



OTTAWA TAX PAYERS ADVOCACY GROUP

"The Silent Majority is Silent No More"

The Ottawa Taxpayer Advocacy Group Releases Detailed Plan for 2 Year Budget Freeze – No New Money

Debt / Pay As You Go

According to the Frontier Institute we have a poor record in Ontario, in 2007: Net Financial Assets / Household Average for Ontario \$1,284, Ottawa - \$1,225 Liabilities / Household Average for Ontario \$3,417, Ottawa \$5,768, we are worth 68.8% less than our counterparts in Ontario.

Long-term Debt / Household Average for Ontario \$1,106, Ottawa \$1,377, <http://www.fcpp.org/images/publications/52.%202008Dec%20LGPI.pdf>

2002 total debt plus other liabilities \$1,406,534,931
 2008 total debt burden plus other liabilities \$2,429,074,464
<http://csconramp.mah.gov.on.ca/fir/ViewFIR2009.htm>

This means the City debt has grown by over 1 billion dollars, can you explain the growth in debt? There is an argument for borrowing to buy appreciating assets, but the city's net worth is negative, so please provide a detailed breakdown of the reasons for this debt? Similar to the former city of Nepean, what are the implications of implementing a pay as you go process?

City Response

An explanation for the increase in the City's liabilities from 2002 to 2008 is provided as Document 1 and a listing of the outstanding debt for 2008 is provided as Document 2.

The City does utilize capital reserves to fund a portion of its capital program on a pay-as-you-go basis. Federal and provincial gas tax revenues are also used to cash finance capital projects and development charge revenues are used to fund growth related projects. Debt financing is only used on projects that meet the eligibility criteria. Moving towards an increased use of cash is a policy issue for future Council to decide and will have tax implications.

Document 1

Total Liability Comparison: 2002 to 2008

The total liabilities of the City of Ottawa for the years comparing 2002 with 2008 are in the table below:

	2002	2008	Variance
Accounts payable and accrued liabilities	277,449,000	364,476,913	87,027,913
Deferred Revenue	216,814,000	638,549,000	421,735,000
Long - Term Liabilities (Capital Leases)	-	89,806,000	89,806,000
Landfill closure and post-closure	9,784,000	13,687,596	3,903,596
Post employment benefits	225,617,000	326,375,312	100,758,312
Net Long-Term Debt	423,569,000	553,231,000	129,662,000
Mortgages payable	253,302,000	221,516,000	(31,786,000)
Total Financial Liabilities	1,406,535,000	2,207,641,821	801,106,821

The major variances are made up of the following:

- Overall increase in trade accounts payable
- Increase in deferred revenue is due to

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1. Three programs not in existence in 2002. They are the Investment in Ontario Act, Gas Tax and Municipal Infrastructure Investment Initiative. These account for \$151 million.
 2. Higher development charges due to increases in the development charges (\$203 million)
 3. Increases in the Cash in Lieu of Parkland and Parking (\$14 million)
 4. Increases in general overall deferred revenue (\$53M)
 - Two capital leases that didn't exist in 2002. One is for an administration building and the other is for a paramedic services building
 - Increase in post employment benefits due to increase in workforce. FTE's for 2002 was 12,597 and 2008 was 14,320
 - Increase in net long term debt due to
 5. Public private partnership debt
 6. Higher debt issuances in the areas : roads, transit, environmental services

The City of Ottawa continues to experience growth. Population increased by 8 per cent and the number of households increased by 11 per cent between 2002 and 2008. There were also a number of new programs in place from the federal and provincial level of governments, which were not in place in 2002. Two new capital leases were entered into after 2002, one for an administration building and the other is for a paramedic services building. Public Private Partnership (P3) debt also did not exist in 2002. The number of full time equivalent employees in the City of Ottawa increased by 14 per cent accounting for higher post retirement benefits.

Total debt makes up only 4.7 per cent (2008) of the City's own source revenue, which is consistent with council targets and is within the Province of Ontario's guidelines. In 2002 this figure was 6.4%, which is 1.7 per cent higher.

Document 2

Functions	2008	
	\$000	% of O/S Debt
General Administration	24,006	4.3%
Governance (Councillors Offices)	788	0.1%
Fire	3,078	0.6%
Police	16,601	3.0%
Protective Inspection	-	-
Roads	248,590	44.9%
Parking	1,395	0.3%
Public Transit	80,298	14.5%
Wastewater Treatment	20,246	3.7%
Water Supply and Distribution	73,065	13.2%
Waste and Recycling Services	1,873	0.3%
Public Housing	-	-
Social and Family Services	41,400	7.5%
Parks and Recreation	27,748	5.0%
Libraries	6,118	1.1%
Planning and Development	8,025	1.5%
Health	-	-
Total Net Long Term Debt	553,231	100.0%

Follow Up Questions

Nepean & Mississauga were able to operate debt free, yet our debt has grown by 1 billion since amalgamation. We feel that debt is being used as tool to defer taxes to the next generation. It is also our opinion that money that could be used for infrastructure projects is being used to absorb to growth in compensation, which leads to the necessity to borrow for every capital project. We have this opinion because of enclosed post amalgamation stats that show that compensation is growing much faster than revenue. The only way to make up the difference is debt.

- Total Salary Wages up 54% to \$940 million
- Employment benefits are up 83% to \$193.8 million
- Accumulated sick leave is up 72% to \$92 million
- User fees are up 30% to \$583 million
- Property taxes are up 29% to \$1,068,869,387
- Grants from the Federal and Ontario governments are up 27% to \$391 million
- Number of taxpaying households, up 17% to 365,770

What is the debt per tax paying household in 2010? If we freeze that ratio by what % will this action cause taxes to rise in 2011?

The largest contribution to the growth in debt was deferred revenue which grew by \$421 million in 6 years. Can you explain further? Is money we have received for a service we have to deliver in the future? Is that money seating in a bank account?

With reference to office space, what is the operating cost per employee in 2002 and 2010?
Growth should be self funding, so it should not be a reason for an increase in debt. Is growth self funding?
With reference to the response about an increase in P3 debt, does the City have a process to pay down debt with a savings or revenue from a P3 project? A P3 should either be reducing costs or increasing revenue, in either case what happens to the extra cash?
