Cities typically fund some of their capital costs by issuing debt – in the form of bonds – in the debt markets. Investors interested in purchasing this debt want to compare the bond’s return to its risk. As a result, international rating agencies rate municipalities issuing debt to help investors determine the level of risk they would take if they purchased the bond. A high credit rating not only lowers the price of the bond, it makes the debt available to a wide range of Canadian and international investors. On the other hand, if a municipality’s credit rating falls, it can increase the City’s cost of borrowing and limit investors.

At this time, the City of Ottawa is rated by two international rating agencies: Moody’s Canada Inc. and Standard & Poor’s. Moody’s recently confirmed an Aaa rating for the City – the highest possible ranking and one the City has maintained since 1975. In making its most recent assessment, Moody’s notes that the City has performed well financially over the past several years, showing strict fiscal discipline and a commitment to long-range financial planning. Moody’s also notes in this year’s reporting, that the

“…current plan (LRFP II) aims to phase out new debt issuance for lifecycle projects and restrict debt financing to expansion related projects or projects funded by development charges, third party funding or rate changes…. The City’s adherence to a long-term capital plan, which ensures that debt levels and debt servicing costs remain modest, constitute a credit positive.”

Standard & Poor’s (S&P) has assigned an AA+ Stable rating to the City, taking into account the City’s exceptionally stable economy, its current low debt level and continued high liquidity. Just one level below its highest, S&P defines this rating as:

“An obligation rated “AA” differs from the highest-rated obligations only to a small degree. The obligor’s capacity to meet its financial commitment on the obligation is very strong.”

S&P expects that Ottawa’s economy will retain its exceptional long-term stability and that increases in debt will be more or less contained to current forecast levels. In its analysis, the rating agency compares Ottawa to a peer group that includes Madrid, Oslo, Paris and Stockholm, and notes that Ottawa’s debt level is very similar to that of Oslo and Stockholm, while its liquidity is the highest of this peer group.13

The City of Ottawa is an economic generator of significant importance locally and for Eastern Ontario and Western Quebec. Estimates show that City operations injected a little less than $1 billion directly into the Ottawa economy in 2004.

With approximately 17,000 employees on its annual payroll and a significant procurement and purchasing portfolio, the City of Ottawa makes a major economic impact. For example, City purchasing supports more than 7,000 vendors across the region, including approximately 1,000 rural suppliers. Purchased goods and services include: professional services, construction and technical services, general goods, and products and companies related to the maintenance of the City’s fleet of equipment and assets.

This economic activity also supports employment, creates personal household income and generates revenue for the provincial and federal governments. Estimates of City-related local business volumes from secondary spending exceed $1.5 billion.

**PART A: OPERATING EXPENDITURES**

In 2001, the amalgamated City of Ottawa was created to provide streamlined governance to residents and more efficient, cost-effective delivery of municipal services.

From 2001 to 2004, the amalgamation achieved over $101 million in permanent savings from: Opportunity Log items (i.e., items identified by City staff to be potential savings generators, such as business process improvements, organizational change, administrative efficiencies, technological enhancements and new revenues); internal service and discretionary budget reductions arising from the information in the Universal Program Review; and new ideas resulting from the Continuous Improvement Strategy adopted by City Council as part of the Opportunity Log.

These savings were significant – the equivalent of the combined municipal taxes collected by the former municipalities of Gloucester, Kanata, Nepean, Rockliffe, Vanier, Cumberland, Goulbourn, Osgoode, Rideau and West Carleton at the time of amalgamation. The City was able to achieve tax savings by focusing on finding major efficiencies without affecting service levels. Since the savings occurred in the three years after amalgamation, City Council was able to maintain existing property tax levels, while other municipalities across Ontario and the rest of Canada saw their taxes increase.

The following graph shows the cumulative per cent tax increase for a number of cities in Canada from 2001 to 2006.
Council and City staff saw the Amalgamation Savings Program as the beginning of a new City commitment to deliver services as efficiently as possible. Over the past five years, the City has embraced a culture of continuous improvement and developed leading-edge tools to help it improve its long-term financial sustainability; achieve annual savings from service delivery improvements, efficiencies and innovation; maximize the productivity of existing resources; and plan for future needs. These tools include:

- The City’s first LRFP
- Universal Program Review (UPR)
- The Opportunity Log
- The Accountability Framework
- LRFP II
- Implementation of a performance measurement framework

The City has also piloted a Branch Process Review Program to examine its existing business processes. The program looks at identifying potential cost savings and financial management opportunities to realize efficiency potential within day-to-day operations.
Ontario municipal budgets include numerous programs and services that are provincially mandated but paid for through property taxes. As a result, there are many required expenditures over which Council has very little control. Ottawa’s 2006 annual operating budget for tax-supported programs and services can be divided into the following categories:

- Provincially mandated or cost-shared programs
- Police Services Board
- Debt repayments
- Council-controlled expenditures

**Breakdown of operating expenditures**  
**2006 gross operating budget ($2,113M)**

![Chart showing the breakdown of operating expenditures]

Source: City of Ottawa

**Provincially mandated or cost-shared programs**

The Province has established programs for a variety of services such as social assistance, social housing, child-care, public health and many others. When these programs were set up, the province set the regulations, established the cost-sharing formula, and then required the City to administer these programs on its behalf. Almost one-third of City spending is directed to provincial programs.
Over the years, the level of provincial funding based on cost-sharing formulas has deteriorated. Expenditures that were originally eligible for cost-sharing are now deemed ineligible. As service costs grow, funding caps cover a smaller proportion of these expenditures and municipal property tax funds have to make up the shortfall.

**Police Services Board**

Comprising Councillors and appointed members of the public, the Police Services Board oversees the police department and makes independent decisions about the priorities and needs presented to Council. The Police Services budget represents 9% of gross City spending. Council can either reject or approve the budget in its entirety, but cannot review or amend the budget on a line-by-line basis. If the Police Services Board does not agree with the Council decision, it can appeal the decision to a provincially administered body.

**Debt repayment**

Expenditures for interest and principal repayments of previously issued debt represent 4% of overall City expenditures. These repayments are for a fixed amount and time and it is not within Council’s ability to adjust them during the yearly budget-setting process.

**Council-controlled expenditures**

The remaining 58% of the City’s expenses fall under City jurisdiction and the decision-making authority of City Council. These areas include:

- **Rate-supported programs**: expenditures for the provision of potable water and sanitary/storm sewer services, funded by revenues from water and sewer surcharge rates.

- **Tax-supported programs**: expenditures for “traditional” municipal programs such as summer/winter road maintenance, public transit, fire services, garbage collection and parks and recreation. User fees are used to reduce the costs associated with some of these programs with the remainder funded through property taxes.

- **Contribution to capital**: yearly transfers to capital reserve funds to maximize cash financing of the City’s tax- and rate-supported capital programs and minimize debt financing.

Unlike the Police Services budget, Council can approve expenditures for Library Services. The independent Library Board, composed of Councillors and appointed residents, proposes a budget that Council has the authority to review and adjust on a line-by-line basis. Library Services are therefore included under Council-controlled expenditures.
The City’s operating budget has increased by 25.3% since amalgamation. When these increases are adjusted for increases in the population, the increase is 13%. When these increases are adjusted for both population increases and inflation, overall City spending has declined by 2.2%.

A review comparing Ottawa with Toronto, and the average of seven major Ontario municipalities, was conducted using the actual expenditures and revenues as reported in the 2005 provincially mandated Financial Information Return.

The seven Ontario municipalities included:

- Peel Region / lower tier municipalities
- York Region / lower tier municipalities
- Halton Region / lower tier municipalities
- Niagra Region / lower tier municipalities
- Durham Region / lower tier municipalities
- Hamilton
- London

When comparing total spending on a per household basis across the province, the City of Ottawa ($5,898) spends less than Toronto ($7,636), but slightly more than the seven-city average ($5,667). This type of peer-to-peer comparison of spending and revenue will be further broken down within this document.
City services – Citizen Satisfaction Survey Report (EKOS Survey)

In 2004, as part of a new public consultation strategy for its revised annual budget process, City Council agreed to develop an annual residents’ satisfaction survey. The goal was to produce a baseline measurement for tracking future changes and to provide Councillors and staff with additional information on a range of service- and policy-related issues.

The telephone survey included a random, representative sample of 1,000 residents (18 years of age or older), with a larger than typical proportion of residents in the rural areas to adequately represent each of four regions of the city. Survey results are considered to be accurate within three percentage points, 19 times out of 20.

The survey showed that while residents were pleased with City services and want to see them maintained or expanded, they do not want to pay more property taxes to maintain the current levels of service.

Produced by EKOS Research Associates, the survey report examined residents’ satisfaction with City services, service priorities and funding options for services. The following 17 service areas were included.
This survey resulted in three high-level conclusions.

1) Residents were relatively satisfied with the performance of the City in providing services.

Eighty per cent of Ottawa residents said they were satisfied with the overall level of service they received in 2004. Urban and suburban residents were more satisfied than rural residents. As a result of this survey, the City embarked on the 2005 Rural Summit process. There is now a City branch for Rural Affairs, with dedicated staff and many specific action items that are being implemented.

Overall satisfaction with City services
“Thinking more generally, how satisfied would you say you are with the overall services that are provided to you by the City of Ottawa?”

<table>
<thead>
<tr>
<th>Service</th>
<th>Satisfied (5-7)</th>
<th>Neither (4)</th>
<th>Disatisfied (1-3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire Services</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Paramedic Services</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Police Services</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Garbage and Recycling Services</td>
<td></td>
<td></td>
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<tr>
<td>Road and Sidewalk Maintenance and Snow Removal</td>
<td></td>
<td></td>
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<tr>
<td>Public Health Services</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Transit Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parks and Green Space Maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recreational Facilities and Programs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Housing and Shelters</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Library Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Development Services</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Parking and Traffic Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land-use Planning, Zoning and Building Permits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child-care Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>By-law Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural Programs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parks and Green Space Maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural Programs</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: City of Ottawa Citizen Satisfaction Survey 2004
2) Residents value City services and want them maintained or expanded.

The results showed clearly that an overwhelming majority of residents want services maintained or increased. Only a small minority of survey respondents felt that services should be reduced. Each of the 17 individual service areas examined in the study was considered to be important to a large majority of city residents. Emergency services topped the list, followed by garbage and recycling, road and sidewalk maintenance and snow removal, and public health. Virtually all residents indicated they would like to see the City increase or at least maintain current service levels in all 17 areas.

**Level of service**

![Bar chart showing the level of service for various city services.](chart)

Source: City of Ottawa Citizen Satisfaction Survey 2004
3) **Residents do not want property taxes to increase.**

Despite high satisfaction with services and a desire to see spending on programs and services maintained, half of the respondents did not support a tax increase, while half only moderately supported the idea. This is not unexpected, but it points out a fundamental conflict between the value and importance of City services and the willingness to pay more to maintain current levels of service.

**Municipal tax rates**

“To what extent would you support an increase to your municipal taxes in order to fund the increased cost of delivering the same level of services that you have right now?”

The relationship between Ontario municipalities and the Province of Ontario has always involved programs that are primarily under the control of the provincial government, but are delivered, managed and partly funded from the municipal property tax base. While the Province establishes the service standards and policies for the vast majority of these programs, municipalities have limited discretion over the level of service provided, or the level of funding necessary to deliver these programs.

Under the 1998 Local Services Realignment process, the funding responsibilities for a number of new and existing program areas were either added or transferred to the municipalities or existing cost-sharing arrangements were changed.
Programs impacted by the 1998 process were:

- Employment and financial assistance
- Social housing
- Child-care services
- Long-term care
- Paramedic services
- Public health services
- Municipal Property Assessment Corporation (MPAC)

There has been a high growth rate of the City-funded portion of these programs since 1998.

**Provincial cost-sharing arrangements**

Because the Province sets the standards and the cost-sharing arrangements, Council has minimal control over these mandated programs. As a result, these cost-shared programs increase the amount of property taxes paid by residents living in Ottawa.

In 2001, provincially mandated programs represented $565 of the average property tax bill. Today, if all provincially mandated/cost-shared programs were funded at the provincial level, the average urban residential household in Ottawa would pay $670 less in property taxes per year.

Very few programs are 100% funded by the Province. The cost-sharing arrangements between Ottawa and the Province, by service, are listed in the following table. The table also shows which program areas have a funding gap (the difference between the provincially mandated revenue as stated in the cost-sharing agreements, and the anticipated amount the Province will provide the City). For 2006, the funding gap is projected to be $16 million.

As an example, costs for Paramedic Services were transferred to the City in 1998; the cost-sharing agreement was to be on a 50/50 basis between the Province and the City, but only to the level of service that the Province established. In 2005, Ottawa City Council proactively increased the service standard for paramedic response times to above the level of service set by the Province. As a result, the additional costs required to meet these higher service standards are not being subsidized at the 50% level. Fortunately, in its 2006 Budget, the Province announced that an additional $300 million would be given to municipalities in an effort to move towards 50/50 cost-sharing for Paramedic Services over the next three years.\(^\text{14}\)

The Province has also increased the funding for public health expenditures. Previously, the Province funded 50% of health expenditures. It moved to 65% in 2006, and will move to 75% in 2007. This additional funding has been used to reduce the net cost of providing health services, enhance existing services and meet increased service demands.

