Preview of Long-Term Financial Plan

Summary of Key Elements of Draft Plan

October 5, 2021

Presentation Themes

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1. 2017 Long-Term Financial Plan: Lessons Learned
2. Key Elements of Draft 2021 Long-Term Financial Plan
   a) Capital and Operating Forecasts
   b) People Strategy
   c) Revenue Strategy
      - General Tax Levy and User Rate Increases
      - Special Capital Tax Levy
   d) Reserve Strategy
   e) Debt Strategy
      - Annual Repayment Limit Respecting Debt
      - Maximum and Target Debt Servicing Ratios
      - Debt Limits Established by Broad Category
   f) Affordability Management Strategy
3. Next Steps

Lessons Learned: 2018-2021

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- The single greatest challenge to the 2017 Long-Term Financial Plan (LTFP) has been highly inadequate support of the capital reserve.
- In 2017 the contribution to that reserve was \$13.6M/year, and in 2021 it should be about \$25.6M/year instead of the actual \$9.1M/year.
- Accounting for cost inflation, that means that capital reserve financing capacity is operating at only 35% of what is ultimately required.
- This deficiency has contributed to the City's backlog of tax-supported capital needs to grow considerably, and is not <u>sustainable</u> if continued.

Lessons Learned: 2018-2021

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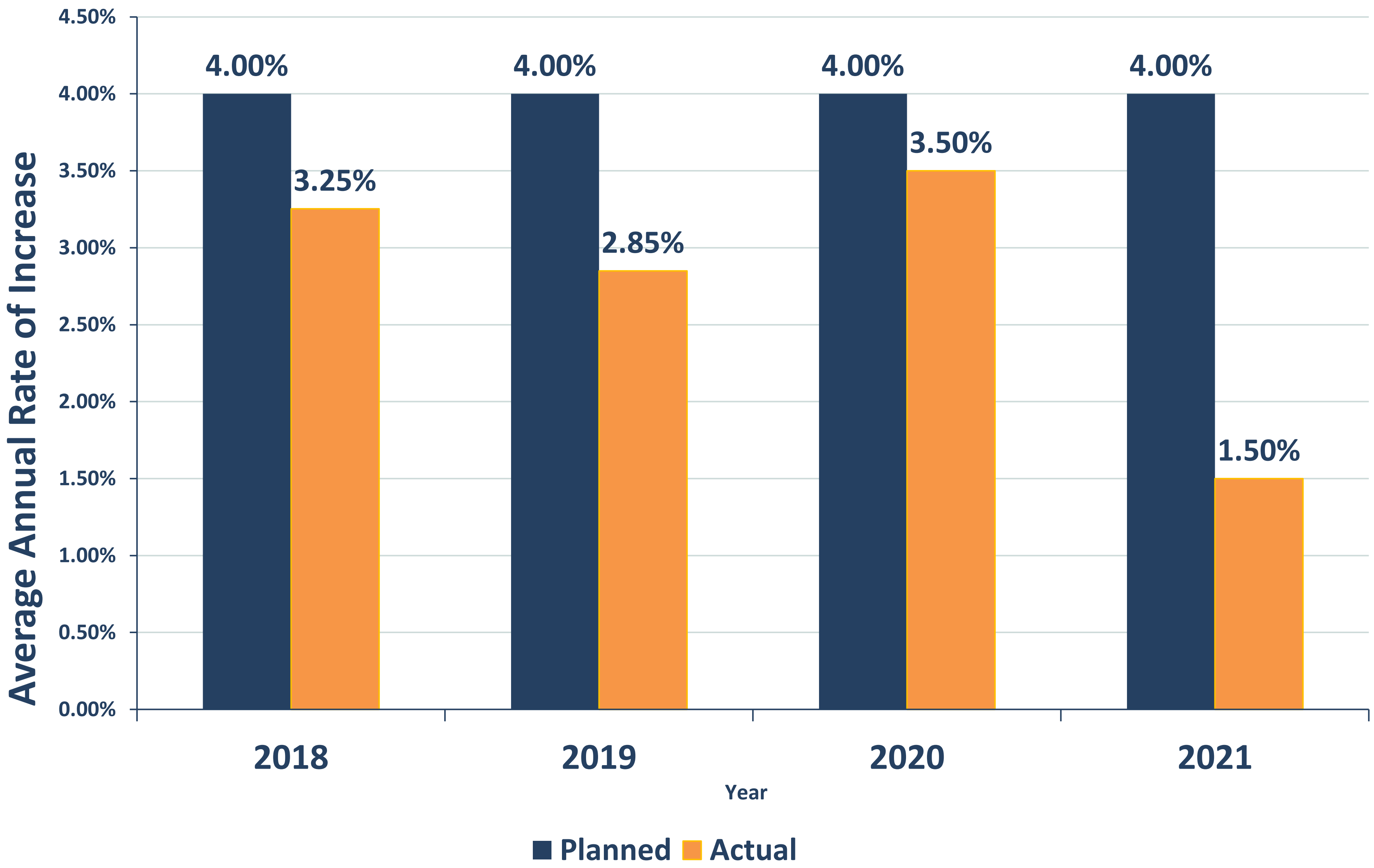
- The existing LTFP, adopted in 2017 for the 2018-2027 period, has the capital reserve contribution becoming sustainable by about 2023.
- How did the capital reserve contribution instead decline and thereby become even more deficient than it was previously?

