

City of Kawartha Lakes 10-Year Financial Plan 2018-2027



A guiding framework in which to implement the 2017 Asset Management Plan and secure the City's long-term financial sustainability.

July 11th, 2017



I. Introduction

Designed to implement the 2017 Asset Management Plan (AMP), this 10-Year Financial Plan provides a framework in which to secure the long-term financial sustainability of the City. As a model and financial planning tool, this plan is intended to guide operating and capital budgets through the transition to sustainability. As the AMP is a living document, so too is the 10-Year Financial Plan; both plans must be adaptable to changing legislative, financial and other circumstances relevant to the municipal sector.

The 10-Year Financial Plan comprises component plans for tax-supported and water/wastewater asset portfolios, with the following primary objectives at the forefront:

1. Capital Expenditure Sustainability: This refers to bringing capital expenditure in line with expected capital need, eliminating the infrastructure deficit.
2. Tax/Utility Rate Support Sustainability: This refers to bringing tax/utility rate support of capital in line with that required once all other funding sources have been accounted.
3. Capital Reserve Sustainability: This refers to building healthy capital reserve balances to promote tax/utility rate stabilization and insure against unanticipated capital needs and emergencies.

Each of these is a dimension of long-term financial sustainability. All else equal, the preference clearly is to achieve these objectives sooner rather than later, however other considerations play an integral role in determining the viable path and timing of financial sustainability. Accordingly, the financial plan reflects the following main considerations:

1. Service Deficiencies: The later capital expenditure sustainability is achieved, the greater realized municipal service levels will deteriorate and fall below expectations and/or legislated standards (e.g. gravel road deficiencies).
2. Asset-Related Risk: The later capital expenditure sustainability is achieved, the greater the risk of unacceptable asset performance, deterioration or failure and related emergency costs (e.g. City Hall roof failure).
3. Ratepayer Affordability: The later tax/utility rate support sustainability is achieved, the greater the need for tax/utility rate increases in the mid and latter part of the planning horizon and hence for transitional reliance on debt and capital reserves.
4. Debt Capacity: The debenture-eligibility, current financing and value of existing capital projects limit the amount of debenture that can be issued immediately, and the *Municipal Act* and Ministry of Municipal Affairs and Housing set additional limitations and guidelines on municipal debt.

5. Capital Reserve Integrity: Transitional reliance on capital reserves to support the phase-in of capital expenditure and tax/utility rate support sustainability is subject to minimum transitional reserve balances to maintain reserve integrity.
6. Operating Pressures: Accumulated and arising operating pressures prolong the transition to sustainability as they result in less tax/utility rate support available for capital and hence greater need for transitional reliance on capital reserves.

In essence, the 10-Year Financial Plan achieves sustainability as soon as possible within the planning horizon subject to acceptable adherence to the above constraints. Charts 1 and 2 below summarize the City’s lifecycle capital needs and infrastructure deficit.