\(^{14}\) MFOA 2006 Provincial Budget Highlights.
## Provincially mandated services

<table>
<thead>
<tr>
<th>Branch</th>
<th>Services</th>
<th>Mandated cost-sharing arrangements</th>
<th>Prov. revenue as mandated ($ thousands)</th>
<th>2006 Budget revenue ($ thousands)</th>
<th>Funding gap ($ thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paramedic services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency medical patient care</td>
<td>50%</td>
<td>22,416</td>
<td>18,579</td>
<td>3,837</td>
<td></td>
</tr>
<tr>
<td>Emergency medical dispatch</td>
<td>100%</td>
<td>5,567</td>
<td>5,567</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential &amp; support services</td>
<td>80%</td>
<td>19,734</td>
<td>18,876</td>
<td>858</td>
<td></td>
</tr>
<tr>
<td>Housing programs administration</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Centralized waiting list (The Registry)</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Housing programs – rent supplement programs</td>
<td>15%</td>
<td>2,719</td>
<td>2,719</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Public housing</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Affordable housing development</td>
<td>45%</td>
<td>160</td>
<td>160</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Director’s office</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Child-care</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee subsidy</td>
<td>80%</td>
<td>38,934</td>
<td>35,182</td>
<td>3,752</td>
<td></td>
</tr>
<tr>
<td>Ontario Works</td>
<td>80%</td>
<td>3,222</td>
<td>3,222</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Wage subsidy, special needs, Early Years</td>
<td>80%</td>
<td>14,091</td>
<td>14,091</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Pay equity</td>
<td>83%</td>
<td>2,320</td>
<td>2,320</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Best Start</td>
<td>100%</td>
<td>6,557</td>
<td>6,557</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>50%</td>
<td>1,544</td>
<td>1,544</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Public health</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandated programs</td>
<td>65%</td>
<td>19,570</td>
<td>18,536</td>
<td>1,034</td>
<td></td>
</tr>
<tr>
<td>Health protection (SARS, Smoke Free Ontario, Healthy Babies, etc.)</td>
<td>100%</td>
<td>8,172</td>
<td>8,172</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>West Nile</td>
<td>65%</td>
<td>543</td>
<td>543</td>
<td>(0)</td>
<td></td>
</tr>
<tr>
<td>Public health education &amp; development</td>
<td>65%</td>
<td>742</td>
<td>543</td>
<td>199</td>
<td></td>
</tr>
<tr>
<td>Dental treatment</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Immunization program</td>
<td>100%</td>
<td>356</td>
<td>356</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Employment &amp; financial assistance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ontario Works &amp; financial assistance</td>
<td>80%</td>
<td>111,638</td>
<td>111,638</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Employment programs</td>
<td>80%</td>
<td>14,100</td>
<td>14,100</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Essential health &amp; social supports (EHSS)</td>
<td>80%</td>
<td>6,963</td>
<td>6,963</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Home support programs</td>
<td>80%</td>
<td>1,818</td>
<td>1,568</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>Program delivery</td>
<td>50%</td>
<td>17,303</td>
<td>17,189</td>
<td>114</td>
<td></td>
</tr>
<tr>
<td>City-funded provincial programs</td>
<td>80%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Long-term care</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nursing &amp; personal care</td>
<td>100%</td>
<td>24,777</td>
<td>17,692</td>
<td>7,085</td>
<td></td>
</tr>
<tr>
<td>Program &amp; support services</td>
<td>Funded on a per diem basis</td>
<td>2,080</td>
<td>1,793</td>
<td>287</td>
<td></td>
</tr>
<tr>
<td>Food purchase</td>
<td>100%</td>
<td>1,386</td>
<td>1,386</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Accommodation</td>
<td>100% resident plus provincial minimum</td>
<td>12,883</td>
<td>14,422</td>
<td>(1,539)</td>
<td></td>
</tr>
<tr>
<td>Outreach</td>
<td>100% from the Province with user fee</td>
<td>382</td>
<td>382</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15,877</td>
</tr>
</tbody>
</table>
Ontario is the only province in Canada to fund more than $3.5 billion of primarily social programs, like social services, social housing and public health, from the property tax bill each year. As seen in the graph below, municipal expenditures in Ontario, attributable to provincially mandated programs (after deducting conditional grants), are significantly higher than in any other province. As a result, municipal spending on programs funded from property taxation, such as social services, housing and public health, is $282 higher per capita in Ontario than in the rest of Canada.

The largest cost factor is social assistance, which requires Ontario municipalities to raise $173 more in taxation per capita than the rest of Canada. Other Canadian provinces simply do not fund these social programs through property taxes, resulting in much lower municipal costs and lower property taxes. Ontario municipalities have argued for many years that income redistribution programs, such as social assistance, should not be funded from property taxes – a regressive tax that is not reflective of the income level of a property owner. Rather, these programs should be linked to and funded more appropriately from provincial income taxes.

Municipal expenditures (after conditional grants) on provincially mandated services, per capita

Because Ontario is the only province to have a major portion of the costs for these items funded from the property tax bill, comparisons between property taxes in Ontario and other provinces are not valid.

The graph below compares Ottawa’s 2005 gross costs (before grants or user fees) by household, for provincially mandated programs, with Toronto and the seven-city average.

**Comparison of provincially mandated programs, per household**

When compared to Toronto, Ottawa spends less per household on all programs except for the paramedic program. Because Ottawa City Council has proactively improved paramedic services, spending for this service, on a per household basis, is equivalent to Toronto.

Ottawa spends more than the seven-city average for all programs except long-term care and public health. This is to be expected since large urban areas are typically employment centres that generally tend to have more social services available, thereby attracting people looking for work and for assistance. The seven cities used in the comparison are smaller, suburban centres clustered around Toronto. As a result, most of the demand for social services is focused in Toronto itself.

While Toronto spends more, per household, on social assistance than Ottawa, the two cities are fairly comparable when looking at the net expenditure for the program.
Social assistance expenditure comparison

Toronto is able, through grants and subsidies from the Province and other municipalities, to reduce its gross program costs by 65%. Ottawa is only able to reduce the amount by 55%.

Toronto, unlike Ottawa, benefits from a provincially imposed Greater Toronto Area equalization formula, which pools social assistance and social housing costs, in the GTA area. The Province created this program for Toronto because its costs were higher than the average. This allows Toronto to receive funds from other GTA municipalities to compensate for its social assistance and social housing expenditures.

In 2005, this equalization formula saved Toronto taxpayers $189 million in taxation. Like Toronto, Ottawa’s social assistance and social housing costs are also higher than the provincial average; however, Ottawa is not included in any type of pooling with surrounding municipalities. For illustrative purposes, if Ottawa were to be included in the GTA pooling, Ottawa residents would be relieved of $53 million in taxation per year.

The Province recently revised the Social Program Grant component in the Ontario Municipal Partnership Fund (OMPF). These grants are allocated to municipalities with high social costs relative to their residents’ household incomes. By basing the grant on household income, the Province recognizes that income transfer programs, such as welfare, should be funded from income taxation and not property taxation. Ottawa will receive $6 million in OMPF grants in 2006 or approximately 3% of social program expenditures. Toronto, on the other hand, will receive $34.9 million, representing 6% of its social program costs. If Ottawa residents were to be treated the same as Toronto residents, the grant would be $12 million.
The provincial Municipal Property Assessment Corporation (MPAC) administers a uniform, Ontario-wide property assessment system for municipalities. Assessment values are used to calculate the amount of tax a property is charged.

Since 1998, Ontario cities have been required to pay a share of the cost of MPAC based on a combination of the number of properties and their assessed values. The cost of the Corporation is not within the control or influence of Council and is completely funded from taxes. Ottawa’s share of the cost of the assessment service has increased by almost $2 million since amalgamation, representing an overall 25% increase, or 5% per year, well above the City’s tax increase or the rate of inflation. For 2006, the cost of MPAC to the City is approaching $9.8 million.

Next steps: Provincial-Municipal Fiscal and Service Delivery Review

On August 14, 2006, Ontario announced its intent to strengthen its relationship with municipalities by launching a joint review aimed at improving the delivery and funding of municipal services for Ontario families. The Provincial-Municipal Fiscal and Service Delivery Review will be conducted by both levels of government over the next 18 months. A public report will be released in the spring of 2008.

Some of the areas that may be examined include:

- Delivery and funding of housing, health and social services
- Municipal financing tools, such as user fees and the use of municipal debt
- Infrastructure funding
- The Ontario Municipal Partnership Fund

Taxing powers, such as income tax and sales tax, will not be included in the review.

The Association of Municipalities of Ontario (AMO) has agreed to join in this initiative to allow the Province and the municipal sector to improve the delivery and funding of services for Ontarians. Together, the partners will examine how Ontario communities can prosper through initiatives such as better service delivery and improved infrastructure investment.

The joint review flows from the provincial government’s plan to strengthen local government in Ontario. The plan includes the proposed Municipal Statute Law Amendment Act, 2006, which, if passed, would provide new powers and more flexibility to municipalities. Both partners have indicated their determination to investigate and deliver long-term sustainable options for the province and the municipal sector that are affordable to both levels of government.
Ottawa’s Council directly controlled 58% of the total gross 2006 budget, amounting to $1,217 million in gross expenditures or approximately $3,184 per household, as seen in the graph below. Overall, in 2005 Ottawa spent $1,052 less than Toronto and $223 less than the seven-city average primarily because of lower spending on water and sewer programs. Details on the various Council-controlled programs follow.

Total Council-controlled spending, per household

In 2005, the five most expensive Council-controlled programs, on a gross per household basis, were transit services, transfers to capital, fire services, recreational programs and facilities, and general government. The spending comparisons for these areas are shown in the following graph.
Transit services are Ottawa’s largest Council-controlled gross expenditure. Ottawa spends approximately $730 per household on transit services. This is significantly higher than the seven-city average, which includes municipalities without extensive public transit systems. However, Ottawa spends less than Toronto, on a per household basis for transit, which would be expected, given the Toronto transit system’s size and the number of riders.

As shown below, Toronto’s net expenditure for transit is much less than Ottawa’s, for several reasons. For example, Toronto is able to recover 81% of its transit costs from user fees and provincial grants, with the largest portion coming from user fees. In 2005, Toronto’s user fees covered 72% of the cost. The same year, Ottawa’s user fees covered only 45% of the direct operating costs. Ottawa City Council has since adopted a policy to collect 55% of direct operating expenditures from user fees.

In addition, Toronto is able to use its entire provincial gas tax allocation to pay transit operating costs whereas Ottawa only uses a portion of it for growth-related operating costs. Toronto is able to use all of the provincial gas tax for operating costs as they receive more capital transit grants than Ottawa; therefore, they do not need to use the provincial gas tax for capital costs.

The Province of Ontario stopped providing transit operating grants in 1997. Ottawa must now fund 54% of transit service costs from the property tax bill, while Toronto only has to fund 19%.
Ottawa’s second largest Council-controlled expense is transfers to capital. These are annual transfers to capital reserve fund accounts, to be used to cash finance capital expenditures. Ottawa currently spends less per household than Toronto and the seven-city average on transfers to capital. Lower spending on transfers to capital reflects Ottawa’s decision to fund more capital projects with debt than other municipalities. When debt servicing is added to the contribution to capital for tax-supported capital projects, Ottawa’s spending is higher than Toronto’s and approximately 15% less than the seven-city average. However, Ottawa’s overall expenditures will likely rise in the future since Council has approved a policy to increase contributions to capital by the rate of the Infrastructure Construction Price Index as calculated by Statistics Canada.

Fire services, and recreational programs and facilities are the next largest expenditure in Ottawa. City spending is similar to Toronto’s and the seven-city average for these services.

Ottawa’s general government expenditures, which include functions such as Council, the City Manager’s office, the Deputy City Managers’ offices, the Auditor General, the City Clerk’s office and Client Services and Public Information, are slightly higher than Toronto’s and the seven-city average. Unlike the other cities, Ottawa uses a “centre of expertise” organizational structure. As a result, costs that would normally be found in individual branches in a decentralized organization are allocated to the general government category. Toronto and the seven cities have not generally adopted this centralized approach, which explains why Ottawa’s costs appear to be higher.
The remaining major service costs controlled by Council are shown in the following graph. These include roadways and street lighting, winter control services, recycling, waste and disposal services, libraries and planning and zoning services.

**Per household spending comparisons, 2005**

Ottawa’s costs for roadways and street lighting – approximately $208 per household – are similar to, but slightly higher than Toronto’s costs, and lower than the cost in the seven-city average. Winter control spending in Ottawa (snow ploughing and removal), is approximately $164 per household, which is higher than Toronto and the seven-city average. This reflects the differences in climate (more snow and freezing rain) and geography, as well as differing service decisions in the various municipalities.

With four disposal sites across the city (two privately operated and two City-operated), Ottawa spends much less for recycling, waste and disposal than Toronto, which has no local disposal facilities and therefore incurs greater shipping costs to dispose of its waste.