  - **Tax Increases:** The existing LTFP calls for tax increases of 4% per year for 2018-2021, however, actual tax increases for the same period have averaged only 2.8% per year.

  - **Operating Costs:** The existing LTFP assumes operating costs increase at 2% per year, however, they have actually increased by 5.4% per year on average over 2018-2021.

Tax Increases: Planned vs. Actual 2018-2021



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Lessons Learned: 2018-2021

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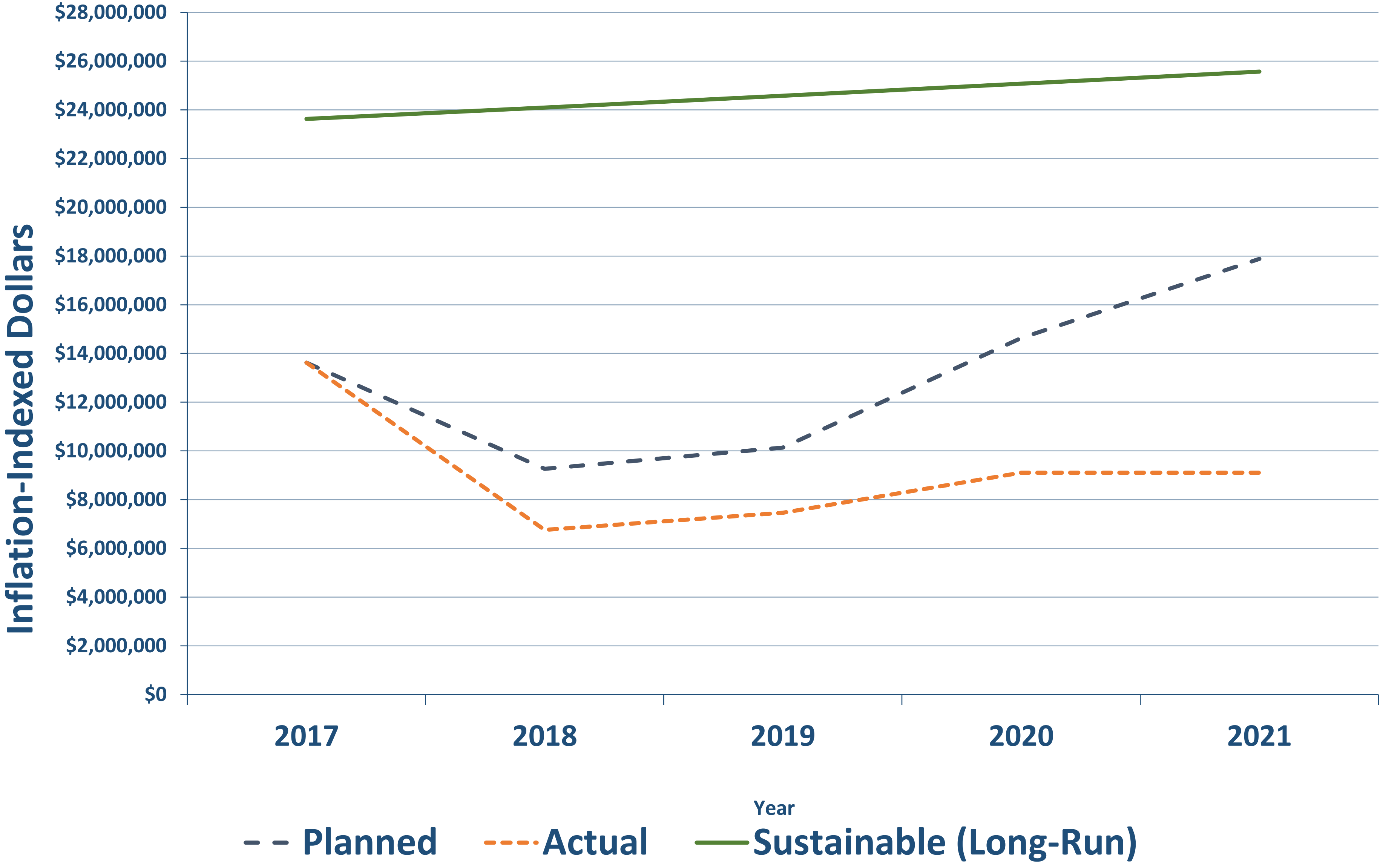
2018-2021 Tax Increases (%)			
Year	Planned	Actual	Incremental Deficiency
2018	4.00%	3.25%	0.75%
2019	4.00%	2.85%	1.15%
2020	4.00%	3.50%	0.50%
2021	4.00%	1.50%	2.50%

