

The Corporation of the City of Kawartha Lakes
Council Report

Report Number ENG2017-026

Date: October 31st, 2017

Time: 9:00 a.m.

Place: Council Chambers

Ward Community Identifier: All Wards

Subject: Proposed 2018 Tax-Supported and Water and Wastewater Capital Budgets

Author Name and Title: Adam Found, Manager of Corporate Assets and Carolyn Daynes, City Treasurer

Recommendation(s):

RESOLVED THAT Report ENG2017-026, **Proposed 2018 Tax-Supported and Water and Wastewater Capital Budgets**, be received;

THAT the 2018 Tax-Supported Capital Budget, attached as Appendix A to Report ENG2017-026, be adopted; and

THAT the 2018 Water and Wastewater Capital Budget, attached as Appendix B to Report ENG2017-026, be adopted.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

At the Council Meeting of July 11th, 2017, Council adopted the following resolution:

CR2017-644

Moved By Councillor Veale

Seconded By Councillor Miller

RESOLVED THAT Report CORP2017-020, **10-Year Financial Plan**, be received;

THAT the 10-Year Financial Plan, attached as Appendix B to Report CORP2017-020, be adopted as a guiding framework for future operating and capital budgets and the transition to long-term financial sustainability;

THAT a transitional increase in tax-supported debenture funding of \$25,000,000 be approved for the purpose of implementing the 10-Year Financial Plan, and be maintained and reported on separately from other debt until it is retired;

THAT the capital projects identified in Appendix C to Report CORP2017-020 be financed by this debenture whereby the resulting displaced tax levy and reserve financing is transferred to the Capital Reserve or another reserve as may be required; and

THAT the tax-supported Infrastructure Levy be collapsed into the General Tax Levy and the water and wastewater Infrastructure Levies be collapsed into their respective fixed user fees.

The proposed 2018 tax-supported and water and wastewater capital budgets, attached hereto as Appendix A and Appendix B, respectively, are the first to be developed within the framework set by this direction of Council. More generally, they are the first to be developed in alignment with a Corporate Strategic Plan, Asset Management Plan and Long-Term Financial Plan. This report brings forward these proposed budgets for consideration and approval by Council.

Rationale:

Based on the 2017 Asset Management Plan and the City's overall financial circumstances, the 10-Year Financial Plan provides a framework that guides the City's transition toward long-term asset and financial sustainability. As Council will recall, the plan addresses three dimensions of asset sustainability as follows:

1. Capital Expenditure: Match capital expenditures with capital needs so as to eliminate the infrastructure deficit.

2. Tax Levy / User Rate Support for Capital: Match capital-dedicated tax levy / user rate revenue with tax levy / user rate financing required for capital budgets and/or reserves.
3. Capital Reserve: Build robust capital reserves capable of smoothing fluctuations in capital financing and expenditure and stabilizing tax / user rate increases.

Regarding financial sustainability more generally, the plan also addresses significant 2018-2019 tax-supported non-inflationary operating pressures by spreading the aggregate tax-related impact over several years. This is facilitated by reweighting capital budget reliance on tax levy support and the capital reserve on a transitional basis.

For the capital budget, the shift in tax levy support toward operating needs is offset by temporary reliance on the capital reserve which has been infused through a \$25M transitional debenture. This reliance is gradually reduced as tax levy support for capital is built up over time. Once expenditure and tax levy support sustainability are achieved, this reliance ceases and the capital reserve is then gradually replenished to a sustainable level by the end of the planning horizon.

As a natural part of the budget development process, staff is tracking updates to the 10-Year Financial Plan. New operating initiatives, pressures and efficiencies identified by staff and Council, such as the increase in calcium chloride application on gravel roads, are being incorporated into the plan. For improved forecasting and transparency, the water/wastewater plan has been decomposed into its water and wastewater components. Staff has also revised the debt servicing forecast and the path toward sustainability to accelerate capital projects arising from the infrastructure backlog and reflect changes in the external financing forecast.

