



Capital Investment Philosophy

Introduction

Throughout the years, the City of Kitchener has built its reputation as an organization that maintains a strong financial position by making fiscally responsible decisions on behalf of its taxpayers.

This is still the case today.

At the centre of Kitchener's capital investment philosophy is a belief that the City must balance the increasing needs of the community with its ability to respond financially, particularly in light of the fact that Kitchener is a fast-growing and dynamic community. Kitchener's capital investment philosophy must also ensure its competitiveness in a Region that is one of the strongest in the country.

The City of Kitchener carries *only* 14% of the total debt it is allowed.

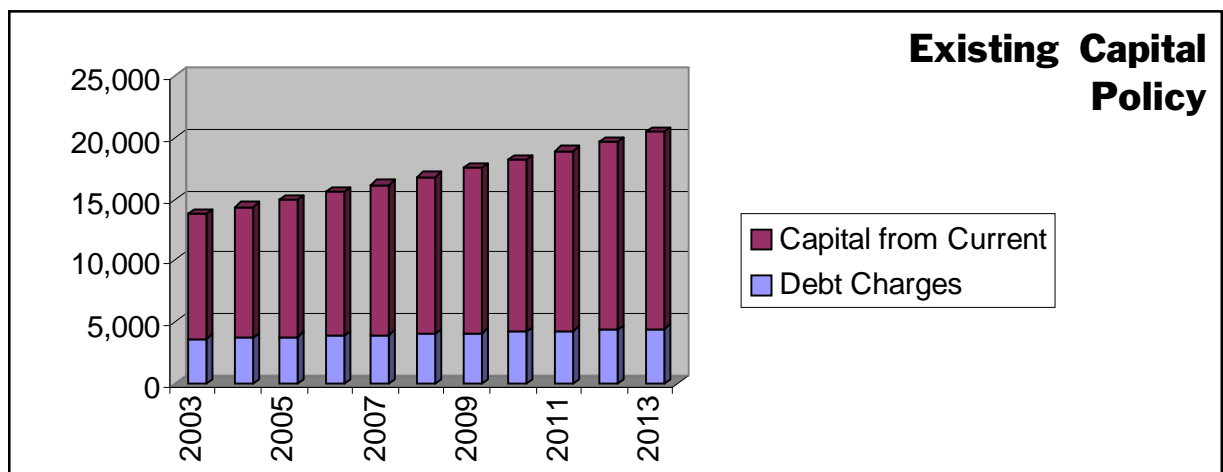
For Kitchener residents, the benefits of this philosophy are significant. Those living in this City enjoy more programs and services than any municipality in Waterloo Region and more than many communities across the province.

The City operates 11 community centres, six fire stations, four indoor pools, three outdoor pools, 124 playgrounds, seven cemeteries, nine ice pads, its own Farmers' Market and its own natural gas and water utilities. It maintains an intricate network with more than 2,000 acres of community trails, parks and green space, has three business parks and an abundance of sports fields. It offers a variety of outreach assistance and community-based programs from postnatal fitness to pottery classes. In addition, the City-owned golf courses, Centre in the Square, The Aud, and the Kitchener Public Library are all destinations, for not just residents of Kitchener, but people from across the Region.

Those living in this City also enjoy the benefits of continued fiscal responsibility. The City has promised its residents that it will effectively manage Kitchener's financial position while maintaining or improving service levels through assessment growth and tax increases that are lower than the rate of inflation. Council and its administration have worked hard to try and fulfill this promise every year.

