Oshawa

Public Report

To:	City Council
From:	Stephanie Sinnott, Commissioner, Corporate and Finance Services Department
Report Number:	CNCL-24-116
Date of Report:	October 23, 2024
Date of Meeting:	October 28, 2024
Subject:	2025-2029 Financial Strategy
Ward:	All Wards
File:	03-05

1.0 Purpose

Municipal strategic planning is important to clarify and align future direction, establish priorities, focus resources, strengthen operations, and ultimately improve operational performance.

An update to the Financial Strategy, scheduled in 2020, was put on hold due to the uncertainty of the economic recovery related to the COVID-19 pandemic and it was not possible to produce a longer-term financial plan.

With the recent refresh of the Oshawa Strategic Plan in 2024, the City's Financial Strategy is being updated accordingly to align the objectives of the two plans.

The purpose of this report is to provide Council with an updated Financial Strategy for 2025 through 2029.

Attachment 1 is the draft Financial Strategy for 2025-2029.

2.0 Recommendation

It is recommended to City Council:

That the Financial Strategy 2025-2029 outlined in Attachment 1 to Report CNCL-24-116 dated October 23, 2024, be endorsed.

3.0 Input From Other Sources

Corporate Leadership Team (CLT)

4.0 Analysis

4.1 Strategic Financial Planning

A financial strategy is integral to an organization's strategic plan. It sets out how the organization plans to finance its overall operations to meet its objectives now and in the future. It summarizes the actions to be taken over a three to five year period to achieve the targets. It also clearly states key policies which will guide those actions.

The attached Financial Strategy for the City of Oshawa has been under development for a number of years. Approval of the Strategy would permit staff to move forward with the work as outlined in the recommended strategies sections in each strategic area of the document.

The Strategy supports fiscal sustainability and provides a foundation to guide the financial decision-making of the City to achieve long-term goals. The key concepts underpinning the development of the Strategy recognized the reality of limited resources and competing priorities. The Strategy is intended to:

- Advance the goals of the Oshawa Strategic Plan with the lens of financial stewardship;
- Examine fiscal trends and measure performance against comparator municipalities using key financial indicators to assess financial health and evaluate progress toward financial sustainability;
- Identify fiscal pressures, challenges and opportunities; and,
- Link the strategy to the annual budget process providing financial transparency and accountability.

4.2 2025-2029 Financial Strategy Development

The 2025 – 2029 Financial Strategy was developed based on an examination of the City's S.W.O.T. (Strengths, Weaknesses, Opportunities and Threats), scan of the economic environment, benchmarking metrics as related to comparator municipalities, City Master Plans and other relevant information.

The Financial Strategy outlines a number of favourable indicators that demonstrate how the City's financial position has significantly improved over the last several years. For example one instance shows that over the last 10-years the City's Net Financial Position per Capta has improved from $(393) in 2013 to $583 in 2022 (net improvement of $976 per person).

Although this is positive information there are financial challenges that the City needs to continue to address.

The Financial Strategy contains a total of fifty six (56) recommendations. These recommendations propose:

- Innovative approaches to provide additional funding to the City's reserves;
- New policy development; existing policy enhancement and updates;
- Service level and facility reviews;

- Potential opportunities for revenue generation and the direction of funds;
- Long-term sustainable strategies around the City's budget.

4.3 Multi-Year Budget

This iteration of the City's Financial Strategy does not include a Multi-Year Budget. This is primarily due to:

- Unknown decisions on material debt issuances (i.e. construction of new City facilities);
- Unknown budget targets;
- Completion of the lifecycle costing for the City's Asset Management Plan.

These factors affect four of the five strategic pillars in the Strategy. Staff will continue to advance the recommendations contained in this iteration of the Financial Strategy and will provide an update to this document following material financial decisions and completion of the Asset Management Plan.

5.0 Financial Implications

There are no direct financiall implications resulting from the recommendation of this report.

6.0 Relationship to the Oshawa Strategic Plan

This report responds to the Oshawa Strategic Plan Priority Area "Lead: Governance and Service Excellence" with the goal to provide transparent, efficient, and responsible fiscal stewardship and use of resources.

Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department

CNCL-24-116 Attachment 1

Oshawa Financial Strategy

2025 to 2029

Oshawa®

Financial Strategy 2025-2029

The City of Oshawa is the largest municipality within the Region of Durham. It is often referred to as the eastern anchor of the Greater Toronto Hamilton Area. The City has a long-committed history with strategic planning to envision the future and identify the journey driving innovative results. The City's current Financial Strategy covered a four-year period through 2019.

Municipal strategic planning is important to clarify and align future direction, establish priorities, focus resources, strengthen operations, and ultimately improve operational performance.

An update to the Financial Strategy, scheduled in 2020, was put on hold due to the uncertainty of the economic recovery related to the COVID-19 pandemic and it was not possible to produce a longer-term financial plan.

With the recent refresh of the Oshawa Strategic Plan in 2024, the City's Financial Strategy is being updated accordingly to align the objectives of the two plans.

Long-Term Strategic Financial Planning is a framework of tools used to consider future organizational challenges and applies an integrated financial planning approach. Through forecasting scenarios, analysis, and financial policies the long-term financial plan will provide disciplined guidance to devise innovative and diverse strategies for financial sustainability.

A sustainable financial plan will:

- recommend strategies for enhanced revenue generation.
- identify operational pressures addressing future growth and service improvements while anticipating inflationary impacts.
- forecast and plan for asset renewal/replacement and new infrastructure projects.
- adopt best practices for debt management.
- align Reserve and Reserve Funds contributions at adequate levels to fund future growth over an appropriate period of time.

The goal of the plan is to ensure that the City is in a sound financial position so that it can provide services, along with the associated infrastructure and assets, to the community in an affordable way by making decisions consistent with the plan.

Financial Strategy 2016 - 2019

The last iteration of the City's Financial Strategy, approved by Council on November 30, 2015, was a comprehensive series of recommendations for the period covering 2016- 2019. It contained five strategic areas of focus: Infrastructure Investment, Reserve and Reserve Funds, Debt Management, Operating Costs and Revenue. This version of the strategy can be found on the City's website at City of Oshawa Financial Strategy 2016 to 2019.

In total there were sixty-one (61) recommendations, the majority of which were completed or are in progress. There are seventeen (17) that are ongoing which continue to perform oversight and stewardship functions required for good financial management.

Only one was not started and one was deleted as it lacked relevance considering a policy update.

The following table lists the recommendations and status of each by strategic area.

	INFRASTRUCTURE INVESTMENT (10)	**RESERVE AND RESERVE FUNDS** (12)	**DEBT MANAGEMENT** (12)	**OPERATING COSTS** (15)	**REVENUE** (12)
Complete or In-Progress	8	11	8	6	9
On-going Activities	2	1	2	9	3
Not Started	-	-	2	-	-

Economic Scan

Globally, there are heightened risks surrounding the economy calling for careful economic and fiscal management. Inflation remains elevated in many areas of the world and there is uncertainty surrounding how fast interest rates will be brought down. Global conflicts, including Russia's full-scale invasion of Ukraine and continued attacks on shipping routes, pose a risk to commodity prices and global supply chains.

In April 2024, with the release of the 2024 Federal budget, an economic and fiscal statement was issued providing a high-level overview of the Canadian economy. Generally, it was stated that the Canadian economy is outperforming expectations and continues to grow. Despite higher interest rates, Canada has avoided a recession.

Inflation has fallen from 8.1 per cent in June 2022 to 2.8 per cent in February 2024 and the labour market remains strong with more than 1.1 million more Canadians employed today than prior to the pandemic.

Private sector forecasters expect that the year ahead should bring further progress. By the end of the year, they expect economic growth will pick up, interest rates will be lower, and inflation will decline to about 2 per cent.

Provincially, Ontario continues to face economic challenges and uncertainty, like the rest of the world.

The fiscal management approach adopted by the province has resulted in Ontario’s economy demonstrating continued resiliency in the face of ongoing economic pressures.

Ontario’s economy performed stronger than expected in 2023, despite persistently high interest rates and inflation. Private-sector forecasters expect continued but slower growth in 2024, compared to the 2023 budget projections.

Ontario also experienced above average employment growth in 2023, adding 183,200 net new jobs, a 2.4 per cent increase. The unemployment rate is projected to remain below the recent historical average.

Oshawa’s economic landscape continues to diversify in the fields of advanced manufacturing, energy generation, health and biosciences, information technology, and multimodal transportation, as well as emerging technologies such as artificial intelligence (AI), augmented reality, cyber security, eSports, EV, and automotive technologies. The city is home to three post-secondary institutions, advanced manufacturing facilities, a vigorous development community and is rich with arts, culture, entertainment, and culinary delights.

The City has seen strong population growth over the years. The estimated 2024 population of Oshawa is 185,692 people. The annual growth rate is approximately 1.92%. There are distinct indicators that the city will continue to post strong population growth at the time of its next census.

The city has a thriving economy, educational opportunities, and employment opportunities. More information on the local economy can be found on the City of Oshawa Economic Dashboard located on the website at Economic Data - City of Oshawa.

Accomplishments Since 2019

In 2019, through the Province's Audit and Accountability initiative, the City engaged accounting firm MNP to perform a comprehensive review of the City's budget and financial practices with the goal of finding administrative efficiencies.

The final report from MNP highlighted the City's best practice approaches when it comes to financial control and continuous improvement including investing in lean training and having a strong financial framework. The report findings stated, in part, that "The efforts put forth by the City of Oshawa to maintain cost controls is evident by the limited number of opportunities identified by MNP that would have substantial impact on their bottom line."

Further the report found that "Overall, the City of Oshawa has been able to maintain costs at approximately the level of inflation over the last 5 years even when considering wage gains."

Since 2019 through to 2024, despite the financial impacts of the COVID-19 pandemic, the City has:

- Reduced outstanding debt by approximately $37.5 million. The projected outstanding external debt at the end of 2024 is $27.9 million.

- Contributed approximately $73.6 million to Reserve and Reserve Funds primarily to provide a source of financing for the City's current and future capital projects.

- Invested approximately $255.7 million in capital infrastructure projects.

- Maintained an average annual tax levy increase of 2.83% through the budget process.

The City’s current financial situation reflects a strong financial position, prudent fiscal practices, moderate reserve levels, moderate but manageable debt, investments are diverse and liquid, and the move to approved multi-year budgeting offers a degree of foresight. These factors contribute to a sound financial position.

Connection to Other City Strategic/Master Plans

The update to the Financial Strategy document includes input from the following plans and assessments to provide context and long-term perspective on the requirements to support the delivery of City services:

- Oshawa Strategic Plan
- Arts, Culture and Heritage Plan
- Asset Management Plan
- City of Oshawa Parking Study
- Corporate Energy Management Plan
- Development Charge Background Study
- Community Benefit Charge Strategy
- Downtown Oshawa – Plan 20Thirty
- Economic Development Strategy
- Facility Needs Assessment
- Fire Master Plan and Community Risk Assessment
- Growth Related Operations Facility Needs Assessment
- Information Technology Strategic Plan
- Oshawa Executive Airport Business Plan
- Parks, Recreation, Library and Culture Facility Needs Assessment

Continuous Improvement

The City adopted a continuous improvement framework in 2017 for the purposes of analyzing performance, identifying opportunities, and making incremental changes to processes, practices, and policies. Since then, a strong organizational culture has evolved committed to innovation, continuous improvement and being fiscally responsible.

Several Lean projects, internal audit reviews and risk monitoring and mitigation initiatives have all contributed to the current state of the City's robust financial footing.

An update to the framework is currently underway to maintain alignment with strategic plans and continue to drive corporate efficiency.

Current Assessment and the BMA Study

When developing a long-term financial plan, it is important for a municipality to assess its current financial condition. A municipality's financial condition is a critical factor that must be understood for a municipality to operate in an effective and efficient manner and to address the financial pressures affecting the community. The financial condition of a municipality can be judged based on the following criteria:

- The predictability and stability of the municipality's revenue sources to its operational needs and long-term obligations.
- The municipality's capacity to respond to financial uncertainty over the short, medium, and long term.
- The effectiveness of the municipality's financial policies and procedures

A study of municipal operating results for a large number of Ontario municipalities is completed each year by BMA Management Consulting Inc. ("BMA")

The City of Oshawa participates in the annual BMA Survey for the purpose of benchmarking against comparator municipalities and to analyze the City's financial performance trend over time.

In 2015, Council expressed a desire to work toward improving the City's key financial indicators from the BMA Study in relationship to comparator municipalities for the updated Financial Strategy (2016-2019.)

Key financial indicators help evaluate a municipality's existing financial condition and identify areas of opportunity which are utilized to establish alignment strategies with comparator municipalities and areas of best practice.

The objective of providing an evaluation of a municipality's financial condition is to evaluate a municipality's financial outlook and performance to help form the foundation for the establishment of a long-range financial plan.

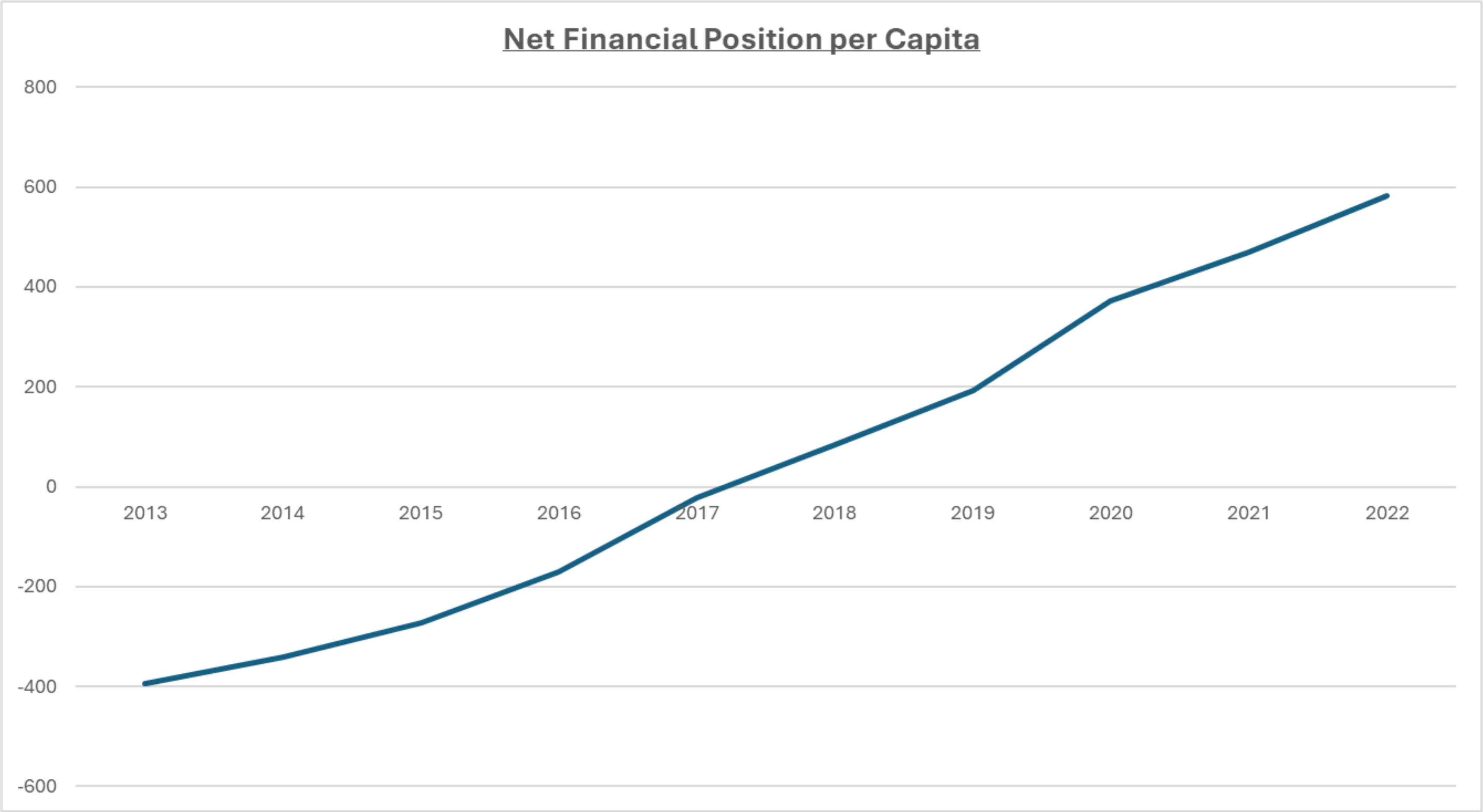
Municipalities typically evaluate their financial health based on three principles:

Financial Flexibility - the ability of a municipality to respond to unpredictable fluctuations in the economic environment without the issuance of excessive debt while balancing multi-generational taxpayer affordability.