The plan is able to accommodate these adjustments within the originally-forecasted tax and user rate increases, reflecting the plan's flexibility and its overriding objective to provide for a predictable and affordable path toward sustainability. Given the short- and long-term financial impacts of budget decisions, it is the intention of staff to update Council on the long-term financial plan annually after the adoption of budgets by Council.

Staff has worked extensively over the past several months to develop proposed 2018 capital budgets that align with the 10-Year Financial Plan and that most effectively address the City's replacement and growth-related capital needs. The following highlights from the CAO's covering letter for these proposed budgets are worth repeating here:

Proposed 2018 Tax-Supported Capital Budget Highlights

- Increased investment in capital replacement of \$7M over 2017
- Accelerated investment to more effectively address the backlog of capital needs in roads, buildings and parks
- Elimination of two thirds of the 2018 infrastructure deficit
- Consistency with the 4.5% tax levy increase forecasted for 2018 as per the 10-Year Financial Plan
- Transitional reduction of \$5.1M in tax levy support from 2017 to permit management of the forthcoming 2018-2019 operating cost pressures
- Strategic and sustainable reliance on the Capital Reserve, \$25M transitional debenture and other non-tax financing
- Consistency with no increase to the existing debt ceiling

Proposed 2018 Water/Wastewater Capital Budget Highlights

- Increased investment in capital replacement of \$930,000 over 2017
- Immediate elimination of the infrastructure deficit
- Reduction in the user rate increase forecasted at 4.0% as per the 10-Year Financial Plan
- Increase of \$160,000 in capital reserve contributions over 2017
- Strategic and sustainable reliance on the Capital Reserves, \$5.8M Small Communities Fund grant and debenture financing
- Consistency with no increase to the existing debt ceiling

To streamline presentation and improve alignment with the JD Edwards financial software that went live January 1st, 2017, the proposed 2018 capital budgets are organized on the principle of program-based budgeting where multiple similar capital projects are grouped into programs. Tracking of multi-year and growth-related projects has also been improved. As the proposed 2018 capital budgets align with the 10-Year Financial Plan and best meet the City's capital needs within resource constraints, staff is recommending Council adopt these budgets.

Other Alternatives Considered:

Proposed capital budgets may contain decision units for Council's consideration. A decision unit typically refers to a capital program, capital project or other capital budget-related action (e.g. change in financing) that is currently unfinanced by the proposed capital budget.

Council may also request extractions to the proposed capital budgets, recommending the removal, increase or decrease to proposed capital programs, projects or budget-related actions.

Financial/Operation Impacts:

The 10-Year Financial Plan sets out the expected financial impacts of aligning future operating and capital budgets with the municipal service levels established by Council and/or legislation. Since the proposed capital budgets align with this plan, the related financial impacts have already been accounted for.

As Council is aware, proposed 2018 operating budgets are scheduled to be released November 10th, 2017. Critical inputs for these are the corresponding capital budgets ultimately approved by Council. Once approved, capital and operating budgets will be consolidated into a single budget document.

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

The recommendations of this report align with the following goals of the Corporate Strategic Plan:

- Goal 1 – A Vibrant and Growing Economy: An effective capital budget helps support municipal infrastructure that is essential for a prosperous and growing economy.
- Goal 2 – An Exceptional Quality of Life: An effective capital budget helps support municipal infrastructure that is essential for the quality of life of residents.
- Goal 3 – A Healthy Environment: An effective capital budget helps support municipal, particularly water/wastewater, infrastructure that is essential for a healthy environment.

Consultations:

Senior Management Team
City Treasurer

Attachments:

Appendix A: Proposed 2018 Tax-Supported Capital Budget



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Appendix B: Proposed 2018 Water and Wastewater Capital Budget



Proposed-2018-Water-Wastewater-Capit

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