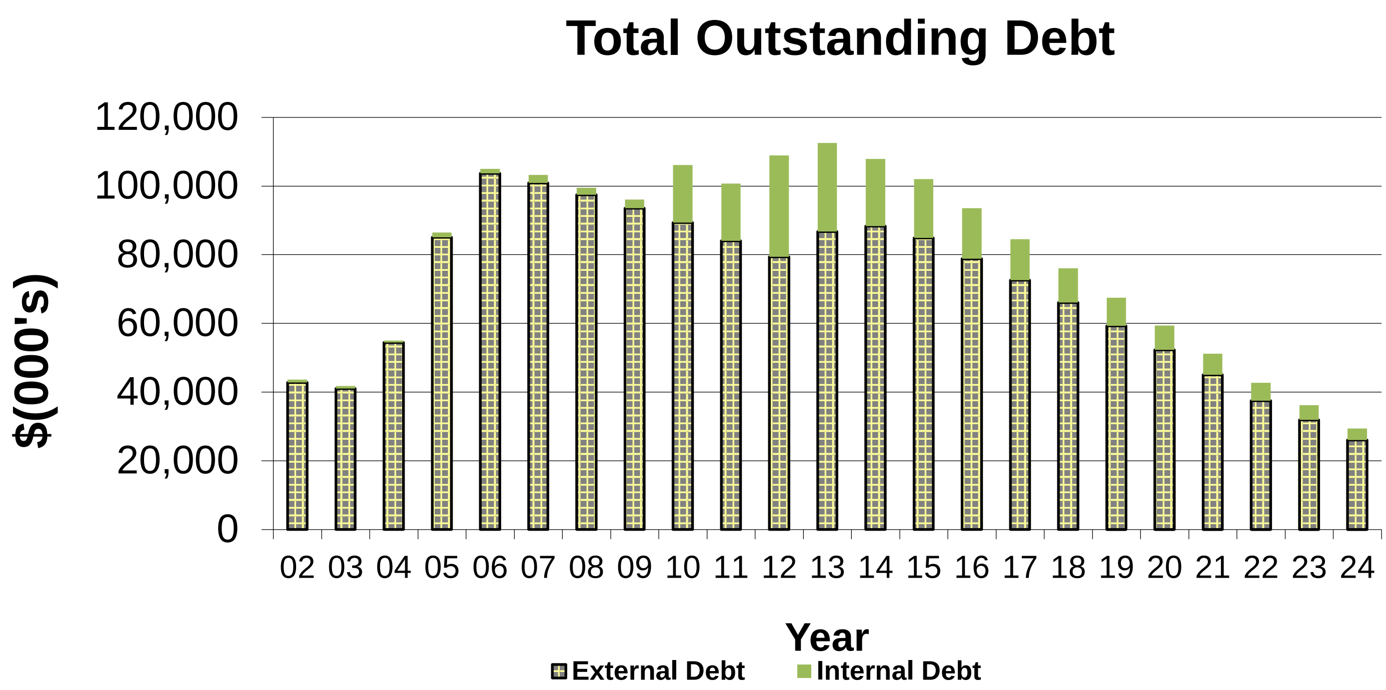
Debt Retirement Policy
When a debenture has been retired, the debt payments shall be reallocated to the Debt Management Reserve and Infrastructure Reserves.

The Province of Ontario has a policy that limits the amount of external debt servicing costs each municipality is allowed to carry to 25% of the municipality's net revenues less net debt charges. The City is well within the Province's debt cap for 2015.

In 2013, the City of Oshawa approved the issuance of $21.3 million in external debt with $18.8 million for the Consolidated Operations Depot and $2.5 million for the refurbishment of Harman Park Arena. The City secured $12 million of this new debt in 2013 ($9.5 million for the Consolidated Operations Depot and $2.5

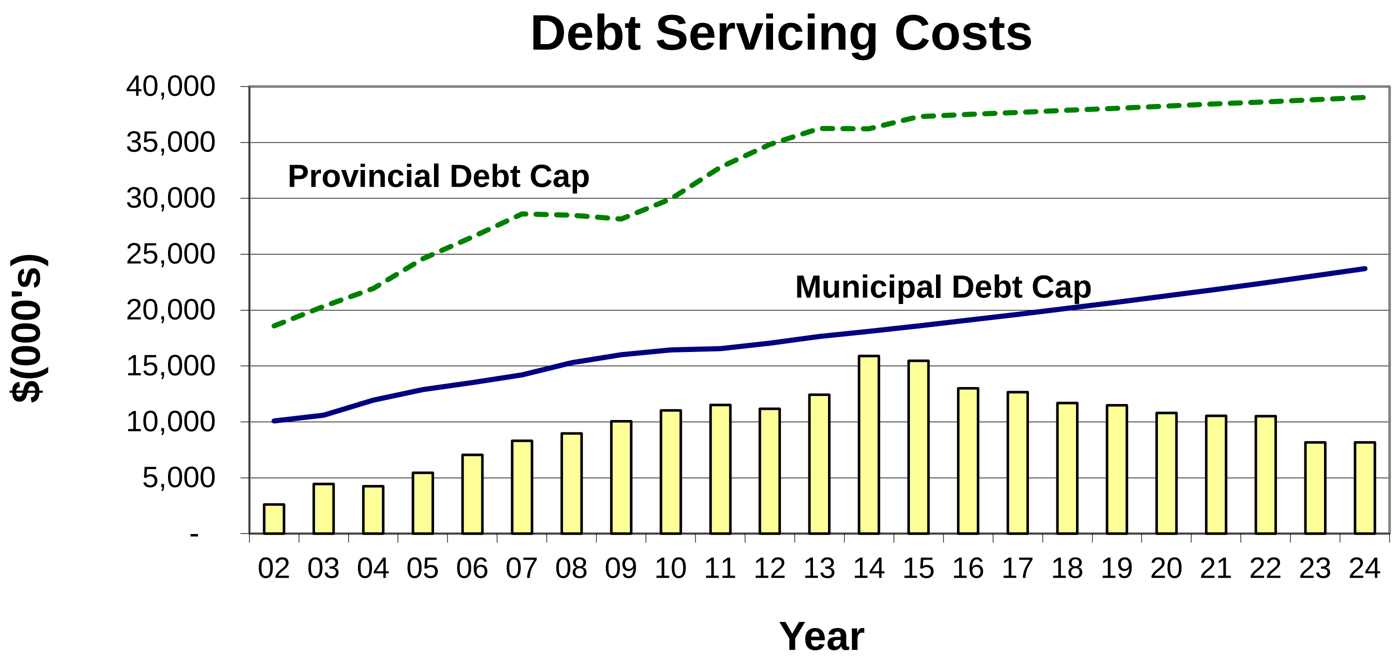
million for the refurbishment of Harman Park Arena) and an additional $7.0 million in 2014. The City still has $3 million in approved debt, which it has not yet issued ($2.3 million in external debt for the Consolidated Operations Depot and $700,000 in internal debt for the City's contribution to the UOIT downtown campus). It is expected that the City will secure the remaining $2.3 million in external debt for the Consolidated Operations Depot in 2015. In addition, the City has a commitment to UOIT to provide $700,000 to the downtown campus dependent upon UOIT achieving 3,000 full time students enrolled in and attending programs provided by UOIT at the downtown campus. As directed by Council this commitment will be funded by internal debt.

The following graph provides an overview of the City's debt, both external and internal. Included in the graph is the $3 million in debt Council has approved but not yet issued.



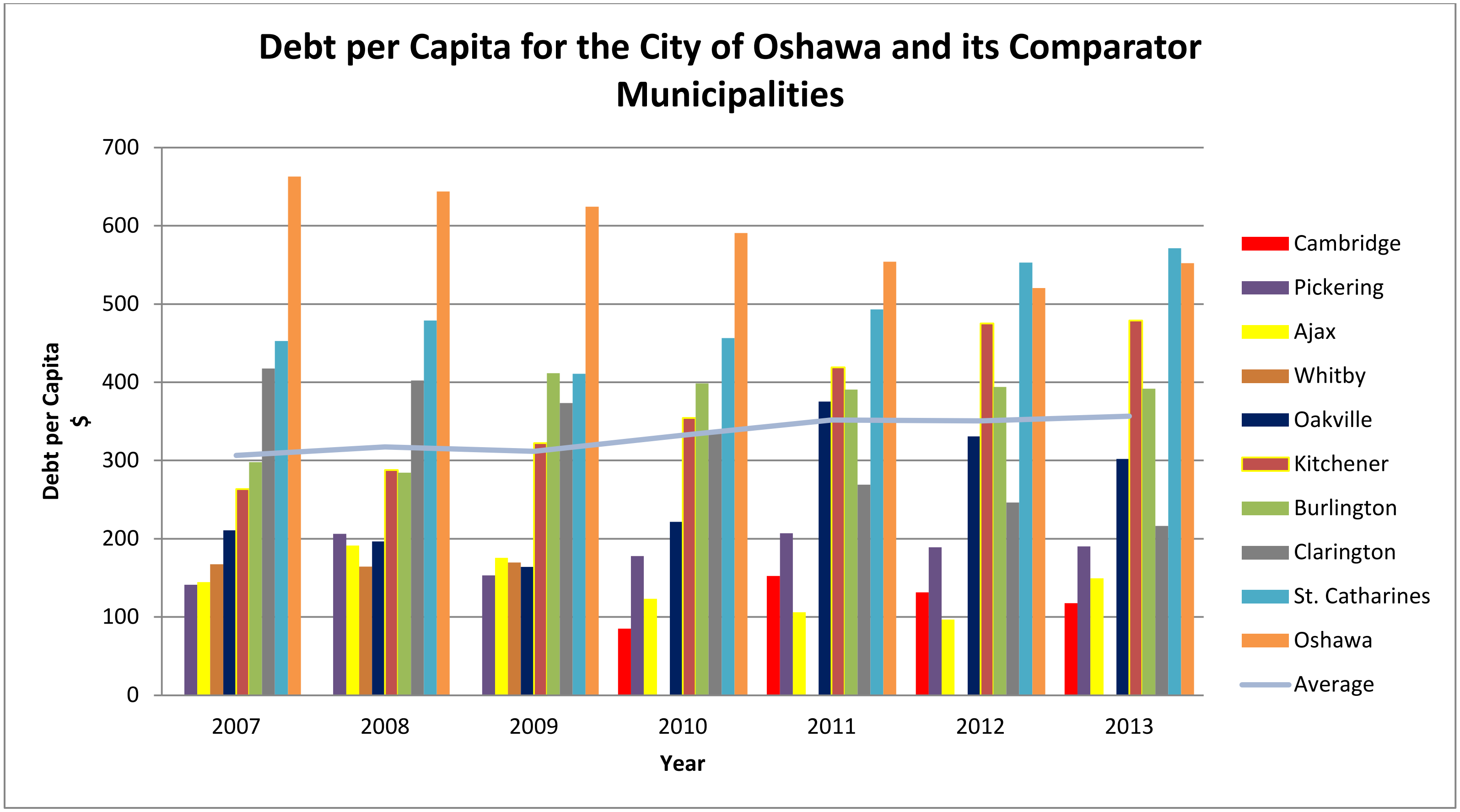
As outlined in the above graph, total debt peaked in 2013 at $112.5 million, but shows a slight decline in the 2014 with total outstanding debt at $107.8 million. The projection shows a decrease to approximately $26.3 million in 2024, not including any debt that may be approved to fund future infrastructure initiatives.