2018-2021 Tax Increases ($)			
Year	Planned	Actual	Incremental Deficiency
2018	4,174,841	3,395,240	779,601
2019	4,379,116	3,120,120	1,258,996
2020	4,522,313	3,957,024	565,289
2021	4,751,594	1,781,848	2,969,746

Projected Foregone Tax Revenue Due to 2018-2021 Tax Increase Deficiencies ($)			
Year	Incremental	Annual	Cumulative
2018	779,601	779,601	779,601
2019	1,258,996	2,069,780	2,849,381
2020	565,289	2,717,861	5,567,242
2021	2,969,746	5,796,321	11,363,563
2022		5,970,211	17,333,774
2023		6,149,317	23,483,091
2024		6,272,304	29,755,395
2025		6,397,750	36,153,145
2026		6,525,705	42,678,849
2027		6,656,219	49,335,068
2028		6,789,343	56,124,411
2029		6,925,130	63,049,541
2030		7,063,633	70,113,174
2031		7,204,905	77,318,079

Contribution to Tax-Supported Capital Reserve: Planned, Actual and Sustainable for 2017-2021



Lessons Learned: 2017-2021

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- **Deviations** from the LTFP have starved the capital reserve of contributions, rendering the contribution even more deficient than it was previously.
- This **compromises** the City's ability to meet basic asset replacement and rehabilitation needs, much less those related to expansion, Council-directed service upgrades or newly legislated obligations.
- This state of affairs is **unsustainable** if prevailing municipal service levels are to be maintained.
- Accordingly, the 2021 LTFP is being designed to address this problem.

Special Capital Levy: 2022-2031

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- **Lesson 1:** Tax increases have been too low in order for the capital reserve contribution to be built up to a more sustainable level.
- **Lesson 2:** Operating costs have increased so rapidly that they could be met only by reductions in the capital reserve contribution.
- These lessons suggest the need to better insulate, build and eventually stabilize the capital reserve contribution.
- Based on experience in peer municipalities, a **special capital levy** is being proposed to help achieve that goal.

Special Capital Levy: 2022-2031

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A special capital levy, as proposed by staff, would:

- Provide the capital reserve with a **segregated revenue stream** and reduce pressure on the City’s debt load.
- Be designed to build up the contribution to and balance of the capital reserve to **more sustainable levels** and then maintain those levels.
- Be **separately identified** on tax bills to promote transparency, reassuring taxpayers that the revenue raised is dedicated to tax-supported capital purposes.