Spending per household on library services, and land planning and zoning services is fairly equivalent between Ottawa, Toronto, and the seven-city average. Because Toronto is more developed, its spending on planning services is slightly lower than that of the growing cities in the seven-city average.

Council also controls expenditures for parks, protective inspections and controls, cultural services and parking. Household spending comparisons are shown in the following graph.
Per household spending comparisons, 2005

Ottawa spends less than Toronto and the seven-city average on parks, protective inspection and controls, and cultural services. Parking expenditures per household are between Toronto’s and the seven-city average.

At approximately $37 per household, Ottawa’s cultural services costs are comparable to the seven-city average. Toronto spends far more on cultural services. In 2003, Toronto adopted the “Culture Plan for the Creative City,” which provides for spending in cultural services to dramatically increase over five years, with a $2 per capita increase annually.16

In 2006, Ottawa City Council endorsed the creation of an Arts Investment Steering Committee to help position Ottawa as a competitive, creative city. The Committee, which is investigating investment strategies to close the revenue gap for Ottawa’s local arts and festival sector, is expected to present its report to Council before the end of 2007.

Management of debt

Another program controlled by Council is the management of debt. As seen in the following graph, Ottawa spends approximately $326 per household on debt charges, including principal and interest payments on liabilities such as the issuance of debt (debentures), term bank loans and sinking funds. These debt repayment charges are funded from taxation and the water/sewer bill. Long-term debt finances municipal capital projects within the City.

Since 2001, the Long-Range Financial Plan process (LRFP I and II) has been used to assess the capital infrastructure needs to help meet the projected lifecycle and population growth requirements of the city. To achieve Council goals, LRFPs employ a combination of financing tools, including development charges, funding from other levels of government, transfers from the capital reserve funds and the issuance of debt.

Since provincial legislation does not permit municipal governments to finance operating deficits through debt, the City only borrows money for capital works such as roads, water and sewer systems, buildings and transit projects.

Council requires that capital assets financed by debt have a useful life at least as long as the term of the debt. The actual terms and structure of debt financing vary with market conditions; however, debt is generally issued for 10 or 20 years. Longer debt terms are sometimes undertaken for capital programs with substantially longer useful lives such as the Light Rail Transit project. When required, debt is considered an appropriate way of financing longer-life items since future taxpayers who benefit from the project pay for it through future debt charges. To achieve the lowest borrowing costs, the City usually seeks debt financing in the Canadian public financial market.

The City has adopted the practice of maintaining tax-supported debt charges within a “budget envelope.” Thus, as older debt matures, new debt is issued and the amount of debt charges (principal and interest repayments) collected through taxes remains relatively constant.

### Why the City uses debt financing

**Per household debt spending comparisons, 2005**

![Diagram showing per household debt spending comparisons for Ottawa, Toronto, and a 7-city average.](source: 2005 FIR)
Since amalgamation, the City has benefited from lower interest rates and issued new debt at much lower interest rates than in earlier years. This has allowed the City to service more debt at a lower cost. As shown in the following table, the cost of tax-supported debt as a percentage of the tax requirement has fallen significantly since amalgamation.

### Tax-supported debt compared to the net tax requirement, $ thousands

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Property Tax Revenues</th>
<th>Cost of Tax-supported Debt as Percentage of Tax Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>70,927</td>
<td>9.50%</td>
</tr>
<tr>
<td>2001</td>
<td>72,524</td>
<td>9.30%</td>
</tr>
<tr>
<td>2002</td>
<td>65,135</td>
<td>8.10%</td>
</tr>
<tr>
<td>2003</td>
<td>65,206</td>
<td>7.90%</td>
</tr>
<tr>
<td>2004</td>
<td>74,336</td>
<td>8.60%</td>
</tr>
<tr>
<td>2005</td>
<td>67,695</td>
<td>7.40%</td>
</tr>
<tr>
<td>2006</td>
<td>72,561</td>
<td>7.61%</td>
</tr>
</tbody>
</table>

The next table shows that total issued net debt is expected to increase over the next four years to $912 million. This increase aligns with the recommendations adopted in LRFP II, and is largely due to the increase in gas tax and other revenue-supported debt. Approximately $196 million of the projected $912 million stems from debt issued for the Light Rail Transit project. The debt will largely be paid through financing from other levels of government and development charges.

### Net issued debt by revenue source, $ millions

<table>
<thead>
<tr>
<th>Source</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax-supported</td>
<td>469</td>
<td>471</td>
<td>463</td>
<td>463</td>
<td>466</td>
</tr>
<tr>
<td>Rate-supported</td>
<td>73</td>
<td>96</td>
<td>123</td>
<td>144</td>
<td>170</td>
</tr>
<tr>
<td>Other revenue-supported</td>
<td>0</td>
<td>125</td>
<td>242</td>
<td>260</td>
<td>276</td>
</tr>
<tr>
<td>Total</td>
<td>542</td>
<td>692</td>
<td>828</td>
<td>867</td>
<td>912</td>
</tr>
</tbody>
</table>

The Province regulates the amount of debt municipalities issue by setting an annual repayment limit for each municipality. This is the maximum amount by which a municipality may increase its debt and other financial obligations in the following year. The repayment limit is set at 25% of a municipality’s net own-source revenues, including taxation, user fees and any other non-provincial or federal funding. The repayment limit imposed by the Province on the City of Ottawa is $293 million – representing the maximum amount of debt charges (principal and interest repayments) to be incurred annually. This would allow the City to issue up to $3.1 billion in new debt depending on the terms and conditions of the debt.

Although Ottawa’s current and projected debt is well below the provincial limit, if it were to reach the limit, future operating budgets would be severely constrained or tax and other revenues would have to increase significantly.

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17 Net debt is defined as the total debt outstanding less the amount of any sinking funds. For certain types of debentures, the Municipal Act requires the City to set aside a sum of money each year, which will accumulate to the total principal amount of the debenture payable on maturity.

18 The provincial limit sets the maximum amount available to service debt charges. Thus the amount of new debt that could be issued will vary with the term selected and the interest rates at the time.
The City of Ottawa is not alone in forecasting rising levels of debt due to long-term capital expenditures. A research report on the finances of Canadian municipalities issued by Standard & Poor’s in May 2006 states that:

“across all rating categories and steadily since 2001, debt and debt burdens have been increasing…it is increasingly evident that rated municipalities are overcoming their historical aversion to debt as they address their substantial infrastructure deficiencies.”

The difference in Ottawa is that future increases in debt are to be funded from non-tax sources of revenue, thereby ensuring that the City’s taxation remains fairly flexible.

Every Canadian municipality providing police services reports that these costs constitute one of the biggest financial commitments in the annual budget and resulting tax rate. The Ottawa Police Service (OPS) represents 16% of the total 2006 City property tax bill, excluding education – $404 for an average residence with an assessed property value of $276,245. On a cost-per-service basis, transit is the only City cost exceeding the cost of policing.

The Ottawa Police Service gross budget has increased in the past few years; increases can be attributed mainly to added costs for contract personnel and growth in the number of officers required. Gross annual budget increases since amalgamation in 2001 are presented in the table below.

**OPS gross budget, 2001 to 2006**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>OPS operating budget – total gross expenditures*</td>
<td>128,761</td>
<td>137,130</td>
<td>144,279</td>
<td>158,427</td>
<td>174,670</td>
<td>189,167</td>
</tr>
<tr>
<td>% Annual increase</td>
<td>6.5%</td>
<td>5.2%</td>
<td>9.8%</td>
<td>10.3%</td>
<td>8.3%</td>
<td></td>
</tr>
</tbody>
</table>

* Gross expenditures excluding non-operational costs

As presented in the next table, while gross spending has increased over this period, most increases have been proportional with the total City budget. Since 2003, the proportional police share of the total City budget has increased from 7.8% to 9%.

**OPS gross budget in proportion to total City budget**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>City operating budget</td>
<td>1,681,519</td>
<td>1,726,046</td>
<td>1,838,862</td>
<td>1,898,290</td>
<td>1,988,385</td>
<td>2,113,224</td>
</tr>
<tr>
<td>OPS operating budget*</td>
<td>128,761</td>
<td>137,130</td>
<td>144,279</td>
<td>158,427</td>
<td>174,670</td>
<td>189,167</td>
</tr>
<tr>
<td>OPS as % of total city</td>
<td>7.7%</td>
<td>7.9%</td>
<td>7.8%</td>
<td>8.3%</td>
<td>8.8%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

* Gross expenditures excluding non-operational costs
Even with proportionately greater increases in recent years, OPS spending compares favourably with other municipalities in Ontario. For example, spending on police services in Toronto represents 10%\(^{19}\) of gross municipal spending.

The most recent police costs published by Statistics Canada in 2005 show that, on a per capita basis, Ottawa falls in the middle of a selection of 12 Canadian municipalities.

**Police costs, per capita**

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost ($)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toronto</td>
<td>284</td>
<td>1</td>
</tr>
<tr>
<td>Vancouver</td>
<td>282</td>
<td>2</td>
</tr>
<tr>
<td>Edmonton</td>
<td>257</td>
<td>3</td>
</tr>
<tr>
<td>Montréal</td>
<td>236</td>
<td>4</td>
</tr>
<tr>
<td>Calgary</td>
<td>231</td>
<td>5</td>
</tr>
<tr>
<td>OTTAWA</td>
<td>204</td>
<td>6</td>
</tr>
<tr>
<td>Peel</td>
<td>199</td>
<td>7</td>
</tr>
<tr>
<td>Hamilton</td>
<td>196</td>
<td>8</td>
</tr>
<tr>
<td>Durham</td>
<td>189</td>
<td>9</td>
</tr>
<tr>
<td>Gatineau (Urban)</td>
<td>169</td>
<td>10</td>
</tr>
<tr>
<td>Halton</td>
<td>165</td>
<td>11</td>
</tr>
<tr>
<td>York</td>
<td>163</td>
<td>12</td>
</tr>
</tbody>
</table>


Population per police officer is another common measure published annually by Statistics Canada. The most recent statistics from 2004 show that Ottawa falls close to the low end of the ranking, with 1 police officer for every 771 residents.

**Population, per police officer**

<table>
<thead>
<tr>
<th>Service</th>
<th>Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montréal</td>
<td>482</td>
<td>1</td>
</tr>
<tr>
<td>Toronto</td>
<td>492</td>
<td>2</td>
</tr>
<tr>
<td>Vancouver</td>
<td>520</td>
<td>3</td>
</tr>
<tr>
<td>Edmonton</td>
<td>566</td>
<td>4</td>
</tr>
<tr>
<td>Calgary</td>
<td>640</td>
<td>5</td>
</tr>
<tr>
<td>Peel</td>
<td>690</td>
<td>6</td>
</tr>
<tr>
<td>Hamilton</td>
<td>708</td>
<td>7</td>
</tr>
<tr>
<td>Gatineau (urban)</td>
<td>711</td>
<td>8</td>
</tr>
<tr>
<td>Durham</td>
<td>757</td>
<td>9</td>
</tr>
<tr>
<td>OTTAWA</td>
<td>771</td>
<td>10</td>
</tr>
<tr>
<td>Halton</td>
<td>843</td>
<td>11</td>
</tr>
<tr>
<td>York</td>
<td>857</td>
<td>12</td>
</tr>
</tbody>
</table>


The Ottawa Police Service Strategic Staffing Initiative (SSI) has helped increase the number of sworn officers by 90 since 2004. In 2006, there are 1,251 sworn officers in Ottawa serving a population of 870,250 – one police officer for every 695 residents.

\(^{19}\) City of Toronto.
As reported in the provincially mandated Financial Information Return (FIR), Ottawa’s total operating and capital expenditures in 2005 amounted to $2.6 billion. The graph below shows that combined purchases of operating and capital purchased goods and services amounted to $952 million, or 37% of total expenditures. The next largest expenditure, at $941 million or 36% of expenditures, was compensation, which includes salaries, wages and employee benefits. Of the remaining expenditures, 15% were for capital financing, including contributions to capital and debt financing, and 12% for external transfers, including social assistance, housing subsidies, child-care subsidies, cultural grants and payments to conservation authorities.

**Total operating and capital expenditures, 2005 ($2.6 billion)**

Compensation costs represent the single largest component of the City’s operating budget. Managing compensation costs is one of the most challenging issues for Ottawa and other large Canadian municipalities for a number of reasons:

- A highly unionized workforce and collective bargaining settlements that are often beyond the rate of inflation put real pressure on municipal budgets.
- Unions continue to negotiate for stronger benefits packages, while the City is grappling to pay for increases in the cost of providing existing benefits that far exceed the Consumer Price Index.
- Wage settlements are heavily influenced by settlements across Ontario, particularly in the Toronto area. Increases in compensation costs may also be influenced by settlements imposed by provincial arbitrators.
• The City of Ottawa is the second largest employer in the city, after the federal government, and must compete against other levels of government and the private sector for resources in the same talent pool. Attracting employees with similar education and work experience requires that salaries and benefits packages remain competitive.

**Employment figures at the City of Ottawa**

The number of Full-Time Equivalent positions (FTEs) at the City changes every year in response to increased demand for services from a growing population, implementation of new programs by Council or changes to provincial legislation.

