

TO:	CHAIR AND MEMBERS COMMITTEE OF THE WHOLE MEETING ON NOVEMBER 8, 2011
FROM:	MARTIN HAYWARD CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	CAPITAL ASSETS AND REVENUE ALTERNATIVES

RECOMMENDATION

That on the recommendation of the City Treasurer, Chief Financial Officer, the following actions **BE TAKEN** with respect to the discussion paper on capital assets and revenue alternatives from the City Treasurer, Chief Financial Officer, dated June 21, 2011:

1. The principles highlighted in **Appendix A** regarding identifying asset sales and revenue alternatives **BE ADOPTED**;
2. The following areas of Civic Administration **BE ASKED** to report back on the following one-time revenue generating ideas, including a synopsis of the alternative plus financial, service and legal implications:
 - a) Community Services
 - b) Planning, Environmental & Engineering Services
 - c) City Manager's Office / Realty Services – selling vacant land and industrial land;

noting that the following areas are already in the process of reporting back on previously identified one-time revenue generating ideas:

 - i. Community Services / Parks and Recreation – closing down River Road Golf Course and repurposing the land for other City services;
 - ii. Planning, Environmental & Engineering Services / Parking Division – selling parking lots;
3. The following areas of Civic Administration **BE ASKED** to report back on the following ongoing or permanent revenue generating ideas, including a synopsis of the alternative plus financial, service and legal implications;
 - a) Community Services
 - b) Planning, Environmental & Engineering Services
 - c) City Manager's Office

noting that the following areas are already in the process of reporting back on previously identified permanent revenue generating ideas:

 - i. Community Services – sale of sponsorships / naming rights for community centres and arena board advertising;
 - ii. Planning, Environmental & Engineering Services / Solid Waste – implementing full cost recovery for Solid Waste and fee recovery for garbage collection;

it being further noted that Committee of the Whole endorsed the identification of \$4.0 million of permanent revenue generating alternatives in order to contain the 2012 general property tax increase target at 1.4% after including assessment growth of 1%;
4. Civic Administration **BE ASKED** to report back on a policy and strategy for advertising, sponsorship and naming rights for municipally owned assets including arenas, community centres, parks, roadways, and rolling stock (i.e. vehicles);
5. The City Manager's Office **BE ASKED** to request that AMO act on behalf of all municipalities and submit a request to the Minister of Municipal Affairs and Housing for

legislative revisions that would open up more options for municipalities to generate additional revenue (i.e. personal vehicle tax).

RELATED REPORTS PERTINENT TO THIS MATTER

2012 – 2016 Operating Budget Targets (Committee of the Whole – May 10, 2011)
<http://council.london.ca/meetings/COTW%20Agendas/2001-05-10%20Agenda/Item%202.pdf>

Capital Assets and Revenue Alternatives (Committee of the Whole – June 21, 2011)
<http://council.london.ca/meetings/COTW%20Agendas/2011-06-21%20Agenda/Item%203.pdf>

BACKGROUND

On May 10, 2011, Committee of the Whole received a report on the 2012 - 2016 operating budget targets. Discussion on the targets concluded with inclusion of \$4.0 million of revenue in order to reach the desired 1.4% tax levy increase target for 2012.

On June 21, 2011, Committee of the Whole received a discussion paper from the City Treasurer, Chief Financial Officer titled Capital Assets and Revenue Alternatives. The purpose of this discussion paper was to provide Council with financial information on City of London assets, user fees, and revenue opportunities that it may wish to consider for containing tax rate growth and/or investing in new income producing assets. This discussion was a “first step” in a review of alternatives.