Draft LTFP includes a special capital levy based on tax increases of 1.5% per year designed to raise the capital reserve contribution to a sustainable level by 2031.

Capital Forecast: 2022-2031

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- Draft LTFP includes a $959M capital forecast for 2022-2031 developed based on prevailing municipal service levels as set out by:
  - Legislation
  - Asset Management Plan
  - Water-Wastewater Rate Study
  - Service Master Plans
  - Development Charges (DC) Background Study
  - Previous budgets
  - Other direction provided by Council
- Capital forecast was endorsed by Council on August 10, 2021.

Operating Forecast: 2022-2031

Draft LTFP forecast needs at least a 3% tax levy increase

Pressures in operating budget annually

Former Financing Plan allocated 3% overall for capital and operating

- Capital 1%
- Operating 2%

People Strategy

- Salaries and benefits are a significant portion of the Operating budget
- Difficult to predict new staffing requirements over a 10 year period
- Operating forecast – provision of $400,000 for new staff
- Annually need to focus on why, when and how new staff are hired

People Strategy: Why?

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Legislative

- downloading of services
- new or changing legislation

Growth

- new property owners place an increased demand on existing services

Service Level Changes

- addition of new facilities
- Council direction to increase/change level of service

People Strategy: When?

- Forecasting new staffing requirements for known Legislative and Service level changes is relatively easy

- New staffing required for Growth can be challenging as Departments/Divisions are impacted differently during the stages of growth and by the amount of growth

People Strategy: When?

Pre-Construction

- Engineering
- Planning
- Legal

Construction

- Building
- By-laws
- Fire
- Paramedi
  cs
- Police

Occupancy

- Public Works
- Parks and Recreation
- Library
- Revenue and Taxation
- Customer Services

LRFP – People Strategy: How?

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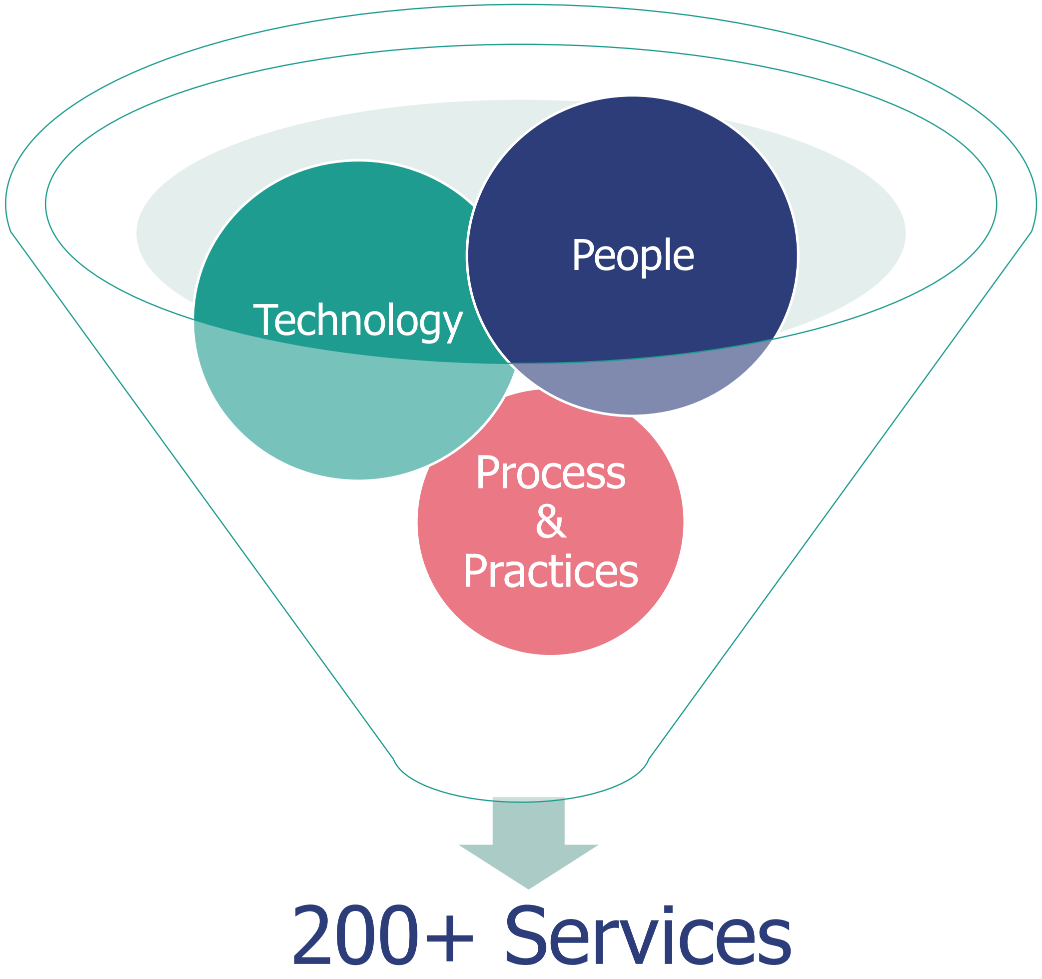
The "easy button" to delivering the City's 200+ Services is to hire additional staff