For example, the City had 13,003, 12,755 and 13,139 FTEs for 2003, 2004 and 2005, respectively. These numbers include the Ottawa Police Service and the Ottawa Public Library and represent positions, not employees.

A single FTE can represent more than one position if the positions are casual or part-time. For example, a part-time position in Parks and Recreation may be equivalent to 0.08 FTEs; a seasonal position in the Public Works department (e.g., involving the operation of snow-clearing equipment) could equate to 0.4 FTEs; and a full-time public health nurse would be 1.0 FTEs. Therefore, multiple employees can be associated with one FTE.

The City manages scheduling and payment of wage employees on an hourly basis. For budget purposes, the yearly total of wage employee hours, or wage pool, is converted to FTEs. However, the type of work performed and the associated hourly rates vary seasonally and annually, especially during changeovers in the spring and fall.

Each summer, there is a significant increase in the number of employees due to the student employment program. The total number of employees is also influenced by factors such as resignations, retirements and completion of temporary work terms. These variations mean that the total number of employees is much higher than the total FTE count, and more importantly, that the number is not static.

On average, 17,000 employees work for the City each year. In 2006, the total number of employees varied from a low of 16,135 in January to a high of 17,675 in July; the number of FTEs, on the other hand, remained relatively constant over that period.

Council’s Delegated Authority By-law places strict controls on the number of FTEs at the City. Council must approve any increase to the total number of FTEs for both full- and part-time work. Monthly reports showing current FTEs and the total number of employees at the City allow Council to track changes.
Employee compensation

Total spending on compensation, including the Ottawa Police Service, was $913 million in 2004, and $941 million in 2005. In addition to base salaries, employee compensation includes elements such as:

- One-time compensation payments awarded as retroactive collective agreement settlements
- One-time cost adjustments for items such as pay equity or reclassifications
- All premiums (governed by collective agreements)
- One-time compensation costs as a result of grievances or arbitration decisions
- Benefits costs

Excluding these elements, base salaries paid to City employees totalled approximately $673 million in 2004 and $706 million in 2005.

The majority of municipal employees are unionized. Pay scales for unionized positions are set through collective agreement(s) and the job evaluation process. Changes to a position’s base salary range are negotiated as part of collective bargaining. Annual increases at the City of Ottawa are comparable to those in other large municipalities. The table below compares wage settlements for the City of Ottawa’s unionized groups with wages in a selection of other municipalities.

**Economic increases, by municipality (largest union), 2001-2005**

<table>
<thead>
<tr>
<th>Municipality</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ottawa</td>
<td>2.50%</td>
<td>2.75%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Mississauga</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Calgary</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.00%</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Edmonton</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Brampton</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Winnipeg</td>
<td>2.50%</td>
<td>2.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Hamilton</td>
<td>2.00%</td>
<td>2.00%</td>
<td>3.85%</td>
<td>2.83%</td>
<td>2.25%</td>
</tr>
<tr>
<td>London</td>
<td>2.30%</td>
<td>2.30%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>2.90%</td>
</tr>
<tr>
<td>Vancouver</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>3.00%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Toronto</td>
<td>3.20%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>2.75%</td>
</tr>
<tr>
<td>Durham</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Niagara</td>
<td>2.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Halton*</td>
<td>3.00%</td>
<td>9.00%</td>
<td>2.50%</td>
<td>4.90%</td>
<td>N/A</td>
</tr>
<tr>
<td>York</td>
<td>2.10%</td>
<td>2.20%</td>
<td>2.90%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Average</td>
<td>2.62%</td>
<td>3.12%</td>
<td>2.90%</td>
<td>3.13%</td>
<td>2.95%</td>
</tr>
<tr>
<td>Median</td>
<td>2.50%</td>
<td>2.50%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>75th percentile</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
</tbody>
</table>

*Large increases approved to facilitate a change in market position.
A number of factors influence salaries paid to City employees:

- The scope of responsibilities and the specific job duties of the position
- The education, experience, certification and knowledge required to qualify for the position
- Whether the position is unionized
- Whether the pay grade for the position is influenced by the City’s pay equity plan
- Whether exceptional market demand for the experience, education, skills or training required for the job results in problems attracting and retaining qualified candidates

The City monitors salaries and benefits and compares them to similar positions at public and private sector organizations in Ontario and across Canada. Overall, results for Ottawa compare favourably to other municipalities.

Current and past surveys and studies conducted by local and national compensation specialists, such as Mercer Human Resources Consulting, indicate that unionized City positions tend to pay the same as or slightly better than those in the private sector. However, the surveys also show that some specialized technical positions, as well as many management positions, are compensated below the median rates paid in the public and private sectors. This trend becomes more pronounced at more senior levels within the organization.

Comparisons to other large municipalities provide one perspective on how Ottawa’s salaries fare. However, the City of Ottawa hires the majority of its employees from the local labour market, and therefore compensation must compete with that offered by other employers in the area, particularly the federal government.

In 2005, Council set a policy to limit pay increases for the management and professional exempt group to increases in the Ottawa Consumer Price Index. The intent was to send a clear message to residents and City unions that Council was concerned about budget pressures associated with compensation costs. The City has a policy that management salaries should be within the 75th percentile when benchmarked against other major Canadian cities, including Brampton, Mississauga, Hamilton, London, Windsor, Calgary, Edmonton, and the Regions of Durham, Halton, Niagara, Peel, Waterloo and York. Management salaries were at the 75th percentile in 2002. The City is awaiting 2006 Mercer survey results for current data on management salaries.

Approximately 95% of the City’s workforce is unionized. Amalgamation reduced the number of collective agreements inherited from the former municipalities from over 50 to 11, not including the Ottawa Police Service.
Ottawa’s largest bargaining agent is the Canadian Union of Public Employees (CUPE), which represents six groups for a total of more than 8,000 City employees:

- CUPE Local 503 – Inside/Outside workers
- CUPE Local 503 – Library
- CUPE Local 503 – Part-time (Recreation and Culture)
- CUPE Local 5500 – Transit Fleet Maintenance
- CUPE Local 5500 – Transit Supervisor
- CUPE Local 5500 – Transit Security

The other five bargaining agents include:

- Amalgamated Transit Union (ATU) Local 279
- Amalgamated Transit Union, Local 1760
- Civic Institute of Professional Personnel (CIPP)
- Ottawa Professional Fire Fighters Association (OPFFA), and
- International Alliance of Theatrical Stage Employees (IATSE), Local 471

There are collective agreements in place for all of these groups, covering terms from one to three years, with staggered expiry dates. Therefore, the City is almost always in active collective bargaining with one or more of these groups.

Each collective agreement covers three areas:

- Wages
- Benefits
- Working conditions

City Council approves the negotiating mandate prior to any discussions regarding monetary issues in the collective bargaining process. While the City makes every effort to negotiate an agreement at the bargaining table, there are instances when this cannot be achieved. Most of the bargaining groups at the City have binding arbitration as the dispute resolution mechanism. The exceptions to this include ATU 279, CUPE 5500 and CUPE 503 Library, which have strike provisions in their collective agreements.

Binding arbitration preserves the operation of City services if the parties cannot reach a new agreement, and prevents work stoppages that could result if a strike provision were included in these collective agreements.

The City’s experience shows that arbitration does not necessarily produce higher settlements than those negotiated at the collective bargaining table or through strike action. In general, wage settlements at the City are comparable to those in other large Ontario municipalities.
The table below depicts the wage settlements for bargaining groups at the City of Ottawa since amalgamation and compares them to the CPI.

**Collective agreement settlements, new City of Ottawa**

<table>
<thead>
<tr>
<th>Year</th>
<th>MPE</th>
<th>CUPE 503 (Inside/Outside)</th>
<th>Civic Institute of Prof'l Personnel</th>
<th>ATU 279</th>
<th>ATU 1760</th>
<th>CUPE 5500 Library</th>
<th>Part Time Rec &amp; Culture</th>
<th>Fire</th>
<th>IATSE</th>
<th>Police – Civilians</th>
<th>CPI Ottawa</th>
<th>CPI Ontario</th>
<th>CPI Canada</th>
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<tbody>
<tr>
<td>2008</td>
<td></td>
<td>3.00%</td>
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<td>2007</td>
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<td>3.00%</td>
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<tr>
<td>2006</td>
<td>2.30%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>2.75%</td>
<td>3.00%</td>
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<td></td>
<td>2.96%</td>
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<tr>
<td>2005</td>
<td>2.20%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>2.25%</td>
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<td></td>
<td>3.640%</td>
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<td>2004</td>
<td>2.50%</td>
<td>3.00%</td>
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<td>3.00%</td>
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<td>3.632%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.9%</td>
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<tr>
<td>2003</td>
<td>3.00%</td>
<td>1. Harmonize 2.50%</td>
<td>1. Harmonize 2.50%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>2.50%</td>
<td>2.75% eff. inc.**</td>
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<td>4.47%</td>
<td>2.75%</td>
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<td>2.8%</td>
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<tr>
<td>2002</td>
<td>2.50%</td>
<td>2.75%</td>
<td>1. 3.60% lump sum – T4 earnings 2.50%</td>
<td>3.00%</td>
<td>2.75%</td>
<td>3.00%</td>
<td>Harmonize 1. 2.00% lump sum (Jan-Aug) 2. 2.00% 3. Harmonize rates</td>
<td>3.31% eff. inc.**</td>
<td></td>
<td>2.50%</td>
<td>3.33%</td>
<td>2.2%</td>
<td>2.0%</td>
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<tr>
<td>2001</td>
<td>2.50%</td>
<td>2.50%</td>
<td>3.60% lump sum - T4 earnings</td>
<td>2.00%</td>
<td>2.50%</td>
<td>2.00%</td>
<td>3.00% lump sum</td>
<td>1. Harmonize 2. 2.5%</td>
<td>2.51% eff. inc.**</td>
<td></td>
<td>3.2%</td>
<td>3.1%</td>
<td></td>
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<tr>
<td>2000</td>
<td>2.38%</td>
<td>2.25% eff. inc.**</td>
<td>2.38% eff. inc.**</td>
<td>2.00%</td>
<td>2.00%</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2.52% eff. inc.**</td>
<td></td>
<td>3.0%</td>
<td>2.9%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

**Notes**
1. Function not at the regional level - owned by the amalgamating municipalities.
* Collective agreements can be effective throughout the calendar year.
** Effective increase (eff. inc.) indicates where there has been more than one pay increase applied in a calendar year (e.g., one in January and one in July). In scenarios such as this, the second pay increase must be compounded onto the first pay increase.
Like other Ontario municipalities, Ottawa must often accept wage decisions made by arbitrators where it is clear that the amount of the increase is directly related to awards made in the Greater Toronto Area. The significant costs that result for the City from this practice are particularly evident in agreements for fire, police and ambulance workers across Ontario.

Employee benefits are the second major compensation cost for the City.

The City has taken several steps since amalgamation to control the escalating costs of providing and administering benefits, including:

- Consolidating benefits with fewer providers to reduce administrative overhead and administrative costs
- Implementing self-insured long-term disability coverage rather than using an external provider, to reduce annual costs
- Externally administering self-insured benefits to lower administration costs
- Negotiating similar benefits in collective agreements to reduce the complexity and cost of providing benefits
- Minimizing the number of additional benefits negotiated into collective agreements

Despite gains from these measures, all employers across Ontario have experienced hyper-inflationary increases in the cost of providing benefits. At the time of amalgamation in Ottawa, the average cost of providing employee benefits was about 15% of base salaries. This cost has increased to nearly 23.5%, primarily to cover increases in basic premiums. Specific payments such as long-term disability costs have increased by 42% during this period.

Benefit costs also include the employer’s share of the Ontario Municipal Employee Retirement System (OMERS) pension plan. At the time of amalgamation, a contribution holiday was in effect for both employers and employees. Premiums were later reintroduced and the OMERS Board approved an increase to the current level of 6.5% for earnings up to the yearly maximum pensionable earnings (currently $42,100) and 9.6% on earnings above that threshold for employees with a normal retirement age of 65. Employers must match the employees’ premiums.

The decision to move to a self-insured model for long-term disability was a direct result of the significant cost increase in providing this benefit through an external insurance carrier between 2005 and 2006.

Several major factors have influenced staffing level changes since amalgamation. Reductions in staffing levels have occurred because of amalgamation savings and Universal Program Review while legislated and mandated changes and population growth have increased staffing levels.
Prior to amalgamation, the 12 former municipalities’ total FTE count was 12,786. Since then, Ottawa has reduced the number of FTEs in all program areas. FTE savings attributed to amalgamation took place primarily within a three-year period, and yielded a reduction of 665 FTEs, or 5.2% of the original number of FTEs of the amalgamated city.

In 2004, the Universal Program Review and corporate reorganization resulted in an additional reduction of 483 FTEs, or 3.8% of the original number of employees. A similar exercise in 2006 yielded a further reduction of 88 FTEs.

From 2001 to mid-2006, provincially and federally funded programming, as well as legislated and mandated changes, increased the number of FTEs by 586, or 4.6% of the original complement. Major changes included the provincial downloading of paramedic services (388 FTEs) and provincially funded housing, long-term care and public health programs (108 FTEs).