Chart 1

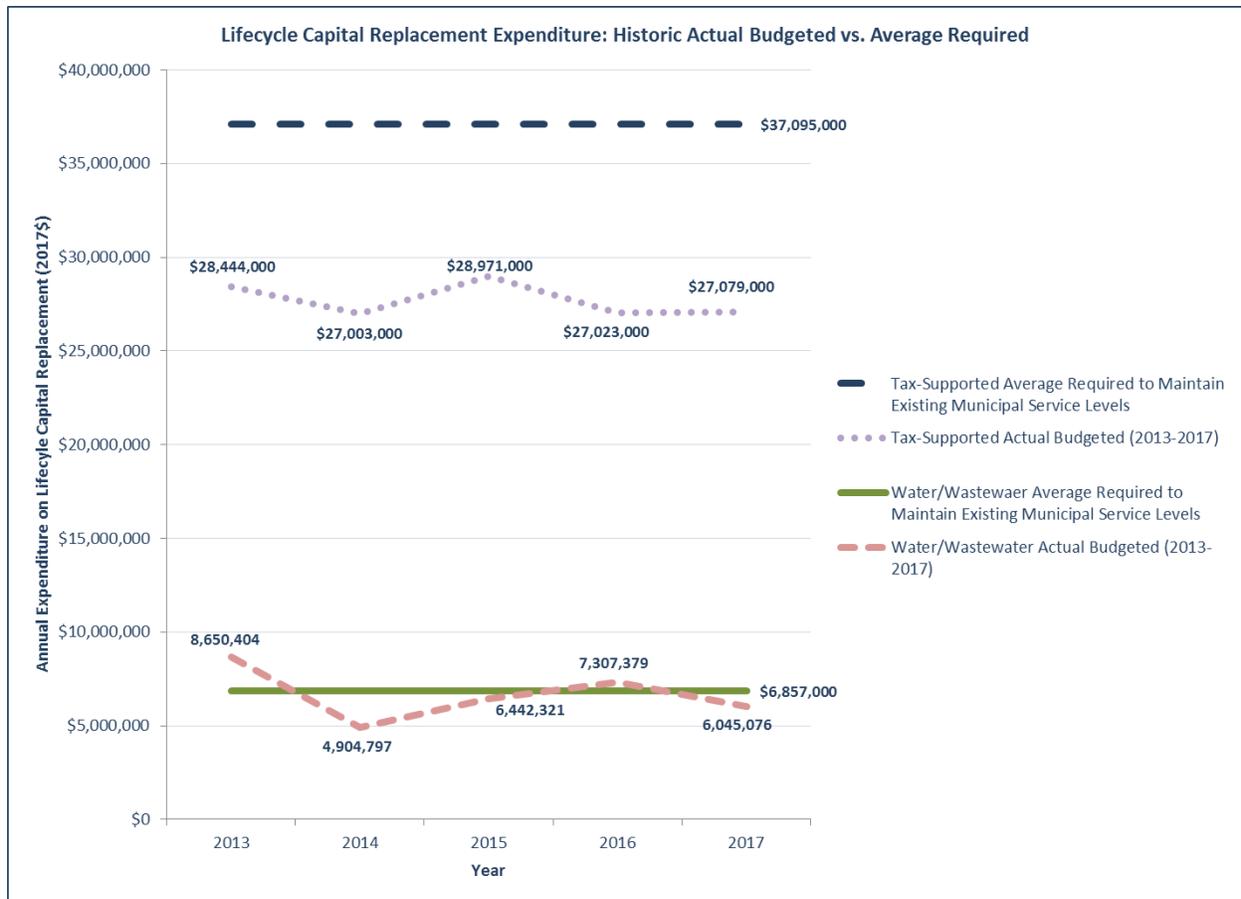


Chart 2



II. Tax-Supported Plan

Capital expenditure, tax support and capital reserve sustainability are attained in 4 years, 6 years and 10 years, respectively, facilitated by an issuance of \$25M in transitional debenture.

Capital Expenditure and Tax Support of Capital

Sustainable expenditure for lifecycle capital replacement is phased in evenly so as to eliminate the infrastructure deficit by 2021. Similarly, sustainable tax support for capital is reached in 2023. These phase-ins (illustrated in Chart 3 below) are enabled by an immediate one-time transitional debenture issuance, freeing up tax-supported financing of existing eligible capital projects that is then transferred to the capital reserve. The capital reserve is then used to support the capital budget until the phase in of sustainable tax support is completed, at which point replenishment of the capital reserve begins.

Transitional Debenture and Capital Reserve Reliance

An estimated \$25M one-time transitional debenture is required to facilitate the transition to capital expenditure and tax support sustainability. This is to be issued against existing eligible capital projects and incurred in 2017-2018 to take advantage of historically low interest rates. This frees up tax levy and reserve financing that then infuses the capital reserve (or other reserves as may be required as the term “capital reserve” is meant to also represent reserves with equivalent function). As illustrated in Chart 4, over time the capital reserve is drawn down to facilitate the phase-in of capital expenditure and tax support increases and the stabilization of tax increases. The most critical of these increases are those that occur before the infrastructure deficit is eliminated.

Based on historical variation in the City’s annual capital expenditure, it is prudent to target a capital reserve balance equal to approximately 25% of average annual lifecycle capital need to support the stabilization of tax rate impacts and the regulation of reliance on debenture. This is enabled by gradual replenishment of the capital reserve to a healthy balance by 2027 through a stabilized sequence of declining tax increases that converges to inflationary levels.

Tax Increases

Tax increases are stabilized in a declining sequence while sustainability is phased in, transitional debenture is retired and the capital reserve is replenished. In particular, recommended tax increases are forecasted at 4.5%/annum for 2018-2021, 3.0%/annum for 2022-2023 and 2.0%/annum for 2024-2027. This strategy is premised on collapsing the tax-supported Infrastructure Levy into the General Tax Levy, and is illustrated in Chart 5.