Debt can be a strategic financing tool that can leverage private and public sector investment. However, there are annual debt servicing costs (principal and interest payments) that, for the most part, are funded from property taxes. The following graph outlines the annual debt servicing costs for both external and internal debt. As with the previous graph, this graph includes the forecasted debt servicing costs for the $3 million in approved debt that has not yet been issued. This graph compares the City's annual debt servicing costs to both the City's debt cap as well as the provincial debt cap.



As shown in the above graph, total debt servicing costs have generally been on the rise from 2002, a response to the City's capital infrastructure investments. As illustrated in the graph, the City's annual debt servicing costs are well below both the City's and the provincial debt caps.

The following graph outlines the City of Oshawa's external debt per capita compared to our municipal comparators.



As shown in the above graph, the average debt per capita for the municipalities has been generally trending upward since 2007. The average debt per capita in 2007 was $306.57 compared to $356.53 in 2013. Also, Oshawa's debt per capita, with the exception of 2012, has been higher than its municipal comparators, but has decreased by over $100/capita over the last seven years.

Council has leveraged debt to invest in the City, and encourage private sector and provincial investment. Debt levels are moderately high but manageable within both the City and the Province's debt servicing caps. Given current low interest rates, debt will remain a strategic tool.

Pressures and Challenges

The goal to ***manage existing and future debt levels to minimize the impact of debt servicing costs on taxpayers and create a balance between the use of debt and a pay-as-you-go approach*** is challenged by a number of factors.

Fixed-debt Servicing Costs - The significant portion of the City's taxation revenue dedicated to fixed-debt servicing costs limits the City's flexibility to respond to new initiatives or reduce taxes. Currently, annual servicing costs for external and internal debt is approximately $13.3 million representing approximately 11% of the City's taxation revenue. In addition, the fixed amortization period for external debt cannot be changed which limits the City's ability to advance the repayment of existing external debt to reduce property taxes should unanticipated revenue be received by the City.

Infrastructure Cost Pressures - The City's infrastructure reserves and development charges are not sufficient to fully provide the necessary funding to address required infrastructure investment, as discussed in Section 5.2. The City is faced with significant pressure for new infrastructure to support growth (e.g. Fire Hall #6, additional recreation facilities, and upgrades to existing linear infrastructure to service growth and the Hwy 407 east extension) and for the renewal of existing infrastructure that has reached or is close to reaching the end of its useful life. As a result, it is expected that the City will require additional debt in the future to fund some of these infrastructure pressures.

Fluctuations in Revenue Streams - Some of the City's existing interfund notes are repaid through a dedicated revenue stream (i.e. UOIT interfund note from incremental heads and beds payment, and the original Durham Consolidated Courthouse interfund note from incremental parking revenue and provincial payment in lieu of taxes). Potential fluctuations in revenue streams that are used to pay IFNs potentially lengthen the time to retire notes.

Rising Interest Rates - Although interest rates have been very low for several years, an increase in interest rates is expected as the economy improves, which will impact debt servicing costs for any new debt.

Debt Issuance Limitations - As a lower tier municipality, the City is dependent on the Region of Durham for approval of debt. The City is also tied to the Region in terms of timing of debt issuance. In addition, given the economic downtown, there is limited money in the debt market, which impacts the types of debt instruments, payments terms etc. available.

Provincial Credit Rating - The Province of Ontario and several related issuers were recently downgraded from stable outlook to negative outlook by Moody's Investors Service. Moody's noted that the provincial outlook could return to stable if the province demonstrates, through concrete measures, that it has the capacity to achieve the very constrained expenditure growth rates and expected revenue growth over the term of its fiscal plan and required to return to a balanced budget by 2017/2018. At this time, it is unclear what impact this change in the Provincial rating will have on future credit ratings for the Region of Durham as sub-sovereign credit ratings (i.e. Regional Ratings) cannot be reasonably distanced from sovereign ratings.

Public Perception of Debt - Lastly, but importantly, there is a public perception that debt is bad. This is a result of high levels of personal debt, as well as provincial and federal government debt. The taxpayer's aversion to debt is also directly connected to their aversion to increased taxes. In light of this, a municipality must balance the dichotomy between a focus on the present and a focus on the future.

Recommended Strategies

Based on the above analysis, the following strategies are recommended to move the City toward the stated goal.

- Work with the Region to secure competitive interest rates to minimize the cost of borrowing new debt.
- Redirect a minimum of 10% of any operating surplus to pay off IFNs.
- Move to a pay-as-you-go approach, reducing and ultimately eliminating debt funding, for the financing of lifecycle capital projects (replacement/rehabilitation of assets) by increasing contributions to infrastructure reserves.
- Continue to ensure the term of the debt does not exceed the useful life of the underlying asset.
- Limit the issuance of new debt to:
  - new infrastructure requirements;
  - facilities which are self-supporting, or financed by a dedicated revenue stream or expenditure savings;
  - projects where the cost of deferring expenditures exceeds debt servicing costs;
  - projects which are intergenerational in nature (i.e. large project with long-term benefits to future generations and who will be paying for the debt through their property taxes).

- The City shall not issue debt on behalf of any external agency or organization or guarantee debt issued directly by an external agency or organization.
- Educate the public on the purpose of debt and that reasonable debt is manageable and a legitimate form of financing.
- Continue to include a 10-year debt forecast (both internal and external debt) as part of the 10-year capital plan to increase transparency surrounding the City's debt levels.
- Amend the City's Interfund Note Policy to increase the cap on interfund notes from 30% to 40% of the City's minimum cash balance to capitalize on the benefits of internal borrowing while ensuring the financial sustainability and flexibility of the City.
- Develop a formal comprehensive debt management policy document that consolidates the City's existing debt policy statements and reflects additional strategies approved as part of this Financial Strategy.
- Additional strategy to leverage a portion of the annual savings on principal and interest payments as outstanding debt is reduced to fund infrastructure projects.
- Create a debt information page on the City's website to assist in educating the public on the City's debt.

5.4 Revenue Sources

Goal

Diversify and expand upon sustainable revenue streams to improve the balance between property taxes and other currently available revenue sources.

Current Situation

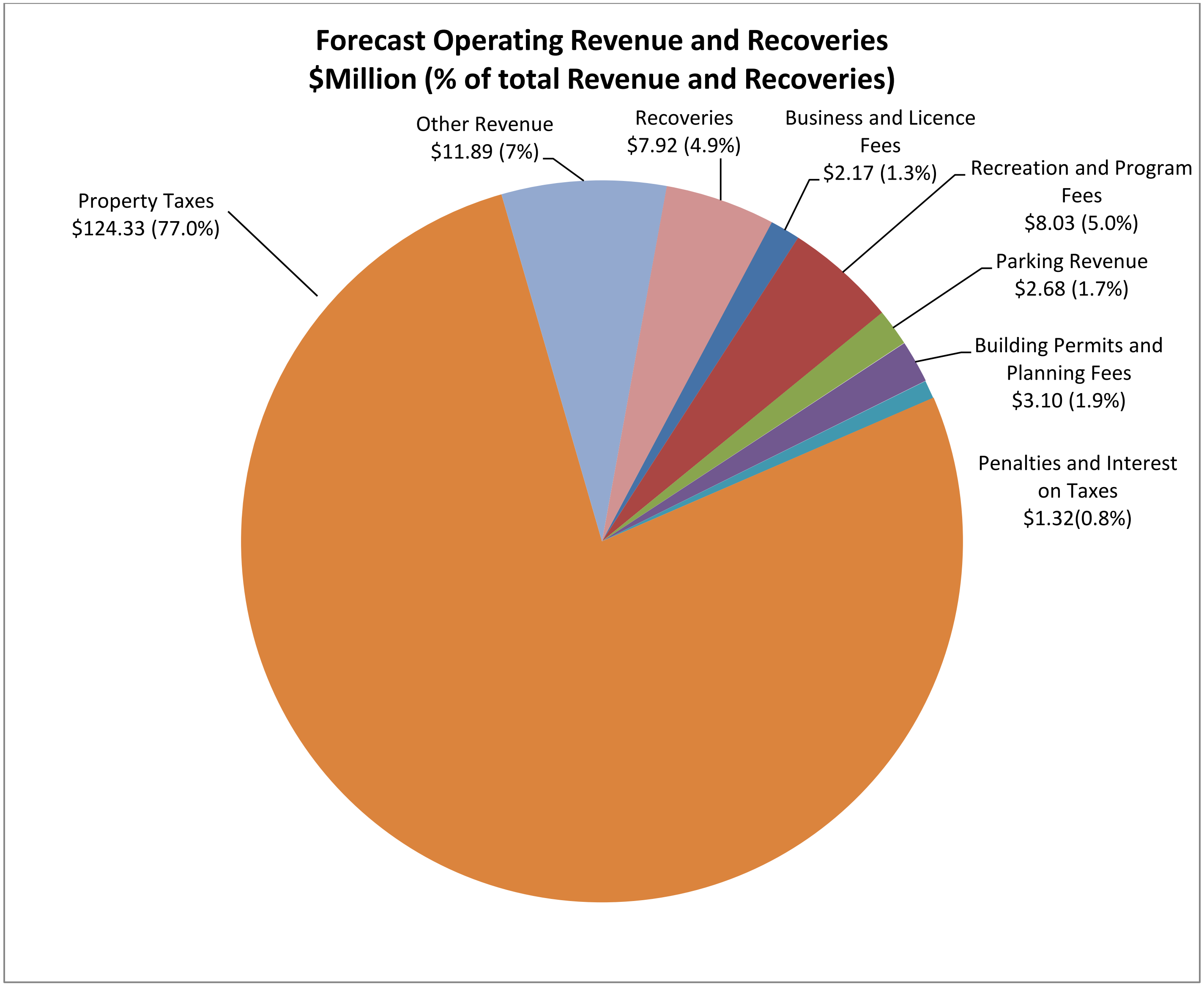
The City is forecasted to generate approximately $161.4 million in gross revenue and recoveries in 2015 as outlined in the following pie chart. The majority of the City's revenue and recoveries come from property taxes. To reduce the City's reliance on property taxes, help mitigate tax increases for taxpayers and ensure the continued affordability of the City's portion of property tax, other revenue sources must be considered and/or adjusted to recover costs.