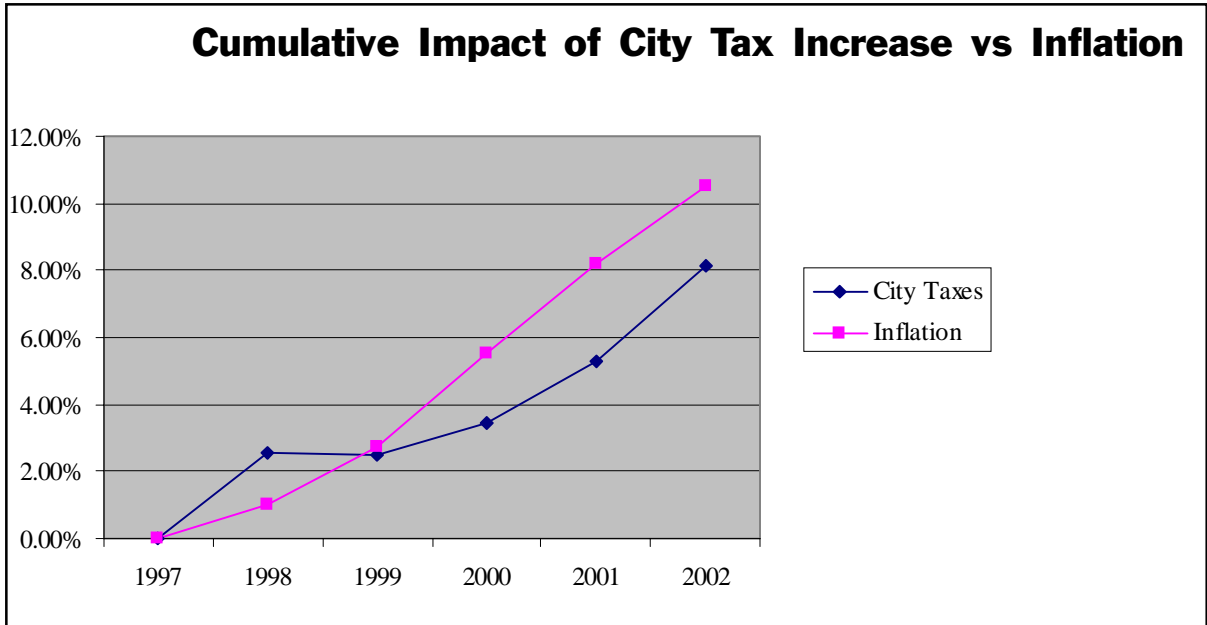
Capital Investment Philosophy

The City's capital investment philosophy ensures that any increases in debt charges from one year to the next do not exceed assessment growth. As well, the overall contribution from the tax base through taxes and debt charges will not increase more than assessment growth plus inflation from one year to the next.



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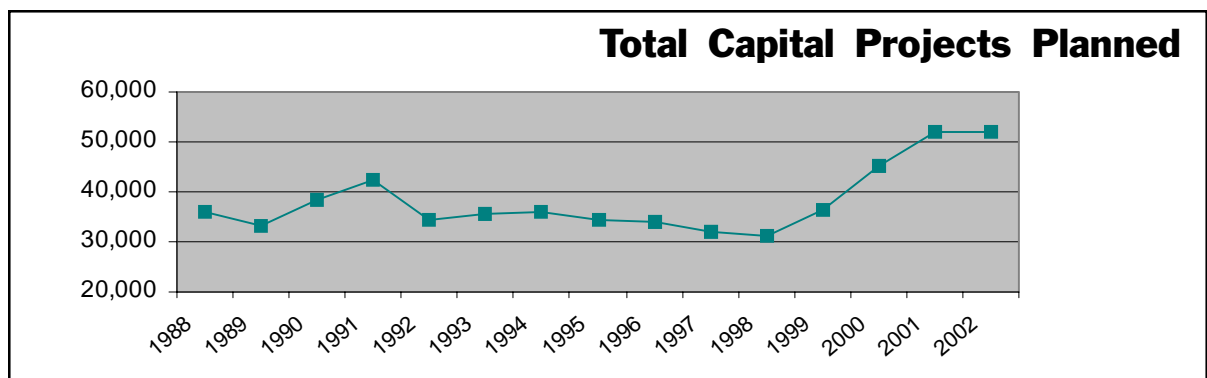
This philosophy has ensured that the impact on the taxpayer does not exceed inflation and that the City must prioritize projects to fit the funding available.



However, there is one exception. The City’s capital investment philosophy provides for debt financing for projects which have a business plan showing revenues generated over a reasonable “pay back period” covering the capital cost and interest of the project. The Aud is an example of a major capital project that has been implemented under this exception. The facility, now more than 50 years old, was losing its competitiveness and was in danger of not being able to compete with the newer, more modern facilities being built in the province. Extensive renovations will help ensure it continues to be one of the premier facilities in Ontario. The business plan calls for those renovations to pay for themselves over 15 years.