Chart 3

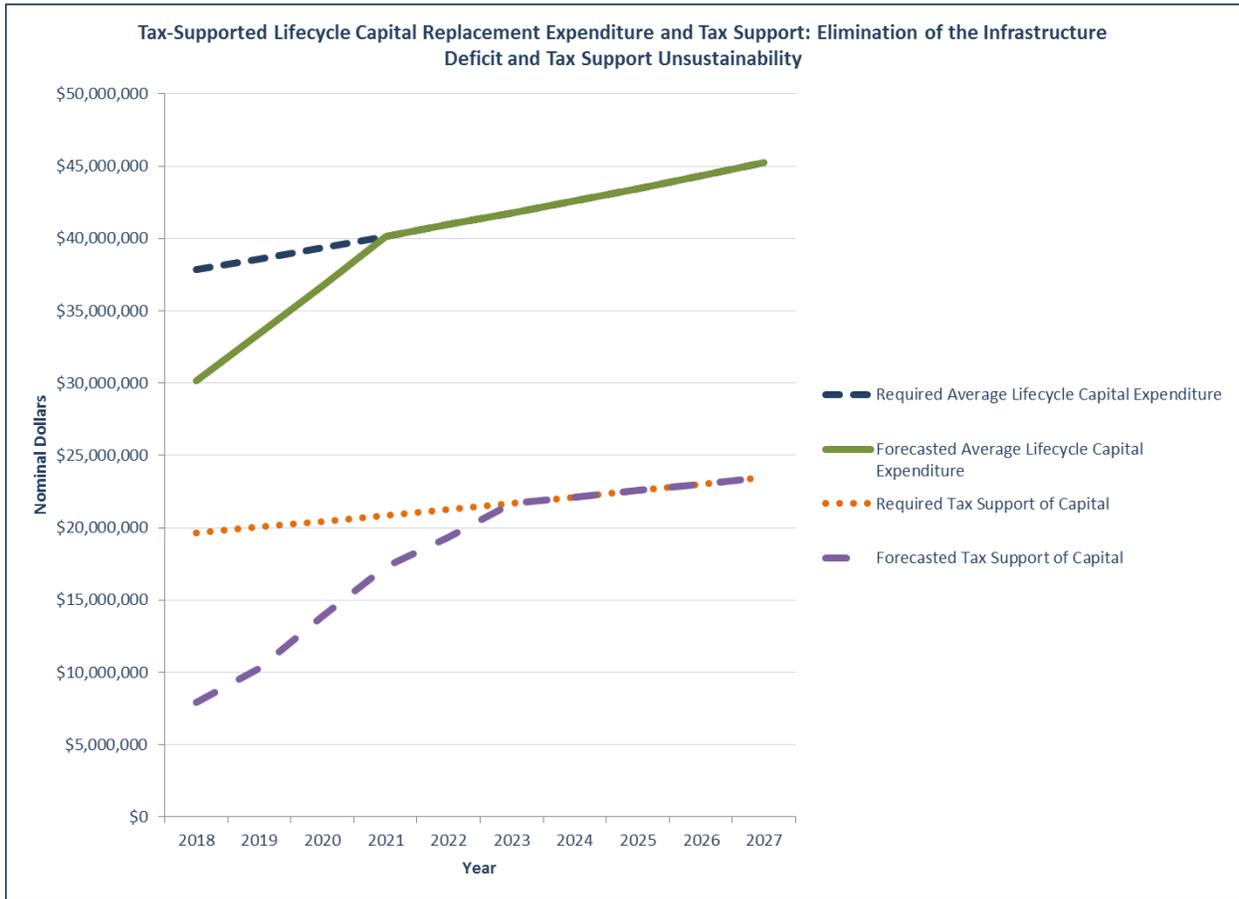
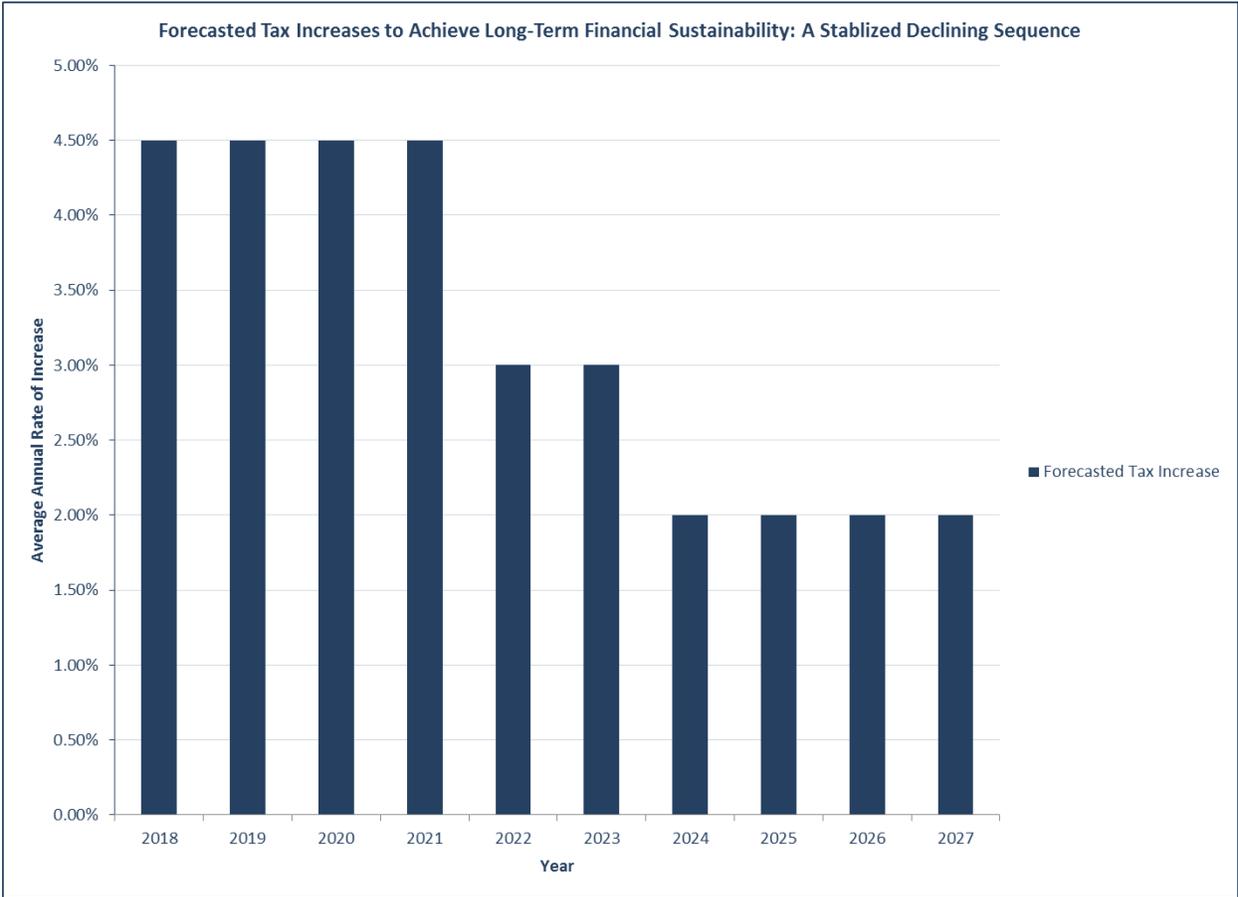