Financial Sustainability - the on-going ability to provide and maintain municipal service levels and infrastructure assets over the long term without sudden fluctuations in its debt, tax burden, or service levels.

Financial Vulnerability - addresses a municipality's vulnerability to external sources of funding that it cannot control and its exposure to risks.

The Net Financial Position per Capita indicator is a broader measure of a municipality's indebtedness than debenture debt as it includes all a municipality's financial assets and liabilities. While still well below the total survey average, Oshawa's financial position per capita has shown steady improvement from 2015. The indicator in 2013 was ($393) compared to 2022 of $583 (Study average $1,024).



The Net Financial Liabilities Ratio is the total liabilities minus assets as a percentage of own source revenues. This ratio indicates the extent to which financial liabilities could be met by its operating revenue. A ratio greater than zero indicates that total liabilities exceed the total assets, while a ratio less than zero indicates that total assets exceed the total liabilities. Since 2015 this ratio has improved from 0.26 to (0.60) in 2022.

Several other financial indicators will be highlighted, defined, and explained throughout the Financial Strategy areas of focus.

S.W.O.T. Analysis

To ensure a comprehensive understanding of both the internal and external forces influencing or affecting Oshawa, a strengths, weaknesses, opportunities, and threats (“S.W.O.T”) analysis with a long-term focus was undertaken.

The S.W.O.T. analysis is part of the City’s strategic planning process where it connects its objectives and strategies to actionable tactics.

Strengths provide an analysis of an organization’s key advantages and can serve to minimize threats and weaknesses. Threats explore the external environment that could impact an organization, including technological, environmental, and regulatory factors.

The SWOT also contributes to an understanding of internal and external risks. Multiple stakeholder meetings in early 2024 resulted in the following matrix of the key elements pertaining to the S.W.O.T.

STRENGTHS	WEAKNESSES
- Skilled, dedicated, talented City work force with a culture of continuous improvement - Administrative, operational, financial policies and strategic plans in place reflecting best practice - Customer service focus - Continuous evaluation of organizational structure and resource allocation - Commitment to investing in technology, data analysis, digitization, modernization, cyber security and exploration of AI	- Competing priorities - Financial support for external agencies - Lack of public participation – elections, budget, etc. - Reserves – not adequately funded - Limited revenue tools
OPPORTUNITIES	**THREATS**
- Collaborating and Partnering with other municipalities and Broader Public sector agencies Completing the Asset Management Plan will present the opportunity to implement lifecycle costing and asset replacement financing - Development of communications around municipal finance and the economics of the City - Green and de-carbonization initiatives (Corporate Energy Management Plan) - Improving and transforming the City's image to foster new developments and attract new business creating more diversity in the tax base	- Aging workforce, loss of corporate knowledge/history/not enough workers - Not following policies – strict adherence is needed (i.e. contribution to reserves) - Taxpayer fatigue and residents expectations (waste/parks/community centers) - Lack of financial support from senior levels of government and Financial impact of unanticipated legislation and regulations - Global economy, supply chain issues, impact of inflation, fluctuating interest rates and construction costs

Building on the last iteration of the Financial Strategy and the findings of the above S.W.O.T. analysis will be synthesized to support developing an update. The outcomes/recommendations of the Financial Strategy will also be linked to the City's strategic budget framework while respecting financial affordability.

Infrastructure Investment

Capital infrastructure investments are a critical component of long-term financial planning. Long-term capital infrastructure planning will ensure that the necessary investments in growth-related infrastructure are being made to meet the service level needs of a growing community. Capital infrastructure planning also includes managing investment in existing assets to maintain existing service levels. The ability to balance investments in both new and existing infrastructure is integral to the long-term financial sustainability of the Municipality.

The City of Oshawa allocates available financial resources to proposed investments in capital infrastructure through the annual budget cycle.

Since Oshawa is a growing city, its capital requirements are significant. Each year, the City builds and acquires assets such as roads, parks and equipment. The City also makes upgrades to existing infrastructure and replaces obsolete equipment.

Capital projects compete for limited financial resources. The allocation of these resources uses a Capital Project Prioritization Model to rank proposed projects against Council approved criteria. The criteria in the model include project category, alignment with the Oshawa Strategic Plan, operating budget impact, risk assessment, financing, cost/benefit analysis, service levels and community and corporate impact.

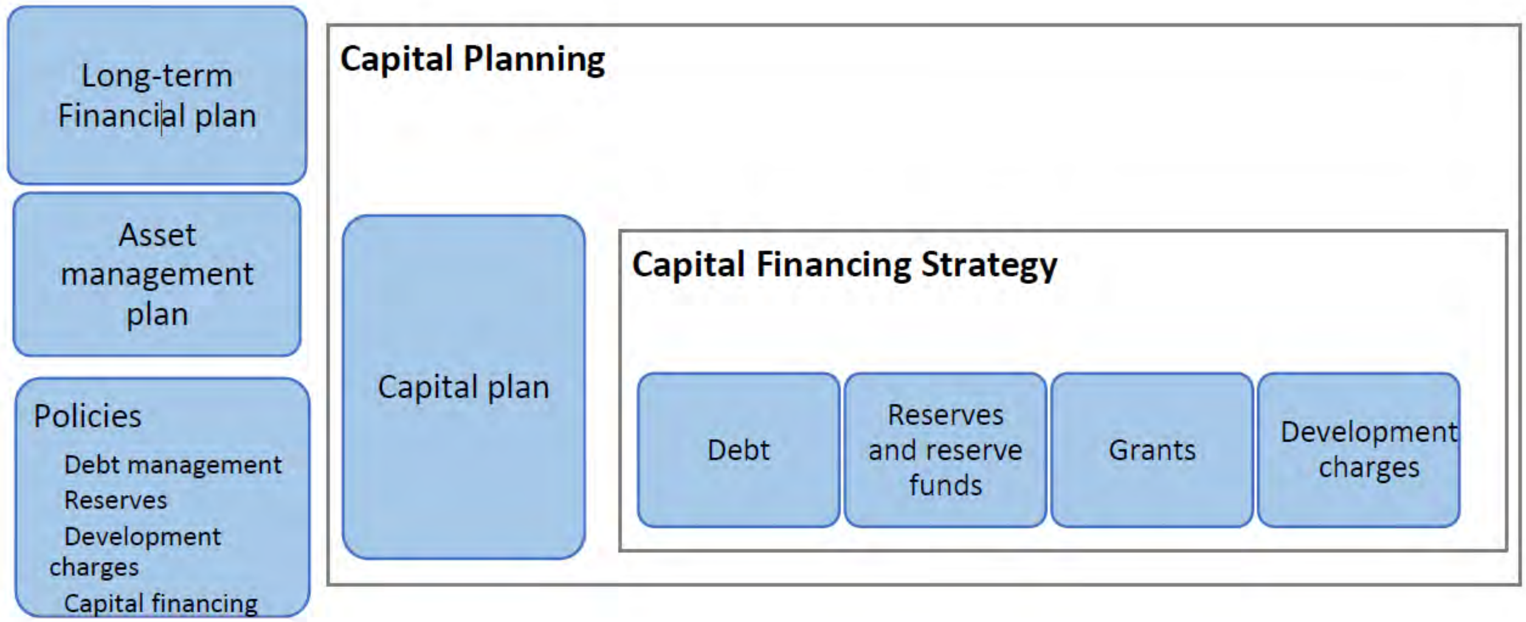
Capital expenditures have different funding sources. The City uses a mix of funding sources mainly comprised of reserve and reserve funds, development charges, debt (internal/external), Canada Community-Building Fund and other contributions such as cost sharing agreements for the delivery of specific projects.

Also, to demonstrate the City’s commitment to investing in infrastructure, a dedicated infrastructure levy of 1% was approved through the 2017 budget process improving the City’s ability to renew and replace aging infrastructure.

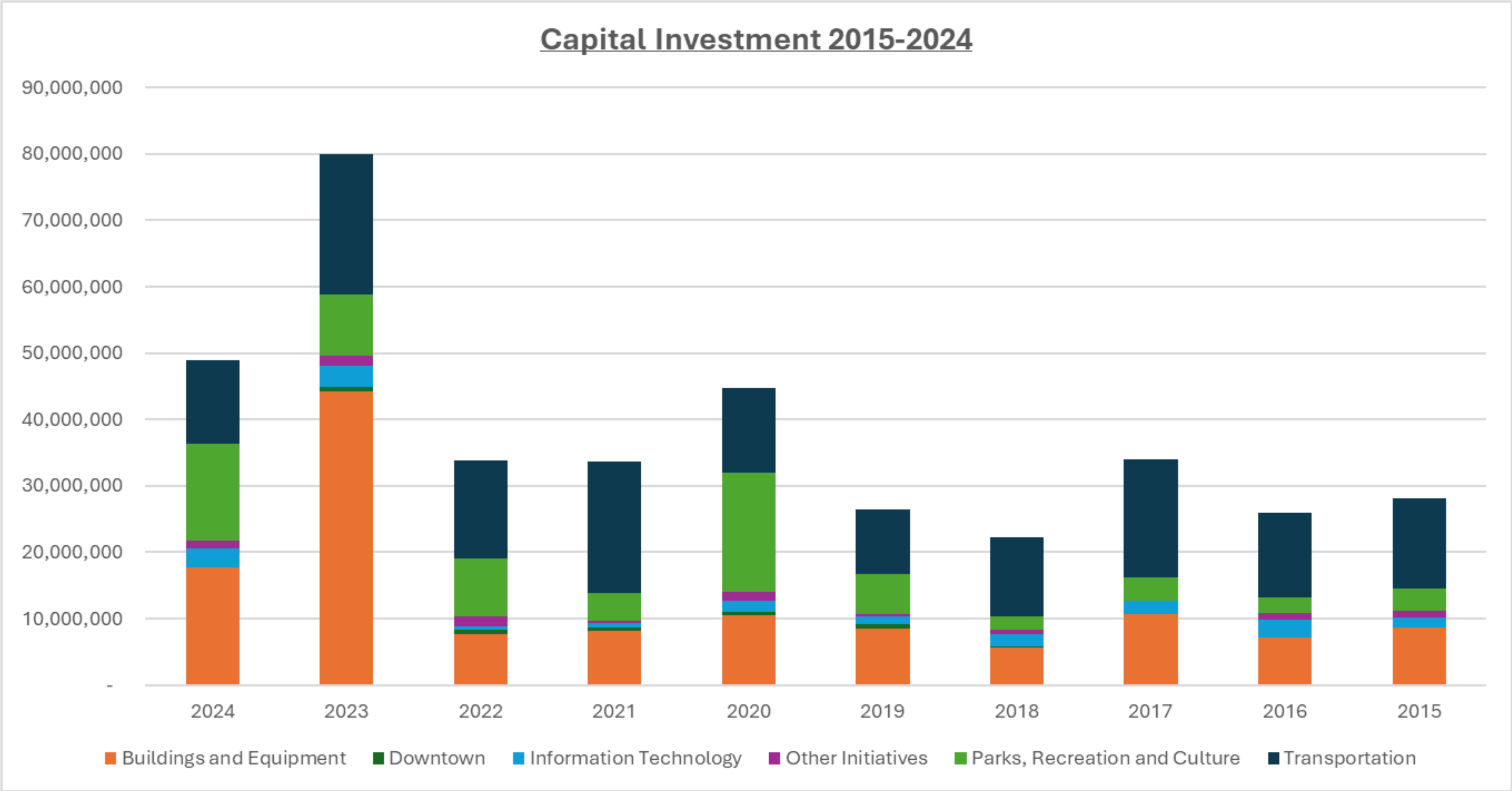
During the 2018 budget process, the City adopted a practice of increasing the dedicated infrastructure levy by 0.1% each year as a contribution to future capital funding requirements. Further it was recommended that the practice be reviewed in the second year of every new Council term to reaffirm the commitment or adjust the practice appropriately.

Ensuring that appropriate investments in new and existing infrastructure can be made sustainably requires long-term capital forecasting. Capital forecasts are guided by the Oshawa Strategic Plan and various other strategic policy documents and plans (Asset Management Plan and Development Charges Studies and Community Benefits Charge Strategies).

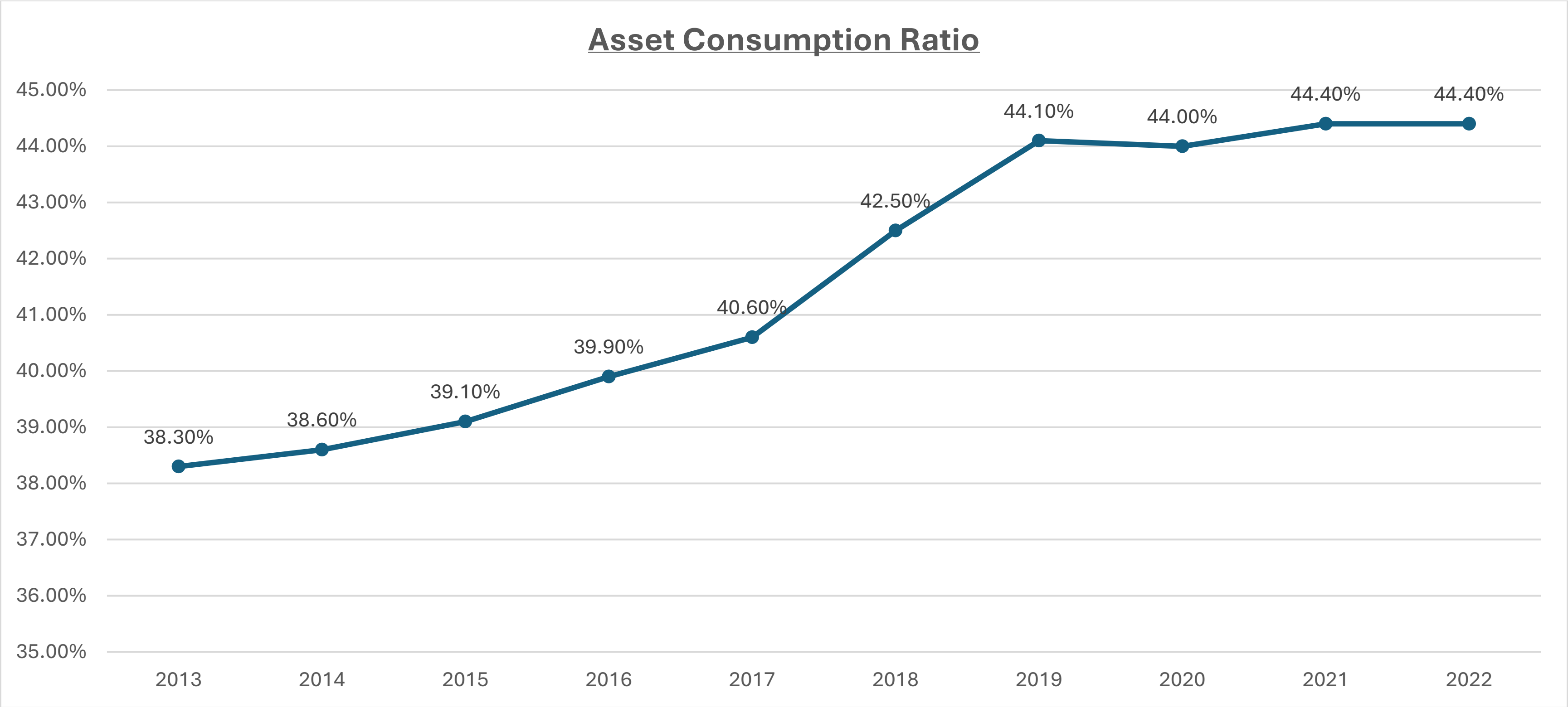
The illustration below encapsulates the long-term planning exercises related to a capital financing strategy.