At the July 25, 2011 meeting, Municipal Council resolved:

That the City Treasurer, Chief Financial Officer's discussion paper dated June 21, 2011 regarding capital assets and revenue alternatives BE REFERRED to the Civic Administration to report back at a future meeting of the Committee of the Whole with respect to:

- (a) principles to be considered in identifying revenue objectives and the best means of achieving those objectives;*
- (b) identification of the top four (4) revenue generating alternatives that are in keeping with the principles arising from (a), above, together with a two-page synopsis of those alternatives, including financial and legal implications; and*
- (c) suggested uses for any funds that may be generated by the implementation of revenue alternatives.*

DISCUSSION

a) PRINCIPLES TO BE CONSIDERED IN IDENTIFYING REVENUE OBJECTIVES

Civic Administration is recommending that **Appendix A, Principles for Identifying Asset Sales and Revenue Alternatives**, be adopted by Municipal Council. These principles, if adopted, will provide guidance and structure to the difficult task of identifying assets to be sold and the many alternatives available for use of the resulting revenue. The appendix also identifies the best means of achieving these principles.

It is important to note that revenue alternatives can be one-time or permanent (on-going). One-time revenue usually results from the sale of a specific asset. Permanent revenue comes from items like advertising and sponsorship whereby the revenue is received each year.

b) REVENUE GENERATING ALTERNATIVES

The following are the top four revenue generating alternatives that are in keeping with the principles considered in **Appendix A**.

Alternative 1: Sell or Repurpose a Non-productive City Asset

A non-productive City asset is an asset where revenues generated from the asset do not cover the cost of operating that asset. An asset for which subsidy is required but the asset provides a significant benefit to the community, may be considered productive if it is meeting the objectives of Council and the strategic plan. Selling a non-productive City asset is one-time revenue.

A number of factors should be taken into consideration when considering the sale of an asset:

- Possible re-purposing of the asset for City of London purposes or other services (example: conversion to a sports park facility)
- Impact on other service providers
- Impact on city wide service and any potential master plan implications
- Impact on vulnerable population of customer base
- Environmental impact and any potential remediation costs that may offset the sale
- Legal requirements to service populations and/or disposition should not contravene Municipal Act, 2001 – Section 106 bonusing provisions

Non-productive assets that Council could consider include vacant land, industrial land, and certain parking lots.

Alternative 2: Sell or Repurpose a Productive City Asset

A productive City asset is an asset where revenues generated from the asset cover the cost of operating that asset. Selling a productive City asset is one-time revenue. Productive City assets, such as the London Hydro promissory note, could be considered for sale if the alternative for the revenue generated from the sale is more valuable than existing ongoing revenue contribution from the asset.

The City of London holds a \$70 million unsecured promissory note with London Hydro. The promissory note calls for London Hydro to pay 6% of annual interest on the note which equates to \$4.2 million annually. This amount is included as revenue in the tax supported budget and reduces the tax levy requirement.

As far as restructuring current financial agreements, Civic Administration has considered releasing London Hydro of its 6% obligation on a \$70 million promissory note through a potential re-negotiated financial agreement. For example, the potential renegotiated financial agreement could see London Hydro paying the City of London \$70 million and London Hydro could seek loan refinancing at a better borrowing rate through open markets (e.g. 4.5% (open market) versus 6% (City of London)) lowering London Hydro's interest costs. The new proceeds of \$70 million of cash on hand for the City of London could then be utilized in a variety of ways such as cancelling authorized but unissued debt or investment in new assets that produce a return on investment. This needs to be balanced off, however, with the loss of \$4.2 million of permanent interest revenue. The \$4.2 million loss in revenue is equivalent to a 0.9% increase in property tax levy in 2012. This loss in revenue can potentially be counterbalanced with a negotiated increase in cash dividend from London Hydro.

Other productive City assets that could be considered for sale are the John Labatt Centre, the Covent Garden Market, the London Convention Centre, Museum London, the Dearness Home and adjoining lands, and the parking garage at City Hall. It should be noted that there are significant operational, financial and legal issues that would need to be addressed before any of these assets can be considered for sale and in some cases Civic Administration does not believe there would be high market demand for these assets.

Civic Administration is recommending that the following areas be asked to report back on the possible sale of productive or non-productive assets including a synopsis of alternatives plus financial, service and legal implications:

- a) Community Services
- b) Planning, Environmental & Engineering Services
- c) City Manager's Office / Realty Services – selling vacant land and industrial land;

It should be noted that the following areas are already in the process of reporting back on previously identified ideas for the sale or repurposing of productive or non-productive assets:

- i. Community Services / Parks and Recreation – closing down River Road Golf Course and repurposing the land for other City services; and,
- ii. Planning, Environmental & Engineering Services / Parking Division – selling parking lots.