Chart 4



Chart 5



III. Water/Wastewater Plan

Capital expenditure, utility rate support and capital reserve sustainability are attained in 1 year, 6 years and 10 years, respectively, without the need for transitional debenture.

Capital Expenditure and Utility Rate Support of Capital

The infrastructure deficit is small enough that it can be considered within the natural range of variation from the average sustainable expenditure. This means capital expenditure sustainability is achieved immediately. The capital reserve is used to support the capital budget until the phase in of sustainable utility rate support is completed, at which point replenishment of the capital reserve begins (see Chart 6 below).

Transitional Debenture and Capital Reserve Reliance

Transitional debenture is not required as the current capital reserve balance is sufficient to support the phase in of sustainable utility rate support. Based on historical variation in the City's annual water/wastewater capital expenditure, it is prudent to target a capital reserve balance equal to approximately 35% of average annual lifecycle capital need to support the stabilization of utility rate impacts and the regulation of reliance on debenture. This is enabled by gradual replenishment of the capital reserve to a healthy balance by 2027 (see Chart 7 below) through a stabilized sequence of declining utility increases that converges to inflationary levels.

Utility Rate Increases

Utility rate increases are stabilized in a declining sequence while sustainability is phased in and the capital reserve is replenished. In particular, recommended utility rate increases are forecasted at 4.0%/annum for 2018-2020, 3.5%/annum for 2021-2022, 3.0%/annum for 2023-2024, 2.5%/annum for 2025-2026 and 2.0%/annum for 2027. This strategy is premised on collapsing the water and wastewater Infrastructure Levies into their respective fixed user fees, and is illustrated in Chart 8.