Since 2015, the City has invested approximately $377.6 million in infrastructure as shown in the table below.



One of the financial sustainability indicators calculated in the BMA Study is the Asset Consumption Ratio. This indicator provides an estimate of the value of the municipality's capital assets that have been consumed. It is important for municipalities to be informed of the age and condition of their capital assets to ensure they are making timely and appropriate investment. The Ministry of Municipal Affairs and Housing considers a ratio of 25% or under to be relatively new; 26%-50% to be moderately new; 51%-75% to be moderately old and over 75% to be old. Using this scale Oshawa's ratio in 2023 of 44.4% (survey average 45.2%) would indicate that the City's capital assets are moderately new.



Asset Management

Asset Management is a process used in decision-making related to capital infrastructure. It helps municipalities plan for the infrastructure that delivers services to the community in a way that considers the service needs of the community, manages risks and opportunities, and helps use resources wisely.

In 2015, the Infrastructure for Jobs and Prosperity Act, 2015, S.O. 2015, c. 15, directed that municipalities are required to have an Asset Management Plan (A.M.P.). On December 9, 2016, Council approved the City's preliminary A.M.P. as set out in Report CM-16-35.

The province expanded on the requirements for Asset Management with the creation of the Asset Management Planning for Municipal Infrastructure Regulation, O. Reg. 588/17 effective January 1, 2018. This regulation was amended by Regulation O. Reg. 193/21 to set out the following timelines that must be met in order for the City to be eligible for federal and provincial funding related to capital infrastructure. The first deadline to prepare and publish a strategic asset management policy by July 1, 2019, was met on May 21, 2019, when Council approved the City's Strategic Asset Management Policy (S.A.M.P.), as set out in Report FIN-19-35.

The next three deadlines require municipalities to develop enhanced asset management plans in the following phases:

- July 1, 2022 – Asset Management Plan - Phase I - Municipalities required to develop enhanced asset management plans covering core infrastructure assets, which are comprised of roads, bridges, culverts, and storm water.
- July 1, 2024 – Asset Management Plan - Phase II - Municipalities are required to expand their enhanced asset management plans to cover all infrastructure assets including current level of service.
- July 1, 2025 – Asset Management Plan - Phase III - Municipalities are required to expand asset management plans to provide further details for all infrastructure assets (desired level of service).

A municipal asset management plan usually:

- establishes a baseline of the state of local infrastructure and the levels of service.
- determines how to manage the assets over their entire lifecycle (construction to disposal) to attain the target levels of service over time.
- forecasts yearly expenditures the municipality will have to incur to implement the asset management strategy.
- formulates a financing strategy that outlines how the municipality will pay for the operating and capital expenses associated with the asset management plan.

Oshawa’s Asset Management Plan (A.M.P.) and Strategic Asset Management Policy establish the policies, activities, timescale, and certain resources needed for the City to maintain its existing stock of capital assets in a manner that meets its service level objectives. Capital assets include facilities, buildings, roads and related infrastructure, equipment and networks that are utilized daily to provide services.

It is essential that long-term financial planning align with the Asset Management Plan to ensure funding is available for the future repair and maintenance of existing infrastructure. The deferral or elimination of maintenance and repair work could result in the physical decline of our assets, increased costs to replace an asset, or service level deterioration.

The City’s asset management plan for core assets (roads, structures and stormwater) was approved by Council in October 2021 which can be accessed at the following link: FIN-21-92 Updated Asset Management Plan (escribemeetings.com)

The second iteration of the asset management plan for all other City assets was approved by Council in June 2024 which can be accessed at the following link: CF-24-44 2024 Oshawa Asset Management Plan - Phase II: Non-Core Assets (escribemeetings.com)

A number of key statistics are outlined in the detailed asset management plans for each group of assets. An overview of those statistics is shown in the table below.

Key Statistic	Non-Core Assets (2023)	Core Assets (2020)[1]
Estimated Replacement Cost of Assets[2]	$1.3 billion	$1.8 billion
Estimated Replacement Cost of Assets per household	$17,671 per household	$27,071 per household
Percentage of Assets in Good or Better Condition	56.5.%[3]	51.5%
Percentage of Assets in Fair or better condition	77.4.%[3]	73.9%
Percentage of Assets with Observed Condition Data	67.1%	84.7%
Annual Capital Funding Gap Estimate	$23.3 million	$15.4 million

[1] All Core Asset information is based on 2020 data.

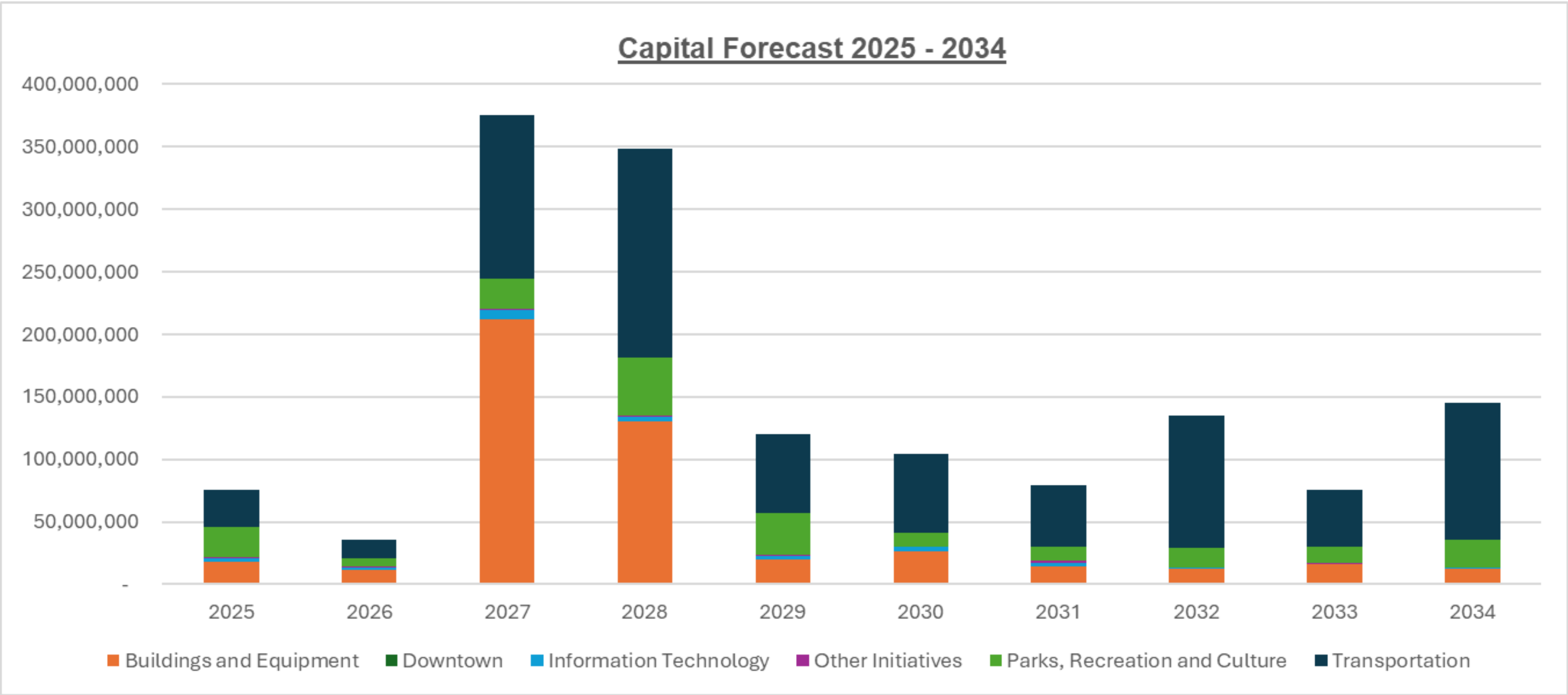
[2] Cost of staff resources are not included in this calculation.

[3] Excludes assets where age or condition data is not available.

Asset management requires a thorough understanding of the characteristics and condition of infrastructure assets, as well as the service levels expected from them. It also involves setting strategic priorities to optimize decision making about when and how to proceed with investments. Finally, it requires the development of a financing strategy, critical to putting the plan into action providing a pathway forward to reach a sustainable infrastructure replacement level, prudently manage debt financing, and assist with upgrading, expansion, and growth in the future.

Capital Forecast

The capital forecast helps to identify future financial requirements however the specific projects are likely to change over time as priorities change. The development of the 2025-2034 capital budget forecast identified infrastructure project requirements of approximately $1.5 billion. The table below illustrates the allocation of the capital forecast as projected through the 2025 budget process.



Recommendations

II-1	Increase the dedicated Infrastructure levy	For 2025, the dedicated infrastructure levy is 1.7%. It is recommended that the percentage be increased to 4.0% over the next 5 years (commencing in 2026). This will generate approximately $4 million in incremental capital reserve contributions when the levy reaches 4.0%. These funds will be used to support capital financing requirements. The allocation of the levy needs to be redirected from the Infrastructure reserve to reserves in more need of funding. This should be flexible and determined through the annual budget process.
II-2	Investigate the establishment of a Project Management Office	To establish a coordinated approach to project planning and delivery. This will promote consistency in project charters, specifications, invoicing, etc. to maximize the efficiency/effectiveness of the capital projects.
II-3	Develop and/or improve robust, comprehensive and proactive maintenance plans	As recommended in the Asset Management Plan this should be completed for all the City's assets with a view to extending the service life and deriving maximum value for each capital expenditure.
II-4	Facility Review	An approach is required to determine value for money when investing millions of dollars into older facilities – what is the return on investment in a facility that could potentially be closed?
II-5	Investigate best practices of natural and green infrastructure	Consider green alternatives when investing in infrastructure (decarbonization of buildings and fleet). Investment in clean energy through electrification of the City's Fleet assets which will need to be guided by a policy that is in alignment with the Purchasing By-law.

II-6	Capital Budget Process for Major Capital Projects	Major capital projects, primarily construction of new facilities, would have the entire budget approved at the time the project is approved by Council. Therefore, multifaceted capital projects would have budget certainty and not need to be approved in separate phases over numerous budget cycles.
II-7	Unspent Capital funds to be returned to source if project not initiated	Approved capital funds should not remain as project commitments if the project is not initiated by the second year following budget approval. Leaving projects dormant on the City's books causes the City's capital program to be underutilized and projects experience cost overruns due to the inflationary impacts of time lags.
II-8	Shovel Ready Projects	Endeavor to establish definitions and a framework for shovel ready projects to be ready and resources identified when grant opportunities arise.
II-9	Establish evaluation parameters related to Front ending agreements	Determine an approach to evaluate requests from developers to construct infrastructure on behalf of the City. These requests can lead to the advancement of projects from the forecast being prioritized over other current infrastructure needs. The repayment of such agreements also needs to be critically examined from a cash flow perspective.
II-10	Public Private Partnerships (P3's)	Explore potential private-public partnerships as a creative approach to enable the design, building, financing, etc. of City facilities.

Reserve and Reserve Funds

Reserves are a fundamental component of a municipality's long term financial strategy and are integral to fiscal sustainability and flexibility. Reserves not only assist municipalities in managing risks, but they also play a role in the financing of capital costs and the provision of affordable and stable services.

Reserves and reserve funds, in conjunction with other strategies can assist municipalities in achieving the following goals:

- maintain municipal capital assets in a state of good repair.
- ensure the sustainable financing of the capital assets required to accommodate growth.
- maintain stability and affordability of tax rates and user fees in the face of changes in financial circumstances.
- ensure ongoing service provision in the face of changes in financial circumstances.
- maintain adequate liquidity that signals sound financial planning to third parties.

Reserves are also a tool to help municipalities mitigate risks such as:

- downturns in the economy
- events of magnitude (i.e., extreme weather events)
- natural or other type of disasters causing unexpected major one-time health and safety expenses (e.g., flooding, pandemics)
- infrastructure failure resulting in the requirement to make a major urgent capital cost.
- unforeseen major legal costs as result of a lawsuit.

Reserves and reserve funds are an integral component of the municipal budget, asset management plan and long-term financial plan. Further, existing reserves and reserve funds are frequently reviewed during the budget process for intended use, relevancy, appropriateness, and target annual allocations or balances.

There are two types of reserves held by the City, Obligatory reserves and Discretionary reserves.

Obligatory reserve funds are reserves that the City is required to set up to meet the requirements of a provincial statute or agreement with other entities such as the Federal or Provincial governments. To set an obligatory reserve fund, municipalities must collect and segregate specified revenues and use the funds solely for the purposes prescribed.

The City’s primary obligatory reserves are the Building Permit Reserve, Development Charge reserves, Canada Community Building Fund and Parkland reserves.

Discretionary reserve funds are established by Council by-law for a specific purpose. While a municipality has discretion in the establishment of this type of reserve fund, they should only use the funds to meet the purposes established in the by-law.

The City currently has thirty-four (34) reserves that are designated as either an operating reserve or a capital reserve.

Operating Reserves

Operating reserves are used to fund unexpected and extraordinary operating items such as winter storms, operating deficits, and large tax appeals. Operating reserves are also used to protect against the consequences of certain risks and liabilities including insurance claims, significant tax appeals and labour settlements.

The City’s operating reserves are primarily discretionary except for the Building Permit reserve.

Operating reserves are used to mitigate operating budget fluctuations. Contributions to the City’s operating reserves are derived from tax levy, operating surpluses, and interest.