Although residential property taxes are proportionate (progressive) with respect to property values they are generally viewed as regressive in relation to income. That is, lower-income homeowners pay proportionately more of their income for property taxes than their higher-income counterparts.

To counter the regressive nature of property taxes there are provincial income-tax-relief programs for low-income homeowners. Similar programs are offered by a number of municipalities however, these relief mechanisms don't always create equality within the property taxation system.

The following chart reveals that more than three-quarters of the City's revenue in 2015 is expected to be raised through property taxes, while recoveries, business licenses and fees; recreation and program fees; parking revenue; building permits and planning fees; penalties and interest on taxes; and other revenue account for less than one-quarter.

The City continues to realize expected taxation growth targets mostly from growth in the commercial and residential tax base. It is essential that Oshawa continue to seek out commercial and industrial development to achieve maximum assessment growth, realize opportunities afforded by the construction of the Highway 407 east extension and provide job opportunities. This larger and more diverse tax base will result in a broader sharing of the tax levy requirement across the various property classes.


Forecast Operating Revenue and Recoveries
$Million (% of total Revenue and Recoveries)
Other Revenue
$11.89 (7%)
Recoveries
$7.92 (4.9%)
Business and Licence Fees
$2.17 (1.3%)
Recreation and Program Fees
$8.03 (5.0%)
Property Taxes
$124.33 (77.0%)
Parking Revenue
$2.68 (1.7%)
Building Permits and Planning Fees
$3.10 (1.9%)
Penalties and Interest on Taxes
$1.32(0.8%)

In addition to property taxation revenue, the City receives revenue from

- business licences and fees;
- recreation and program fees;
- parking revenue;
- building permit and planning fees;
- penalties and interest on taxes; and
- other (e.g., investment income, airport fees, cemetery fees, grants, sponsorship revenue and other corporate user fees).

Some of these revenues (e.g., penalties and interest on taxes, investment income) are dependent on external market conditions and cannot be adjusted by the City to offset increased costs. Other revenues such as building permit fees are already set at 100% recovery and cannot be adjusted unless costs increase.

Over the last two years, the City has increased its development, corporate, parks and recreation user fees substantially. Many user fees continue to remain below the City's municipal comparators, as well as below the City's costs to provide these programs and services.

The City has invested heavily in existing and new recreational facilities and allocates a significant portion of its budget to their maintenance for the benefit of the users. Artificially low user fees benefits the individual user at the expense of the general taxpayer, many of whom do not use City facilities on a regular basis.

The City has established the following policies to diversify and expand upon sustainable revenue streams to improve the balance between property taxes and other currently available revenue sources.

Investment Policy

All available funds (surplus cash, reserve and reserve funds) of the City shall be invested in a prudent manner to maximize the rate of return while minimizing the degree of risk and ensuring an adequate level of liquidity.

Parks and Recreation User Fee Policy

This policy provides a consistent framework for setting Park and Recreation User Fees based on the cost to provide the various park and recreation programs and services. The policy prescribes cost recovery goals for community benefit services, personal benefit services and commercial benefit services.

Annual User Fee Increase Policy

In accordance with the City's General Fees and Charges By-law, the majority of Development Services fees are indexed by 3% annually and the majority of Parks and Recreation fees are indexed by 3.5% annually.

Pressures and Challenges

The goal to ***diversify and expand upon sustainable revenue streams to improve the balance between property taxes and other currently available revenue sources*** is challenged by a number of factors, including:

Excessive Reliance on Property Taxes – The City is dependent on property taxes to generate approximately 77.0% of its revenue and recoveries. Property taxes are a regressive form of taxation and continual and increased reliance on this revenue stream will impact the affordability of the City's portion of property tax for Oshawa tax payers. A high priority for municipalities is to secure reliable, predictable and sustainable funding that does not rely primarily on property taxes.

Restrictions on How Municipalities Can Raise Funds – Out of every tax dollar collected in Canada, municipal government receives just eight cents, while 92 cents go the provincial and federal governments. Provincial legislation restricts municipalities' ability to raise revenues. Based on these restrictions, the City has limited options with respect to raising revenues to offset increases in expenditures.

Reduced Transfers from Senior Levels of Government – Transfers to municipal governments have decreased by close to 40% from the early 1990s. With the provincial government's transition from the Community Reinvestment Fund to the Ontario Municipal Partnership Fund, the Province eliminated its only operating subsidy to the City in 2010. The elimination of this funding has further reinforced the City's reliance on property tax revenue.

Payments-in-lieu of Taxes – Post-secondary institutions and hospitals are exempt from paying property taxes to municipalities under provincial law and instead pay a fixed amount, referred to as a payment-in-lieu of taxes, set by the provincial government for each student ("head") or patient ("bed") in their institutions. The Province last adjusted the "heads and beds" rate to $75 in 1987, 27 years ago. This dated rate, proportionally distributed to the Region and the City, does not meet the actual cost to the City to provide the necessary services for the various institutions. This places an unfair tax burden on the municipality and its property taxpayers.

Public Perception on Increasing User Fees – There is often a resistance from users to any increase in user fees. An increase can be seen as another form of taxation.

Challenges in Collecting Non-Parking Administrative Penalties – Under current provincial legislation municipalities have limited tools to collect delinquent non-parking administrative penalties. Unlike outstanding parking administrative penalties, where collection rates are very high as a result of the provincial plate denial process, no policy tools exist to ensure the collection of non-parking administrative penalties.

Low Interest Rates – in 2014, as a result of current market conditions, the City earned an average rate of return of 2.54%. This is a significant decrease from the average rate of return earned in 2008 of 4.6%. The prime rate has dropped from 6% in 2007 to 2.85% in 2015. These market conditions have resulted in significantly less interest earned on investments.

Recommended Strategies

Based on the above analysis, the following strategies are recommended to move the City toward the stated goal.

- Continue to promote and attract commercial and industrial development in order to continue to grow and broaden the City's property tax base.
- Continue to work with AMO and LUMCO to advocate for a share of federal/provincial revenue streams (sales and income taxes, provincial fuel taxes and/or HST).
- Investigate the feasibility of a utility charge for storm water management to more fairly recover costs, similar to that initiated by a number of Ontario municipalities, in order to shift the cost burden from the residential taxpayer to the commercial/industrial taxpayer and recover full costs now borne through the general tax levy requirement.
- Lobby the Province to increase the amount of heads and beds payment-in-lieu of taxes by the rate of inflation since 1987 and index the rate annually for inflation.
- Meet with appropriate municipalities and review the basis of calculating payments-in-lieu of taxes and determine a stable foundation going forward for these payments that would more closely mirror the current value assessment (CVA) of the property.

- Undertake a comprehensive review of user fees and charges as appropriate to ensure fees and charges remain competitive while improving the balance between user pay, ability to pay, and taxpayer subsidy.
- Continue to educate the public on the cost to provide the City's various programs in order to clarify potential fee increases and address value for money.
- Lobby the Province to amend the Municipal Act, 2001 and its regulations, as necessary, to increase the collectability of non-parking administrative penalties.
- Review OPUC dividend policy to ensure equitable distribution.
- Review Licensing fees and create annual indexing for fees as appropriate.
- Implement new legislated financial tools as they become available as Council deems appropriate.
- Undertake a balanced review of the impact of lost revenue and return on investment resulting from tax incentives related to Community Improvement Plans and Development Charge exemptions.

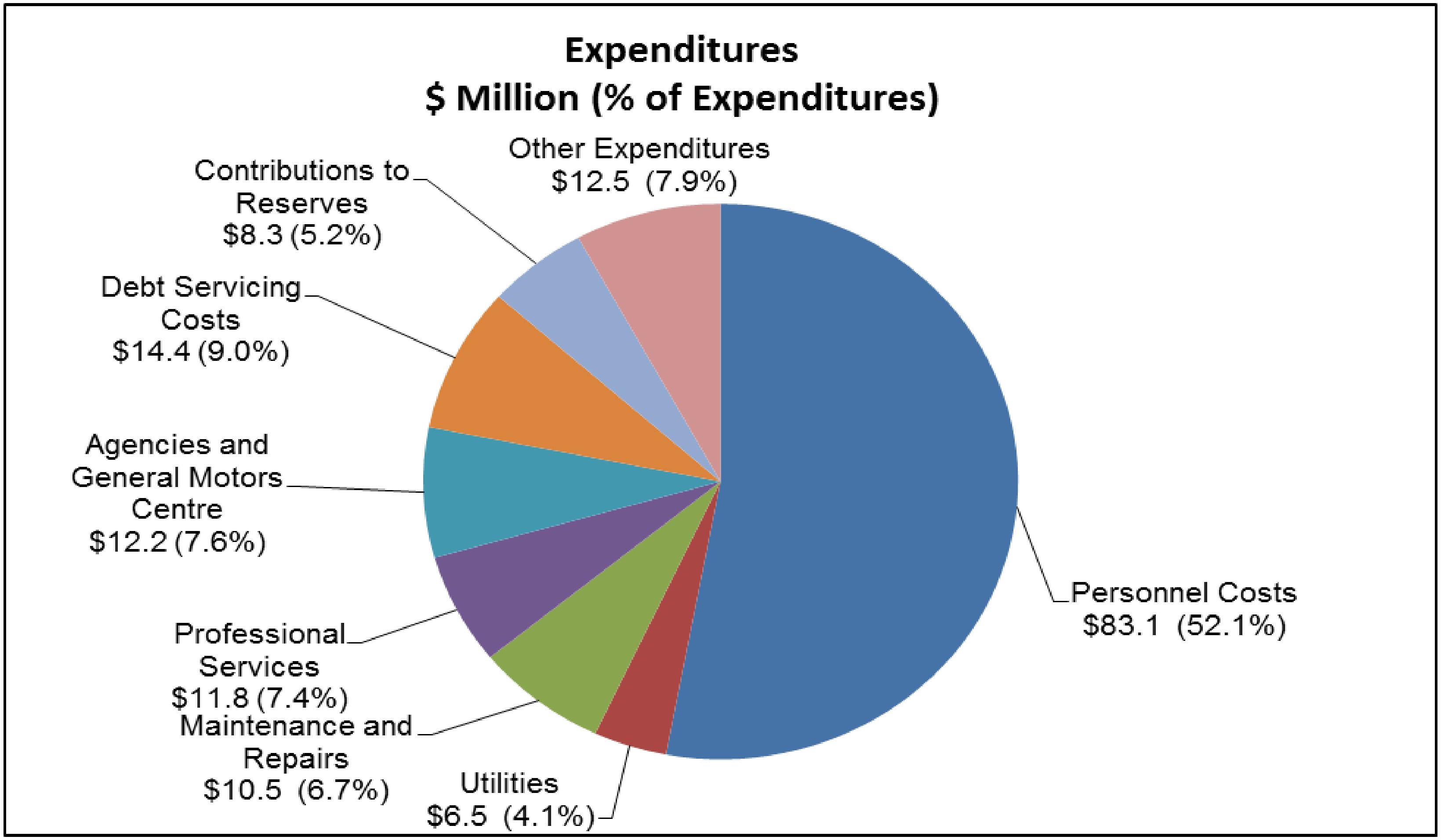
5.5 Operating Costs

Goal

Deliver services efficiently and effectively, ensuring value for money and the transparent stewardship of public funds.