Prior to adding new staff, a review of the service should be considered:

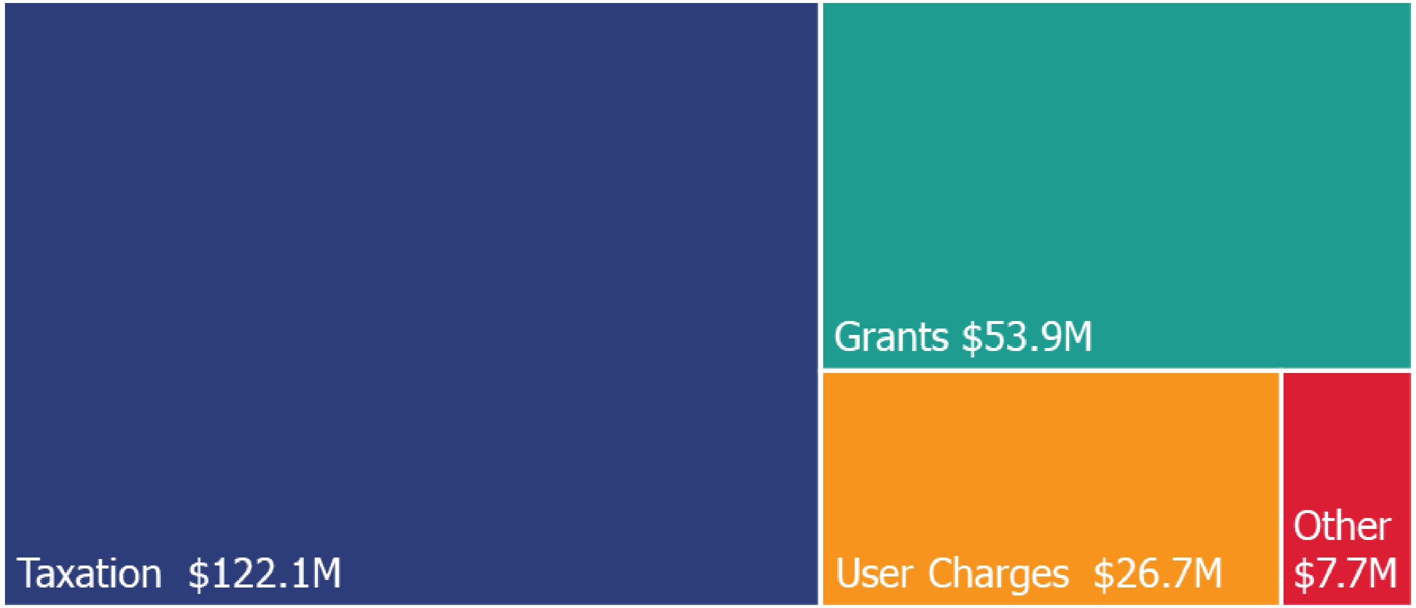
- Could technology or tools make the delivery of this service more efficient?
- Would a process change positively impact the delivery of this service?