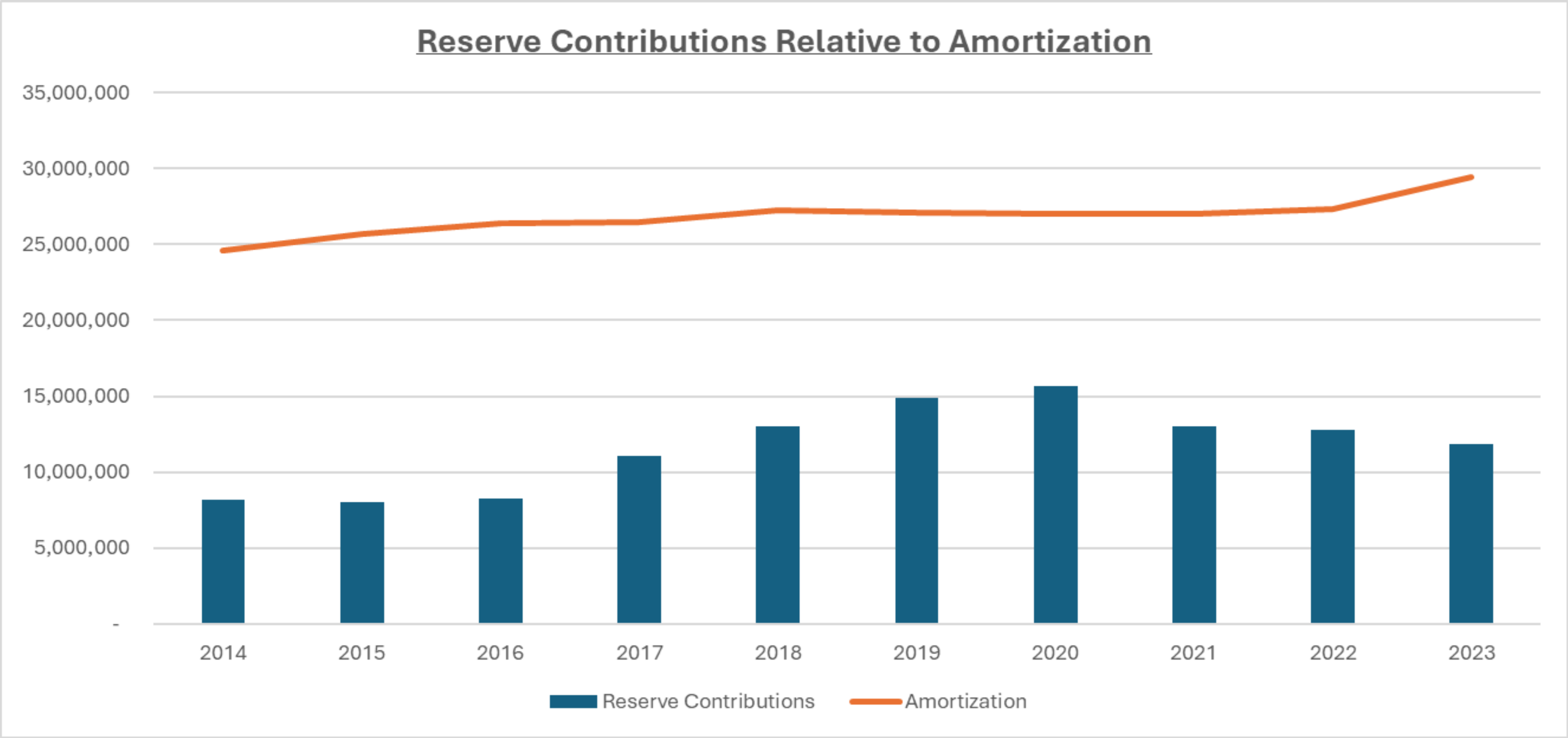
Capital Reserves

Capital reserve funds are established to set aside funds to help the City plan for its long-term infrastructure expenditures. Within the capital reserves, the City has both obligatory and discretionary reserves. Capital reserves are funded through tax levy contributions in the operating budget, federal/provincial funding, development charges and interest. The City’s capital reserves are the primary source of funding for most of the City’s infrastructure projects.

The City receives funding from both the provincial and federal governments, including the Canada Community Building Funds (formerly called Federal Gas Tax). There are specific guidelines and parameters that the City must adhere to when using these funds.

There are several development-related reserve funds. These reserve funds receive contributions from property developers building and/or renovating residential and non-residential space across the City and are governed by City By-laws and provincial legislation. Development Charges help pay for the capital costs of infrastructure and municipal services required to support a growing population and employment base.

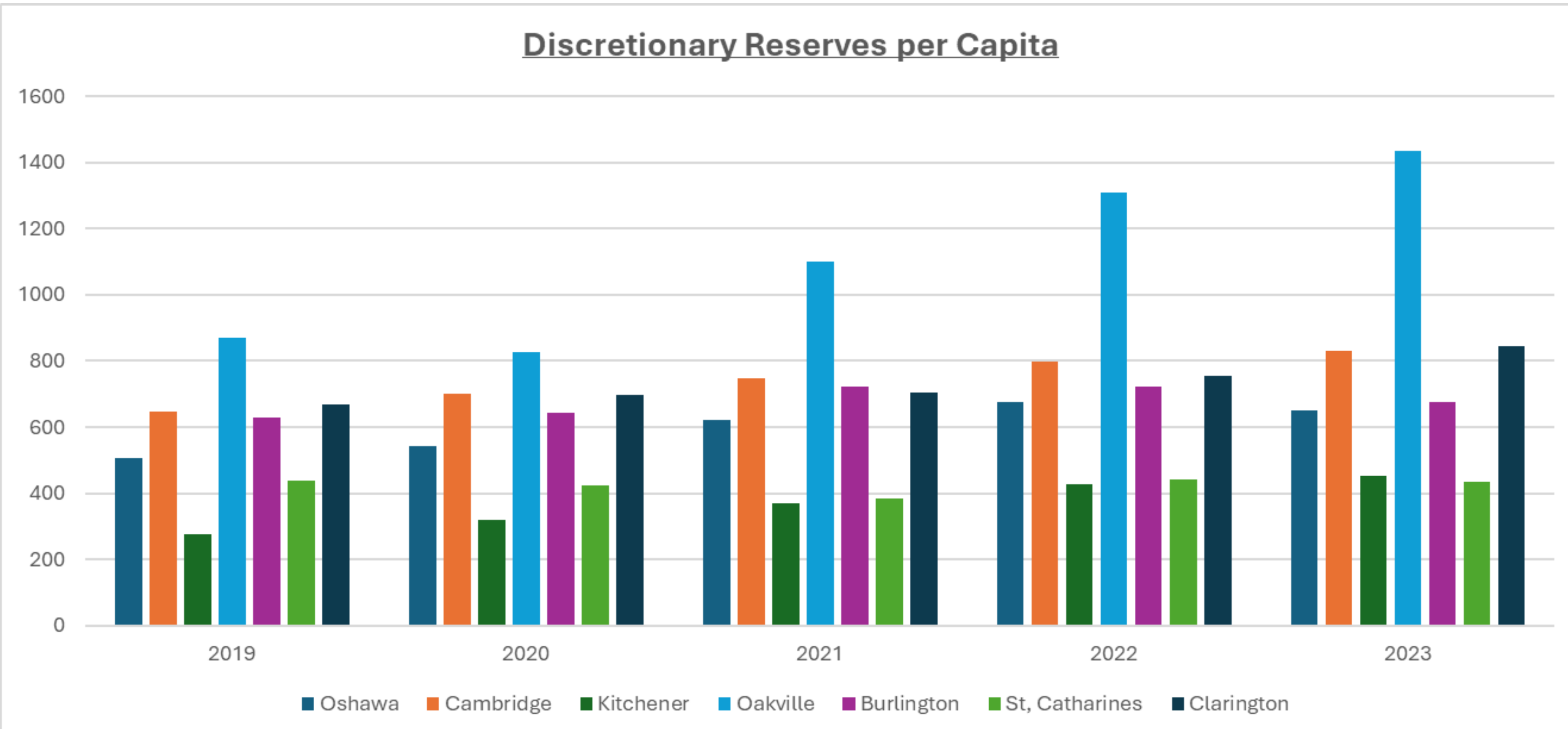
The following chart shows the City's reserve contributions relative to annual amortization expenses over the past 10 years.



Ideally annual reserve contribution amounts should be higher than amortization to mitigate the impact of inflation since assets are replaced at their current cost. The next iteration of the asset management plan work will expand to include proposed levels of service, lifecycle strategies and financial strategies for all assets. This will further inform this analysis and provide reinvestment rates based on condition and expected replacement and rehabilitation.

Reserve and reserve fund indicators are a measure of financial flexibility, which is the ability of a municipality to respond to unpredictable fluctuations in the economic environment.

The reserves per capita indicator provides the reserve balances as divided by the population. Oshawa showed a discretionary reserve per capita of $652 in 2023 (as compared to $505 in 2019.) In 2023, the BMA study reported indicators from the survey participants ranging from $243 to a high of $3,919.

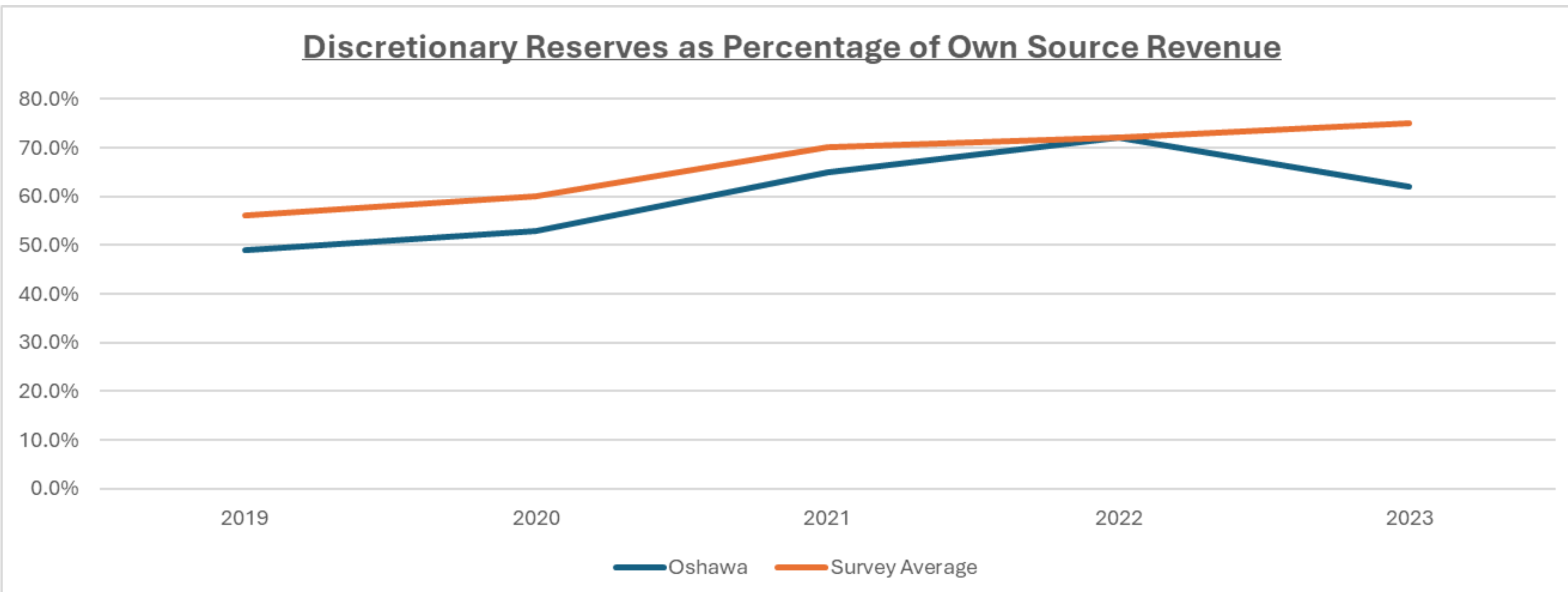


As depicted above, although less than municipal comparators, Oshawa's reserves per capita has steadily increased over the last 5 years.

It is important to note that the level of reserves required for different municipalities will vary for several reasons including:

- Services provided
- Age and condition of infrastructure supporting municipal operations
- Level of expenditures
- Debt and reserve policies
- Economic conditions and projections

The Discretionary Reserves as a Percentage of Own Source Revenues indicator shows the total value of funds held in reserves and reserve funds compared to a single year's own source revenue and is a strong indicator of financial stability.



Reserves are critically important to the City's long-term sustainability and the cornerstone of the Financial Strategy. The following recommendations include various funding strategies, establishing new reserves, the potential closure of reserves and policy development and/or updates.

Recommendations

RF-1	Quarterly Reserve Reporting	The quarterly financial position report provided to Committee and Council going forward will include an update on the status of reserves and reserve funds.
RF-2	Consolidated Reserve and Reserve Policy	Complete the comprehensive update to the consolidated Reserve and Reserve Fund policy.
RF-3	Interest paid on reserves	Review and refine interest paid to the reserve funds referencing the City's cash flow modeling and interest rate environment. (See recommendation RS-7)
RF-4	Joint projects with Region	Often the Region requires the City to confirm funding in advance of commencing joint infrastructure projects. There are delays in the start of the project that could be a couple of years. This can lead to project cost variances. Committed project costs for any of these joint initiatives over a year old need to be indexed annually.
RF-5	Establish a Budget Surplus Policy	This new policy will formally change the City's current practice of allocating year end surpluses to the Tax Rate Stabilization Reserve instead will recommend that the funds be directed to capital reserves that are underfunded.

RF-6	Parkland/Open Space Reserve	This reserve should be closed and the balance of approximately \$1.6 million moved to the Parks and Recreation Infrastructure Reserve. Annually the reserve is earning interest, has no other contributions, and has not been used to fund expenditures since 2017. There are no future commitments forecasted in the reserve. Future purchases of City Level Parkland could be funded from the Planning Act Reserve.
RF-7	Rename the Planning Act Land Purchase Reserve	Rename the Planning Act Land Purchase Reserve to Parkland Cash in Lieu to align with financial reporting requirements in the Financial Information Return.
RF-8	Building Permit Reserve	The City should commission a Building Permit Study to review fees, reserve balances and any other information as appropriate to ensure the efficiencies and effectiveness of the building permit program. Also, lobby the Province for changes to the Building Code Act to establish a formal cap on the balance maintained in the reserve (i.e., 2-3 times the annual operating budget for Building Services). These changes could result in idle money currently in the reserve freed up for other municipal uses. The Reserve is forecasted to have a balance of more than \$19 million by the year 2028. A change could result in approximately \$10 million freed up to fund critical capital infrastructure needs.

RF-9	Trees in Subdivisions Reserve	The fees collected from developers for trees in subdivisions are nominal and should be transferred to the program budget to offset actual expenditures. Once the reserve is depleted the account should be closed.
RF-10	Arts and Culture	In Program 350 – Culture, there is $20K budgeted annually for murals. This should be transferred from the program budget as an additional annual contribution to the Arts & Culture reserve. No additional contributions are required currently. Following the completion of the Arts, Culture and Heritage Plan funding for future initiatives will be determined.
RF-11	Tax Appeal	Significant assessment appeals that necessitated a sizable cap on the reserve, are settled. Based on forecasted balances in the reserve, the cap will be reduced from $15 million to $10 million. The annual budget contributions to this reserve have been reduced to zero to avoid large balances from accumulating.
RF-12	Civic Property Development Reserve	Currently the reserve holds a commitment of approximately $2.7 million to purchase potential parkland. It is recommended that the commitment be released and used to fund the non-DC portion of Rotary Park redevelopment.