Current Situation

The City faces increased operating pressure every year. Growth- related costs, inflation, market impacts on water, utilities and fuel costs, salaries and wage adjustments and benefits costs all exert upward pressure on spending and the tax levy requirement. The following chart shows the breakdown of the City's 2015 budgeted operating expenditures.



The City has successfully held the annual taxation levy over the last five years to an average of 2.32%, the lowest in Durham Region. The challenge is to carry on with this trend and at the same time, budget for new costs associated with growth. The City utilizes many strategies to manage its operating pressures. A continuous improvement approach has resulted in organization, facility and equipment rationalization, staff training and development, and efficiency enhancements.

The City has sound policies, procedures and controls including the Purchasing By-law, provincial financial reporting, monthly payment reports, quarterly financial reports and audited year-end financial statements to ensure transparency and accountability to the taxpayer.

The City has established the following policies to deliver services efficiently and effectively, ensuring value for money and the transparent stewardship of public funds.

Financial Assistance Programs Policy

Eligibility requirements outlined in the City's four programs, namely the Partnership Grant Program; Anchor Organizations Grant Program; Financial Assistance Grant Program; and Waiving of Fees Grant Program provide an objective basis for Council to approve grants and/or waiving of fees for Oshawa-based not-for-profit community groups or organizations initiating or delivering programs and Services to the citizens of Oshawa.

Winter Maintenance Reserve Policy

The Winter Maintenance Reserve, funded by annual contributions of $250,000 to a maximum balance of $1 million, shall be maintained to minimize the adverse effects of major winter storms and year-end surpluses from winter maintenance savings shall be transferred to the Reserve.

Pressures and Challenges

The goal to ***deliver core services efficiently and effectively, ensuring value for money and the transparent stewardship of public funds*** is challenged by a number of factors, including:

Inflationary Pressure – Inflationary pressures faced by municipalities differ significantly from those faced by a typical homeowner as reflected in the Consumer Price Index (CPI). As a result, Oshawa, as per best practices of the Government Finance Officers Association, develops a Municipal Price Index, which better reflects the City's purchases. Inflation rates range from 2% to 4% on most of the various commodities used by the City to as high as 9.0% on such things as utilities. The weighted average rate of inflation for the commodities and services purchased by the City (Municipal Price Index) in 2015 was approximately 2.84%. This is significantly higher than the Consumer Price Index estimate of 1.7%.

Growth Related Costs - As the City grows with new residents and businesses, additional operating costs are incurred.

Fixed Costs – A significant portion of the City's operating costs are fixed over the short-term. These fixed costs include utilities, debt servicing costs and personnel costs. These fixed costs limit the ability of the municipality to reduce costs over the short-term.

Increasing Labour Costs – The City's greatest expenditure lines are personnel costs including salaries and benefits. Upward pressure continues to be exerted on these expenses as the City continues to pattern bargain and Fire Services compensation is set through arbitration.

Insurance Costs – Municipal liability claims have escalated to unprecedented levels at a time when municipalities are facing considerable budget constraints. As the costs of claims increase exponentially, insurance premiums have followed suit. Contributing to the increased cost of insurance premiums are larger damage awards, accelerating future care costs, joint and several liability, increasing costs to defend claims, class actions and a more litigious society. Increasing insurance premiums are not sustainable, divert funds from key municipal services and require long-term solutions by the Province.

Increased Maintenance Costs – The City is experiencing increased costs to maintain the City's various assets due to the aging of the City's infrastructure.

Tax Appeals – The City's existing commercial and industrial tax base is particularly vulnerable to assessment appeals, which erode the assessment base and place a significant strain on municipal finances.

Often these appeals take more than one assessment cycle to resolve resulting in additional appeals and write-offs. The magnitude of the adjustments becomes a severe financial burden for the City and place additional pressure on the remaining assessment base to provide the tax levy necessary to operate a growing municipality. There are currently a number of appeals, which, based on potential success rates, could require refunds in the range of $12 million to $15 million. The City could be more proactive in identifying potential appeals which would have a positive impact on the City's bottom line.

Changes in Senior Government Legislated Requirements – New provincial and federal legislation and related regulations, downloading and public expectations in the absence of a senior government lead can result in new responsibilities for municipalities, which often result in increased costs to be borne by property taxpayers. Examples include:

- provincial intensification policies;
- environmental legislation (e.g. Clean Water Act, Green Energy Act, Water Opportunities Act, Great Lakes Protection Act);
- accessibility legislation;
- changes to the local improvement regulations to permit the use of the local improvement charge mechanism to help residents finance energy efficiency and renewable energy projects;
- presumptive legislation impacting WSIB costs related to Fire Services;
- immigration;
- family physician recruitment;
- affordable housing;
- public health; and
- emergency preparedness.

Recommended Strategies

Based on the above analysis, the following strategies are recommended to move the City toward the stated goal.

- Develop and implement a five-year budget projection aligned with term-of-Council priorities that establishes annual tax levy targets, while respecting the taxpayers ability to pay.
- Develop and implement a consistent framework to undertake process improvements across the organization that applies Lean methodologies and change management practices, resulting in clearly defined and measureable outcomes.
- Develop a comprehensive budget management policy document that will provide a guideline for the expenditure of funds and an accountability framework. The document would:
  - link accountability with the responsibility for service delivery;
  - provide mechanisms to deal with the exceptions from planned service delivery;
  - provide the mechanism to give early warnings of budget deficits and surpluses and to identify opportunities to redirect allocated funding; and
  - enhance corporate and financial integrity while maintaining the ability to deliver services effectively and efficiently.
- Continue to participate in the Durham Region Purchasing Co-op in order to procure goods and services via a cost effective, competitive process. (This cooperative consisting of various public sector organizations in Durham Region was formed for the purpose of calling tenders on a collective basis, consolidating requirements, conducting a single tender, saving time and effort, and achieving additional savings resulting from the increased quantity purchased.)
- Continue to explore shared service delivery and partnerships with the City's external agencies and community partners based on sound business cases.
- Continue to ensure responsible contractual labour increases and employment and post-employment benefits that are affordable and reflective of current market conditions.
- Continue to work with AMO and MFOA to lobby the Province to ensure arbitrators consider the financial situation of municipalities and the ability of taxpayers to afford arbitration decisions.

- Continue to monitor the utility market to ensure the City's procurement practice for utilities is cost effective and, where it is in the best interests of the City, secure hedging or contracts to mitigate the City's exposure to significant increases in commodity pricing.
- Continue to collaborate with AMO and MFOA to lobby the Province for joint and several liability reform.
- Complete the City's Asset Management Plan and implement its recommendations.
- Continue to be a key stakeholder and contributor to the Regional Task Force that is working with MPAC to address assessment related concerns.
- Lobby the Province to work with MPAC to increase the accuracy of the assessed values for large commercial and industrial properties, in order to produce assessed values that reflect the real worth of a business or industry and withstand annual appeals without continual significant reductions.
- Continue to lobby the Province to work collaboratively with municipalities and AMO on new provincial initiatives impacting municipalities and provide support to municipalities to address the additional costs associated with any new initiatives.
- Develop realistic and effective staff development and training programs, identifying target groups within the corporate succession plan, including outlines of the training to be undertaken, the number of employees involved annually, and the projected annual costs.
- Evaluate the current plan enrollment with WSIB (Schedule II employer) to determine if there are any potential costs savings that could be achieved in the long term by changing to a Schedule I employer.

6.0 Conclusion

The underlying challenge for all municipalities, including Oshawa, is balancing unavoidable costs (related to growth, inflation and service levels) with the taxpayers desire to minimize taxation while providing the services that residents and businesses need and want.

The need for long-term sustainable solutions to today's conflicting demands is not unique to Oshawa and is forcing municipalities to systematically evaluate "what" they do, "what" level of service is provided and "how" they do it. The City, like other municipalities, is also facing growing demands on the quality and scope of services provided to citizens, along with increased scrutiny of municipal finances.

This challenge makes it all the more important to ensure responsible tax levies. The word "responsible" is key given that low taxation benefits the taxpayer in the short term but not in the long term. Holding taxes low or to zero in the face of an inflation rate based on the Municipal Price Index of 3.2% is not sustainable causing a municipality to fall behind at the risk of future generations.

The Financial Strategy establishes a goal and proposes strategies to affect progress in five strategic areas namely infrastructure investment, reserve funds, debt management, revenue sources and operating costs. Council endorsement and the implementation of the recommended strategies for each area will help achieve financial sustainability, align resources with priorities, result in responsible stewardship of the public dollar and help achieve the city envisioned in the Oshawa Strategic Plan.

Staff will report annually in the third quarter on the Financial Strategy to set the stage for the following year's budget process. The review will:

- update the multi-year budget projection and any other aspects of the plan that require updating.
- communicate progress on the action plan; and
- address the impacts of any Council-approved variance to established financial policies.

Appendix A - Multi-Year Budget Projection

The cornerstone of any Financial Strategy is a multi-year budget projection which considers estimated/incremental revenue, known/projected operating costs (based on assumptions validated by previous experience and current agreements), major initiatives and/or capital projects, and resulting funding needs (additional debentures and debt servicing costs).

The 2016 – 2019 multi-year budget projection:

- is based on continued operations at service levels approved by Council in 2015 and provides for growth-related costs;
- follows a base budget approach that considers cost pressures only on programs and services currently delivered;
- provides for the capital projects contained in the capital forecast and the resulting operational and debt servicing costs for approved debt;
- includes revenue increases resulting from annual indexing of user fees; and
- provides for contribution to reserves already approved by council.

