



Committee of the Whole Report

Report Number:	CA2022-007
Meeting Date:	June 7, 2022
Title:	Long-Term Financial Plan 2022-2031
Description:	Based on previous direction provided by Council, this report presents the Long-Term Financial Plan 2022-2031 for adoption by Council.
Author and Title:	Adam Found, Manager of Corporate Assets Carolyn Daynes, City Treasurer

Recommendation(s):

That Report CA2022-007, **Long-Term Financial Plan 2022-2031**, be received;

That the Long-Term Financial Plan 2022-2031, attached as Appendix A to Report CA2022-007, be adopted for planning and budgeting purposes; and

That this recommendation be brought forward to Council for consideration at the next Regular Council Meeting.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

At its special meeting of August 10, 2021, Council adopted the following resolution:

CR2021-344

That Report CA2021-004, **Kawartha Lakes Long-Term Financial Plan (LTFP) – Update**, be received;

That the tax-supported capital forecast outlined in Appendix A of Report CA2021-004 be utilized to inform the long-term capital forecast within the future LTFP;

That staff include in the future LTFP a recommended tax-supported capital levy dedicated to supporting and sustaining the capital reserve;

That staff include in the future LTFP a recommended target debt servicing ratio no greater than 10%;

That staff include in the future LTFP recommended debt limits by category, including water-wastewater, tax levy, housing, capital charges and development charges categories, collectively within the target debt servicing ratio;

That staff include in the future LTFP a recommended maximum percentage usage of the City's legislated Annual Repayment Limit with respect to debt; and

That staff reflect in the future LTFP the assumption that annual tax levy increases will be approximately 3% at minimum.

This report fulfills that direction by bringing forward the finalized version of the Long-Term Financial Plan 2022-2031 for adoption by Council.

Rationale:

In 2017, the City of Kawartha Lakes adopted a 10-Year Financial Plan for the 2018-2027 period. Primarily designed to implement the 2017 Asset Management Plan, the 10-Year Financial Plan was the City's first such plan and it provided the starting point for the City's newly charted path toward long-term financial sustainability. Halfway into the 2018-2027 planning horizon, however, it is clear that the City's finances and asset portfolio are less robust than they were planned to be by 2022. With unplanned capital projects having been more than offset by unplanned capital grants, the unfavourable

difference between plan and performance mainly relates to unplanned increases in operating expenditures and taxes.

Tax increases have been lower than those outlined in the plan, eroding contributions to the asset management reserve (formerly the capital reserve). The plan originally called for tax increases of 4.5%/year over 2018-2021, which were reduced to 4%/year through amendment in early 2018, whereas actual tax increases have averaged 2.8%/year over the same period. More consequentially, operating expenditures have increased at an average rate of 5.4%/year over 2018-2021, much higher than the 3%/year (2% for inflation plus 1% for growth-related pressures) assumed in the plan, further eroding contributions to the asset management reserve.

The condition of the City's asset management reserve, which was to improve dramatically under the 10-Year Financial Plan, has in fact deteriorated. The \$25M debenture-financed transitional infusion of the asset management reserve done in 2018, being a key element of the 10-Year Financial Plan, was depleted more rapidly than planned. Obviously unplanned was a global pandemic applying various pressures to the City's finances over 2020 and 2021. In short, the City's financial capacity to maintain its vast asset portfolio and wide array of services has not improved since 2017, notwithstanding the good intentions around the 10-Year Financial Plan.

While progress has been made on reducing the growth rate of the capital backlog, the City still finds itself at a crossroads in 2022. In one direction the City would continue doing business as usual whereby attainment of affordability in budgets remains a chronic struggle, established service levels are difficult to maintain, and the capital backlog persists. In the other direction the City would set itself onto a path toward long-term financial sustainability whereby budget affordability becomes reasonably attainable, service levels are reasonably maintained, and the backlog of capital needs is eventually eliminated. The purpose of the Long-Term Financial Plan 2022-2031 (LTFP), attached hereto as Appendix A, is to redirect the City onto the latter path by providing a guiding framework for municipal budgeting and moving the City toward long-term financial sustainability over the next decade.

Capturing both the tax-supported and water-wastewater sides of the City's business, the LTFP comprises the following components: (i) Revenue Strategy, (ii) People Strategy, (iii) Reserve Strategy, (iv) Debt Strategy, (v) Capital Forecast, (vi) Operating Forecast and (vii) The Financial Gap. Versions or elements of these were presented to Council during 2021 and early 2022 while the LTFP was under development, and some

of them were adopted by Council as planning guides to provide much needed direction for that development. For example, Council has already instituted the dedicated capital levy that is key to strengthening the asset management reserve over time.

Taking as given established municipal service levels and various financial constraints, the four above-noted strategies inform the capital and operating forecasts. With these forecasts developed, the final section of the LTFP provides a guiding framework in which to close the financial gap, that being the extent to which forecasted financial requirements exceed forecasted financial capacity over the 2022-2031 planning horizon.

Other Alternatives Considered:

As the LTFP already incorporates direction previously provided by Council through several consultations with Council over the past 18 months at which various alternatives were presented and discussed, no alternatives to the LTFP in Appendix A are being considered or presented by staff at this time.

Alignment to Strategic Priorities

The recommendations of this report support responsible financial and asset management, and hence align with the strategic priority of “Good Government” identified in the City’s 2020-2023 Strategic Plan

Financial/Operation Impacts:

The financial implications of the LTFP are outlined therein, understanding that actual results will depend on budgets as adopted by Council.

Consultations:

CAO

Director of Engineering and Corporate Assets

Director of Corporate Services

Attachments:

Appendix A: Long-Term Financial Plan 2022-2031



Long-Term Financial
Plan 2022-2031.pdf

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Department Head: Juan Rojas, Director of Engineering and Corporate Assets