RF-13	Growth-Related Non-DC Reserve	It is recommended that a portion of the annual supplementary tax revenue be phased out of the operating budget, over 5-years, and redirected to the Growth-Related Non-DC reserve. Based on the current capital infrastructure forecast this reserve is projected to be in a deficit position of $99 million in the year 2028 if all the projects were approved. This would be a consistent funding source for this reserve and is aligned with the concept of growth paying for growth.
RF-14	Debt Management Reserve	It recommended that this reserve be closed after the final payment related to the Ameresco project are complete (2027).
RF-15	City Equipment Reserve	Split reserve into two (2) separate reserves – one for fire fleet and equipment and the other for the remainder of the City's fleet and equipment.
RF-16	Infrastructure Reserve	The Infrastructure, Condition Audit and Recreation Facility Surcharge reserves are recommended to be combined. The Condition Audit Reserve is continually challenged to fund capital expenditures and runs in a deficit position. The permitted use of the reserve should be broadened, and the cap needs to be expanded from 10% to 25% annually. After the reserves are combined the Condition Audit and Recreation Facility Surcharge reserves will be closed.

RF-17	Operations Reserve	The use of the Operations Reserve should be broadened in scope to include global issues that impact the City such as COVID. The cap on the reserve needs to be raised from $3 million to $5 million to accommodate these potential expenditures.
RF-18	Automated Speed Enforcement	New reserve to capture the revenue from ASE cameras and utilized as a funding source to offset operating and future capital costs of the program. (See recommendation RS-8)
RF-19	Physician Recruitment	Create a new reserve to provide a funding source to incentivize new doctors to locate or relocate their practice to Oshawa.
RF-20	Airport	Transfer Airport improvement fees from the operating budget to the reserve as funding for future capital requirements at the Oshawa Executive Airport.

RF-21	Tribute Communities Centre Reserve	There are major capital requirements are needed at the Tribute Communities Centre (“T.C.C.”) in the extended forecast. The current level of funding to the T.C.C. reserve is insufficient to address these needs in a facility that is 18 years old and requires renewal and replacement of various capital components. It is recommended that: i) The annual operating budget contributions to the reserve be increased by $200K in 2027. ii) Any year end operating surpluses at the T.C.C. be transferred to the reserve. iii) Following renegotiation of the current Operating and Management contract with Oak View Group (O.V.G.), any costs savings resulting from changes be deposited to the reserve and be considered as reinvestment in the facility by O.V.G.
RF-22	Library facilities	Annual contributions are not sufficient to fund future capital projects at the Library. It is recommended that a funding strategy be developed to increase the annual contributions to the reserve. Including annual budget surpluses realized by the Library being returned to the City.

Debt Management

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

External debt consists of debt held by external lenders in the form of debentures. The Region of Durham issues debentures on behalf of itself and its lower tier municipalities. External debt cannot be retired early and is reserved for the financing of capital projects and not operating initiatives. Internal debt to fund various initiatives is issued in the form of Interfund Notes (IFNs), which documents the use of surplus cash that would otherwise be invested in short term instruments. IFNs are structured similar to external debt with annual repayment to the originating fund via principal and interest payments in the budget.

When establishing long-term borrowing strategies and policies that align with long-term financial planning goals, considerations include:

- the risk of debt service charges becoming unaffordable due to the potential impact of unexpected economic fluctuations limiting financial flexibility.
- the risk of not using the available debt capacity to address capital expenditures and to mitigate the risk associated with infrastructure failure.
- the forecasted tax burden on households and businesses.

Debt Management Policy

Debt management policies set out the framework that governs short and long-term borrowing. These policies are an important complement to the broad framework of provincial regulations. In combination with other planning exercises these policies shape the long-range financial strategy of municipalities.

The content of debt management policies is diverse in nature. Some common objectives of debt-management policies are listed in the table below.

Objectives	Description
Adhere to statutory requirements regarding debt financing	Comply with provincial legislation and related regulations governing the use of debt by municipalities.
Ensure long-term financial sustainability	Manage debt financing in a manner consistent with other long-term planning, financial, and management objectives.
Ensure long-term financial flexibility	Manage debt financing to ensure the ability of the municipality to respond to unanticipated and emerging spending needs.
Limit financial risk exposure	Mitigate the financial risks of debt financing, notably, those arising from changes in the interest rates and the exchange rates of Canadian dollars to foreign currencies.
Minimize long-term cost of financing	Set the timing, type, and term of financing in a way that minimizes the total cost of projects including interest rates.
Distribute costs and benefits equitably among those who pay for and benefit from the underlying assets over time	Achieve equity between generations of tax and rate payers in the interest of intergenerational equity.

The Oshawa Financial Strategy 2016-2019 contained a recommendation to develop a formal comprehensive debt management policy that consolidates the City’s existing debt policy statements.

In June 2018, Council approved the Debt Management Policy that outlined policy objectives, limits, instruments, structure and other parameters consistent with best practice approaches to prudently managing debt.

The policy, now six years old, is currently under review to ensure that it captures regulatory changes, industry trends and refinements since the policy’s initial issuance.

Debt Limits

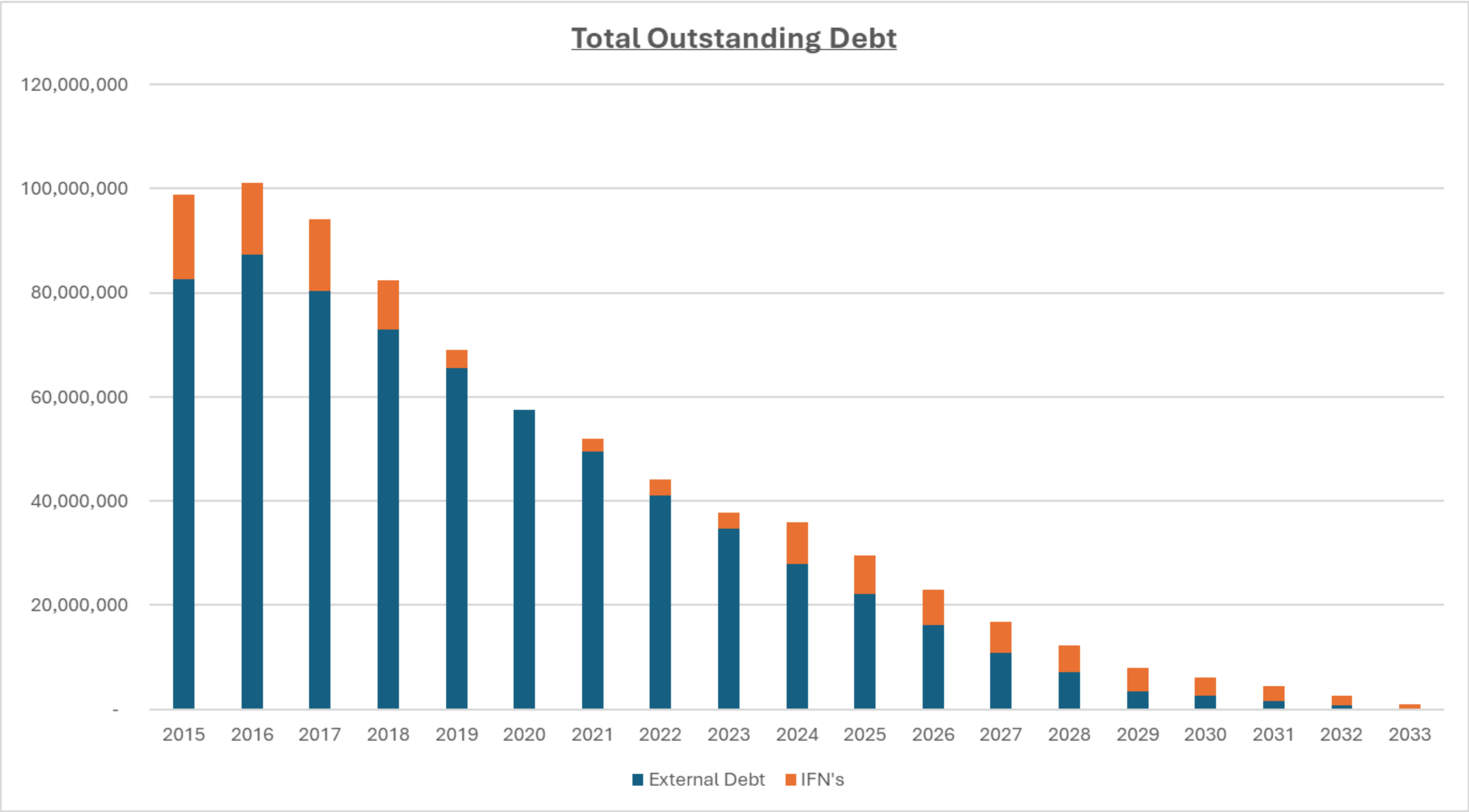
Most municipalities in Ontario have internally imposed debt limits based on a percentage of taxation revenues. The City's internally imposed debt limit of 15% of taxation revenues is consistent with benchmarking of policies in other Ontario municipalities which have debt repayment limits ranging from 5% to more than 15%. The City uses a debt cap to ensure that debt obligations will not threaten the long-term financial stability of the organization and place undue financial burden on taxpayers.

The province also imposes restrictions concerning a municipality's ability to issue debt. The Annual Repayment Limit (A.R.L.) is the maximum amount that a municipality in Ontario can pay each year in principal and interest payments for its long-term debt and other long-term financial commitments. The A.R.L. is set at 25 per cent of annual own source revenues (such as property taxes, user fees and investment income), less annual existing long-term debt service costs and payments for other long-term financial obligations. Own source revenues exclude government grants, development charges, gains, or losses on disposal of assets, and revenues from other municipalities.

The City's A.R.L. for 2024 is $44.809 million. The City's current long-term financial obligations are approximately $10.5 million.

Current Outstanding Debt

The following graph provides an overview of the City's debt, both external and internal.



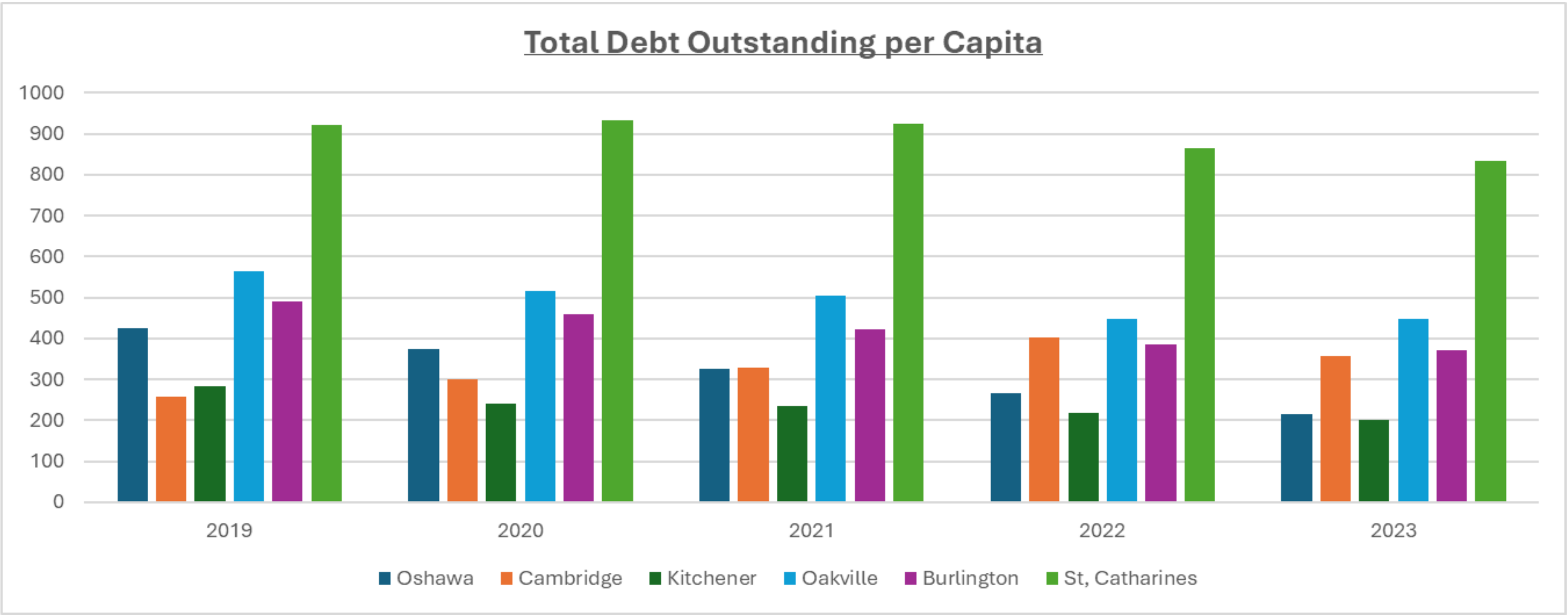
Debt capacity is a crucial concept in corporate finance, representing the total amount of debt an organization can incur and repay according to the terms of a debt agreement. It involves assessing various financial ratios to determine the ability to pay off liabilities and make informed decisions on financing options.

There are several key debt indicators and ratios assessed by the City. These include, but are not limited to, debt per capita, debt as a percentage of own source revenues and debt to reserves ratio.

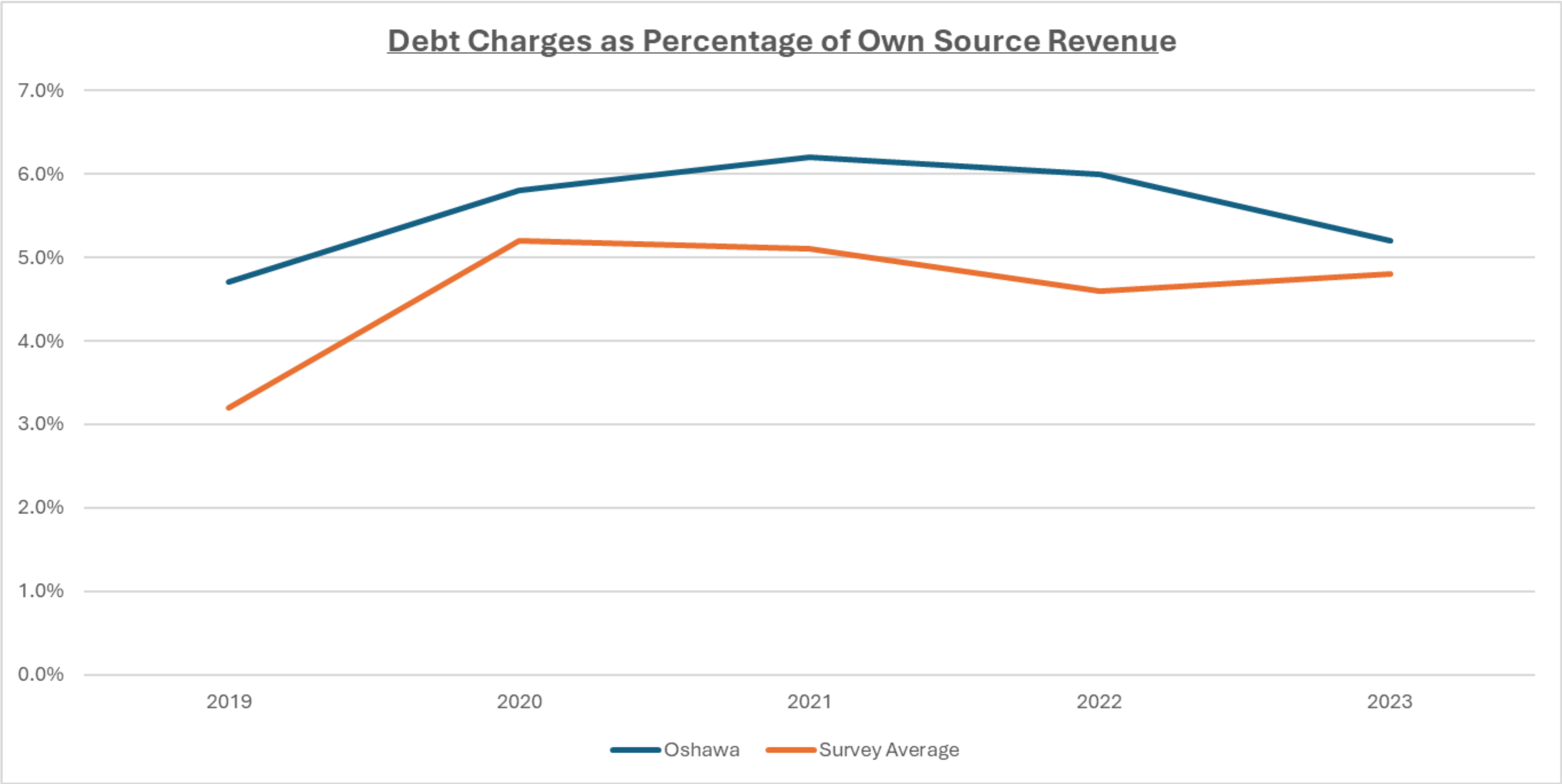
Debt indicators are a measure of financial flexibility which is the ability of a municipality to respond to unpredictable fluctuations in the economic environment without the issuance of excessive debt while balancing multi-generational taxpayer affordability.