The multi-year budget projection is based on the following specific assumptions:

Revenue Assumptions

Taxation Revenue from Growth – Projected assessment growth is estimated to increase taxation revenue by 1.25% per year.

User Fee Increases – Increases are based on the changes to the General Fees and Charges By-law as approved by Council through report FIN-14-58 on June 23, 2014, as well as the annual indexing of the majority of development, parks and recreation user fees.

Expenditure Assumptions

Growth Related Expenses – As the City grows with new residents and businesses, additional supporting infrastructure will be required. Based on experience, the related costs equate to approximately half of 1% of the annual tax levy.

Salary and Wages – The largest portion of the City's expenditures are for salaries, wages and benefits. Upward pressure continues to be exerted on this category as the City continues to pattern bargain and Fire Services compensation is set through arbitration. Salary and wages have been updated to reflect contract settlement with CUPE Locals 250 and 251, and crossing guards and are projected to increase at that level during the term of this Strategy. Estimates have been used for Fire Services staff in the absence of a collective agreement.

Benefits – In addition to the assumptions stated for salary and wages, benefits are expected to increase in the range of 2% to 4% during the lifespan of this Strategy.

Removal of One-Time Items – The 2015 budget included the following one-time expenditures and savings that need to be factored back into the multi-year budget projection as they are not expected to occur or be required in 2016:

- General Motors Centre (GMC) – one time revenue was used in 2015 to complete capital work at the GMC however that funding source will not be available in 2016 ($120,000);

- Robert McLaughlin Gallery (RGM) – the additional funding requested by RMG in 2015 to offset the cost to install a lower level sprinkler system is not required in 2016 ($34,200) ;

- Parkwood – the additional funding provided to Parkwood as a one-time grant in 2015 was to be used as appropriate to best support the sustainability of the Parkwood Estate ($75,000);

- Ontario Regiment – this one-time grant was approved to The Ontario Regiment Association to enable the Ontario Regiment and the Association to hold their ceremony and functions at the General Motors Centre on September 17, 2016 to honour the 150th Anniversary of the Ontario Regiment ($15,000);

- Regional Councillors' Expenses – Regional Councillors' expense budgets were reduced by $3,500 from the 2015 budget base. Based on the Council-approved Councillors' Expenditure Policy this funding will be included in the 2016 budget submission for consideration ($3,500);

- Pan Am funding – the annual contribution to offset the cost of the 2015 Pan Am games, per CM-12-56 was made in 2015 ($21,000);

- Durham Festival – the funding required for the Woodland Disco was only required for 2015 ($20,000);

- Space Invaders - a one-time in-kind grant of services was provided to the Oshawa Space Invaders Arts Festival ($2,300); and

- Interim Director of Finance – in the absence of a permanent Executive Director of Finance, a contracted resource was hired as the interim director for October 2014 to February 2015. This position has been filled therefore this funding is no longer required ($19,000).

Inflation – The estimate for inflation is based on an analysis of the specific commodities used by the City. Increases range from 1% to 3% on most but as high as 8% on others such as utilities.

Special Initiatives – There are two special initiatives included in the multi-year budget projection. They are:

- Emerald Ash Borer Treatment - On January 27, 2014, Council received an update on the Emerald Ash Borer Treatment (Report CS-14-02) and approved a multi-year funding strategy to continue to implement the City's Emerald Ash Borer Management Plan. In accordance with the approved funding strategy, the multi-year budget projection includes $165,000 in additional funding as endorsed by Council starting in 2015. In 2018, annual funding is reduced by $330,000.

- Incremental Operating Costs for Fire Hall #6 – An estimated cost is included in 2016 for operating and maintaining Fire Hall #6. The estimate is based on the assumption that no new staff or vehicles will be required for this station.

Debt Servicing Costs – Incremental debt servicing costs are included in the multi-year budget projection for Council approved debt.

Reserve Contributions – To ensure the fiscal sustainability of the corporation and meet obligations, increased annual contributions are required to reserve funds during the term of this Strategy. Consistent with the recommended strategies in the reserve portion of this Plan, the multi-year budget projection includes $600,000 in incremental increases to the annual reserve fund contributions in 2016 increasing to $700,000 for each remaining year of the forecast.

The following multi-year budget projection summarizes the impact of the 2016 - 2019 Financial Strategy and the above assumptions. It ensures continued, efficient service delivery and the fiscal sustainability of the corporation.

Multi-Year Budget Projection Summary

The multi-year budget projection indicates that the tax levy requirement will need to increase by approximately 3.0% in 2016 to sustain the current levels of service and address capital, reserve fund and operating pressures. The projection also indicates that over the term of the Financial Strategy, tax levy requirements will increase by an average of 2.2% annually for the years 2016 - 2019.

These increases are primarily driven by rising labour and employee benefit costs, inflation (especially in the energy sector), and incremental reserve fund contributions.

The increases are partially offset by expected taxation revenue growth averaging 1.25% and user fee increases that adhere to the indexing rates approved by Council.

It is expected that the City’s process improvement initiatives will achieve significant time savings with annual costs savings over the course of the four-year forecast. As it is too early to determine the exact amount of cost savings, future updates of the multi-year budget projection will include projected savings.

The multi-year budget projection is based on assumptions and information known at this time. Accordingly, it will be updated each fall to establish a target for the annual budget.

Four-Year Budget Projection

Multi-Year Budget Projection
2016 - 2019 (000's)

		2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Revenue					
	Property Taxes	120,241	124,811	128,385	131,216
	Taxation Revenue from Growth (assuming 1.25% growth)	(1,503)	(1,560)	(1,605)	(1,640)
	User Fee Increases	(333)	(344)	(355)	(367)
Expenditures					
	Growth Related Expenses (1/2 of 1% of tax levy)	601	624	642	656
	Salaries and Wages	1,762	1,682	1,749	1,794
	Benefits	703	644	670	696
	Removal of One Time Items re: prior year budget	(70)			
	Inflation	1,064	1,119	1,177	1,240
	Capital Budget (per 5 year forecast)	301	100	100	100
	Firehall #6 operating increase	64			
	Decrease subsidy for GMC (naming rights)		(100)		
	Special Initiatives (ending in 2018 EAB funding)	165		(330)	
	Debt Servicing Costs	214	(330)	(988)	(184)
	Reserve Contributions	600	700	700	700
Projected Net Tax Levy Increase		**3,568**	**2,535**	**1,760**	**2,995**
% Change in Tax Levy Requirement		**3.0%**	**2.0%**	**1.4%**	**2.3%**

Appendix B - Implementation Plan

Strategic Area	**Infrastructure Investment (II)**
Goal	***Ensure long-term planning and commitment of adequate funds to build, maintain and renew City infrastructure including addressing the existing infrastructure funding gap to protect the City's investments and ensure infrastructure continues to meet the needs of the community within the financial capacity of residents and businesses.***
Lead Branch	Finance Services
Partners	All City Branches Council
Key Financial Indicators	▪ Asset Consumption Ratio ▪ Annual Contribution to Asset Renewal compared to Annual Depreciation Expense ▪ Historical Value of Tangible Capital Assets (excluding land) ▪ Annual Depreciation Expense

#	Strategy	Timing	Status	Cost Impact
II-1	Complete City's Asset Management Plan and work to implement its recommendations	2016 and ongoing	▪ Corporate staff team is working to complete the Plan	n/a

#	Strategy	Timing	Status	Cost Impact
II-2	Undertake a regular review and rationalization of City assets to ensure investment in City's infrastructure is limited to those assets and facilities which are required to meet service demand, service levels and safety regulations	Ongoing	▪ Asset Management Plan will assist the City in implementing this strategy	n/a
II-3	Seek sustainable senior government funding for infrastructure projects supported by a business case and can be justified independently of the senior government funding	Ongoing	▪ Submitted grant applications to FCM and NTC for Harbour lands ▪ Continue to monitor Building Canada Fund for intake opening	n/a
II-4	Complete the fiscal impact study for Kedron Part II Plan Area and other significant growth areas to determine financial impact (i.e. increased revenues, operating and capital costs)	Ongoing	▪ Ongoing	TBD
II-5	Continue to investigate implementation of a storm water pond maintenance fee, subject to applicable legislation	2016	▪ Ongoing	TBD
II-6	Investigate new user fee initiatives (storm water utility rate) and funding models (i.e. dedicated capital levy) to provide sustainable funding for the life-cycle costs of assets	2016/17	▪ Provide report to Council on options and costs to undertake study	TBD
II-7	Complete comprehensive business plans prior to significant reinvestment in existing infrastructure or investment in new infrastructure	Ongoing	▪ Ongoing	n/a
II-8	Continue to work with the Region and neighbouring municipalities when developing long-term capital plans to ensure alignment of transportation-related projects	Ongoing	▪ Ongoing	n/a

#	Strategy	Timing	Status	Cost Impact
II-9	Ensure that green infrastructure is adequately addressed in the City's corporate asset management plan	2016 and ongoing	▪ Ongoing	n/a
II-10	Develop a comprehensive financial infrastructure policy document to consolidate all of the City's financial policies that support the long-term planning and sustainable funding of the building, maintenance and renewal of the City's infrastructure.	2016/17	▪ Provide update to Council upon completion	n/a
II-11	Continue to increase annual reserve fund contributions to the Condition Audit Renewal Reserve and Facility Renewal/Replacement Reserve until the annual contribution reaches 2.5% of the value of the City's vertical grey infrastructure	Ongoing	▪ Ongoing as part the annual budget process	TBD
II-12	Transfer any year-end surplus funding in General Motors Centre operating program to a dedicated reserve for renewal of the facility and related assets as long as the transfer will not result in an overall year-end deficit	2015	▪ Pending Council direction	n/a
II-13	Reactivate the Infrastructure Renewal/Replacement Reserve fund to accumulate funds for infrastructure renewal/replacement projects as approved by Council. The multi-year budget should be adjusted to reflect a contribution to this reserve commencing in 2016 that is approximately 0.25% of the total tax levy and grow the contribution in future budget years until the annual percentage reaches 1% of total tax levy.	2016	▪ To be considered as part of the annual budget process	TBD

#	Strategy	Timing	Status	Cost Impact
II-14	Combine the Facility Replacement Reserve with the Infrastructure Renewal/Replacement Reserve and replace all references to the Major Facility Reserve with Infrastructure Renewal/Replacement Reserve.	2016	▪ Pending Council direction	N/A
II-15	Continue to investigate the replacement of existing street lighting with LED technology to reduce the City's carbon imprint and potentially achieve energy cost savings.	2015/16	▪ Ongoing	TBD