The City of Ottawa has also experienced significant growth in population and infrastructure since amalgamation. As a result, 1,332 FTEs have been added, or 10.4% of the original complement. Key contributors include growth in public transportation affecting transit services and fleet services (376 FTEs) and the Police Service’s Strategic Staffing Initiative (310 FTEs).

The net effect of these changes is an overall increase in FTEs since amalgamation of 682 (which includes 306 additional Ottawa Police Service FTEs), or 5.3% of the 2000 year-end complement, which were approved by City Council.

The graph below reflects the effect of these changes. While staffing levels have risen slightly over the period, there has been an overall decline in staffing levels per thousand residents since 2000. In 2000, there were approximately 16.2 FTEs for every thousand residents; in 2006 there are 15.5 FTEs for every thousand residents.

### Staffing levels

![Staffing levels graph](source: City of Ottawa, August 2006)
The increase of 682 FTEs since amalgamation includes 306 FTEs for Police Services. If the Police increases are removed, the remaining increase of 376 FTEs can be split into administrative and operational positions. Overall, there were 743 operational positions created and 367 administrative positions eliminated over the 2001 to 2006 time period.

The graph below represents the changes in operational and administrative FTEs since amalgamation, excluding police.

**Change in the FTEs per year, operational vs. administrative**
(As of August 15, 2006)

![Graph showing changes in FTEs from 2001 to 2006](image)

In 2005, the City of Ottawa’s first Human Resources (HR) Plan was tabled with Council. The Plan reported on FTE allocations and forecast future requirements based on operational needs. It also provided information about the resourcing of key City functions. The next HR Plan will be tabled in 2007 in conjunction with the City of Ottawa’s budget process.

The City ensures the best price through competition

The City has more than 17,000 employees, covers a geographic area of 2,796 square kilometres, and owns hundreds of buildings ranging in age from one to a hundred years. Therefore, there are very few types of goods and services that are not needed by the City of Ottawa. To support its varied needs, the City routinely purchases:

- Construction services related to all types of civil infrastructure, roads, sewers, and bridges, and construction related to City-owned facilities
• Fleet services, including all classes and types of vehicles, replacement parts, snow removal services, sewer maintenance, roadway sweeping, grass cutting and garbage removal services

• Goods, including computer hardware and software, copiers and printers, electrical, plumbing and hardware equipment, office products and fine paper, telephone and radio systems, traffic control systems, medical and dental supplies, uniforms, parks and recreational equipment, trees, sod, road salt, water treatment chemicals, etc.

• Consulting services, including expertise in fields of engineering, architecture, planning and environmental studies, and legal services

The City has a comprehensive purchasing by-law in place that requires services and goods to be purchased through a competitive process. In 2005, the City issued nearly 700 formal bid solicitations for goods or services, each exceeding $100,000 in value, with a total contract value of $1.021 billion. Of these, 98% were awarded either to the lowest bidder or to the proposal that represented best value. The 2% that did not go through the competitive process were primarily for non-competitive services, such as local utility-type monopolies.

The City is able to leverage its position as a major consumer of goods and services to obtain best value. Some of its procurement strategies include:

• Two- or three-year contract terms that challenge bidders to provide the most competitive long-range business plan, in return for the economic benefits of a substantial contractual commitment with the City, allowing employment and supply chain decisions to be maximized.

• Extension options to continue purchasing a known, satisfactory service, often with a minimal cost increase.

• Incorporation of Ontario Ministry of Transportation formulas that allow fuel price escalation during the life of the contract. For example, this means that the Greater Ottawa Trucking Association and others who provide snow removal and garbage collection are able to submit accurate bids that are not inflated to reflect possible fuel price increases.

• Forward contracting for commodities subject to significant price volatility, such as diesel fuel. Locking in diesel fuel prices in July 2005 avoided over $1.5 million in price increases since then.

• Buying natural gas through the Ottawa Carleton Energy Purchasing Group (OCEPG), comprising 17 local organizations associated with the Municipal, Academic, School Board, Hospital (MASH) sector. The City has saved 7.3%, or $360,000 per year, thanks to this arrangement.
The City also minimizes the amount of stock held in inventory, using a just-in-time purchasing approach that sets minimum stock levels based on projected workload or demand. The City's inventories were valued at $23.4 million at the end of 2005. Approximately $86 million in materials and goods flow through the City's warehouse/stores each year.

The City also minimizes consumption of goods through such policies as “no idling” to reduce fuel consumption. Salt usage guidelines minimize the amount of road salt applied, and temperatures in City buildings are set higher in summer and lower in winter than in past years. All of these efforts promote responsible management of service costs.

Municipalities ensure that essential services like water, sewer, snow clearing, emergency response and many others are reliably available to residents year-round. There are years, however, when municipalities face unanticipated and unavoidable costs in delivering these services. In Ottawa, for example, unpredictable and severe winter conditions and the possibility of emergency situations can affect yearly spending.

Cities establish operating reserve funds, similar to a household “rainy day” fund, to cover these unforeseen costs and to avoid having to resort to tax increases in any given year. For example, some cities create an insurance claims reserve to cover the cost of claims that exceed the yearly budgeted amount. Reserves are typically funded from budget surpluses or through regular contributions from the operating budget.

Municipalities also require funding for special “one-time-only” projects or programs that are only active for a short period. For example, Ottawa’s elections reserve is funded through a yearly tax contribution and used every four years to cover municipal election costs.

At amalgamation, the City of Ottawa created operating reserve funds with combined balances of approximately $54.5 million. Since then, these funds have been used, as designed, to mitigate funding pressures that would have otherwise resulted in service reductions or deferrals, or higher property tax increases.

The City of Ottawa has five operating reserves to offset expenditure fluctuations:

- Self-insurance
- Vested benefits
- Tax stabilization
- Elections
- Winter maintenance

With the exception of the elections reserve, which is funded from a yearly tax contribution, the remaining reserves are funded from budget surpluses or one-time, Council-approved funding.
Because provincial law dictates that municipalities must table balanced budgets – unlike the two other levels of government – a budgeted deficit is not allowed. The Tax Stabilization Reserve was established at amalgamation to cover expenses that cannot be forecast. This reserve, which is funded from previous year surpluses and any special contribution Council decides to make, can be drawn upon if the City incurs a deficit in any given year.

At the end of 2005, Ottawa had $13.1 million in operating reserves. Rather than directing more funds to the reserves, Council has instead adjusted the budget every year to try and ensure that sufficient funds are available to continue to provide appropriate levels of service. For example, when the winter maintenance reserve was depleted in 2002, Council increased the winter maintenance budget to reflect the average spending of the past three years. This increased funding should reduce the City’s need to resort to reserves and absorb potential increased costs due to weather.

It is prudent financial management to either adjust the budget or replenish operating reserve funds each year. Because the municipality cannot incur a deficit, the only other source of funds is the city-wide capital reserve fund. Yearly contributions are made to this reserve fund from property tax revenues to provide funds to cash finance the City’s capital program. However, repeated withdrawals from this reserve reduce the City’s ability to fully fund priority capital projects in the following year.

Given the constraints on municipalities’ ability to continue to meet service and infrastructure demands with existing funding mechanisms (the fiscal imbalance), it will soon become nearly impossible for cities to deliver all of the services they currently provide with only property tax and user fee increases to fund them. Council and City staff must have new tools to continuously improve services and to decide whether investments are yielding the anticipated results.

The new performance measurement and reporting framework the City adopted in early 2006 provides such a tool. It will lead to more and better information for managers and decision-makers, enhanced public accountability and, ultimately, improved performance. The performance measurement framework will allow the City to measure progress against plans, as well as to measure performance year over year, compare performance to service standards and measure performance against other Ontario municipalities.

These are the key components of the performance measurement and reporting framework.

**The Ontario Municipal Benchmarking Initiative (OMBI)**

Ottawa reports performance-related information to the provincial government through mandatory programs such as the Ontario Municipal Performance Measurement Program (MPMP) and the Financial Information Return (FIR). However, these measures represent...
only a small portion of City services. Ottawa also participates in the Ontario Municipal Benchmarking Initiative (OMBI), which draws upon base MPMP information and supplements it with additional data on municipal services. OMBI describes services from four perspectives:

- Community impact
- Service level
- Efficiency
- Customer service

OMBI currently involves 15 large Ontario municipalities that share information on approximately 600 performance measures across 33 program areas. By comparing performance data with other Ontario municipalities, OMBI allows Ottawa to benchmark its performance in various areas. This in turn helps the City identify and share best practice information, and apply what is learned to continuously improve service delivery and business processes.

When the City participated in OMBI for the first time in 2005, 22 program areas were reviewed and it reported on approximately half of the 500 performance measures. In 2006, the City is participating in all 33 program areas and will report on many of the performance measures by the end of 2006.

Finding valid (i.e., “apples-to-apples”) comparators is a significant undertaking, given the differences in geography, demographics, services and service levels among Ontario municipalities. To that end, municipal program area managers are encouraged to participate in the OMBI subject matter expert working groups to ensure that the chosen performance indicators are meaningful, data definitions are appropriate, data analysis results are valid, and best practices are shared.

**Annual Report**

The City of Ottawa’s annual report provides a performance overview for the previous year. The annual report sets out:

- The City’s main goals
- The status of action items in the City Corporate Plan and departmental business plans
- High-level performance information for key programs and activities

The City’s first annual report, in 2004, included audited financial statements and analysis as well as an overview of the City’s key achievements. The 2005 annual report, issued in June 2006, provides enhanced information on the City’s progress in achieving both the priorities set through the Ottawa 20/20 consultations and the desired outcomes identified in the 11 agendas in the City Corporate Plan.
Quarterly performance report to Council

Beginning in fall 2006, the City will provide Council with a quarterly report containing high-level metrics and information about the City’s performance in major service areas. The goal of the report is to provide key measures for a cross-section of branches that deliver public services of high interest to Councillors. Over time, it is expected the report will change to incorporate Council’s evolving areas of focus, and to include more performance measures. Ultimately, the quarterly performance report will provide information on 50 to 75 performance measures for up to 15 different branches.

The City is also developing a business intelligence and reporting application that builds on existing information systems such as SAP to produce real-time performance information. This application will allow managers to respond faster to emerging issues and quickly identify improvement areas.

Developing effective performance measurement systems takes time: time to design, time to implement and time to perfect. The City of Ottawa’s performance measurement framework is in its early stages, and components are still being developed and perfected. Once complete, it will be a key tool that will support priority setting by Council, and will foster the City’s continuous improvement culture by identifying where resources should be invested and operations enhanced.

Some of the expenses, or liabilities, the City incurs do not have to be paid immediately. For example, the City could enter into a contract with a union to provide benefits to members after they retire. This liability would increase every year until the union members retired.

Since 2000, municipalities have been required to prepare their financial statements in accordance with accounting policies set out by the Public Sector Accounting Board (PSAB), an independent body with the authority to set accounting standards for the public sector. The 12-member governing board comprises federal, provincial and local government accountants, auditor generals, public auditors, budget officials and academics. PSAB’s mission is to set standards and provide guidance for public sector financial and other performance information.

Under PSAB policies, employee benefits must be recorded in financial statements at the time they occur, as a liability to be paid in the future.

The City’s employee benefits liability is made up of four categories: post-retirement benefits, post-employment benefits, Worker Safety Insurance Board (WSIB) obligations, and vacation leave. Post-retirement benefits include health care, dental care and life insurance. Post-employment benefits are made up of accumulated sick leave payouts and continuation of benefits while an employee is on long-term disability.
PSAB deems each of these categories to be employee benefits, and all must be reviewed to determine the ongoing liability to the City. This liability is shown as employee benefits in the liabilities section of the City’s Consolidated Statement of Financial Position (see page 60 of the 2005 City of Ottawa Annual Report).

The City funds post-employment and post-retirement benefits on a cash basis. As a result, employee benefits are included in the budget as the value of the payments to be made in a given year. As the City’s workforce ages and retires, the cash payments for these benefits are steadily increasing, which will cause significant budget pressures in the future.

To lessen the impact of these future budget increases and ensure that those who receive the services today pay the full cost, the City is developing a 10-year plan to move from a cash basis to an accrual accounting basis for these liabilities. With this plan, the liability will be paid out of the budget in the year it is incurred rather than the year it is paid out. If the City does not implement such a plan, significant budget increases will be required in the years when these liabilities have to be paid.

**Landfill closure liability**

The City of Ottawa provides garbage collection and disposal services to residents and businesses and operates two landfill sites for this purpose. When these sites reach capacity and are closed, the City will continue to be responsible for their ongoing maintenance under the *Ontario Environmental Protection Act*. Post-closure care for these sites (and other inactive sites) is expected to last approximately 25 years. The PSAB requires the City to record the estimated liability in its financial statements.

In 2005, the value of this future cost was estimated to be $10.8 million; this figure will increase every year until the landfills close. Based on the principle that those benefiting from the landfill today should pay for its future closing costs, City Council has included a provision for landfill closure and post-closure costs as part of the new user-pay structure for solid waste management.
PART B: REVENUES

Revenue overview

The City of Ottawa has five main revenue sources to fund the operating budget.