In the past few years, the City has increased the number of capital projects for which it was prepared to finance. The increase in capital spending can be attributed to the following:

- A need to remain competitive with other municipalities with respect to our facilities and services
- A response to the surge in growth experienced in Kitchener in the past 4 years
- Pent up demand for capital works due to constrained capital spending during the mid to late ‘90’s
- Access to both provincial and federal funding for infrastructure improvements.





Capital Investment Philosophy

The City of Kitchener has always stayed within the guidelines of its capital investment philosophy, even when the number of projects has increased. Furthermore, the City's current debt is proportionate to the limits established by these guidelines. Likewise, property tax increases have stayed within the rate of

In 2002, only 7% of all capital projects were funded from tax supported debt.

change in inflation and it is fully expected that such will be the case again this year.

While the capital investment philosophy has served this community well, changes need to be advanced in the way in which capital projects are administered and managed by the City. At present, the

City has reached its capacity to safely and effectively manage the current number of capital projects now underway or anticipated for future start-up. The City needs to scale back this coming year. The "heated" economy also has had an impact and has caused the City to consider delaying some of its projects because the current economic conditions are not favourable for competitive pricing. The City has not been consistent in its project estimates; in its ability to control the scope of the projects to be constructed; or, in its performance in meeting defined budgets. Adjustments in project administration are required.

Capital Budget Sources of Funding

- User fees
- Reserve funds
- Development charges
- Grants
- Taxes
- Debt
- Other

Year Total Debt Capacity (\$ millions)*

1997	272
1998	279
1999	189
2000	206
2001	211
2002 (est)	213

*Held at any time.

Year Debt Payments as % of Total Consolidated Expenditures

1997	2.8
1998	2.8
1999	2.6
2000	1.9
2001	1.8

Year Net Tax Supported Debt per Capita* (\$)

1997	96
1998	96
1999	93
2000	91
2001	104
2002	101

* Over time debt per capita fluctuates. This is a result of:

1. timing - as old debentures are paid off, it creates the capacity to issue new debentures at a lower interest rate.
2. planned growth in capital policy related to inflation as well as growth in the city.

Year Net Debt Repayable from Property Taxes (\$ millions)

1997	17
1998	17
1999	17
2000	17
2001	19
2002	20

Recommendations for Change

In order to improve the City's performance, a ten-point program for administrative change is recommended. The recommendations are as follows:

1. The City will develop a competitive investment process for capital funding that requires departments to compete for investment dollars on the strength of their business plans and the quality of their capital projections
2. The City will create five capital project categories to assign funding budgets - infrastructure; community development; economic development, including Downtown; enterprises; and internal infrastructure, such as Information Technology. The City will re-evaluate all of its capital projects which are "not committed" on the basis of this categorization
3. The City will revise the current capital estimates and capital forecast processes to provide a better basis for evaluating which capital projects should be funded. This will require the investment of time and effort at the front end of the processes
4. The City will establish a Project Administration Office, staffed by a professional project administration and management engineer, to implement the project management and capital funding processes
5. The City will utilize to its fullest the project management expertise and capability internal to the organization to ensure proper project management and oversight
6. The City will build its competency in project management throughout the organization by means of proper staff training and development
7. The City will reduce, immediately, the amount of capital available from operating by \$1 million a year over the ten year capital forecast, to be reviewed annually
8. The City will delay some of the capital projects that are planned because the economic conditions are not favourable to competitive pricing for some of these municipal projects at this time
9. The City will continue to look for strategic opportunities to invest its capital dollars in order to maximize its return on investment
10. The City will establish project teams, consisting of contract management, project management, and operational management expertise to oversee all "in progress" project works

Conclusion

The Recommendations for Change formulate a strategy that will be regularly revisited to ensure that Kitchener's short-term and long-term needs are met. The Region will continue to grow strongly in the future and Kitchener will be required to respond to these growth pressures. Maintaining the City's infrastructure and community facilities will be an on-going challenge. The City will need to review its current capital investment philosophy to ensure that it continues to meet the demands of a growing community.