Chart 6

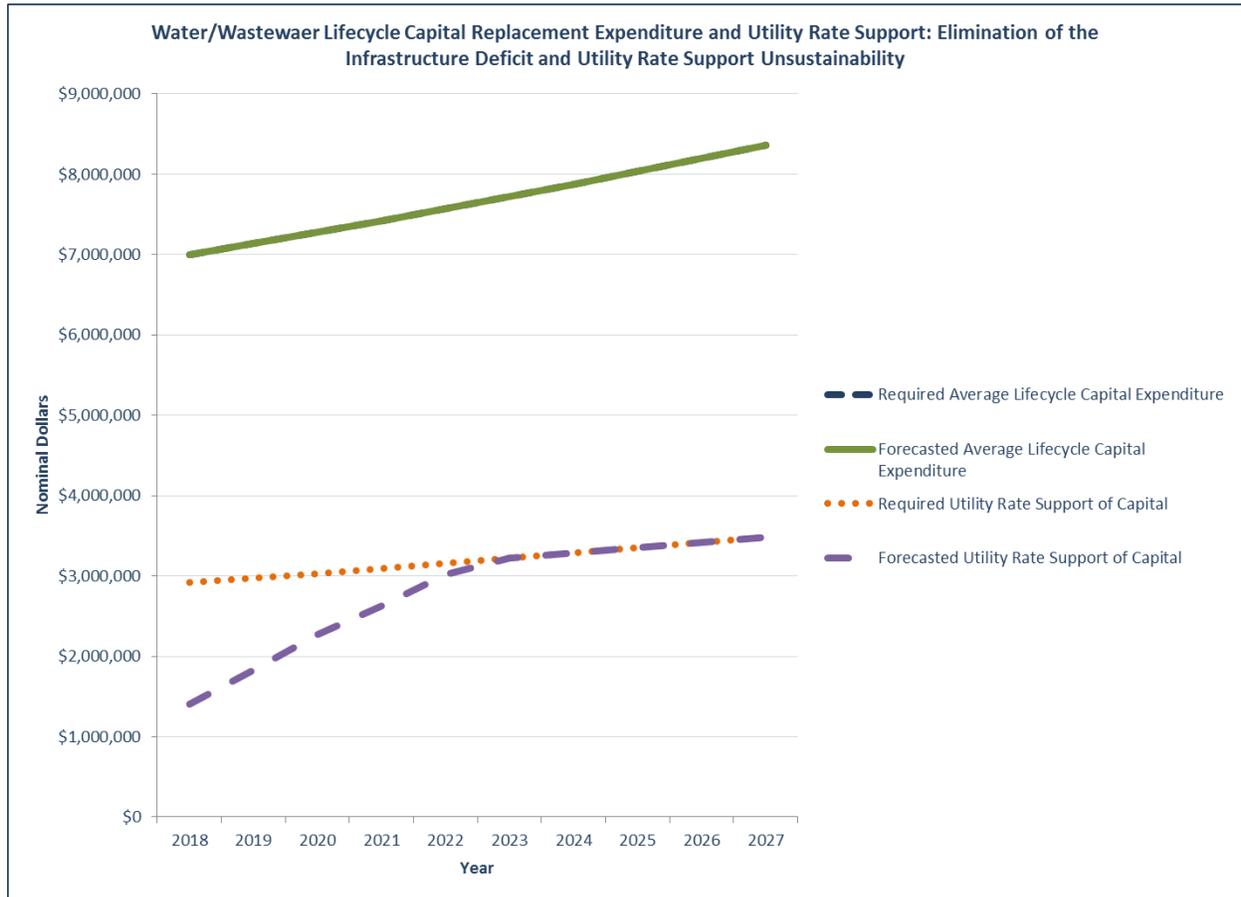


Chart 7

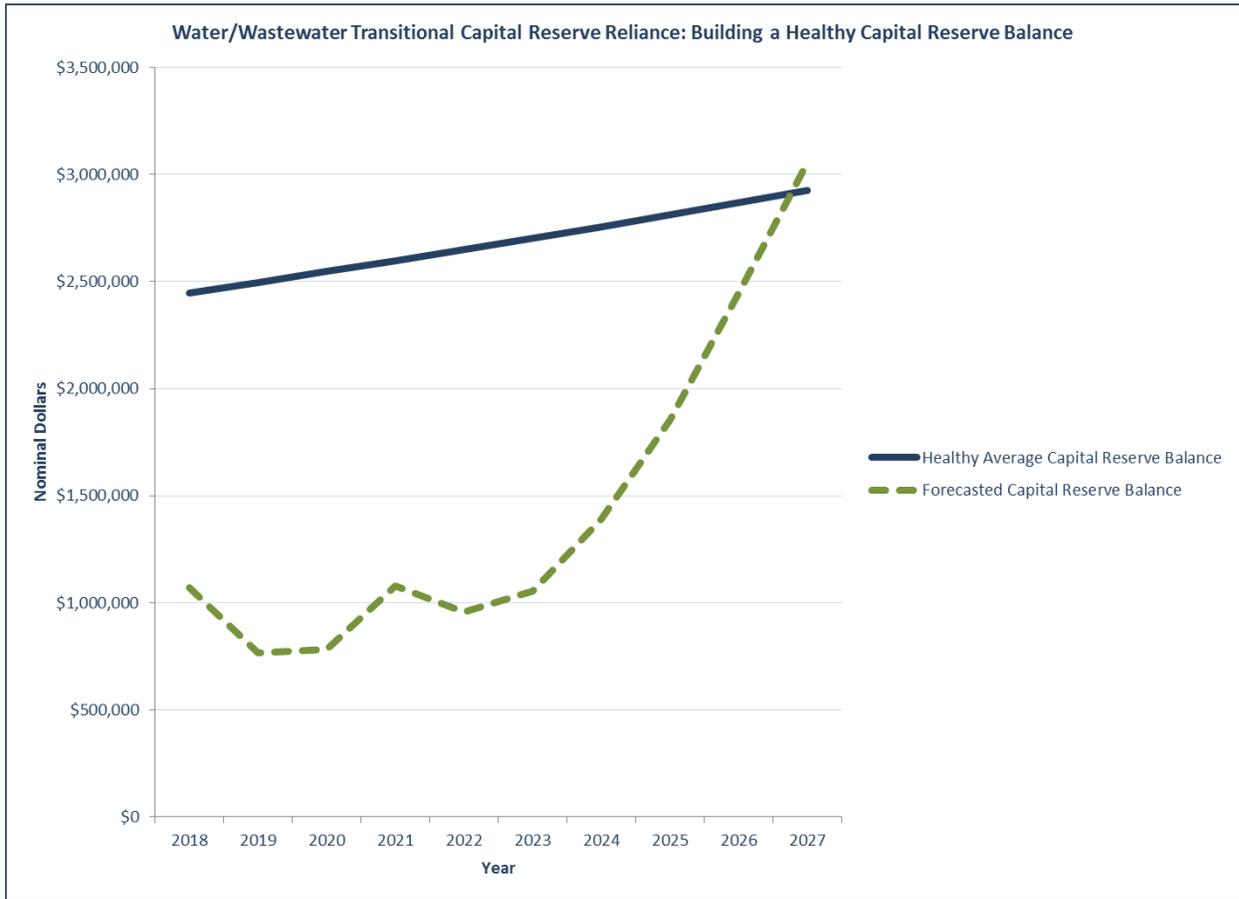
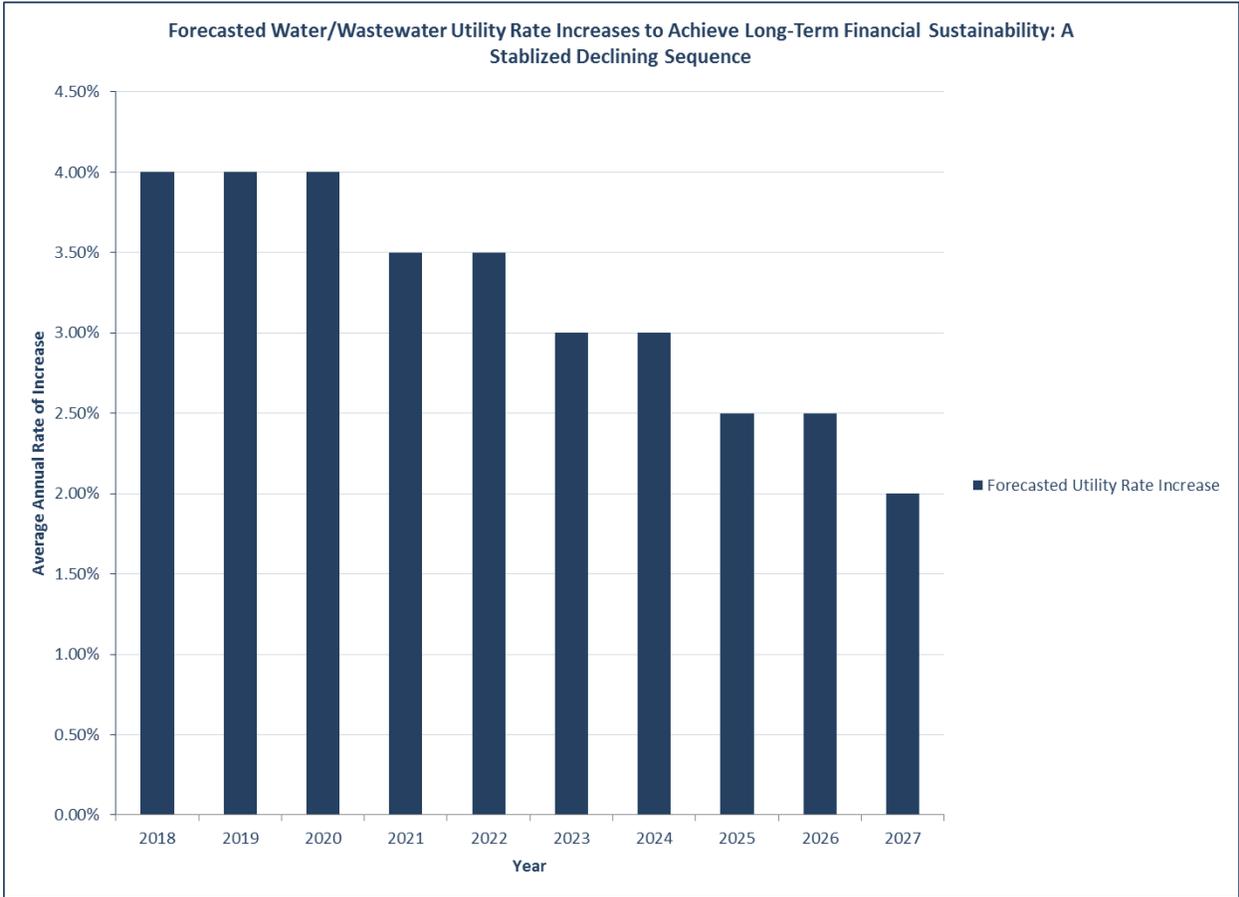