1. Property taxes – In 2006, the City budgeted $974 million in property tax revenue and $176 million for payments in lieu of taxes to fund 55% of the total operating budget.

2. Government grants – At $366 million, grants from the federal and provincial governments fund 17% of the operating budget.

3. User fees – This revenue comes directly from residents using the many services the City offers. Ottawa plans to collect $326 million in 2006 to fund 15% of the operating budget.

4. Water and sewer rates – These represent $182 million and fund 9% of the total City operating budget.

5. Reserve funds – Transfers from City reserves and other miscellaneous revenues fund 4% of the operating budget.

Breakdown of operating revenues

2006 operating budget ($2,113M)
Economic and policy experts agree that Canada’s cities lack the legislative and financial tools needed to fund the services and programs they must deliver. They also agree that rectifying this situation is essential for Canada’s economic prosperity.

This situation has been an ongoing concern for the City of Ottawa and for Canada’s other large cities. Until the inadequacies of the fiscal framework are addressed, no Canadian city will be sustainable in the medium- to long-term, no matter what it does to reduce its own costs or increase its own revenues.

As experts Enid Slack and Richard Bird noted in May 2006:

“Owing to the limited and relatively inelastic revenue base to which even the largest cities have access, the underlying basis of Canada’s urban prosperity is being eroded, with potentially damaging implications for national well-being over the long run.”

There are only three funding tools available to cities — property tax, user fees, and development charges — and property tax is the only tax available to municipalities. Property tax has

“characteristics that make it different from other taxes... [It] is an inelastic tax... because property values do not grow as quickly as do incomes and sales during a period of economic growth... Even when they do grow quickly,... most municipalities are forced to reduce tax rates when property values increase so that taxes do not increase by the full amount of the increase in the tax base.”

It is generally agreed that “property tax has insufficient revenue-generating capacity to meet increased expenditure needs.”

Moreover, as Enid Slack notes:

“... the ability of municipalities to increase taxes and user fees is different than the ability of federal and provincial governments to increase their revenues for at least two different reasons. First, municipalities are constrained by provincial governments in terms of the services that they are mandated to deliver, on the one hand, and the restrictions on revenues they are permitted to levy, on the other hand. Second, the unique characteristics of the property tax make it more difficult to increase than income and sales taxes.”

Ontario municipalities are further disadvantaged by having to fund income redistribution programs from the property tax base. Studies show that Ontario’s decision to download social services to municipalities “mak[es] no real sense.”

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Studies also note that many municipalities appear, on the surface, to be quite healthy because they do not run deficits and do not borrow excessively. However, unlike provincial and federal governments, cities are prohibited from running deficits, and the amount municipalities are allowed to borrow is limited by provincial governments.

Experts agree that “the required balance has been achieved in large part by under-investing in infrastructure and service delivery.”

“Expenditures up; transfers down; and hard-to-increase own-source revenues: it sounds like a prescription for a fiscal crisis. It is thus not surprising that there has been much concern with the fiscal sustainability of cities in Canada in recent years.”

“The only way [municipalities have] to achieve a balance between revenues and expenditures, however, is by reducing expenditures or by raising property taxes. Neither prospect bodes well for meeting the economic and social challenges… facing large cities and city regions.”

Studies reaffirm the conclusions and recommendations brought forward in the City of Ottawa’s first LRFP:

1. Ontario municipalities should not be funding income redistribution programs from the property tax base.

“Ontario clearly needs to rethink its assignment decisions. Social services are cost-shared between the provincial and municipal governments in Ontario. Either these costs should be uploaded to the provincial government or new revenue-raising tools should be downloaded to the municipalities.”

“Shifting funding responsibilities for all social service, social housing, and land ambulance expenditures to the provincial government in Ontario, as is the practice elsewhere in Canada, would not only assist local governments, it would make sound economic sense – all income distributional services should be the responsibility of the more senior levels of government.”

2. Cities need the autonomy to make decisions that will help them be more financially sustainable.

“Cities can and should do more to help themselves. To do so, however, in the Canadian context they need first to be freed from the many inappropriate provincial constraints…which are currently preventing them from financing their

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services adequately or efficiently, such as the presently convoluted ‘capping’ system… in Ontario. Cities should be able to act independently to make autonomous decisions in their areas of jurisdiction.”

3. Cities need new revenue streams to be successful and sustainable.

“Some obvious ways to restore the balance between expenditure responsibilities and revenues can be suggested. These include, for example, increasing residential property taxes, user fees and borrowing, transferring responsibility for some expenditures to the provincial or federal governments (“uploading”), transferring revenue-raising power (tax room) to municipal governments (such as an income or selective sales taxes), and transferring funds from the federal and provincial governments through conditional or unconditional grants.”

Some progress has been made on these issues. The transfer of a portion of the federal and provincial gas tax is helping Ottawa fund its public transit needs. In addition, the Ontario government has established a Provincial-Municipal Fiscal and Service Delivery Review to try to create a sustainable provincial-municipal relationship for both orders of government.

In 2001, a KPMG study found that, between 1998 and 2000, for each additional tax dollar of revenue the City generated from economic growth, 91 cents went to the federal and provincial governments and only 9 cents remained for the City itself. The study was updated in 2006 to reflect the changes in taxation that have occurred since 2005. The results show that, while the total value of taxes generated for all levels of government increased by 43%, the City’s share of total taxation remained at 9%. It is clear that the City is not sharing in the increased revenue arising from economic growth. However, when factoring in the transfer of provincial and federal tax revenues to municipalities, Ottawa’s revenue share increases to 11% from 9%.

Progress remains slow and small in scale. If the municipal fiscal imbalance does not change soon, Canadian cities will not be able to continue to fund existing services and infrastructure.

Ottawa has a higher dependence on property taxation as a source of revenue when compared to seven of the other major cities in Ontario. This is primarily due to Ottawa receiving less than its fair share of grants from other levels of government, and not being able to benefit from the pooling of social service costs like the Greater Toronto Area. In 2005, the City of Ottawa received $1.12 billion in revenue from property taxes, including federal and provincial properties that make payments-in-lieu of taxes. This represented 55.34% of the City’s total revenues of $2.029 billion. Over the same period, City of Toronto taxes represented only 43.77% of total revenues. The following graph shows the reliance of the City of Ottawa on

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taxation compared to Toronto and the average of the other seven major cities or regions. Receiving a fairer share of the government grants would reduce the dependence of the City of Ottawa on taxation.

**Analysis of revenue, 2005**

The following graph depicts the property taxes on an average home in Ottawa assessed at $276,245 in 2006, compared to an average-assessed home in Toronto, Markham, Mississauga and Hamilton. The range in assessment value of the average home in each city reflects the variability in the cost of residential housing in each municipality. There is no common assessment value to represent what the average taxpayer pays in each municipality.

In 2006, the owner of an average Ottawa home paid $2,548 in municipal property taxes, excluding provincial education tax. The owner of an average home in Toronto paid $2,093 or $455 less. In 2004, the difference between the Ottawa and Toronto average municipal property tax was $515.
Ottawa’s higher taxes cannot be explained by tax increases; Ottawa residents have enjoyed the lowest cumulative property tax increase in Ontario over the last six years. The answer lies in the difference in the relative share of commercial taxes in each city.

In Ottawa, commercial properties make up 14% of the assessment base, although these properties actually account for 26% of the tax collected. Toronto commercial properties make up 17% of the assessment base, but account for 37% of the taxes collected. Overall, commercial property owners pay proportionately more of the tax share, while residential property owners pay less. Toronto has recognized the unfair tax burden on commercial properties and is moving to reduce its commercial tax ratio. This will result in Toronto’s residential taxes moving closer to those of Ottawa over time.
Over the last eight years, Ontario has issued many tax-related acts, bills and regulations, making the tax system very complex and challenging to understand. As a result, property taxpayers in Ontario may not be truly benefiting from the principles of fairness, equity and predictability originally intended by the Current Value Assessment (CVA) property tax system. The objective of the system was to provide a more transparent, easy-to-understand property tax model (i.e., property value multiplied by the tax rate). Instead, there are components of the property tax system that are difficult to explain to residents.

Some of Ottawa's property tax challenges include: shifts within a tax class, between classes, and between regions in the province; municipal tax restrictions on some classes; lengthy capping protection for properties in certain classes; and the impact on taxpayers required to absorb capping shortfalls. Trying to explain to taxpayers how all the changes affect their taxes has been one of the biggest challenges the City of Ottawa has faced since amalgamation. All Ontario municipalities share this challenge to varying degrees.

A brief description of the issues and their impact follows.

**Commercial taxes – capping and clawback**

There has been much criticism about the differences between residential and commercial taxation in Ontario as well as the complexity of commercial property taxation. Commercial tax classes include multi-residential properties (low- and high-rise apartments and townhouse units), commercial properties (retail stores, banks, offices) and industrial properties.
(manufacturing, warehouses). Changes to municipal property taxation introduced by the Province in 1998 required municipalities to limit, or cap, any tax increases for commercial properties.

While the intent of the capping legislation was to provide predictability for commercial taxpayers, it has led to a significant problem for smaller commercial properties that now have to pay more than they should, in some instances.

Under the current capping legislation, any assessment-related property tax increase for a commercial property is limited to the greater amount of 10% of the previous year’s taxes or 5% of the real CVA taxation. Assessment-related tax increases to commercial properties are limited by the capping legislation. Individual properties protected by the cap generate a “taxation shortfall” within the tax class (i.e., all properties falling in that class). This “taxation shortfall” is the difference between the amount of CVA taxes that the properties would generate and what they generate with the capping limit applied. This tax shortfall has to be recovered from other taxpayers within the class, which results in increased tax for other commercial properties.

The mechanism to recover this tax shortfall from other properties is called a “clawback.” Under this process, properties that would get a tax decrease because of a reduction in assessment have the decrease reduced, or eliminated, in order to cover the shortfall. In other words, commercial taxpayers who would be entitled to a reduction in their taxes because of a reduced assessment pay additional taxes to make up for taxes not paid by other commercial taxpayers because of the capping limit.

The following table shows that, in 2005, the City of Ottawa had a taxation shortfall of $22.8 million because of capping, which was recovered primarily from smaller commercial properties that would otherwise have experienced a reduction in property tax.

<table>
<thead>
<tr>
<th>Annual taxes ($)</th>
<th>Clawback (More than CVA)</th>
<th>No adjustment (At full CVA)</th>
<th>Capped (Less than CVA)</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># Accounts</td>
<td>Total Clawback ($)</td>
<td># Accounts</td>
<td># Accounts</td>
</tr>
<tr>
<td>0 – 200,000</td>
<td>4,014</td>
<td>15,696,669</td>
<td>3,183</td>
<td>1,853</td>
</tr>
<tr>
<td>200,000 – 500,000</td>
<td>112</td>
<td>3,550,131</td>
<td>48</td>
<td>52</td>
</tr>
<tr>
<td>500,000 – 1,000,000</td>
<td>7</td>
<td>1,042,781</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>1,000,000 – 1,500,000</td>
<td>9</td>
<td>471,815</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>1,500,000 – 2,000,000</td>
<td>1</td>
<td>219,993</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>2,000,000 – 3,000,000</td>
<td>1</td>
<td>280,008</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>3,000,000 – 5,000,000</td>
<td>1</td>
<td>384,034</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>5,000,000 – 10,000,000</td>
<td>3</td>
<td>1,180,140</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>4,148</td>
<td>22,825,571</td>
<td>3,245</td>
<td>1,935</td>
</tr>
</tbody>
</table>
The table also shows that the beneficiaries of the capping program are primarily commercial properties with higher assessed values.

The Province also established “the provincial threshold” for tax ratios. These thresholds were established in 1998 based on assessment values at that time. This was intended to prevent municipalities from applying any budget-related tax increases to commercial properties if the tax ratio is was higher than the threshold.

Ottawa was below the threshold until 2004. Since then, as a result of adopting tax ratios that prevent tax shifts between classes, the commercial ratio has risen above the threshold. Therefore, the City of Ottawa has only been able to impose a budgetary tax increase for commercial properties at half the rate of the residential increase for the last two years. Consequently, the other tax classes have had to absorb a greater share of the budgetary tax increase, with residential (the largest class) absorbing the biggest share.

The Province's tax policy was meant to move all properties to their full CVA. Under the capping program, there is no time limit as to when properties should be at their full CVA taxation (CVA assessment multiplied by tax rate). In each year where there is a re-assessment, progress towards full CVA taxation is disrupted because the new assessment values have to be incorporated into the scenario. The current two-year freeze in assessments recently announced by the Minister of Finance will provide some progress towards full CVA, but will not solve this problem in the longer term.

Capping was intended to move the current taxation system towards one based on CVA within a reasonable timeframe. Instead, it has perpetuated tax inequity within the commercial classes, where taxpayers entitled to lower taxes based on their full CVA taxes are denied their full reduction in order to subsidize properties with large CVA increases. Annual re-assessments were intended to alleviate large, unpredictable one-time increases of several years of incremental property values. Instead, the inequity of the capping program continues.