Revenue Strategy

- Approximately 40% of the City's revenue comes from non-tax sources
- Revenue strategy will focus on Grant and User Charge revenue with recommendations for Taxation increases

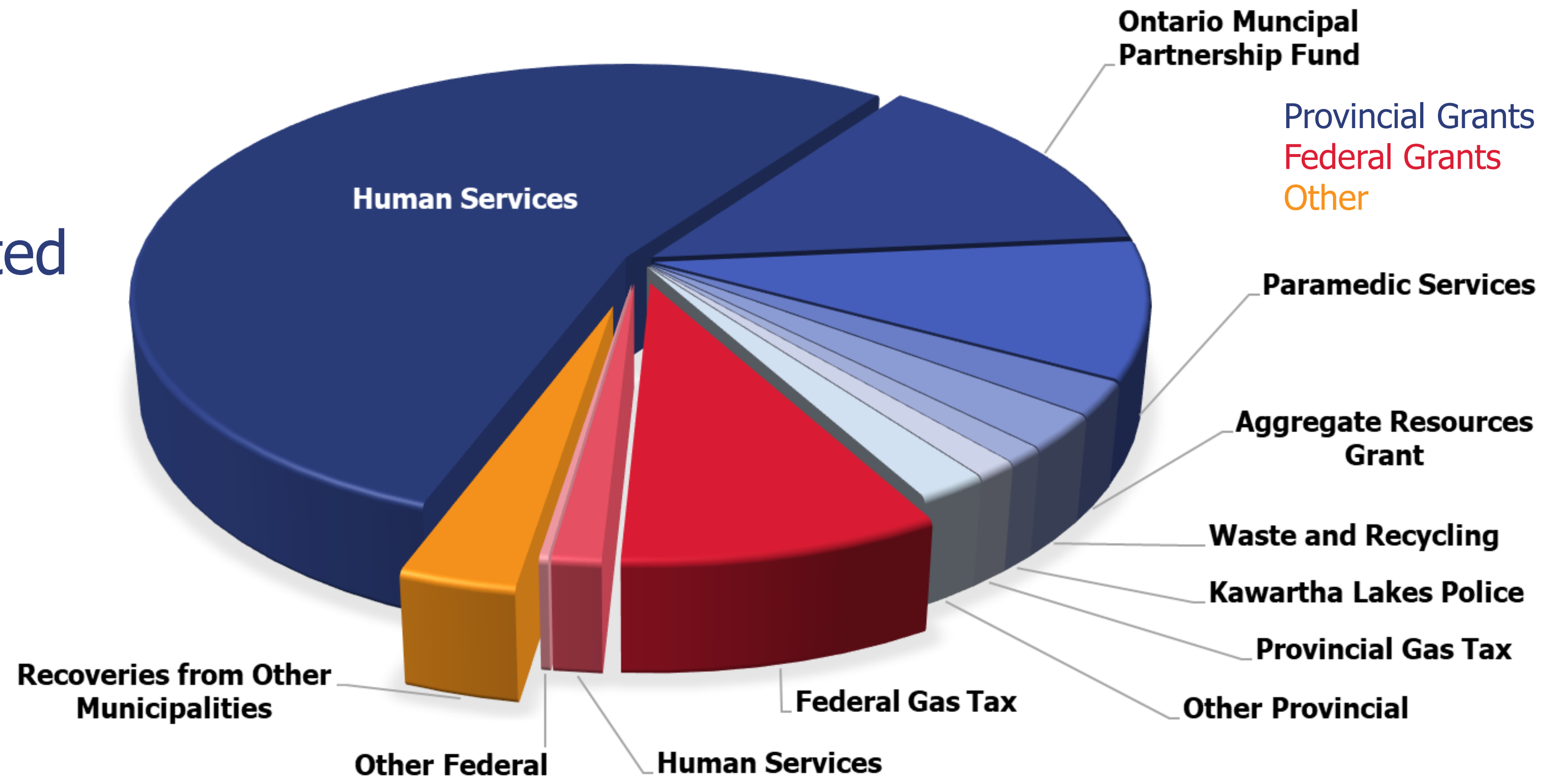
2021 Operating Budget Revenue



Revenue Strategy: Grants

Grant strategy considered:

- major grants
- purpose
- stability
- impact if eliminated



Revenue Strategy: Grants

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Human Services

- High profile given pandemic and recent election
- Stable and if removed expenditures are removed as well