Chart 8



IV. Forecast Parameters and Details

This section outlines the parameters underlying the plan, as well as the forecast details.

Forecast Parameters

The plan developed herein is based on the 2017 AMP and the following general parameters:

Planning Horizon: Long-term financial sustainability is achieved within the 2018-2027 planning horizon.

Lifecycle Capital Replacement: The average annual capital replacement need as determined by the AMP is used, where a contingency has been added to reflect known asset groups yet to be incorporated into the asset registry. Due to timing constraints, there are two updates reflected herein more fully than in the AMP. One is the 5-year roads capital program adopted by Council on May 16th, 2017 based on the 2016 Roads Needs Study, which informs the relevant roads reconstruction and resurfacing capital programs. The other is incorporation of the new Fleet Policy and its Management Directive setting out lifecycles, replacement costs and rental rates for vehicles and related equipment.

Non-Lifecycle Capital Replacement and Capital Expansion: All of these needs are tax-supported. The redevelopment/rebuild of Victoria Manor is the only known major non-lifecycle replacement (this is driven by legislation as outlined in Council Report VM2017-001). Expansionary capital needs are divided into two groups: those identified in 2015 Development Charge Background Study (“DC Study”) and those that are not. The latter group comprises three needs, of which only the first would be eligible for development charge (DC) financing under current legislation: Lindsay Municipal Parking Garage, Administration Centre and Cultural Centre. The replacement components of needs in the former group are included in the lifecycle capital replacement forecast and the growth-related components are recovered via DCs as much as possible under current legislation.

Grant Financing: Expected utilization of the following major capital grants has been incorporated: Federal Gas Tax Fund, Provincial Gas Tax Fund, Ontario Community Infrastructure Fund, Small Communities Fund, Public Transit Infrastructure Fund and Clean Water and Wastewater Fund. The expected grant support of the principal portion of the anticipated Victoria Manor redevelopment/rebuild debenture is also incorporated.