Strategic Area	Reserve Funds (RF)
Goal	***Build and maintain reserves to fund major or unforeseen expenditures that cannot be funded within a one year period, maintaining financial resiliency and buffering the municipality from major swings in tax levy requirement.***
Lead Branch	Finance Services
Partners	Council
Key Financial Indicators	▪ Tax Discretionary Reserves as a Percent of Taxation ▪ Tax Discretionary Reserves as a Percent of Own Source Revenue ▪ Uncommitted Capital Reserve Balances ▪ Annual Tax Levy Capital Reserve Contributions ▪ Uncommitted Operating Reserve Balances ▪ Annual Tax Levy Operating Reserve Contributions

	Strategy	Timing	Status	Cost Impact
RF-1	Increase annual reserve fund contributions by $100,000 to the City's discretionary reserves to stabilize the position of the City's reserves	Ongoing	▪ Approved by Council in 2012	$100,000 annually
RF-2	Transfer any year end surplus funding in the Taxes Written off operating program at year-end to the Tax Appeal Reserve as long as the transfer will not result in an overall year-end deficit	2016	▪ Pending Council approval	n/a
RF-3	Increase the cap on the Tax Appeal Reserve from between $2 to $3 million to $15 million and increase annual budget contributions	2016	▪ Pending Council approval	n/a

	Strategy	Timing	Status	Cost Impact
RF-4	Revise the Tax Rate Stabilization Reserve policy to increase the cap on the reserve fund balance from 2% to 5% of operating expenses	2016	▪ Pending Council approval	n/a
RF-5	Combine Growth Related Parks and Trail Reserve, and Growth Related Transportation Reserve into one reserve called Growth Related Capital Reserve and expand the scope of the reserve to fund the capital cost of all growth-related projects that are not eligible for development charge funding	2016	▪ Pending Council approval	n/a
RF-6	Rename the Winter Maintenance Reserve to the Operations Reserve and expand the purpose of the reserve to include funding for all severe weather-related storm clean-up costs and unforeseen events such as giant hogweed, sink holes, infestations, etc.	2016	▪ Pending Council approval	n/a
RF-7	Rename the Parks Rec Facility reserve to the Parks Rec Infrastructure reserve to broaden the flexibility and use of the reserve to cover replacement of non-facility assets (i.e. Gazebos, Planters, etc.) in addition to facility needs.	2016	▪ Pending Council approval	n/a
RF-8	Establish a dedicated General Motors Centre reserve to fund the renewal of the facility and related capital asset needs.	2016	▪ Pending Council approval	
RF-9	Transfer any year-end surplus funding in the General Motors Centre operating program to the General Motors Centre reserve.as long as the transfer will not result in an overall year-end deficit.	2016	▪ Pending Council approval	
RF-10	Transfer any year-end surplus funding in the WSIB operating account to the WSIB Reserve as long as the transfer will not result in an overall year-end deficit. Any surpluses resulting from benefit plan rebates also be transferred to the WSIB reserve.	2016	▪ Pending Council approval	n/a

	Strategy	Timing	Status	Cost Impact
RF-11	Develop a formal comprehensive reserve fund policy document that consolidates the City's existing reserve fund policy statements and reflects the additional strategies approved as part of this Financial Strategy	2016	▪ Provide update to Council upon completion	n/a
RF-12	Investigate and recommend an appropriate level of development charge leveraging to improve cash flow in the Parks & Recreation Development Charge Reserve while still freeing up additional funding for capital projects	2016	▪ Provide recommendation to Council	n/a

Strategic Area	Debt Management (DM)
Goal	***Manage existing and future debt levels to minimize the impact of debt servicing costs on taxpayers and create a balance between the use of debt and a pay-as-you-go approach.***
Lead Branch	Finance Services
Partners	Corporate Communications Region of Durham Council
Key Financial Indicators	▪ External Debt per Capita ▪ Total Outstanding Debt (External Debt and Internal Debt) ▪ Annual Debt Servicing Costs compared to Municipal Debt Cap and Provincial Debt Cap

#	Strategy	Timing	Status	Cost Impact
DM-1	Work with Region to secure competitive interest rates to minimize cost of borrowing new debt	Ongoing	▪ Ongoing	n/a
DM-2	Redirect a minimum of 10% of operation surplus to pay off IFNs once the balances in the Tax Rate stabilization Reserve and Tax Appeal Reserve reach their cap	Ongoing	▪ Pending Council approval	n/a
DM-3	Move to a pay-as-you-go approach for financing lifecycle capital projects by increasing contributions to infrastructure reserves	Ongoing	▪ Pending Council approval	n/a
DM-4	Continue to ensure the term of debt does not exceed the useful life of the underlying asset	Ongoing	▪ Ongoing	n/a

#	Strategy	Timing	Status	Cost Impact
DM-5	Limit the issuance of new debt to: ▪ new infrastructure requirements ▪ facilities which are self-supporting, or financed by a dedicated revenue stream or expenditure savings ▪ projects where the cost of deferring expenditures exceeds debt servicing costs ▪ projects which are intergenerational in nature	Ongoing	▪ Ongoing	n/a
DM-6	The City shall not issue debt on behalf of any external agency or organization or guarantee debt issued directly by an external agency or organization	Ongoing	▪ Ongoing	n/a
DM-7	Educate the public on the purpose of debt and that reasonable debt is manageable and a legitimate form of financing	Ongoing	▪ Ongoing	minimal
DM-8	Create a debt information page on the City's website to assist in educating the public on the City's debt	2016	▪ Provide update to Council upon completion	n/a
DM-9	Continue to include a 10-year debt forecast as part of the 10-year capital plan to increase transparency surrounding the City's debt levels	Ongoing	▪ Ongoing	n/a
DM-10	Amend the City's Interfund Note Policy to increase the cap on interfund notes from 30% to 40% of the City's minimum cash balance to capitalize on the benefits of internal borrowing while ensuring the financial sustainability and flexibility of the City	2016	▪ Pending Council approval	n/a
DM-11	Develop a formal comprehensive debt management policy document that consolidates the City's existing debt policy statements and reflects additional strategies approved as part of this Financial Strategy	2016	▪ Provide update to Council upon completion	n/a

#	Strategy	Timing	Status	Cost Impact
DM-12	Additional strategy to leverage a portion of the annual savings on principal and interest payments as outstanding debt is reduced to fund infrastructure projects.	2016	▪ Ongoing	n/a

Strategic Area	Revenue Sources (RS)
Goal	***Diversify and expand upon sustainable revenue streams to improve the balance between property taxes and other currently available revenue sources.***
Lead Branch	Finance Services
Partners	All City Branches Council AMO, LUMCO, Other Municipalities
Key Financial Indicators	▪ Percentage of Total Revenues/Recoveries coming from Property Taxes

#	Strategy	Timing	Status	Cost Impact
RS-1	Continue to promote and attract commercial and industrial development in order to continue to grow and broaden the City's property tax base	Ongoing	▪ Ongoing	n/a
RS-2	Continue to work with AMO and LUMCO to advocate for a share of federal/provincial revenue streams	Ongoing	▪ Ongoing	minimal
RS-3	Investigate the feasibility of a utility charge for storm water management to more fairly recover costs	2016/17	▪ Provide update to Council upon completion.	n/a
RS-4	Lobby the Province to increase the amount of heads and beds payment-in-lieu of taxes by the rate of inflation since 1987 and index the rate annually for inflation	Ongoing	▪ Ongoing	minimal
RS-5	Meet with appropriate municipalities and review the basis of calculating payments-in-lieu of taxes and determine a stable foundation going forward for these payments that would more closely mirror the current value assessment	2016/17	▪ Pending Council direction	minimal

#	Strategy	Timing	Status	Cost Impact
	(CVA) of the property			
RS-6	Undertake a comprehensive review of user fees as appropriate to ensure fees remain competitive while improving the balance between user pay and taxpayer subsidy	Ongoing	▪ Ongoing	n/a
RS-7	Continue to educate the public on the cost to provide the City's various programs to clarify potential fee increases and address value for money	Ongoing	▪ Ongoing	minimal
RS-8	Lobby the Province to amend the Municipal Act, 2001 and its regulations, as necessary, to increase the collectability of non-parking administrative penalties	Ongoing	▪ Ongoing	Minimal
RS-9	Review OPUC dividend policy to ensure equitable distribution	2016	▪ Ongoing	n/a
RS-10	Undertake a review of the impact of lost revenue as a result of tax incentives for Community Improvement Plans and development charge exemptions	2016/17	▪ Ongoing	n/a
RS-11	Review Licensing fees and create annual indexing for fees as appropriate	2016/17	▪ Ongoing	n/a
RS-12	Implement new legislated financial tools as they become available as Council deems appropriate	Ongoing	▪ Ongoing	n/a

Strategic Area	Operating Costs (OS)
Goal	***Deliver core services efficiently and effectively, ensuring value for money and the transparent stewardship of public funds.***
Lead Branch	Finance Services
Partners	All City Branches External Agencies AMO, MFOA Council
Key Financial Indicators	▪ Personnel Costs as a Percentage of Total Operating Fund Expenditures

#	Strategy	Timing	Status	Cost Impact
OS-1	Develop and implement a five-year budget projection aligned with term-of-Council priorities that establishes annual tax levy targets, while respecting the taxpayers ability to pay	Ongoing	▪ Pending Council approval	n/a
OS-2	Develop and implement a consistent framework to undertake process improvements across organization that applies Lean methodologies and change management practices, resulting in clearly defined and measurable outcomes	Ongoing	▪ Ongoing	TBD once frame-work in place
OS-3	Develop a comprehensive budget management policy document that will provide a guideline for the expenditure of funds, and an accountability framework	2016/17	▪ Provide an update to Council upon completion	n/a
OS-4	Continue to participate in the Durham Region Purchasing Co-op	Ongoing	▪ Ongoing	n/a

#	Strategy	Timing	Status	Cost Impact
OS-5	Continue to explore shared service delivery and partnerships with the City's external agencies and community partners based on sound business cases	Ongoing	▪ Ongoing	minimal
OS-6	Ensure responsible contractual labour increases and employment and post-employment benefits that are affordable and reflective of current market conditions	Ongoing	▪ Ongoing	minimal
OS-7	Continue to work with AMO and MFOA to lobby the Province to ensure arbitrators consider the financial situation of municipalities and the ability of taxpayers to afford arbitration decisions	Ongoing	▪ Ongoing	minimal
OS-8	Continue to monitor the utility market to ensure the City's procurement practice for utilities is cost effective and, where in the best interests of the City, secure hedging or contracts to mitigate the City's exposure to significant increases in commodity pricing	Ongoing	▪ Ongoing	minimal
OS-9	Continue to work with AMO and MFOA to lobby the Province for joint and several liability reform	Ongoing	▪ Ongoing	minimal