The Debt per Capita indicator provides the debt outstanding as divided by the population.

In 2023, the BMA study reported indicators from the survey participants ranging from $0 to a high of $3,001. Oshawa showed a debt per capita of $216 in 2023 (as compared to $424 in 2019).

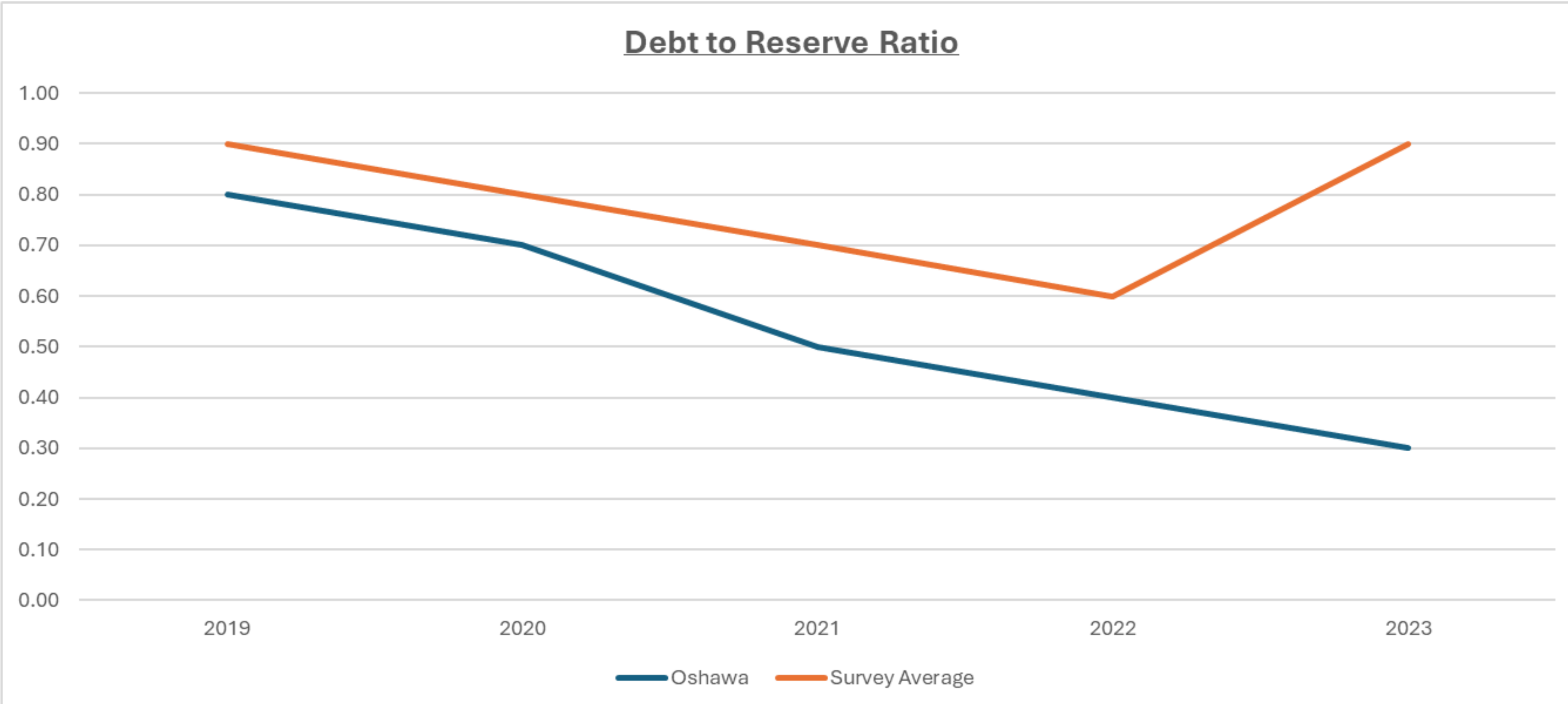


The Debt Charges as a percentage of Own Source Revenues (Debt Service Ratio) is the amount of principal and interest that a municipality must pay each year to service the debt (principal and interest expenses). As debt service increases it reduces expenditure flexibility. This indicator will trigger a warning of the increase in debt service consistently exceeding the increase in own source revenues.



As outlined above Oshawa's percentage of own source revenue utilized to service debt charges is 5.2% which is in comparable to the study average of 4.7%.

The Debt to Reserve Ratio provides a measure for financial prudence by comparing total debt to the total reserve balances. Generally, the benchmark for this ratio is 1:1 or in other words, debt should not exceed total reserve and reserve fund balances. A 1:1 ratio reflects that for every dollar of debt there is a dollar of reserves.



It is important to note that the total reserves reflected in this ratio calculation do not include obligatory reserves (such as Development Charge Reserves). Oshawa's ratio of 0.3 means that there are thirty (30) cents of debt for every dollar in discretionary reserves and is well below the study average of 0.7. The financial principles of paying down debt and building reserves are reflected in this ratio compared to 0.8 in 2019 and 2.2 in 2014.

Debt Strategy Update from Region of Durham

In late 2023, the Region approved an update to its debt strategy. The update advances alternative debenture structures and other changes to the Region's borrowing program for the purpose of supporting larger debt issuances. These changes may enhance debt, issuance capabilities, reflect best practices and potentially decrease borrowing costs.

As part of the update, Regional Council approved the transition to the issuance of sinking fund debentures where warranted to support borrowing needs of the Region and local municipalities. In addition to sinking funds the Region also issues serial debentures.

Serial debentures refer to a type of debt of which a portion of the principal matures each year throughout the life of the debenture issue and interest is paid on the unpaid balance in one or more installments each year.

Serial debentures are highly utilized by municipalities in terms of up to 20 years, support borrowing amounts up to approximately $75 million and are typically more cost-effective than issuing sinking fund and amortizing debentures.

Sinking fund debentures are long-term debt instruments that contain a provision pursuant to which the issuer has undertaken to annually pay on a fixed date funds into a sinking fund for the repayment of the principal at maturity. The funds are invested annually to ensure sufficient funds are available to retire the debt at maturity. Contributions to a sinking fund may result in annual surpluses or deficits based on the investments chosen.

Sinking funds are common structures used by larger municipalities to issue debt. They are appropriate for large capital projects with useful lives up to 40+ years and transaction sizes of $100 million or more. Sinking fund debentures can accommodate borrowing terms up to 30 years.

Commencing in 2024, the Region will issue debt in two installments annually. In the late spring the Region will issue serial debentures and in late fall the Region will issue sinking fund debentures.

Future Debt Requirements

Funding decisions made on significant infrastructure projects in the future will require external debt financing.

The City's infrastructure requirements included in the draft capital forecast developed through the 2025 budget process total approximately $1.496 billion.

Debt levels will increase over the term of the Financial Strategy as projects are approved to move forward with clearer scope, deliverables, and timelines.

Recommendations

DM-1	Policy Update	The Debt Management Policy is a comprehensive policy on debt issuance. The City's current policy was adopted in 2018 and will be updated in 2025.
DM-2	Create a debt information page on the city's website	To inform the public about the city's debt in the form of a one-page infographic with key messaging.

Revenue Sources

The Municipal Act, 2001 as amended ("The Act") outlines the authority and limits to municipal taxation tools available to municipal government in Ontario. The Act also sets the requirement for municipalities to balance their annual budget. (i.e., they cannot run deficits.)

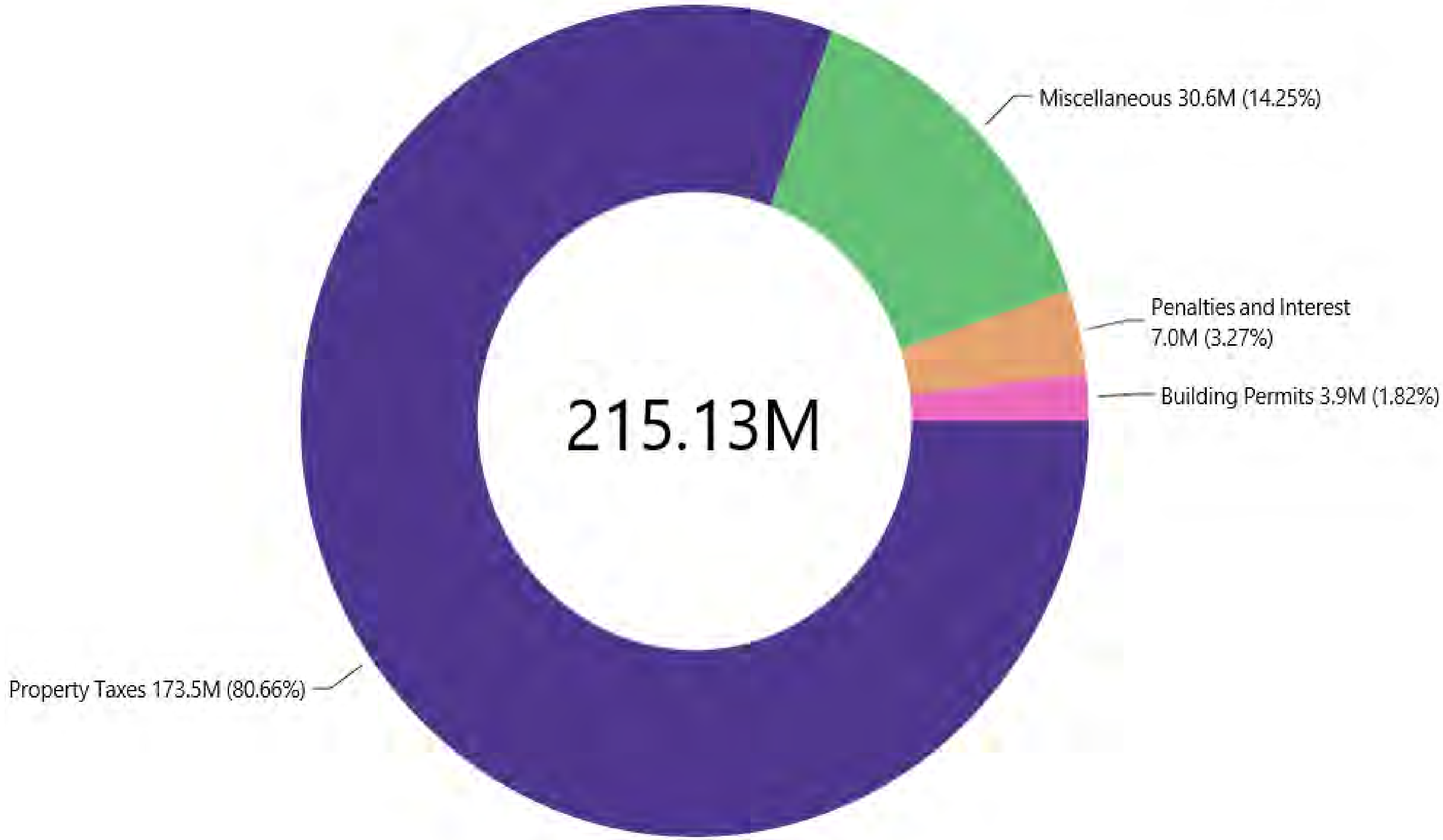
Municipalities are equipped with an outdated set of revenue tools reliant on land that do not adequately capture the economic value generated in today's economy, and that will become further antiquated as the digital revolution continues to reshape work patterns.

The City endeavours to diversify its revenues and reduce its reliance on any one source of revenue as much as possible. The City's revenue base is comprised of property tax, user charges, development levies, investment income, licence & permit fees, fines, and other revenues.

The City is forecasted to generate gross revenue of approximately $215.13 million in 2024. Most of the City's revenue and recoveries come from property taxes. To reduce the City's reliance on property taxes, help mitigate tax increases for taxpayers and ensure the continued affordability of the City's portion of property tax, other revenue sources must be considered and/or adjusted to recover costs.

The following chart reveals that in 2024 approximately 80% of the City's revenue is expected to be raised through property taxes, while recoveries and other revenue account for less than 20%.