Gas Tax Grants

- Stable into the future
- Primarily funds roads and transit projects

Paramedic Services

- High profile given pandemic
- Questions about grant percentage – 50%

Revenue Strategy: Grants

Aggregate Resource Grants

- Stable grant since inception with substantial increases in 2019
- Funds haul route capital projects

Waste and Recycling Grants

- Blue Box funding undergoing significant changes in 2024/2025
- Results in a net zero effect on operations

Kawartha Lakes Police

- Removal of grant funding for Correctional facilities-2020
- Affects operations in 2021 and 2022

Revenue Strategy: Grants

Ontario Municipal Partnership Fund

- Used to be the Community Reinvestment Fund (CRF)
- Changed to a formula based grant in 2004
- Based on Tax assessment, Rural/Urban Population, Financial Circumstances
- Provincial government indicated a significant reduction prior to pandemic
- Remained stable since 2020
- LRFP builds in a 5% reduction per year due to provincial messaging

Revenue Strategy: Other Revenue

- Extensive focus in various service reviews over the years
- User fees are increased annually by Consumer Price Index as per the Consolidated Fees Bylaw
- LRFP builds in an increase of 2 to 3% per year depending on area
- Explore new revenue opportunities – Administration fees
- New opportunities – Building Rich Revenue Poor

Revenue Strategy: Water and Wastewater

- Water and Wastewater(WWW) Rate Study done in the past two years
- Study sets out increases in fees for WWW but also plots out the 10 year plan for capital
- LRFP builds in an increase of 3% per year for user fees

Revenue Strategy: Taxation

Requires a 3% tax levy increase per year to fund the following:

- Legislated changes annually
- Collective Agreement Increases
- Tax Levy Debentures payments within prescribed current Council limits
- Cost of Living Increases for various revenue and expenses
- No allocation for Ross Memorial Hospital Contribution

Dedicated Infrastructure Levy of 1.5% of total levy to fund 10 year capital plan

Revenue Strategy: Taxation

Type of Expense	Average Increase/Year
Wages	$2,200,000
Transfer to External-Net of Grants	603,807
Contracted Expenses	1,082,211
Materials	106,880
Utilities	116,842
Offset by Revenue	(723,963)
Average Increase per year	**$3,385,777**

Reserve Strategy

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- City has approximately $60M in 62 different reserves
- Report in 2009 defined reserve usage at that time
- Reserves – Council Reserves and Obligatory Funds
- Need for consolidation of reserves

Reserve Strategy: Consolidation

Primary focus is consolidation of reserves:

Infrastructure Reserves

- Funding source for future capital plans
- 1.5% annual Dedicated Infrastructure levy increase to capital reserve
- Fleet Reserve annual contributions

Rate Stabilization Reserves

- Provide protection against uncontrollable increases
- Winter control reserve, WSIB claims reserve, insurance reserve

Reserve Strategy: Consolidation

Contingency Reserves

- Fund unexpected events
- Capital Contingency Reserve – 500K annual contribution
- General Contingency Reserve – 500K annual contribution

Other Reserves

- Specific community and department usage reserves
- Fenelon Power links, Economic Development, Heritage Reserves

Reserve Strategy: Consolidation

Obligatory Reserves

- Legislation around contributions and usage
- Main focus – Development Charge Reserve

Reserve Strategy: Development Charge Reserve

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Development Charge collections have lagged behind growth projects undertaken

Need to establish separate policy that sets out parameters around use of this reserve

- Balance in reserve should not go below zero
- DC collections must be sufficient in previous year to cover usage of DC reserve in subsequent year
- Financing DC shortages takes away from the ability to do capital projects as it takes up debenture room when DC collections exceed payments on debt

Debt Strategy

- Funding source for capital expenditures
- Only use for assets that have a significant life greater than 10 years
- Province prescribes City's maximum Annual Repayment Limit
- Currently have two established limits:

Tax Levy	$25,000,000 total debt
Water and Wastewater	$49,500,000 total debt

- "Special Debt" has increased these limits temporarily
- Need to establish a limit that will service the capital plan for the next 10 years – no more "Special Debt"

