TIP SHEET 4: BUDGETING FOR LONG-TERM ASSET MANAGEMENT INCLUDING POTENTIAL REVENUE STREAMS AND DEBT MANAGEMENT STRATEGIES

Introduction

This tip sheet will review different revenue tools available to municipalities to assist with asset management related activities. Property taxes and user fees are the most common and often largest revenue sources for a municipality. However, other revenue tools are available and it is important for municipalities to consider alternative funding strategies. A municipality's ability to budget for long-term asset management would likely require the use of a wide range of these revenue streams as well as the use of debt.

MFOA has recently undertaken a similar exercise and review of different funding and revenue tools called:
Demystify the Municipal Infrastructure Deficit.

Revenue Tool	Description	Benefits	Considerations	Applicability
Development Charges (DCs)	- DCs may be imposed to pay for increased capital costs required because of increased needs for services arising from development - Charges pay for the infrastructure required to accommodate growth	- Costs of infrastructure directed to those requesting growth	- Capital costs of new infrastructure that benefit existing residents cannot be funded from DCs - 10% (legislative discount) of all development-related capital costs for certain services must be funded from non-DC sources - Some DC rates are based on past usage/service averages - DCs cannot fund maintenance, operating or renewal expenditures	- Used to fund growth-related expenditures

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Dedicated Infrastructure Levy	- Dedicated percentage of property tax levy to fund infrastructure	- Stable source of funding - High degree of control	- Council and community may oppose this tool as it would be an increase on the municipal tax levy - Specifically related to funding the repair and replacement of infrastructure - Isolate capital revenue from general revenue	- Generally used to fund non-growth related infrastructure - Often used as a guaranteed fund to save for future repair and replacements activity
User Fees	- User fees can be levied to fund the repair, operating, maintenance and replacement of capital infrastructure - A surcharge can be implemented solely for capital repair and replacement	- Users benefiting from facilities contribute higher share of project cost - May be politically more acceptable than tax increases	- Idea of double taxation (e.g. resident pays property taxes to support service and facility plus would pay the user fee) - Nexus must exist between the fee charged and services provided	- Part of the fee can be dedicated to fund capital maintenance and replacement
Public Private Partnerships (P3's)	- A P3 can offer more effective project and lifecycle cost control and risk management than traditional procurement methods	- Costs and risks are distributed between public and private sector - Ongoing operating costs can be lower	- Shared control of project - Legal and administrative elements/costs	- Often related to large scale projects such as transit, community centres, arenas, water and wastewater services
Local Improvement Charges	- Municipalities, through local improvement charges, have the ability to recover the costs of capital improvements made on public or privately owned land from property owners who will benefit from improvement	- Long historic use and is well recognized - Easily implemented	- May not be appropriate for asset replacement - Not applicable for large municipal infrastructure (i.e. water treatment plant)	- Commonly used to cover costs of infrastructure improvements related to water supply, sewers, roads and sidewalks

Revenue Tool	Description	Benefits	Considerations	Applicability
Developer Contributions	- Contributions can be "in kind" direct provision of assets or funded, partially or fully, through agreement -Some examples include: trails, public art, or land.	- Reduce local tax/rate impact -In certain circumstances can be used for asset replacement	- Not guaranteed and difficult to plan for - Appealable to OMB/courts in some cases	- Although the initial capital is provided, the municipality (in many cases) will be responsible for the ultimate repair or replacement of this asset as well as ongoing operational costs
Shared Services	- Shared services initiatives are often undertaken to respond to common community challenges among two or more municipalities	- Costs are spread between several parties - Increased ability to meet service level targets - Capacity to offer new services	- Municipality does not have full control over the asset or service -Time commitment from senior staff may be required to implement the agreement	- Can be used for a wide range of municipal assets – recreation facilities, fleet, airport services and animal control services
Debt	- Short and long-term debt financing is a tool available to fund infrastructure projects such as water treatment plants, repairs, sewermain replacement and road reconstruction works etc.	- Planned debt can be a good way of spreading the costs of a project over the useful life of an asset - Ratepayers who benefit from the asset share the cost - intergeneration equity is supported - Fast access to significant capital – addresses short-term funding problems - Borrowing up front may help leverage funds from other sources (upper tier government or private sector).	- Annual interest payments - Debt can reach unsustainable levels which may limit funding for other future projects - Need to give full consideration as to how debt payments will be funded (tax impacts) - Interest rate risk (rates may not remain at this level over the long-term) - Municipalities could face a problem if balloon payments need to be refinanced - Resistance to issue new debt	- Could be used to fund the "atypical" or unexpected capital expenditure - Should not be used to carry out regular asset management related activities, such as repairs and maintenance