#	Strategy	Timing	Status	Cost Impact
OS-10	Complete the City's Asset Management Plan and work to implement its recommendations	2016 and ongoing	▪ Corporate staff team is working to complete the Plan	n/a
OS-11	Continue to be a key stakeholder and contributor to the Regional Task Force that is working with MPAC to address assessment related concerns	Ongoing	▪ Ongoing	minimal
OS-12	Lobby the Province to work with MPAC to increase the accuracy of the assessed values for large commercial and industrial properties, in order to produce assessed values that reflect the real worth of a business or industry and withstand annual appeals without continual significant reductions	2015	▪ Pending Council direction	n/a
OS-13	Continue to lobby the Province to work collaboratively with municipalities and AMO on new provincial initiatives impacting municipalities and provide support to municipalities to address the additional costs associated with any new initiatives	Ongoing	▪ Ongoing	n/a
OS-14	Develop realistic and effective staff development and training programs, identifying target groups within the corporate succession plan, including outlines of the training to be undertaken, the number of employees involved annually, and the projected annual costs	2017	▪ Provide an update to Council upon completion	TBD
OS-15	Evaluate the current plan enrollment with WSIB (Schedule II employer) to determine if there are any potential costs savings that could be achieved in the long term by changing to a Schedule I employer	2015/16	▪ Provide an update to Council upon completion	TBD

Financial Strategy 2016-2019

Appendix 1 - SWOT Analysis

To ensure a comprehensive understanding of both the internal and external forces influencing or affecting Oshawa, strengths, weaknesses, opportunities and threats (SWOT) analysis with a long-term focus was undertaken. Strengths can serve to minimize threats and weaknesses may reduce opportunities. The SWOT also contributes to an understanding of internal and external risks.

Strengths

Strategic Planning:

Numerous strategic planning documents have been developed in response to the increasing complexity of municipal issues, the challenges of growth and the desire to ensure a livable community. These plans allow the City to proactively plan, establish priorities and assign resources. They include, for example, the Oshawa Strategic Plan, Oshawa Official Plan, Sector Analysis and Cluster Development Strategy, the City's first Arts, Culture and Heritage Plan, *Culture Counts Strategy,* Fire Master Plan, Parks, Recreation and Culture Strategy. Plans in development include a Corporate Strategic Plan for Asset Management, Integrated Transportation Master Plan and Active Transportation Master Plan and Energy Management Plan.

Term-of-Council Priorities:

A challenge for municipalities is creating and managing the right balance between conflicting demands for more services and the desire for low taxes. Such demands increase the need for priority setting. The identification of term-of-council priorities aligned with the strategic goals found in the Oshawa Strategic Plan informs Council decisions on core services, capital expenditures, funding requests and tax levy requirements.

Continuous Improvement:

The City's continuous improvement effort will employ Lean methodology to benefit the City's financial health and improve customer service.

Development Approvals Process:

A streamlined, timely and sound development approvals process, an "open for business" philosophy and a collaborative relationship with the development community ensures the growth of a well-planned, livable and sustainable community.

Development Charges:

The 2014 BMA Study reports that in 2013 Oshawa had the lowest development charges among the Durham Region lakeshore municipalities and the GTA (with the exception of Toronto). This helps to keep Oshawa competitive and encourage investment in the community. This advantage, however, needs to be balanced against the necessity to generate sufficient funding to support the infrastructure expenditures required to service growth.

Oshawa's Position in the GTA:

Oshawa benefits from a growing population, a strong volunteer base, an established social services network, a capable and available workforce, long-established businesses, new investors and young entrepreneurs. The City also has enormous physical assets granted by nature and years of effort. They include a Lake Ontario location, prime farmland, an urban-rural mix and proximity to Toronto and US markets. The City also boasts growing post-secondary institutions, a City-owned local electrical utility with a 100 kilometre telecommunications network (95% dark) to support business, affordable housing attractive to first-time homebuyers, best-in-class recreation facilities, parks and trails, a full service airport with an updated airport business plan, a deep-water port, national railway connections and 400 series highway access. These assets attract new business, residents, investment and reinvestment.

Our Employees:

The City Manager leads a strong, competent and professional staff team responsible for the overall operation of the City and the wise stewardship of

the City's resources. City employees conduct themselves in accordance with a Code of Conduct and three core values of authenticity, courage and trust, and a Respect in the Workplace, Harassment and Violence Policy.

Customer Service:

Customer service is a core competency of the organization. Service Oshawa, a customer service centre, creates a one-stop shop and ensures a positive, friendly, customer service experience. Extended hours and a live on-line chat service helps to ensure convenient access to City services.

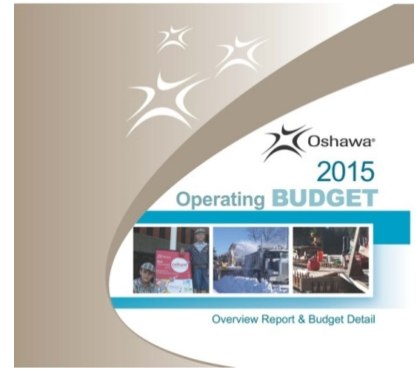
Municipal Leader:

The City continues to be a leader in several areas, evidenced by numerous awards and recognitions for accessibility, brownfield redevelopment, economic development, strategic financial management, law enforcement and licensing, naturalization, community walkability, environmental management, facilities, energy savings, top festivals and events, Ontario Employer designation and corporate United Way donations.

Arts, Culture and Heritage:

Oshawa is home to numerous cultural destinations and institutions including, for example, the Parkwood National Historic Site, the Canadian Automotive Museum, The Robert McLaughlin Gallery, Oshawa Public Library, Oshawa Community Museum, Oshawa Little Theatre and the Ontario Philharmonic. The City is experiencing the growth of an independent music scene, creative industries and entrepreneurial start-up companies, supported by the City's first Arts, Culture and Heritage Plan, *Culture Counts*.

Weaknesses



Operating Budget Pressures:

Oshawa, like other municipalities, is facing increasingly complex financial pressures as a result of increased growth and operating costs rising faster than the Consumer Price Index (CPI). These pressures include rising energy costs, infrastructure maintenance, debt servicing, new program and service delivery costs in response to culture, diversity and environmental demands (emerald ash borer), staff training and development costs, labour and inflationary costs.

Deteriorating Infrastructure:

Aging vertical and horizontal (grey and green) infrastructure is plaguing most municipalities. In 1955, local government owned 18% of public infrastructure. By 2005, local governments share had risen to 38%. This change in balance - municipalities own the majority of public infrastructure but have the lowest and narrowest sources of revenue - is why municipalities have an infrastructure crisis today.[1] The City is moving forward with an Asset Management Plan but the required funding to maintain existing infrastructure or build new cannot be ignored as the infrastructure deficit grows.

Debt:

According to the 2014 BMA Study, the City has a higher than average debt level. The debt to reserve ratio was 2.0 compared to the survey average of 1.1. The cost to service debt as a percent of own source revenue was 2.2% compared to the survey average of 1.5%. The City had approximately $88.3 million in external debt and $19.5 million in internal debt at December 31, 2014. Carrying debt reduces the City's flexibility to respond to new and unexpected costs.

Reserves:

Many of the City's reserves are underfunded including infrastructure and operating reserves. This serves to reduce the City's flexibility to fund unexpected and extraordinary operating costs as a result of significant tax appeals, legal or insurance claims, extreme weather events, certain risks and liabilities, or a year-end deficit. Inadequate reserves to respond to aging infrastructure can also result in decaying assets and increasing the infrastructure gap that cause the City to fall behind, which is a risk to future generations. The City's need to increase contributions to reserve funds is supported

[1] Hugh Mackenzie, Local Government Finance In Ontario, Innovative Strategies, Canadian Centre for Policy Alternatives

by the 2014 BMA Study, which reports the City's tax funded discretionary reserve funds as a percentage of total taxation was 38% compared to the survey average of 70%

Taxes:

Oshawa has higher than average residential property taxes according to the 2014 BMA Study. Residential property (including education, Regional and lower-tier) taxes represented 4.7% of household income compared to the BMA survey average of 3.8%. This is due, in part, to Oshawa household income being lower than the survey average.

Financial Sustainability:

The choice of tactical short-term or one-time financial solutions occurs at the expense of long-term financial sustainability. Endorsement and implementation of the Financial Strategy, a 10-year capital forecast, a multi-year budget projection and regular reporting on key financial indicators, will ensure that longer term financial impacts are taken into consideration when setting priorities and making decisions.

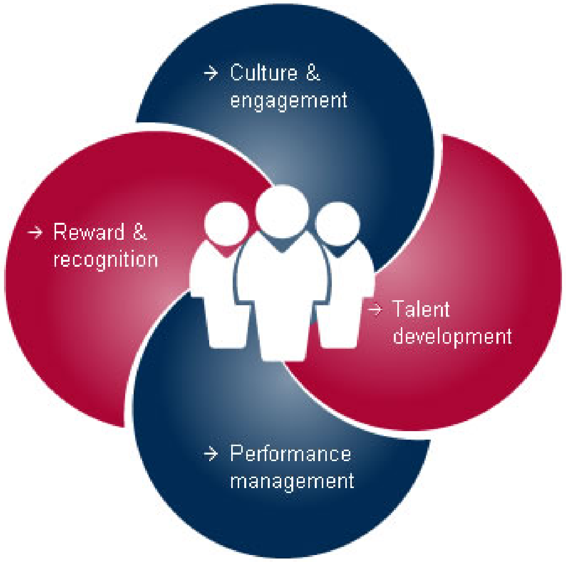
Intergovernmental Relations:

The development of closer ties with provincial and federal levels of government and municipal associations is important to raise the profile of Oshawa issues with municipal lobby groups and senior government officials and politicians. This may help the City be more successful in grant applications. Examples of municipal organizations include the Association of Municipalities of Ontario (AMO), Federation of Canadian Municipalities (FCM), Municipal Finance Officers' Association of Ontario (MFOA), Large Urban Mayor's Caucus of Ontario (LUMCO), and Mayors and Regional Chairs of Ontario (MARCO) and the Ontario Automotive Mayors Caucus.

Maturing Internal Workforce:

Over the next 10 years and as a result of a maturing workforce, 42% (295) of the City's current employee population will meet the OMER's criteria for retirement. Of this group, 9.5% (28) are within the senior management category. The potential large number of upcoming staff retirements will result in a loss of knowledge, experience and expertise. To address this threat, Oshawa needs to adopt a contemporary operating style that will attract and retain the next generation of workers.