**Residential taxation – tax shifting from other classes**

In contrast to commercial taxation, for residential property taxation there are no tools in place, like capping, to reduce the impact of assessment changes. The last three assessment increases for residential and multi-residential properties have been higher than for commercial properties over the same period. The following graph shows the average increase in each class compared to the average increase across all classes for the last three re-assessments. Note that when the total assessment for a class rises above the city average, properties in the class above the average pay more tax while those below pay less.
Average assessment change in each tax year, by class

This situation first occurred unexpectedly in 2003 when there was a tax burden shift from the commercial property class to the residential class. At that time, there were no taxation policy tools available to Council to eliminate the impact of the shift. Furthermore, Ottawa was almost alone in Ontario in experiencing this type of shift and was forced to appeal to the Ontario government for mitigation tools. For 2004 and 2006, the Province temporarily allowed municipal councils to eliminate the tax shift through the use of “neutral tax ratios.” A neutral tax ratio gives a heavier weight to assessment of the tax class that is losing tax so that the burden does not shift.

The last three re-assessments also created significant differences between the changes in assessment values of Ottawa residential properties and those of other Ontario municipalities. Ottawa’s strong residential housing market resulted in larger average increases in assessment value than the provincial average. The following graph shows the magnitude of the differences in assessment for Ottawa as compared to the rest of the Province.

Residential taxes – shifting of education taxes
The Province sets residential education tax rates using assessment values from all Ontario municipalities. Given that Ottawa residential assessment values have risen higher than the provincial average, the education tax burden has shifted from other areas of the province to Ottawa. From 2001 to 2005, the City’s assessment base grew 11.1% from the addition of new properties. Over the same period, education taxes increased for residential properties by 33.7%. This has cost Ottawa residential taxpayers $28 million more than taxpayers in other Ontario municipalities.

In each re-assessment, there has been significant tax shifting within the residential class as properties in some areas of the city experience much greater increases in value than others. The following graph shows the percentage of properties in urban, suburban and rural areas of Ottawa, as well as how much their taxes changed as a result of the last assessment. Generally, assessment values in the suburban and rural areas of the city are increasing at a lower rate than in the urban areas. This has been true in each of the re-assessment years. Unlike the commercial classes, the residential class phase-in is not mandatory and would be practically impossible to implement with annual re-assessments.
Tax impact of 2006 re-assessment: residential properties

Multi-residential taxes

Rental rates for apartments in Ottawa continue to increase. A portion of these rent payments contributes to property tax. City Council has always indicated a preference for a fair level of taxation between multi-residential and residential properties. The difficulty in making the comparison between the two types of properties is that the Province has determined that residential properties be valued on the sales approach (based on market sales) whereas multi-residential properties are valued on the income approach (based on cash flow from rent payments). There is no existing agreed-upon methodology for comparing the tax burden between residential and multi-residential properties.

As a result, Council has been making incremental changes in the taxation burden of the multi-residential class. Since 2001, the burden for this class has been reduced by more than $3 million, in spite of tax shifts into the class and tax levy increases. In 2000, the multi-residential class represented 6.14% of the assessment base and 11.6% of all City taxation. Today, the multi-residential class represents 6.6% of the assessment base but only 9.6% of the total tax bill. The result is that Ottawa’s taxes per suite for a walk-up apartment in 2005 were $177 and $163 less, respectively, for mid- and high-rise apartments than the average for municipalities with populations greater than 100,000.32 In 2006, Council reached the 2004 tax ratio target they had set for the multi-residential tax class.

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Since amalgamation, City Council has reduced the farmland tax ratio significantly to recognize the importance of the farm sector to the City of Ottawa. In 2005, of 47 municipalities in Ontario with the farmland tax class, the City of Ottawa levied the second lowest taxes per acre – 84% lower than the provincial average taxes per acre for Class 1 farmland, and 73% lower than the provincial average taxes per acre for Class 6 farmland.\textsuperscript{33}

With fuel costs rising and financial pressures increasing for the farm community, City Council introduced a Farm Grant Program in 2006. This allows farmers to defer the final payment of their 2006 tax instalment until after they have harvested their crops.

**Tax mitigation tools needed**

The public holds municipalities accountable for their property tax bill; therefore, municipal councils need more control over the tax and assessment systems. The types of policy tools municipal councils should have at their disposal include:

- Mitigation tools to counter the effects of large assessment increases and associated tax shifts experienced by a class during a given cycle;
- Flexibility to accelerate movement towards full CVA taxation for the classes that are currently capped;
- The ability to implement a phase-in program for residential property owners by adopting a re-assessment only every three to five years; and
- The ability to set education taxes based on a levy requirement identified by the Province.

Over the years, staff and Council have provided suggestions to the Province on how to improve the municipal taxation system in Ontario. The Province has shown support for Ottawa by implementing requests for mitigation tools but the dialogue must continue to fix the property tax system.

Under the *Municipal Act*, municipalities have broad authority to impose fees or charges for any activity or service they provide. While municipalities can determine which services to charge for, the amount of the fee and who pays it, the *Municipal Act* limits them to cost recovery – in other words, municipalities cannot charge more than it costs them to provide a service.

The main user fees in Ottawa are transit fares, water rates, sewer surcharge, and registration and entry fees for recreation programs and facilities. User fees and charges directly fund a portion of the program or service costs. Since 2004, user fees have increased annually as the City strives to maintain a constant cost-to-user fee ratio. In 2005, the City collected $484 million in user fees and charges. By passing all or a portion of cost increases on to users, the City can take pressure off the residential property tax bill.

A comparison of user fees on a per capita basis is provided in the graph below.

**Comparison of user fees and charges, per household**

With the second largest transit ridership levels in the province, Ottawa collected approximately $115 million in transit fares in 2005, covering 37.5% of total transit expenditures, including contributions to capital. The 2005 Ontario municipal average for transit revenues as a percentage of expenditures was 42.9%. Last year, Council adopted a policy to recover 55% of direct transit expenditures from the users, thus bringing Ottawa closer to the provincial average and covering increasing expenditures. Ottawa is not unique. All Ontario municipalities have had to increase their transit user fees due to economic factors, such as higher gas prices.34

In 2005, water rates and sewer surcharges totalled $64 million and $102 million, respectively. For an average household, this amounted to $645 per year, up $53 from the previous year. The average municipal cost in Ontario for water and sewer services in 2005 was $665, up 19% from 2004. The City of Ottawa and most other municipalities across Ontario have increased user fees for water and sewer services to protect public safety, ensure infrastructure reliability and meet provincial obligations.

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User fees for recreational services totalled $35 million in 2005, representing 35% of total expenditures for the service. While taxes still cover 65% of the cost of recreational services, Ottawa collects more user fees for this category than Toronto and the seven-city average on a per capita basis: $100 per household for recreational fees compared to $66 for the Ontario seven-city average and $37 for Toronto. The City has ensured that low-income families are not priced out of recreational programs by increasing the amount of subsidy by an amount equivalent to any user fee increase.

In implementing the user-pay principle, the City has also moved garbage collection from the assessment-based tax bill to a flat user fee for both residential and multi-residential properties. The user fee for garbage collection is part of a larger strategy to increase awareness of the cost of garbage and ultimately increase recycling rates. By removing this cost from the property tax system, commercial and industrial properties that do not receive the service from the City no longer have to pay for it.

**New user fees and charges**

In 2005, the City identified a number of revenue opportunities, including new user fees, for the Province to consider as part of the new City of Ottawa Act. The City was not given any of these revenue options, but the Province indicated it would study them further in its review of the Municipal Act. At the time of this report, Bill 130, the Municipal Statute Law Amendment Act, has already undergone first reading. However, the amendments to Bill 130 do not include any new financial tools.

**Funding from other levels of government has declined**

As discussed previously, the City receives funding from the provincial and federal governments, mostly for cost-shared social programs. Since the early 1990s, successive federal and provincial governments have balanced their budgets by downloading services or reducing funding support to municipalities. Several grant programs slowly disappeared during the 1990s, including transit and road services grants, and unconditional grants that provided general funding to help municipalities reduce the cost of providing local services.

In 1998, the Province introduced a provincial-municipal service realignment, which was promoted as “revenue neutral.” The Province harmonized education tax rates during the same period and introduced a province-wide education tax rate, which resulted in lower education costs on residential tax bills. However, more services and costs were downloaded to municipalities during that exercise to be added to the municipal portion of the tax bill. Over the years, governments have further reduced the level of funding for these downloaded services.

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35 FIR 2005.
For example, in 1997, provincial grants covered 77% of Ottawa’s total social assistance spending. By 2005, these grants were reduced to 54% of the total costs. In 2001, provincial grants funded almost 31% of total social housing expenditures. By 2005, this had decreased to 24%.36

As a result of the changes to social housing grants, the waiting list for subsidized housing in Ottawa has increased dramatically and the City does not have the funding to handle the extra demand. As of December 31, 2005, 9,922 applicant households were wait-listed, meaning that about 23,000 Ottawa residents face an average waiting period of five to eight years for subsidized housing.

Increased service responsibilities, coupled with reduced funding, have presented municipal councils with challenges in balancing community needs with maintaining reasonable levels of taxation. In many cases, maintenance of city infrastructure has been deferred to achieve a balance between these competing objectives.

The good news is that, starting in the late 1990s, a number of federal and provincial programs were launched to address capital infrastructure requirements. These programs help municipalities fund critical infrastructure and meet community infrastructure growth needs. Programs such as the Canada-Ontario Infrastructure Works program (COIW), Transit Investment Partnership (TIP) and SuperBuild have greatly assisted municipalities in addressing deficiencies in their road, transit, sewer and water systems.

However, although well intentioned, these programs are short-term and require renewal. Many of them restrict how funds are to be used and, most importantly, do not provide base funding on which municipalities can rely each year. In addition, as governments change, so do priorities and funding commitments. Consequently, such programs cannot be considered sustainable and predictable sources of funding that allow municipalities to properly plan and manage their capital and operating responsibilities.

In response to the Province’s 2006 spring budget, the Association of Municipalities of Ontario (AMO) President, Roger Anderson, stated: “One-time funding announcements help with the symptoms of downloading – but they do not protect the municipal property taxpayer from the ongoing burden of downloaded provincial costs.” Although this type of funding benefits municipalities, it fails to address the urgent need to restore fiscal sustainability to municipal governments in Ontario.

While expenditures tend to increase year over year across all categories, the same is not true for revenues. The City must look beyond taxation and user fees to other sources of revenue, such as interest earnings and dividends, to help fund its programs. However, Council does not control the direction of interest rates and dividends. The City of Ottawa also generates revenue from dividend payments from Hydro Ottawa and the Rideau Carleton Raceway. Other sources of revenue constituted 1.64% of the total revenue in 2005; without these other revenue sources, taxes would have increased $33 million or 3.5%.

Interest earnings

The City's main non-tax or user fee revenue comes from interest on funds not immediately required for use. Municipal Act regulations establish the investments the City can undertake, which tend to be a relatively conservative mix.

While the types of investments the City can make are limited, it is still important to maximize returns through benchmarking with other municipalities. Benchmarks include:

- ONE Fund – municipal pooled investment program designed specifically for the Ontario public sector, overseen by the CHUMS Financing Corporation and Local Authority Services Limited.
- Scotia Capital Three-Month Treasury Bill Index – composed of three-month Canada treasury bills, which are rolled into new bills at each Government of Canada Treasury bill auction.
- A composite of the Scotia Capital All Governments Short-Term and Mid-Term Bond Indices – consists of federal, provincial and municipal bonds with remaining effective terms greater than one year and less than or equal to 10 years.

While none of these benchmarks precisely reflects the investment policy, or the City's goals and objectives, they serve as a reasonably acceptable basis for comparison. The table below compares City and benchmark returns.

### Comparison of investment performance

<table>
<thead>
<tr>
<th></th>
<th>Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001(^{37})</td>
</tr>
<tr>
<td>City – All funds(^{11})</td>
<td>4.77</td>
</tr>
<tr>
<td>Scotia Capital Indices (SCI)(^{42})</td>
<td>N/A</td>
</tr>
<tr>
<td>ONE Fund(^{41})</td>
<td>4.38</td>
</tr>
<tr>
<td>City exceeds SCI</td>
<td>N/A</td>
</tr>
<tr>
<td>City exceeds ONE Fund</td>
<td>0.39</td>
</tr>
</tbody>
</table>

\(^{37}\) For 2001, only Money Market returns are shown.

\(^{38}\) As of 2004, City returns are shown on a total market return basis.

\(^{41}\) City returns are shown on a book basis prior to 2004.

\(^{42}\) SCI portfolio management fees and expenses have not been deducted.

\(^{41}\) ONE Fund returns are shown after incurring investment management expenses.
The current legal framework within Canada limits municipalities’ ability to manage and regulate the programs and services they deliver. In the United States and Europe, considerable effort has been made to allow cities to determine which services to provide and how to fund them.

In recent years, provincial governments across Canada have provided municipalities with additional authority to raise new revenues or have transferred to them portions of their income or gas tax revenues. Although the Province of Ontario has made headway in providing municipalities with a portion of their gas taxes, it must make additional funding sources available to restore municipal fiscal sustainability.

The following table compares the municipal revenue sources in the United States and Canada.