Alternative 3: Identify New Revenue Sources

Other revenue generating ideas associated with City assets have been discussed in the past, and more recently at the Service Review Committee. New revenue sources are generally permanent revenue, but do not tend to generate nearly as much revenue as the sale of City assets.

Civic Administration is recommending that the following areas be asked to report back on a synopsis of these and other potential new revenue sources, including financial, service and legal implications.

- a) Community Services
- b) Planning, Environmental & Engineering Services
- c) City Manager's Office

It should be noted that the following areas are already in the process of reporting back on previously identified new revenue sources:

- i. Community Services - sale of sponsorships and naming rights for community centres and arena board advertising;
- ii. Planning, Environmental & Engineering Services / Solid Waste – implementing full cost recovery for Solid Waste and fee recovery for garbage collection;

It has been noted that some other municipalities generate revenue from advertising, sponsorship and naming rights for municipally owned assets including arenas, community centres, parks, roadways, and rolling stock (i.e. vehicles). Currently the City of London does not have a comprehensive policy and strategy for these agreements. Civic Administration should be asked to report back on a policy to cover these potential revenue generating opportunities.

It has also been noted that other municipalities, notably the City of Toronto, are able to generate additional revenue through options available to them in Provincial statutes (i.e. personal vehicle tax). The City Manager's Office should be asked to request that AMO act on behalf of all municipalities and submit a request to the Minister of Municipal Affairs and Housing for legislative revisions that would open up more options for municipalities to generate additional revenue.

Alternative 4: Increase User Fees (adopt a principle of full cost recovery)

There is an opportunity to increase revenue by increasing user fees to a full cost recovery model or charge for new services. Opportunities exist to support the progression toward full cost recovery on user fee rates on water, wastewater and solid waste systems. This decision is often balanced with the impact on annual percentage rate increases. User fees, as approved in the 2011 budget, provide six cents for every dollar raised to support the tax-supported budget. User fees support approximately 95% of the water and wastewater budgets. It should be cautioned that a user fee on solid waste may result in a lower income household paying the same for garbage collection as a higher income household.

Civic Administration is recommending that Environmental Services / Solid Waste be asked to report back on a option, including financial and legal implications, to implement user fees for full cost recovery for garbage collection.

The opportunity to increase revenue by increasing user fees must be tempered by the following revenue guidelines:

- o The Municipal Act, 2001 prohibits the City from making a profit on user fees (cost recovery only).

- Revenue should promote growth and economic neutrality; that is, the unintentional interference with private economic decisions should be minimized (unless to limit use of municipal facilities). Where the municipality is in a business that is also served by the private sector, a balance should be maintained to ensure accessibility is maintained without undercutting the private sector.
- An extensive list of charges for City information, licenses, and approvals can form a barrier to economic development.
- Fees are best used to allocate a service, or encourage responsible use of a service. For example, it is easy to imagine the frustration that a first come, first served free ice time policy would create. Although it is not universally popular, the sewer surcharge encourages water conservation.
- Many user fees or fare-type revenue have price elasticity issues that should be considered before adjusting the rates. For example, through the London Transit Commission an increase in fees would have a negative impact on ridership, the implications of which would have a compounding effect on the service, possibly making the service not viable. Given other municipal goals and objectives for transit systems, this action may not achieve those goals in the long run. Similar arguments could be made for recreation services.
- Fees should be inexpensive to collect and administer.
- Fee revenue can be difficult to predict; services supported by fees should be of a type that can be scaled back if fees do not materialize.

c) SUGGESTED USES FOR FUNDS GENERATED FROM REVENUE ALTERNATIVES

The proceeds from the sale of assets should be used in the following priority order:

- a. reduce debt, it being noted that reducing debt reduces current and future tax increases due to reduced interest costs;
- b. invest in assets that produce a return on the investment that considers both the financial and non financial (service value adds); or,
- c. invest the proceeds and use the interest to provide on-going contributions to economic development initiatives.