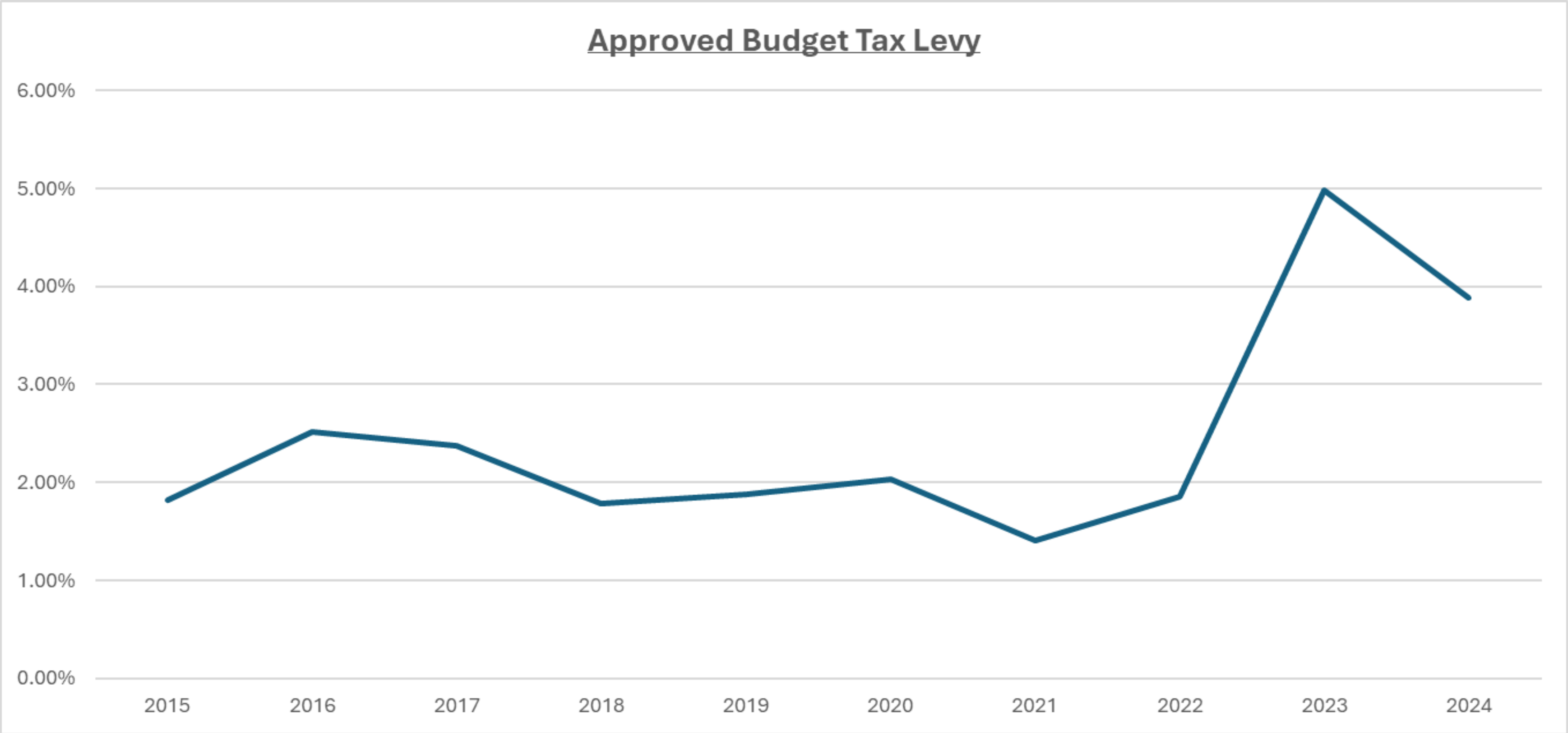
2024 Budgeted Revenue Sources



The City’s primary sources of revenue and potential future revenues are outlined in more detail in this section.

Property Tax

Municipal property taxes are levies imposed by local governments on property owners to fund various public services and infrastructure within a municipality. These taxes are calculated based on the assessed value of the property and the tax rate set by the municipality. The Council-approved budget identifies the amount of revenue to be raised from municipal property taxes (tax levy). The chart below shows the tax levy changes related to the approved budget for the last 10 years.



The City is forecasted to generate approximately $173.5 million in taxation revenue, in 2024.

Assessment Base Management is essential to protect the largest source of municipal revenue and ensure that equality and fairness underline the principles of the City's approach to assessment and taxation. The City needs to continue taking initiatives regarding assessment base management in accordance with policy and governing legislation to promote fiscal sustainability.

User Fees

The Act permits a municipality to pass a by-law to impose fees or charges for services or activities provided by the municipality or on behalf of the municipality or for the use of municipal property.

The City receives User fee revenue through the Fees and Charges By-law and includes fees for services such as, but not limited to:

- business licences and fees
- recreation and program fees
- parking revenue
- planning fees
- airport fees, cemetery fees, and other corporate user fees

The Fees and Charges By-law was updated in September 2024 to establish the rates for fees in 2025. The Report outlining the City's User Fees can be accessed through the link below:

CF-24-55 Fees and Charges By-law (escribemeetings.com)

Development Charges

The Development Charges Act allows municipalities to pass a By-law to recover the capital costs associated with residential and non-residential development within a municipality. Development Charges assist the City to recover the increase in the need for services arising from growth.

The City collects development charges for Fire Protection Services, Parks and Recreation Services, Library Services, Provincial Offences Act including By-law Enforcement, Waste Diversion, Services Related to a Highway, Stormwater Services, and Growth-Related Studies.

In June 2024, the City's updated Development Charge Background Study and By-law was approved. A copy of the Background Study can be accessed through the link below.

https://www.oshawa.ca/en/business-development/resources/2024-Development-Charges-Background-Study-(Final)---Consolidated-Report.pdf

The most significant criticism of the development charges concept is that while they are designed to pay for growth, this is rarely the case. There are other problems with development charges revenue forecast, including that rates are set based on historical data of service levels, which tend not to capture more recent changes.

Investment Income

The City employs aggressive investment strategies to take advantage of the current market conditions to maximize earnings. This is accomplished by bidding investments to various institutions and securing a higher operating account interest rate while maintaining investment objectives in compliance with the City's Investment Policy.

Investments are diversified into cash, structured products such as step-up and accrual notes, bonds, and Guaranteed Investment Certificates.

For the last few years there has been a high-interest rate environment which has translated into substantial investment income for the City. As the Bank of Canada engineers down the over-night rate to control inflation, the City's interest income will also be impacted negatively as compared to the last few budgets.

Dividends

The City is the sole shareholder of the Oshawa Power and collects an annual dividend from the utility. The amount included in the 2024 budget reflects the amount received in 2023 at $1.1M.

Oshawa Power has also signaled the need to reinvest in the non-regulated side of the business to continue to grow and maximize profitability. This may impact the amount of the annual dividend received by the City in the future. To mitigate this risk, it is recommended that the dividend revenue be phased out of the operating budget and redirected as a contribution to an appropriate reserve (i.e., Energy Management Reserve).

Municipal Accommodation Tax

The Municipal Accommodation Tax ("M.A.T.") is a sales tax paid by the guest (e.g., hotel and motel guests) charged as a percentage of the purchase price of transient accommodation (5%) and is applicable to a number of transient accommodation providers. A portion of the funds derived from the tax are dedicated to Tourism.

The City's M.A.T. came into effect November 2022 and has surpassed budget estimates. The M.A.T. included in the 2024 budget is $600,000 half of which is directed towards tourism in the City of Oshawa.

Automated Speed Enforcement

In June 2024, the City approved the implementation of an Automated Speed Enforcement (“A.S.E.”) program. A.S.E. provides an efficient and effective means of enforcing the maximum posted rate of speed resulting in the reduction of vehicle speeds and improvement in overall community safety. The implementation timeline of approximately 18 months is forecasting the program to be in effect as of early 2026.

It is proposed that the penalty revenue generated is used to recover the cost of the A.S.E. program, with potential surplus revenues being transferred to a dedicated reserve fund to re-invest in community safety.

Recommendations

RS-1	User Fees	Undertake a comprehensive review of user fees and charges as appropriate to ensure fees and charges remain competitive while improving the balance between user pay, ability to pay, and taxpayer subsidy. Following the review establish a User Fee policy.
RS-2	Recreation Program Review	Scoped program review of current programing to determine feasibility/cost effectiveness/value for money.
RS-3	Storm Water Management Fee	Municipalities are responsible for storm water management. More intense and frequent rainfall events can overwhelm aging infrastructure, causing flooding, overflows, and bank erosion. Investigate the implementation of a storm water management fee which could provide funding for capital infrastructure requirements and storm water pond maintenance.

RS-4	Revenue Redirection – Supplementary Taxes	It is recommended that a portion of the annual supplementary tax revenue be phased out of the operating budget, over 5 years, and redirected to the Growth-Related Non-DC reserve. (See recommendation RF-13)
RS-5	Revenue Redirection – Surplus revenue from investments	Transfer budget surplus revenues generated from investment income to infrastructure needs either through a capital project or a reserve contribution. Commencing with the 2025 budget.
RS-6	Revenue Redirection – Oshawa Power Dividend	To mitigate this risk, it is recommended that the dividend revenue be phased out of the operating budget and redirected as a contribution to an appropriate reserve (i.e., Energy Management Reserve). Commencing with the 2026 budget.
RS-7	Investment Policy Update	The last update to the City's Investment policy was in 2016. The policy needs to be updated in 2025 to ensure compliance with legislation and other updates as appropriate. As part of the update staff will investigate and evaluate other investment vehicles such as Environmental, Social and Governance (ESG) instruments.. ESG investing principle prioritizes environmental issues, social issues and corporate governance. Also, as part of the update consideration will be given to the methodology used in the allocation of interest to the City's Reserves. (See recommendation RF-3)

RS-8	Automated Speed Enforcement	It is proposed that the penalty revenue generated is used to recover the cost of the A.S.E. program, with potential surplus revenues being transferred to a dedicated reserve fund to re-invest in community safety. (See recommendation RF-18)
RS-9	Oshawa Executive Airport	Investigate alternative income streams that could be generated at the Oshawa Executive Airport to diversify the revenue base.
RS-10	Advocate to senior levels of government for financial assistance	i) Request financial support from senior levels of government in the form of introducing new revenue tools. ii) Advocate to increase the levy amount of heads and beds payment-in-lieu of taxes by the rate of inflation since 1987 and index the rate annually for inflation to Heads and Beds. iii) Request that future infrastructure grant programs be flexible in their application allowing municipalities to direct funding supports in alignment with asset management plans versus restricting the types of assets eligible for the funding programs. Also, to simplify the process and criteria for grant submissions.
RS-11	Municipal Accommodation Tax	Expand the M.A.T. program to include short term rental properties beyond hotels and motels. Also, consider supporting various tourism entities across the City in addition to the current activities.
RS-12	Grants	Continue to proactively research, and as opportunities arise apply for any grants available to municipalities.

Operating Costs

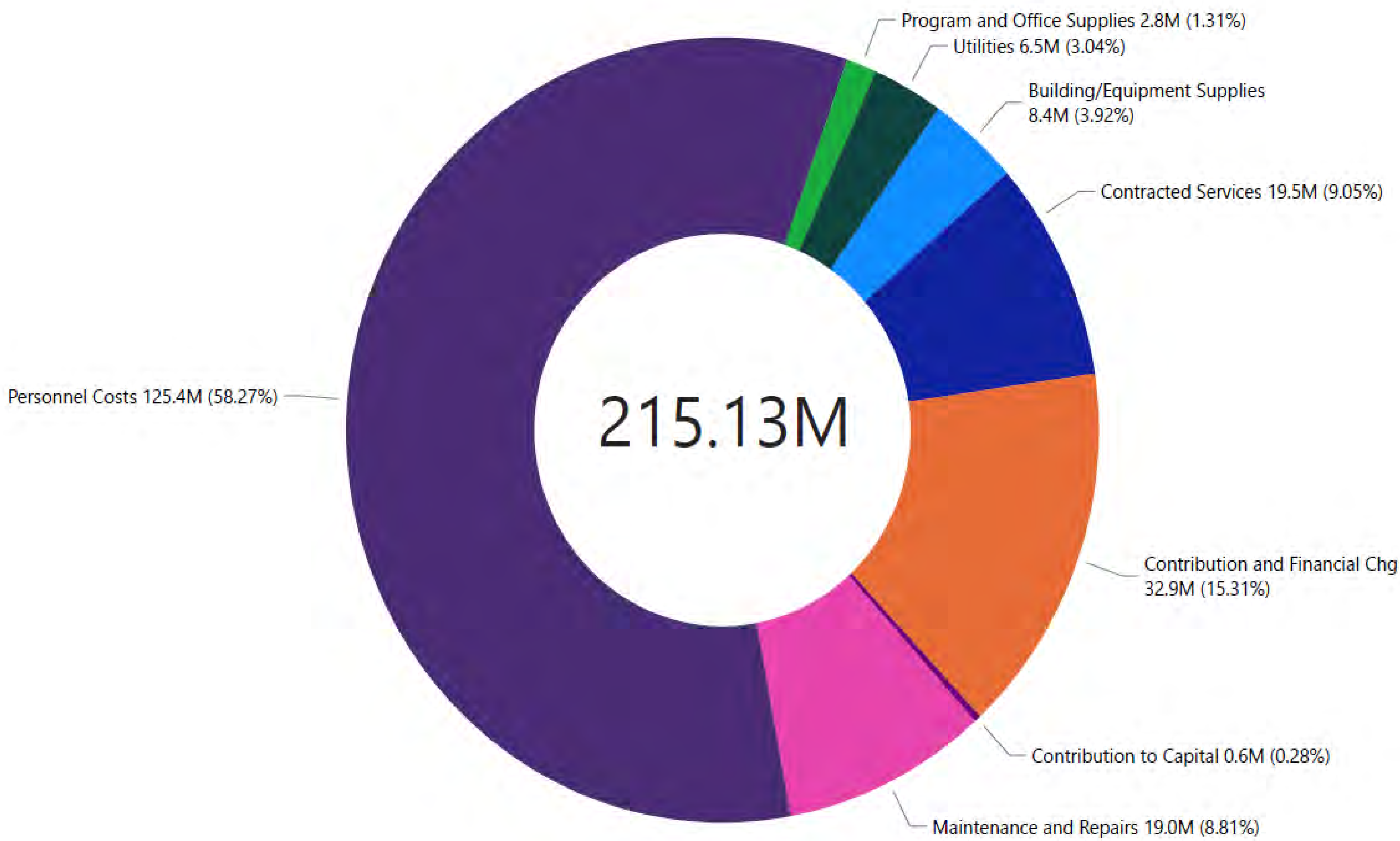
Oshawa is one of the fastest growing municipalities in the Greater Toronto Hamilton Area. Even though Oshawa is growing, the City is not immune from today's current economic climate. Major world events are significantly impacting commodity prices, interest rates, and inflation.

The City faces increased operating pressure every year. Growth-related costs, inflation, utilities and fuel costs, salaries and benefits costs all apply upward pressure on spending and the tax levy requirement.

There is a corporate culture of continuous improvement whereby staff explore opportunities that can leverage efficiency enhancements in how we deliver our services to our residents with an aim to streamline processes, eliminate waste and reduce operating costs.

Gross operating expenses included in the approved 2024 budget were approximately $215,125,200. The following graph shows the breakdown of the City's 2024 budgeted operating expenditures.

2024 Budgeted Operating Expenditures



The City has managed to hold the annual taxation levy increase, over the last five years, to an average of 2.83%. The challenge is to continue with this trend and at the same time, budget for new costs associated with growth.

The City utilizes many strategies to manage its operating pressures and has sound policies, procedures and controls including the Purchasing By-law, provincial financial reporting, regular financial position reports and audited year-end financial statements to ensure transparency and accountability to the taxpayer.