**Municipal fiscal authority: Canada and the U.S.A**

<table>
<thead>
<tr>
<th></th>
<th>U.S.A.</th>
<th>BC</th>
<th>Alberta</th>
<th>Manitoba</th>
<th>Quebec</th>
<th>Nova Scotia</th>
<th>Ontario</th>
<th>Other provinces &amp; territories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property tax</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Sales tax</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hotel/motel tax</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business tax</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel tax</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>License fees</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax: individual and corporate</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>x*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development charges</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Tax-exempt municipal bonds</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Tax incentives</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants to corporations</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrow money</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

*Note: Available to Winnipeg

Source: Federation of Canadian Municipalities
PART C: CAPITAL ASSETS

As presented in the table below, the City’s major types of infrastructure have an approximate replacement value of $26.4 billion. These assets include roads, water and sewer networks, public transit, buildings, buses and paramedic vehicles. Buildings are further broken down by facility type in the second table. In general, Ottawa’s capital assets in the downtown core are older than in suburban areas. A complete valuation of assets is underway to address the Public Sector Accounting Board’s (PSAB) requirements. These are discussed further in this section.

**Estimated replacement value of Ottawa’s capital assets**

<table>
<thead>
<tr>
<th>Type of infrastructure</th>
<th>Composition</th>
<th>Estimated replacement value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation infrastructure</td>
<td>5,397 km of roadways&lt;br&gt;569 bridges and structures&lt;br&gt;1,580 km of sidewalks</td>
<td>$10,486,620,000</td>
</tr>
<tr>
<td>Environmental infrastructure</td>
<td>69 waste water pump stations&lt;br&gt;1 waste water treatment plant&lt;br&gt;2,430 km of sanitary sewer networks&lt;br&gt;2,150 km of storm sewer networks&lt;br&gt;11 storm water pump stations&lt;br&gt;152 storm water devices / facilities&lt;br&gt;2,730 km of piped water distribution&lt;br&gt;2 water purification plants</td>
<td>$12,268,450,000</td>
</tr>
<tr>
<td>Public transit system</td>
<td>10 Park and Ride facilities&lt;br&gt;19 Transitway stations</td>
<td>$720,820,000</td>
</tr>
<tr>
<td>Buildings and facilities</td>
<td>783 structures including recreational facilities, fire halls, police stations, libraries, ambulance buildings, etc.</td>
<td>$2,051,757,146</td>
</tr>
<tr>
<td>Fleet</td>
<td>84 paramedic vehicles&lt;br&gt;107 fire trucks&lt;br&gt;692 heavy fleet&lt;br&gt;1,320 light fleet and equipment&lt;br&gt;942 transit buses</td>
<td>$768,063,000</td>
</tr>
<tr>
<td>Information technology</td>
<td>7,084 desktop computers and applications&lt;br&gt;1,622 printers&lt;br&gt;812 laptops&lt;br&gt;440 business applications</td>
<td>$82,131,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$26,377,841,146</td>
</tr>
</tbody>
</table>

Source: City of Ottawa
A capital expenditure is defined as any significant expenditure incurred to acquire or improve land, buildings, engineering structures, machinery and equipment that confers a benefit lasting more than one year and results in the acquisition or extension of the life of a fixed asset. In 2006, Council approved $1.183 million in new capital expenditure, comprising $847 million for growth projects, $276 million for asset renewal and $60 million for strategic initiatives.

**2006 capital budget expenditures, by category**
($1,183 million)
Categories of capital works

Renewal of City assets – This category covers the funding required to maintain or replace all existing capital assets throughout the full life of the assets. These assets include buildings, structures, roadways, transitways, bridges, vehicles, equipment, computers, computer networks and various other facilities.

Studies have been undertaken throughout the various City program areas to determine what funding is required to maintain the asset at provincial or federal standard levels. Reports have been brought to Council over the past two years that recommend related lifecycle maintenance projects. Capital priorities, identified as renewal projects within the capital budget, are based on those studies. The goal is to fully fund identified lifecycle needs within a 10-year period.

Growth – This category includes all projects identified in the Development Charges Background Study and priorities contained in the 2004 Official Plan. Funding from this source reflects the most recent changes to the Development Charges By-law, approved by Council on December 8, 2004. Additional information on this by-law is provided later in this section.

Strategic initiatives – This category includes all other capital expenditures, such as: the implementation of various master plans or the Ottawa 20/20 plan; acquisition of environmental areas; enhancement of current services and growth costs not funded through development charges. It also includes initiatives to enhance organizational effectiveness, new legislated requirements, Council-approved programs not related to growth, and changes in demand for services.

Capital assets will be added to the City’s balance sheet

One of the more significant changes introduced by the PSAB is a shift to full accrual accounting for tangible capital assets, such as roads, buildings, land, water systems, office furniture and vehicles. This is a significant accounting change and means Ottawa will add tangible capital assets to its financial statements in 2009. Assets will be expensed in the same time period in which they are consumed. For example, if a road costs $20 million to build and is expected to last for 20 years, a $1-million expense will be recorded each year as the value of the asset used in the year.

This reporting change will take significant resources to plan and implement – the City is currently in the planning stages of this project. An inventory will be undertaken of all assets, including each asset’s value, useful life and depreciated value.
Adding tangible capital assets to financial statements will provide better information to decision-makers as they plan for related maintenance and replacement costs. It will also give residents clear information about spending on capital assets. The PSAB aims to reinforce municipal stewardship responsibilities and provide information to hold municipalities accountable for capital spending decisions.

Historically, there has been a trend to defer capital rehabilitation and renewal to meet the pressure for balanced municipal budgets without large tax increases. The May 2006 research report on municipal finances prepared by Standard & Poor’s, reported that:

“Municipal infrastructure renewal is now an important national issue. Municipal infrastructure deficiencies are typically related to water, sewer, road and transit networks, and municipal building and facilities. Estimates of the total national municipal deficiency, ranging from C$60 billion to C$120 billion, have been frequently reported.”

The inclusion of tangible capital assets on financial statements is a step towards making this deficiency transparent to Council and residents.

**Operating impacts from capital construction**

Each year, the City builds new infrastructure (roads, traffic lights, community centres) or purchases assets (buses, fire trucks) to address community growth requirements. The City also receives what is termed as “donated assets,” such as residential roads or water and sewer mains from developers once new communities are built. Since receipt of these assets does not involve municipal capital expenses, they are not included in the City’s capital budget.

However, once assets are built or received, they must be maintained and repaired on a regular basis. They also require City staff to operate them to provide service to the public. Ongoing operational costs associated with building or receiving assets have a significant impact on the City’s operating budget.

In 2006, approximately $7.5 million was added to the City’s operating budget to address these types of growth-related costs, representing a tax increase of 0.8%.
The following table provides some examples of where the City’s capital program has a monetary and/or personnel impact on the operating budget:

<table>
<thead>
<tr>
<th>City service</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Property Asset Management</td>
<td>Costs including hydro, water and maintenance and repairs for new facilities like fire stations, libraries, community centres, sportsplexes, field houses</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Computers and peripherals maintenance costs for the additional growth-related staff</td>
</tr>
<tr>
<td>Paramedic Services</td>
<td>Ambulance fleet costs (e.g., fuel)</td>
</tr>
<tr>
<td>Fire Services</td>
<td>Maintenance costs for fire vehicles; staff for new fire stations</td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td>Hydro and water costs related to the opening of new parks</td>
</tr>
<tr>
<td>Library</td>
<td>Staffing costs for new facilities</td>
</tr>
<tr>
<td>Surface Operations</td>
<td>Repair costs and snow clearing of additional lane kilometres of roadways and sidewalks; maintenance costs of additional hectares of sports fields</td>
</tr>
<tr>
<td>Traffic &amp; Parking</td>
<td>Hydro costs for new traffic signals and street lights</td>
</tr>
<tr>
<td>Transit</td>
<td>Fuel and parts for new buses</td>
</tr>
<tr>
<td>Drinking Water Services</td>
<td>Maintenance costs for additional kilometres of watermains (including valves, hydrants); operating costs related to expanded treatment plants</td>
</tr>
<tr>
<td>Wastewater Services</td>
<td>Maintenance costs for additional kilometres of trunk sewers; costs for additional stormwater facilities</td>
</tr>
</tbody>
</table>

Municipalities finance capital costs through reserves and reserve funds, provincial and federal grants, contributions from developers and long-term borrowing. The graph below depicts the 2006 capital budget broken into four financing categories: revenues and grants, reserves, development charges and debt.

2006 capital budget financing
($1,183 million)

Source: City of Ottawa
**Funding principles**

The two previous Long-Range Financial Plans identified a number of funding principles for the City to use in developing the capital budget. These principles include:

- Maintain the current tax-supported debt servicing costs by allowing approximately $40 million in new tax-supported debt authority each year (not including Police Services).
- Maintain the tax-supported reserve balances at $50 million and the rate-supported reserves at $20 million.
- Finance the City portion of the expansion of rapid transit and other growth-related projects through debt financing and apply future gas tax payments to pay the debt charge.

In addition, Council adopted the policy of increasing annual contributions to capital reserves based on the City’s Infrastructure Construction Price Index as published by Statistics Canada.

**Revenues and grants**

At $480 million, revenues and grants represented the largest portion of capital financing in 2005. However, federal and provincial capital grants have decreased significantly from the early 1990s, as shown in the graph below, putting more pressure on the City to find other sources of financing.

**Capital grants, 1993-2005**

($) thousands

Source: City of Ottawa

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**Diagram:**

- Ontario
- Canada
- Other/municipal

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Source: City of Ottawa
Federal and provincial gas tax

Over the past few years, both the federal and provincial governments have reinvested in municipal infrastructure by sharing gas tax revenues.

The provincial government has committed to permanently providing two cents of its gas tax to municipalities. The revenue is to fund transit capital initiatives that increase ridership or pay for operating costs. The City’s share of the provincial gas tax will peak at $37.3 million in 2007. Of this amount, Council determined that $7.1 million is to fund growth-related operating costs. Council approved the remaining $30.2 million to service debt used to fund the Light Rail Transit project.

Municipal revenues from the federal gas tax will increase to a peak of $50 million per year by 2009. Federal gas tax revenues must be spent on transit capital projects; however, the federal government has stipulated that this funding cannot be applied to the Light Rail Transit Project. In addition, Bill C-66 will provide municipalities with additional federal gas tax revenues totalling $40 million in 2006 and 2007.

Development charges

The amalgamated City of Ottawa established its first Development Charges (DCs) by-law in July 2004. DCs are paid when developers build new communities and are designed to pay for capital facilities that service growth such as new roads, sewers and watermains. These charges do not fund replacement, rehabilitation or City operating costs.

Council policy is that growth should pay for itself. Provincial legislation directs that revenue recovered from development charges must not exceed actual costs. The Development Charge Act was amended in 1997, and as a result, DCs no longer cover growth costs such as:

- Service discounts: Municipalities are required to finance 10% of the growth-related costs of providing transit, parks, recreation, child-care, libraries, paramedics, studies, work yards and vehicles. As a result, 10% of these growth-related costs are excluded from the DC and must be financed through taxes or existing user fees.

- Service levels: The DC is calculated to recover costs based on the average level of service over the previous 10 years. If Council wants to provide a level of service beyond the 10-year average, it will not be covered by DCs and must be financed through taxes or user fees.

- Excluded services: Amendments to the Act in 1997 excluded charges for parkland acquisition, cultural facilities and solid waste. As a result, all capital projects in these areas are funded from non-DC sources.
• Excess capacity: To ensure minimum disruption and cost, municipalities often build oversized sewers and watermains to meet future growth needs. However, provisions of the Act make it difficult to use current growth to pay for that portion of the capital works that may benefit future growth.

These are just a few areas in the legislation that need to be addressed to make growth truly pay for itself.

Other revenue sources
In addition to the sources of revenue already cited, the City has a number of non-tax sources to fund capital requirements, including:

• Cash-in-lieu of parkland, a requirement of the Planning Act that is paid by developers if they do not provide the required amount of green space in a new development

• Cash-in-lieu of parking, a requirement of the Planning Act that is paid by commercial property owners if they cannot provide the required number of parking spaces for their property

Debt financing
The first Long-Range Financial Plan contained the following recommendation in an effort to confine debt financing to certain types of projects:

“Long-term debt financing should be restricted to specific project types. Debt funding for lifecycle projects should be reduced and ultimately eliminated. Instead, debt financing should be employed on projects related to capacity expansion or growth, projects financed by development charges, future new non-traditional infrastructure projects, and projects tied to third-party matching funding. These restrictions may have to be phased in to meet short-term budget challenges.”

The rationale for the use of debt as a financing mechanism is that it spreads the cost of major growth projects over a number of years, similar to a mortgage on a home. Consequently, such projects are paid for by a broader tax base, making the forecast in the 10-year capital work plan achievable.

Repayment of principal and interest charges is funded from property taxes, revenue derived from water and sewer surcharge rates, or from non-tax/rate-supported revenues such as federal and provincial gas tax revenues and DCs. Additional debt will be issued from non-tax/rate-supported sources over the next four years, as discussed earlier in the section on Council-controlled programs.