CONCLUSION

On June 21, 2011, Committee of the Whole received a discussion paper from the City Treasurer, Chief Financial Officer titled Capital Assets and Revenue Alternatives. At the July 25, 2011 meeting, Municipal Council resolved that Civic Administration report back at a future meeting of the Committee of the Whole regarding:

- (a) principles to be considered in identifying revenue objectives;
- (b) identification and synopsis of the top four revenue generating alternatives that are in keeping with the principles arising from (a) above; and,
- (c) suggested uses for any funds that may be generated.

The principles have been identified in **Appendix A**. Civic Administration is recommending that these principles be adopted by Council.

The top four revenue generating alternatives identified by administration are:

1. Sell or repurpose a non-productive City asset
2. Sell or repurpose a productive City asset
3. Identify new revenue sources
4. Increase user fees

Administration is recommending a request to report back on the following one-time or permanent revenue generating alternatives, including financial and legal implications:

- a) Community Services
- b) Planning, Environmental and Engineering Services
- c) City Manager's Office / Realty Services – selling vacant land and industrial land;

Civic Administration should report back on a policy and strategy for advertising, sponsorship and naming rights for municipally owned assets.

The City Manager's Office should also be asked to request that AMO act on behalf of all municipalities and submit a request to the Minister of Municipal Affairs and Housing for legislative revisions that would open up more options for municipalities to generate additional revenue (i.e. personal vehicle tax).

Administration is suggesting that proceeds from the sale of assets be used in the following priority order: reduce debt; invest in assets that produce a financial or non-financial return on the investment; or, invest cash and use interest to provide on-going contributions to economic development initiatives.

Prepared By:	Reviewed By:
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Recommended By:	
Martin Hayward City Treasurer, Chief Financial Officer	

Attach.

cc. M. Turner, Deputy City Treasurer

APPENDIX A

PRINCIPLES FOR IDENTIFYING ASSET SALES AND REVENUE ALTERNATIVES

1. A long term view should be considered when contemplating an asset sale.
2. The proceeds from the sale of asset should be used in the following priority order:
 - a. reduce debt, it being noted that reducing debt reduces current and future tax increases due to reduced interest costs;
 - b. invest in assets that produce a return on the investment that considers both the financial and non financial (service value adds); or,
 - c. invest the proceeds and use the interest to provide on-going contributions to economic development initiatives.
3. The proceeds from the sale of an asset should not be used:
 - a. to reduce tax rate/budget pressure;
 - b. to provide a source of funding for a new asset that does not produce a return on investment; or,
 - c. to fund on-going/permanent expenditures.
4. The short and long term impact of an asset sale must be carefully analyzed and should be supported by a business case. For example, the sale of a redundant parcel of land generally makes good business sense. However, most other divestment opportunities require an analysis of relocation and/or exit/re-entry costs, valuation and market timing, community impact, and long term cost and service standard issues (e.g. a sale-lease back of recreational facilities).
5. Assets that are owned by the municipality and provide non-core services, as deemed by Council, represent the best opportunity for sale. Some asset sales or service divestments may generate a perfect win-win result by generating short term revenue and long term operating cost reductions.
6. The community impact and continuation of provision of service must be considered with any sale of City assets. Assets that create a new revenue stream are of most interest to potential purchasers. It is important to realize however that a profit element and financing cost often enters into the rate setting process provided by the purchaser.
7. With the sale of any asset, the City's risk associated with carrying the asset should be transferred to the buyer. For example, a City owned parking lot carries the risk that the expense of maintaining the lot exceeds the revenue received from the lot. If the City sells the parking lot, the buyer assumes this risk after purchase.
8. Any transfer of assets should be at fair market value to avoid any contravention of the *Municipal Act* such as bonusing.

The Best Means of Achieving These Principles

- Keep these principles front and centre in discussions on revenue opportunities.
- Allow sufficient time for Civic Administration to adequately review revenue opportunities and invest in consultants where necessary to provide specific expertise.
- Public engagement and consultation with appropriate community partners should be considered a best practice when considering the sale of any City asset.