Reserve / Deferred Revenue Financing: Expected utilization of the following major reserves and other sources of deferred revenue has been incorporated: Ministry of Health, Pits and Quarries, Public Works Fleet, Fire Fleet, Parkland, Wilson Estate, Victoria Manor, Property Development and DCs. Through review with Senior Management Team, the timing of growth-related needs has been revised to reflect the considerable deficit balance of the DC Reserve, observed pace of development and other changing conditions. The Property Development Reserve is earmarked to support non-DC-recoverable capital

expansion needs. Through offsetting annual contributions and debits over the long term, the Capital Reserve, once brought to a healthy balance, is to be used to absorb variation in annual capital expenditure from the average so as to stabilize tax/utility rate support of capital and regulate reliance on debenture.

Debenture Financing: Expected renewable debenture room is maximally utilized within the current self-imposed debt ceiling. New issuance of debenture, which necessarily requires at least a temporary increase to the self-imposed debt ceiling, is transitionally utilized to facilitate financial sustainability and is forecasted to support major non-lifecycle and expansionary capital needs. All 10-year debentures are based on a 2.40%/annum rate of interest, with higher-term debentures based on a 3.25%/annum rate of interest.

Tax and Utility Rate Support: The sustainable level of this support is determined as a residual; it is the long-run difference between average annual need for lifecycle capital replacement and the forecasted annual amount of other financing available.

Budget Forecasting: Costs are inflated throughout at a standard 2%/annum rate of inflation. Growth in taxable assessment and water/wastewater customer base is assumed to be 1%/annum. Forecasting is predicated on continuance of existing municipal service levels and known and/or expected cost pressures; it does not account for the potential impact of service level changes or unforeseen cost pressures. It is also predicated on collapsing infrastructure levies into general rate support.

Forecast Details

Tables 1 and 2 below are taken from the AMP and show the forecast details of the plan.

Table 1

City of Kawartha Lakes Tax-Supported 10-Year Financial Plan										
Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Opening Tax Levy										
Operating Support	91,815,261	101,558,447	105,212,643	107,963,143	111,245,913	114,335,576	117,345,982	121,083,384	124,937,249	128,911,157
Capital Support	11,586,000	7,923,243	10,290,541	13,892,716	17,312,018	19,364,672	21,702,276	22,136,322	22,579,048	23,030,629
Total	103,401,261	109,481,690	115,503,183	121,855,858	128,557,931	133,700,248	139,048,258	143,219,705	147,516,297	151,941,786
Status Quo Tax Increase										
General Operating	4,532,939	3,654,195	2,750,500	2,756,748	2,224,918	2,286,712	2,346,920	2,421,668	2,498,745	2,578,223
Property Reserve Support	640,000									
WSIB Premium	350,000									
Winter Control Infusion	1,000,000									
Contribution to Capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	434,046	442,726	451,581	460,613
Assessment Growth (1%)	(1,034,013)	(1,094,817)	(1,155,032)	(1,218,559)	(1,285,579)	(1,337,002)	(1,390,483)	(1,432,197)	(1,475,163)	(1,519,418)
Total	6,488,926	3,559,378	2,595,468	2,538,190	1,939,339	1,949,709	1,390,483	1,432,197	1,475,163	1,519,418
Total (%)	6.28%	3.25%	2.25%	2.08%	1.51%	1.46%	1.00%	1.00%	1.00%	1.00%
AMP-Related Tax Increase										
Contribution to Capital	(4,662,757)	1,367,298	2,602,175	2,419,302	1,052,654	1,337,604	0	0	0	0
Transfer to/(from) Capital Reserve	0	0	0	0	0	97,363	1,110,497	715,994	1,178,127	1,367,454
Debt Servicing										
Transitional for Sustainability	2,826,887									
Scugog River Bridge				526,022						
Lindsay Roads Operations Depot					864,745					
Other Growth-Related Needs							279,985		297,036	
Victoria Manor						626,332				
Administration Centre								716,203		
Cultural Centre										151,964
Total	(1,835,869)	1,367,298	2,602,175	2,945,324	1,917,399	2,061,298	1,390,483	1,432,197	1,475,163	1,519,418
Total (%)	-1.78%	1.25%	2.25%	2.42%	1.49%	1.54%	1.00%	1.00%	1.00%	1.00%
Tax Increase Summary										
Status Quo Tax Increase	6,488,926	3,559,378	2,595,468	2,538,190	1,939,339	1,949,709	1,390,483	1,432,197	1,475,163	1,519,418
AMP-Related Tax Increase	(1,835,869)	1,367,298	2,602,175	2,945,324	1,917,399	2,061,298	1,390,483	1,432,197	1,475,163	1,519,418
Total	4,653,057	4,926,676	5,197,643	5,483,514	3,856,738	4,011,007	2,780,965	2,864,394	2,950,326	3,038,836
Total (%)	4.50%	4.50%	4.50%	4.50%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%
Closing Tax Levy										
Operating Support	101,558,447	105,212,643	107,963,143	111,245,913	114,335,576	117,345,982	121,083,384	124,937,249	128,911,157	133,008,798
Capital Support	7,923,243	10,290,541	13,892,716	17,312,018	19,364,672	21,702,276	22,136,322	22,579,048	23,030,629	23,491,241
Total	109,481,690	115,503,183	121,855,858	128,557,931	133,700,248	139,048,258	143,219,705	147,516,297	151,941,786	156,500,039