Debt Strategy: Annual Repayment Limit

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- Prescribed calculation based on 25% of total revenue less grants, restricted amounts and other municipal contributions
- 2022 Annual Repayment Limit (ARL) - $47,400,000
- Increases over the 10 year time frame to $75 Million
- Debenture amount – 3% Interest – Terms of Debentures Vary

  Tax – 10 Year - $405 Million

  Water – 20 Year - $705 Million

  KLH HC – 30 Year - $930 Million

Debt Strategy: Debt Servicing Ratio (DSR)

- Utilize total revenue earned by the City of Kawartha Lakes
- Council set a DSR limit of 10% (total debt payments/revenue)
- Staff utilized a 7.5% DSR limit to ensure there is room for emergencies, legislated requirements that are unknown
- 7.5% DSR gives the City a new approved Annual Repayment Limit (ARL) and Debenture Limit for various categories of debt
- Debenture Limit dependent on interest rates prevailing in market and term of debt
- Debenture limit will increase as revenue increases

Debt Strategy - Debt Servicing Ratio

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Year	ARL Debt Servicing Ratio (DSR)	ARL Legislated	Debt Principle and Interest Projections
2022	$20,402,000	$47,400,000	$17,712,998
2025	22,630,000	54,571,000	21,679,693
2028	25,419,800	63,540,000	18,921,317
2031	28,832,100	74,507,122	18,853,759

Debt Strategy: Converting to Debt Limit

Type of Debt	Historical Cost plus 10 year budget	Proration	Total Debt Payment Allocation	Total Debt Limit
Tax Levy Debt	1,253,826,000	65%	$13,288,500	$113,352,900
Water and Wastewater Debt	409,170,000	20%	4,336,500	64,516,200
KLH HC Debt	262,008,000	15%	2,776,800	54,427,200
Total	**1,925,004,000**	**100%**	**21,401,800**	**232,296,300**

Debt Strategy: Debt Limit Comparison

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Type of Debt	Debt Limit as per DSR 7.5%	Current Debt at Dec 31, 2020
Tax Levy Debt	$ 113,352,900	$ 47,682,000
Water and Wastewater Debt	64,516,200	42,834,000
KLH HC Debt	54,427,200	10,580,000
DC Debit Debt	-	23,500,000
Total	**$232,296,300**	**$124,596,000**

Debt Strategy: Debt Limit Comparison

Type of Debt	Total Debt Limit Projected	Current Limits	10Y Capital Plan Need
Tax Levy-10 Year	$113,352,900	$25,000,000	$113,000,000
Water & Wastewater-20 Year	64,516,200	49,500,000	85,000,000
KLH HC-30 Year	54,427,200	-	159,000,000
DC Debit Limit	-	-	153,000,000
Total	**$232,296,300**	**$74,500,000**	**$510,000,000**

Debt Strategy: Room in DSR to 10%

Type of Debt	Debt DSR 7.5%	Debt at DSR 10%	Increased Debt
Tax Levy-10 Year	$113,352,900	$151,137,000	37,784,100
Water & Wastewater-20 Year	64,516,200	86,022,000	21,505,800
KLH HC-30 Year	54,427,200	72,570,000	18,142,800

Affordability Management Strategy: 2022-2031

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- Capital and operating forecasts are unaffordable at proposed tax and user fee increases, despite increased debt room.
- Staff has considered two approaches to addressing this problem:
  - Option 1: Reduce capital and operating expenditures, as forecasted in the draft LTFP, upfront until forecasted needs conform to financial capacity constraints.
  - Option 2: Maintain capital and operating forecasts, but ensure budgets conform to financial capacity constraints and that the capital backlog is tracked and exposed.
- Draft LTFP includes an affordability management strategy based on Option 2 above.

Next Steps

- Establish a Development Charge Reserve Policy that sets out limitations on use of the reserve
- Establish an overall Reserve policy to ensure sufficient balances are maintained
- Establish a Debt Management policy that utilizes the debt servicing ratio of 10% and establishes reasonable debt limits for each category of debt

Next Steps

- Receive today (October 5, 2021) any final feedback and inputs from Council for the updated LTFP.

- Bring the finalized LTFP to Council through a staff report in Q4, 2021.