Operating Cost Pressures

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

a) Growth Related Costs

As the City grows with new residents and businesses, additional operating costs are incurred. These costs can be incurred though a number of pressures beyond the control of City such as:

- Operating and capital cost increases that are significantly above the typical rate of inflation and are susceptible to economic, supply chain, and/or trade pressures.
- The impact on residential growth/housing starts given current high borrowing / interest rates.
- Risks from assessment appeals on the City's (base) property tax revenues.
- Potential impacts on funding sources from the economic and political environments and legislation changes.

b) Inflationary Impacts

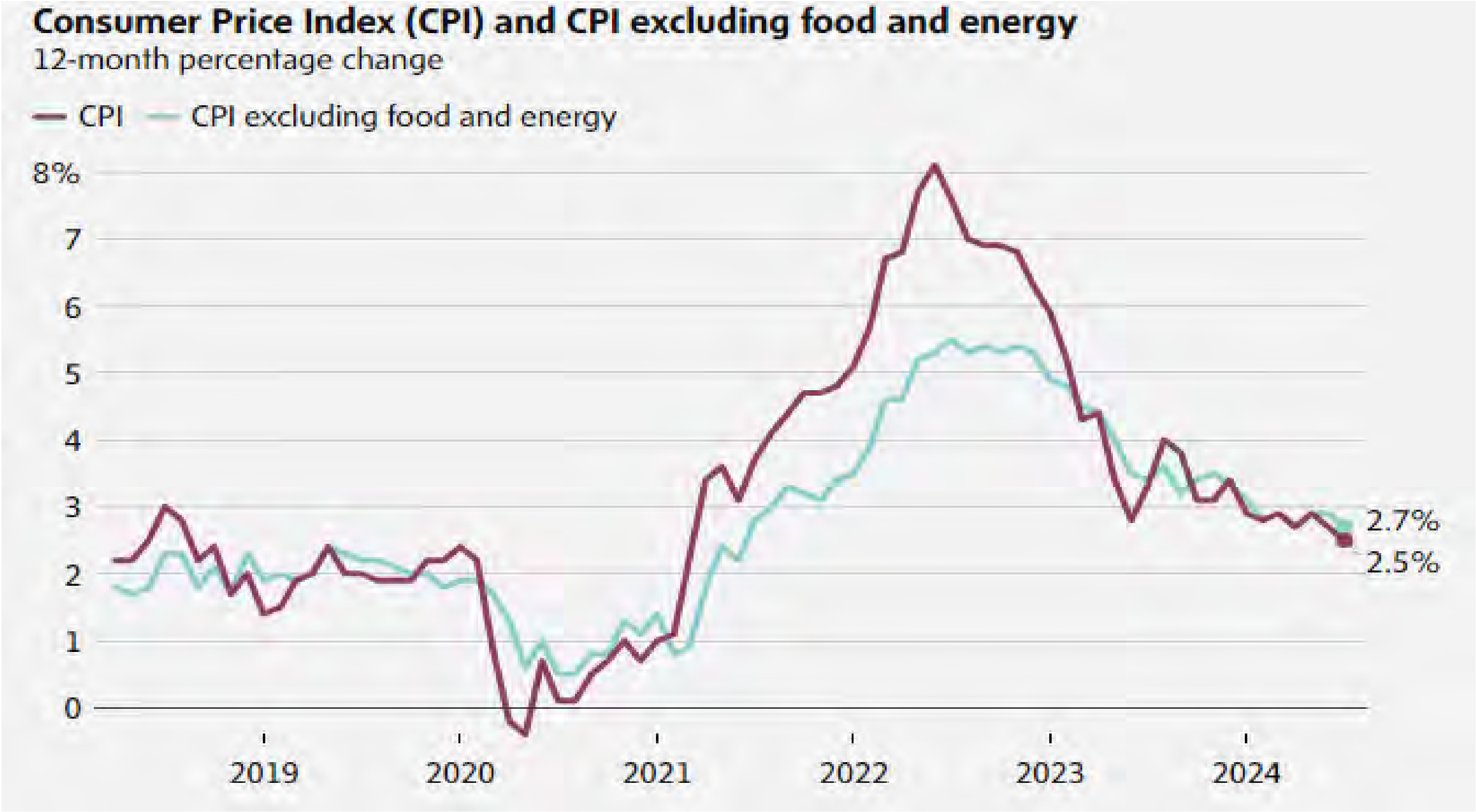
Inflation is defined as the rise in the level of prices of goods and/or services in an economy over a period of time. Inflation for individual consumption is measured as an annual percentage increase in the Consumer Price Index (CPI). Since 1991, the Bank of Canada has employed an inflation control target that aims to maintain annual consumer inflation at two per cent. At the midpoint of 2024 inflation is expected to drop below 2.8%.

The City's cost of providing municipal services also faces inflation. Due to price increases, the City requires more money to purchase the same mix of goods and services over time. In the current high inflationary environment costs for routine service delivery and construction/building activity have increased significantly.

Inflation rates for the City's 2025 operating budget guidelines range from 3% to 5% on various commodities used by the City to as high as 13.0% on such things as utilities, specifically natural gas. Some of the City's commodities are increasing by CPI.

Since the City purchases a considerably different range of goods and services than the average Canadian consumer, CPI is not always an adequate measure of inflation faced by the City. It is recommended that the City develop a Municipal Price Index (MPI) to refine estimated price increases faced on operating expenditures, based on a fixed basket of goods and services procured.

The chart below is representative of CPI rates for the last 5 years and first half of 2024 (courtesy of Statistics Canada).



c) Increasing Labour Costs

Our people are our most important resource. Our employees are the heart and soul of the City and apply their skills, creativity, innovation, and drive for success to the services delivered to the residents and community.

Following the passage of the 2024 operating budget, the City's full-time complement was 934 positions. There are four labour unions representing unionized staff. The City's largest operating expense is for salaries and benefits, which represented 58.27% of the 2024 approved budget or $125.4 million.

In 2021, the City undertook a strategic workforce review which involved an extensive internal review of current practices and an external scan of benchmark organizations and best practices.

Key findings revealed that the City of Oshawa's workforce grew at a much lower rate than benchmark municipalities, population rate and new household rates over a ten-year period. The Workforce strategic plan identified a staffing deficit over the forecast period.

Significant investments in staffing were addressed through the 2022, 2023 and 2024 budgets and has eliminated the deficit identified in 2021.

In 2024, Phase 2 of the Workforce Strategy commenced to build a 2025-2028 staff forecast sensitive to organizational resources and financial constraints. Also, the updated strategy was to develop a process with guiding criteria for reviewing and ranking new position requests in future budgets.

Attraction and retention are an increasing challenge in the job market and the landscape for municipalities has changed with competition for talent increasing. The City continues to explore ways to become an employer of choice to attract and retain good talent.

In 2025/2026, the City will investigate the development of a comprehensive People Plan as a follow up to the Workforce Strategy supporting the Oshawa Strategic Plan and long-term needs of the Corporation.

d) Technology Investment

In 2020, a consultant was retained by the City to develop the corporate information technology strategic plan. The Perry Group identified critical aspects limiting the City's ability to leverage technology effectively which in turn impacts effectiveness, efficiency, and ability to implement leading customer service practices. Investments in digital technology can deliver tremendous efficiency gains and radically improve customer experiences.

Technology initiatives are often complex and costly from a fiscal, human resource and organizational change management perspective. This adds to fiscal pressures and can limit available resources for innovative initiative.

Also, it is imperative that the City remain vigilant about cyber security risk mitigation, taking a prudent approach to the disclosure of information.

Local government institutions are go-to targets for cybercriminals for the simple reason that they have massive amounts of sensitive data saved on their systems. In addition, local governments publish information for public records, which makes it easier for cybercriminals to hack the systems that contain personal information. Over the last few months, several municipalities have fallen victim to cyber-attacks (ransomware attacks) crippling the delivery of services to the residents.

There are future opportunities for technological innovation and digital transformation including Artificial Intelligence (AI) predictive solutions, digital enablement, and Robotic Process Automation (RPA) solutions.

Recommendations

OC-1	Develop a comprehensive Budget Management Policy document	Budget policies provide the strategic framework for overall fiscal planning and management. The policies set forth guidelines for both current and long-range initiatives to achieve goals and objectives. The policies are reviewed annually for adherence and relevance and provide standards against which current budgetary performance can be measured and proposals for future programs or service reductions can be evaluated. Developing such a policy would formalize the practices and procedures already in place to guide the development and management of the budget.
OC-2	Create a formalized People Plan to appropriately resource the City's workforce	Continue to budget for new positions and employee development opportunities such as training and coaching/mentoring and invest in emerging leaders to advance succession planning within the City.
OC-3	Update Purchasing By-law	The current Purchasing By-law was adopted September 26, 2020. Previously, it was reviewed & updated every 5 years, but the 5 years is no longer a requirement of Purchasing By-law or Municipal Act. It appears the appropriate time to take the Purchasing By-law forward with major changes will be in 2027 to the new Council. The next version of the Purchasing By-law will look to increase limits, change some bidding practices, etc.
OC-4	Develop a Municipal Price Index (MPI)	Inflation affects municipalities in several ways, including increased costs and service level adjustments. The introduction of a MPI will measure inflation for operating expenses and better reflects the City's mix of purchased goods and services.

OC-5	Update Information Technology Strategic Plan (ITSP)	An update to the ITSP plan is recommended to advance a roadmap outlining the City's future approach to technology. The existing ITSP covered 2020 through 2024. The update should also include a clear vision for how technology can drive innovation and growth for the City and explore emerging technologies and trends.
OC-6	Facility Review	Critically evaluate the facilities funded to ensure that repair and maintenance budgets are effectively and responsibly allocated to the appropriate City facilities with the goal of identifying efficiencies and potential cost savings.
OC-7	Service Level Review	Critically evaluate the operation and services delivered by the City to identify opportunities for reducing or eliminating services that are redundant, low volume, or lack local demand and have potential to generate cost savings.
OC-8	Implement Accountability Framework for External Agencies receiving funding from the City	On an annual basis through the operating budget, the City provides approximately $13 million in funding to external agencies. Currently, each Agency provides high-level reports annually to Council through their respective annual reports and the business plans and budgets. It is recommended that a financial management accountability framework be implemented effective with the 2025 budget for External Agencies. This framework will provide relevant financial performance information to promote accountability across all agencies in receipt of taxpayer funding supporting their operations. More frequent and detailed information will be required to the extent to which the City can accurately and transparently discharge its financial management responsibility.

OC-9	Continue to work with municipal organizations	Strategically leverage membership in municipal organizations (such as MFOA/AMO, etc.) to advance cost saving measures/change.
OC-10	Explore Shared Services and Best Practices	Collaborative efforts with area municipalities and others to align with best practices, innovative strategies, and approaches to service delivery.

Conclusion

Municipalities of all sizes face a unique set of opportunities and challenges that impact their current fiscal health. The infrastructure deficit remains a substantial, persistent challenge across all communities. Under the current legislative frameworks municipalities do not have the physical capacity to maintain rehabilitate and expand their core infrastructure while keeping taxes at inflationary levels.

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

The Financial Strategy contains fifty-six (56) recommendations and proposes strategies to affect progress in five strategic areas namely infrastructure investment, reserve funds, debt management, revenue sources and operating costs. Council endorsement and the implementation of the recommended strategies for each area will help to affect financial sustainability, align resources with priorities, result in responsible stewardship of the public dollar and help achieve the City envisioned in the Oshawa Strategic Plan.

Financial Policies

The Financial Strategy is important for setting the financial policy framework to ensure the City stays on a financially sustainable path. Financial policies provide a guide to long term planning and decision making. The following is a list of financial policies either in place or recommended to be developed in connection with the Financial Strategy.

Accounts Receivable Policy	Develop a new Accounts Receivable (AR) Policy. Outline the process for outstanding invoices being added to tax accounts and establish appropriate AR metrics (i.e., aging buckets, ratios, interest charges, etc.)
Assessment Base Management Policy	The purpose of Assessment Base Management is to ensure accuracy of the Assessment Roll for the City of Oshawa. The process involves City staff collaboration with the Municipal Property Assessment Corporation (M.P.A.C.), the property owners as well as all other stakeholders to promote equity, fairness, and transparency in property tax collection. Assessment Base Management Policy
Asset Management Policy	As directed by the Ministry of Infrastructure under Ontario Regulation 588/17, The City is required to have a Strategic Asset Management Policy (S.A.M.P.) adopted and published by July 1, 2019. The Policy must be reviewed and updated every five years. CF-24-45 Strategic Asset Management Policy (oshawa.ca)
Asset Retirement Obligation Policy	The Public Sector Accounting Board standard on Asset Retirement Obligations relates to quantifying and disclosing, on the financial statements all legal obligations associated with the retirement of tangible capital assets. The Asset Retirement Obligation Policy provides for the recognition, measurement, disclosure and roles and responsibilities. CF-24-04 Asset Retirement Obligation (escribemeetings.com)

Budget Policy – Operating and Capital Budget	Budget policies provide the framework for overall fiscal planning and management. The policies set forth guidelines for both current and long-range planning activities. The policies are reviewed annually for adherence and relevance and provide standards against which current budgetary performance can be measured and proposals for future programs or service reductions can be evaluated. See Financial Strategy recommendation OC-1.
Budget Surplus Policy	Establish a Budget Surplus Policy which will formally change the City's current practice of allocating year end surpluses to the Tax Rate Stabilization Reserve instead will recommend that the funds be directed to capital reserves that are underfunded. See Financial Strategy recommendation RF-5.
Community Benefit Charge By-Law	The Community Benefit Charge (C.B.C.) By-law was adopted by Council to impose a C.B.C. fee by the City against land for development or redevelopment of higher density residential properties. The charge is capped at 4% of the value of the land the day before the first building permit is issued. Community benefits charges apply to buildings with five or more storeys and ten (10) more residential units. The fees collected help to pay for the City's capital costs related to higher density residential growth. 50-2023 Community Benefits Charges By-law (oshawa.ca)
Consolidated Reserve and Reserve Fund Policy	A review of Reserve/Reserve Fund Policies has been undertaken and a Consolidated Reserve and Reserve Fund Policy will be prepared in 2025. See Financial Strategy recommendation RF-2.

Debt Management Policy	The Debt Management Policy is a comprehensive policy on debt issuance. The City's current policy was adopted in 2018 and will be updated in 2025. Debt issuance decisions must align with ensuring long-term financial flexibility and sustainability for the City. The City uses a mix of both external and internal debt. The repayment of debt is managed through the City's annual operating budget. See Financial Strategy recommendation DM-1. Debt Management Policy (oshawa.ca)
Development Charge By-law	By-law 91-2024 was adopted by Council in June 2024 to impose development charges against land based on the Development Charges Act, 1997. The fees collected are used to help cover growth related costs as a result of development to build new infrastructure in support of growth, pay down existing debt for past growth works, and reduce the burden on taxpayers paying for growth related costs. 2024 Development Charges By-law (oshawa.ca)
Fees and Charges By-law	User fees support the City's ability to provide services to the public. The City's user fees included in the Fees and Charges (F&C) By-law are reviewed and updated annually prior to delivery of the budget. See Financial Strategy recommendation RS-1. CF-24-55 Fees and Charges By-law (oshawa.ca)

Investment Policy	The purpose of an investment policy is to ensure integrity in the management of the City's investment portfolio when investing public funds. The existing Investment Policy was approved in 2016. An update to the Policy will be prepared and presented to Council in 2025. See Financial Strategy recommendation RS-7. Investment Policy (oshawa.ca)
Purchasing By-law	A Purchasing By-Law regulates staff on how to purchase goods and services on behalf of the Municipality and how the purchase is approved. This is a key document that relates to the integrity and reputation of a municipality. The rules and processes are clearly stated and meticulously followed by all staff. The next update to the Purchasing By-law is planned for 2027. See Financial Strategy recommendation OC-3. Purchasing By-Law
Tax Collection Policy	The purpose of this policy is to outline standardized processes that will ensure a transparent and efficient process for the billing and collection of property taxes. Tax Collection Policy (oshawa.ca)
Tax Rebates Reductions and Refunds Policy	The purpose of this policy is to outline standardized practices that will ensure a transparent and efficient process for the reductions, rebates, and refunds of property taxes. Tax Rebates Reductions and Refunds (oshawa.ca)