City of Kawartha Lakes Tax-Supported 10-Year Financial Plan

Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Capital Budget Financing										
Tax Support	7,923,243	10,290,541	13,892,716	17,312,018	19,364,672	21,702,276	22,136,322	22,579,048	23,030,629	23,491,241
Capital Reserve	9,231,960	6,425,566	3,970,710	3,547,532	1,912,069	0	0	0	0	0
Grants, Debenture and Other Reserves	13,019,456	16,667,208	18,844,820	19,293,271	19,679,136	20,072,719	20,474,173	20,883,657	21,301,330	21,727,357
Total	30,174,660	33,383,315	36,708,246	40,152,821	40,955,877	41,774,995	42,610,495	43,462,705	44,331,959	45,218,598
Capital Reserve Continuity										
Opening Balance	25,240,000	16,512,840	10,417,530	6,655,171	3,240,742	1,393,488	1,518,721	2,756,955	4,735,948	7,932,647
Contribution to Capital	(9,231,960)	(6,425,566)	(3,970,710)	(3,547,532)	(1,912,069)	0	0	0	0	0
Contribution from Operating	0	0	0	0	0	97,363	1,207,860	1,923,854	3,101,980	4,469,434
Interest (2%)	504,800	330,257	208,351	133,103	64,815	27,870	30,374	55,139	94,719	158,653
Closing Balance	16,512,840	10,417,530	6,655,171	3,240,742	1,393,488	1,518,721	2,756,955	4,735,948	7,932,647	12,560,734
Transitional Debenture Continuity										
Opening Remaining Principal	25,000,000	22,500,000	20,000,000	17,500,000	15,000,000	12,500,000	10,000,000	7,500,000	5,000,000	2,500,000
Principal Payment	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)
Closing Remaining Principal	22,500,000	20,000,000	17,500,000	15,000,000	12,500,000	10,000,000	7,500,000	5,000,000	2,500,000	0

Table 2

City of Kawartha Lakes Water/Wastewater 10-Year Financial Plan										
Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Opening Rate Levy										
Operating Support	17,756,618	18,185,290	18,548,996	18,919,976	19,298,375	19,684,343	20,158,208	20,795,140	21,331,433	21,881,462
Capital Support	1,078,431	1,403,161	1,822,993	2,266,893	2,630,034	3,011,561	3,218,572	3,282,944	3,348,603	3,415,575
Total	18,835,049	19,588,451	20,371,989	21,186,869	21,928,409	22,695,903	23,376,780	24,078,084	24,680,036	25,297,037
Status Quo Rate Increase										
General Operating	355,132	363,706	370,980	378,400	385,968	393,687	403,164	415,903	426,629	437,629
Contribution to Capital	21,569	28,063	36,460	45,338	52,601	60,231	64,371	65,659	66,972	68,311
Conservation (-1%)	188,350	195,885	203,720	211,869	219,284	226,959	233,768	240,781	246,800	252,970
Customer Growth (1%)	(188,350)	(195,885)	(203,720)	(211,869)	(219,284)	(226,959)	(233,768)	(240,781)	(246,800)	(252,970)
Total	376,701	391,769	407,440	423,737	438,568	453,918	467,536	481,562	493,601	505,941
Total (%)	2.00%									
AMP-Related Rate Increase										
Contribution to Capital	303,161	391,769	407,440	317,803	328,926	146,780	(0)	(0)	0	0
Transfer to/(from) Capital Reserve	0	0	0	0	0	80,179	233,768	120,390	123,400	0
Debt Servicing										
Transitional for Sustainability	0									
Water Meter Technology Upgrade	73,540									
Total	376,701	391,769	407,440	317,803	328,926	226,959	233,768	120,390	123,400	0
Total (%)	2.00%	2.00%	2.00%	1.50%	1.50%	1.00%	1.00%	0.50%	0.50%	0.00%
Rate Increase Summary										
Status Quo Rate Increase	376,701	391,769	407,440	423,737	438,568	453,918	467,536	481,562	493,601	505,941
AMP-Related Rate Increase	376,701	391,769	407,440	317,803	328,926	226,959	233,768	120,390	123,400	0
Total	753,402	783,538	814,880	741,540	767,494	680,877	701,303	601,952	617,001	505,941
Total (%)	4.00%	4.00%	4.00%	3.50%	3.50%	3.00%	3.00%	2.50%	2.50%	2.00%
Closing Rate Levy										
Operating Support	18,185,290	18,548,996	18,919,976	19,298,375	19,684,343	20,158,208	20,795,140	21,331,433	21,881,462	22,319,091
Capital Support	1,403,161	1,822,993	2,266,893	2,630,034	3,011,561	3,218,572	3,282,944	3,348,603	3,415,575	3,483,886
Total	19,588,451	20,371,989	21,186,869	21,928,409	22,695,903	23,376,780	24,078,084	24,680,036	25,297,037	25,802,978