Employee Training and Development:



The attraction, development and retention of the City's employees - our most valuable asset - is critical to a successful organization. This is especially important given the maturing workforce, a slowdown in the rate of labour force growth and the competition for quality people. The City is estimated to spend only 0.66% of payroll on all training and development, significantly less than best practice found in public and private sector organizations of between 2 to 4%. A financial plan is not currently in place to enhance employee training and development .The City's success will be dependent on additional investment. A corporate training budget is in place but is inadequate to support employees professional and development training needs including the TEAMS and LEADS programs,[2] which address the training and development of the management group

Evolving Processes:

Improved in-house capacity in project management, risk management, performance management, change management and performance measurement would benefit the City in terms of increased efficiencies and effectiveness.

The City could improve the in-house investment, commitment, ability and capacity of knowledge and information management. To ensure good business intelligence, the City must commit to the capturing and sharing of accurate and meaningful information. This will improve the effectiveness of decision-making in all business management practices including project, risk, performance, and fiscal responsibility.

Open Government:

Council, standing committee and project-specific public meetings, Council advisory committees, regular corporate communications and web streaming of Council meetings all provide opportunities to engage the public. The development of a corporate community engagement policy and a regular corporate customer satisfaction survey would help meet the increasing expectation of the public for engagement, while informing City activities.

[2] TEAMS - The Essentials for Advancing Managerial Success and LEADS - Leadership Excellence and Development School are programs developed in-house by Human Resource Services.

Changes in Technology:

The City is challenged to maintain the pace of technological change. An analysis of the City's current technology would promote the development of a growth strategy to become more innovative and maximize the utilization of existing systems.

Environmental Management:

The City would benefit from additional environmental initiatives such as: calculating the percent tree cover (the recommended standard is 30%); multi-stream waste collection; further waste reduction at City facilities; embedding climate adaptation into existing policies to strengthen city resilience; investigate alternative energy sources; and continuing to green the City's purchasing policy and practices. Such initiatives compete with other projects for limited City resources.

Opportunities

Image:

Continued positive communications of Oshawa's assets and benefits, and improved aesthetics around community gateways would help to attract investment and new residents alike.

Growth Forecasts:

Growth forecasts place Durham Region as one of the fastest growing regions in the GTA to 2032. Oshawa, as the largest urban centre in the Region has an opportunity to attract its fair portion of this growth. However, Oshawa is no longer just facing competition from the municipality down the road but also half a world away. Opportunities exist to grow commercial and industrial assessment given land availability, well-planned land use and the implementation of community improvement plans. Supportive regional servicing policies for new research/industrial parks should be encouraged.

Downtown:

The revitalization of downtown Oshawa, recognized as an Urban Growth Centre by the Province, is underway. Evidence can be found in the City's investment in the General Motors Centre, Durham Region Courthouse, streetscape improvements, facade and beautification efforts; an active and committed Business Improvement Area (BIA); the growth in the UOIT student population and investment in faculty locations; a growing arts and culture focus; plans for residential development; and the current construction of a second downtown hotel. Revitalization of the former Genosha Hotel site could create additional opportunities in the downtown.

Transportation Infrastructure:

The extension of Highway 407 to and through Oshawa, increased GO Train service, potential new Oshawa GO stations and future improvements to the Highway 401 interchanges at Harmony Road South and Simcoe Street South would improve local traffic flow and support business growth and investment. The Integrated Transportation Master Plan and Active Transportation Master Plan will provide a gap analysis and prioritize transportation infrastructure and policy to 2031.

The approval of the Business Plan for the Oshawa Executive Airport provides a road map to sustainability to the year 2033.

Culture-Based Economic Development:

As part of the shift towards a service and knowledge-based economy, culture is a strategic asset and a growing sector of the Canadian economy. Oshawa has the opportunity to benefit from creativity and culture as generators of economic growth. Culture can be leveraged to embrace diversity, strengthen and expand upon partnerships, aid community development and capacity-building, and help attract and maintain a talented workforce.

Diversity and Inclusivity:

Diversity and inclusivity has challenges but also creates opportunities for municipalities. Municipal governments are the country's frontline or first responders when it comes to diversity and inclusivity issues. As Oshawa's population matures and birth rates remain low, the City's economic future will be tied to its ability to successfully attract, integrate and retain skilled immigrants and include people from all walks of life.

Valuation of External Assets:

There are approximately 80 local distribution companies in Ontario, which are responsible for delivering electricity to more than four million Ontario homes, businesses and public institutions. They can be publicly or privately owned with the majority owned by municipalities. Local distribution companies are regulated monopolies and their rates are regulated by the Ontario Energy Board.

Currently, there is a provincial interest in the consolidation of local distribution companies to strengthen utility performance and to ensure that customers and ratepayers are protected and adequately served. To provide an accurate assessment of how Oshawa's LDC is positioned in the market, it would be beneficial for the City to initiate a third party independent valuation of the business.

Threats

Reliance on Unsustainable Revenue Sources:

Out of every tax dollar collected in Canada, municipal governments receive just eight cents, while 92 cents go to the provincial and federal governments[3]. Coupled with a 40% decrease in transfers to municipal governments since the early 1990s, municipalities have an excessive reliance on property taxes (which are regressive in nature) with few alternatives. In 2012, more than three-quarters of the City's operating revenue was raised through property taxes, which is a greater reliance on property taxes to fund operating costs than comparator municipalities. Given legislation restricts the mechanisms by which municipalities can generate revenue, a high priority for municipalities is to secure reliable, predictable and sustainable funding that does not rely primarily on property taxes.

Increased Costs:

Municipalities experience increased costs as a result of several factors. One factor, out of the control of the City is inflation, which, in particular, has impacted energy costs. Another factor is growth-related costs, unavoidable if a municipality is going to continue to meet the needs of a growing community. Other factors include increasing labour costs (see Interest Arbitration on pg. 31), increasing reserve fund contributions and increasing debt servicing costs.

[3] Federation of Canadian Municipalities

Unfunded Infrastructure Costs:

The City, like other municipalities, has many projects in its 10-year capital forecast. Many of these projects are required to support the provincial investment in much needed transportation and transit infrastructure including the Highway 407 extension to and through Oshawa and the GO Train extension with related new stations. The cost to support these initiatives is beyond the financial resources of the City, which is therefore dependent on infrastructure funding from senior levels of government.

Assessment Growth and Appeals:

The City's industrial assessment growth is low. This is a result of several factors. One is the competitive advantage the US and other provinces have over Ontario due to their financial incentives for industry. Another is the 2008 economic downturn, which created a supply of vacant industrial space in Durham Region, negating the need for new construction. Third, the Region of Durham, which is responsible for the provision of water and sewer, requires developers to pay up-front for servicing. This requirement is not a financially feasible model from the developer's perspective and serves as a significant deterrent to industrial growth. It also contributes to the municipality needing to seek alternative funding sources for servicing, as is the case for the Northwoods Industrial Park. Fourth, the City's existing commercial and industrial tax base is particularly vulnerable to assessment appeals, which erode the assessment base and place a significant strain on municipal finances. Often appeals take more than one assessment cycle to resolve resulting in additional appeals and write-offs. Oshawa is also faced with the changing business model of General Motors, currently employing a total of 3,600 employees to be reduced to 2,600 via retirement packages over 2016. The magnitude of the adjustments, both from an assessment perspective as well as the loss of employment, becomes a burden for the municipality. Such losses place additional pressure on the remaining assessment base to provide the tax levy necessary to operate a growing municipality.

New Legislative Requirements:

New legislation and regulations plus downloading can result in new responsibilities and costs for municipalities or impact municipalities in other ways. Examples include provincial intensification policies, new environmental legislation (e.g. Clean Water Act, Green Energy Act, Water Opportunities Act and Great Lakes Protection Act), local improvement for energy retrofits, presumptive legislation impacting Workplace Safety and Insurance Board (WSIB) costs related to Fire Services, and accessibility legislation and regulations. Funding needs to accompany new responsibilities and increased costs.

Insurance and Legal Claims:

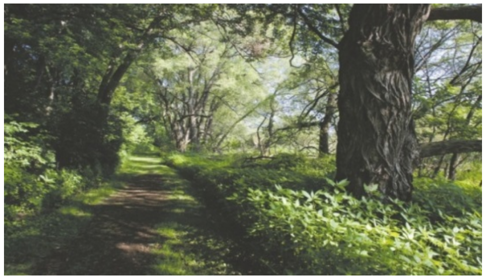
Municipal liability claims have escalated to unprecedented levels at a time when municipalities are facing considerable budget constraints. As the cost of claims increase exponentially, insurance premiums have followed suit. Contributing to this threat are larger damage awards, accelerating future care costs, joint and several liability, increasing cost to defend claims, class actions, inflation of municipal claims and a more litigious society.[4] Increasing insurance claims and adverse litigation outcomes are not sustainable, divert funds from key municipal services and require long-term solutions by the Province.

Interest Arbitration:

Interest arbitration settles contract disputes for emergency service workers when collective bargaining agreements cannot be reached with the intention of ensuring that outcomes are fair for employees who cannot strike. Interest arbitration decisions can take years and municipalities are challenged to deliver on the awards and risk having to cut services elsewhere in the name of affordability. Decisions are inconsistent with collective agreements negotiated for other employees and are out of touch with the economic challenges that municipalities face. Double-digit decisions for multi-year contracts are becoming normal for emergency services, at a time when other municipal employee collective bargaining groups are agreeing to tighten their belts.

Maturing Population:

The growing proportion of maturing residents presents a number of challenges for all levels of government. While an older population can contribute time and a wealth of experience to local projects and organizations, the need to optimize opportunities for health, participation and security to enhance quality of life as people age will require attention and municipal resources. Consideration should be given to outdoor spaces and buildings, transportation, housing, social inclusion, civic participation, accessibility and employment, communication and information, and community and health services.



[4] Frank Cowan Company

Environment:

Oshawa, like other municipalities, has to respond to the Emerald Ash Borer, other invasive species and climate change including severe weather, with a resulting impact on operating costs, capital infrastructure costs, insurance rates and liability. Poor air quality, beach closures and an increase in the number and frequency of heat and smog alerts are common. These factors can affect the community's forest canopy, aesthetics and potential tourism dollars.

Taxpayer Ability to Pay Property Taxes

Local taxpayers' ability to pay property tax increases is a function of a record level of Canadian household debt, unemployment rates, and household average and disposable income below the Oshawa CMA and provincial averages. These factors affect the ability of the City to raise the revenues necessary to maintain or increase services and/or service levels to meet growth demands, fund new corporate initiatives, and meet health and safety requirements.