Municipality of Port Hope
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REPORT TO: General Government and Finance Committee

FROM: L. Araujo, Director of Finance

SUBJECT: Strategic Financial Plan

DATE: February 13, 2013

RECOMMENDATIONS:

It is recommended that Council formally adopt the policy statements of the Strategic Financial Plan (Appendix 1) and direct staff to include them in a Policy and Procedure for Operating and Capital Budgets By-law update to be presented to Council by September 2013 and that these policy statements be integrated, as appropriate, into the development of future Municipal budgets.

BACKGROUND:

On May 15, 2012 BMA Consultants Inc. (BMA) presented their Financial Condition Assessment of Port Hope to the Strategic Financial Plan (SFP) Working Group. The report presented: growth and socio-economic indicators; reserve and debt indicators; and financial position and cost of service indicators. Based on these findings, BMA prepared a SWOT analysis and, using information provided by staff, compiled a 10-year budget forecast and presented this information along with highlights of the financial condition assessment at a Council/Staff strategic financial planning session on June 12, 2012. The presentation outlined financial challenges facing the Municipality and in consideration of these challenges, Council agreed upon various financial policy statements (Appendix 1) and identified priorities for longer-term capital programs. BMA considered these capital priorities and financial policies in their efforts to develop financial model options for Council consideration. Four models were developed and are included in a SFP document as follows:

Base Model Forecast represents an estimation of the tax levy requirement each year for the next ten years based on the current revenue and expenditure levels adjusted for: inflation; known items such as the reduction in the Ontario Municipal Partnership Fund (OMPF) grant; and phasing out reliance on LLRW interest to offset the tax levy, and assumed items based on project approvals to date (e.g. construction of a new police station, Jack Burger Complex revitalization). This model does not address any other or new services/facilities identified in master plans and the capital budget. It represents a status quo forecast. This model forecasts tax levy increases of 6.4% and 7.4% in 2013 and

2014 respectively after which tax levy increases are estimated to be approximately 3% - 4% for the remaining eight years of the projection. Based on the current capital projections, this model would result in a $16.4 million shortfall in capital funding.

Model 1 Forecast indicates the impact on the operating and capital budgets if a maximum 2% tax levy increase (excluding County and Education) were implemented. This level of increase is consistent with the maximum increase Council has approved in the past few years and with recent CPI levels. In order to keep the tax increases to 2%, BMA identified various actions that would need to be taken including annual program efficiencies and reductions starting at $116,000 in 2013 and increasing to $1.9 million by 2022, continued reliance on LLRW interest to reduce net levy, elimination of all tax levy funding from capital and no new debt (as identified in the base model for the Jack Burger Complex and the new police station). This approach would result in a $32.8 million shortfall in capital funding over the 10 years of the plan.

Model 2 Forecast represents an approach whereby the annual tax levy increase limit (excluding County and Education) would be established at 3.5%. Similarly to Model 1, cost reductions would be required to maintain the level of taxation however they would range from $100,000 to $128,000. The model includes an increase in user charges (directly or via a surcharge) with the increase in revenue set aside for capital initiatives. It can also accommodate some debt payments suggesting the Municipality could borrow to fund major infrastructure projects like the Jack Burger Complex or the police station. Lastly, reliance on the LLRW interest to reduce the levy could be phased out within this model and the interest redirected to capital reserves to fund future capital works. In this model there would be a $25.7 million shortfall in capital funding over the 10 years of the plan.

Model 3 Forecast provides a representation of the impact of a 5% levy increase (excluding County and Education) over the next 10 years. This approach includes three main strategies including increased tax funding for capital, using debt within policy limits to fund capital and implementing increases in revenues as in Model 2 with the revenue being set aside in a capital reserve for future replacement/refurbishment of recreation infrastructure. Also like in Model 2, reliance on the LLRW interest could be phased out. This approach results in a $1.0 million shortfall in capital funding over the 10 years of the plan.

The models presented and the strategies within each model are not the only options available, however they do provide a representation of the impact of various approaches. Council could choose a different model that incorporates any combination of the strategies identified in the SFP or additional strategies that have not yet been identified.

Information presented in the SFP characterizes the impact on the Municipal portion (excluding County and Education) of the tax ley only. In addition to any impact at the Municipal level, property owners will also potentially be subject to increases at the County and Board of Education level. The County has indicated their long-term plan projects consistent 2.5% levy increases through 2021. The Province has not given an indication of the direction of its tax rate.

BMA presented the SFP document to the Working Group on October 18, 2012. During this meeting the Working Group agreed there would be value in convening a Citizen Focus Group to provide input to the SFP via a workshop with BMA and the Working Group. The focus group workshop was held on November 26, 2012 with nine citizens in attendance.

BMA presented the SFP document to the Focus Group and they provided positive feedback to BMA and the Working Group regarding the work done to date and the presentation of the material. The consensus of the Focus Group was that the policy statements outlined in the SFP seemed appropriate as guiding principles for the Municipality. With that consensus, the Working Group recommended that the policies be presented to Committee of the Whole with a recommendation that they be used in the development of the 2013 Capital and Operating Budgets. It is recognized that some of the policies will require many years to achieve full implementation and there will need to be some flexibility in their implementation as competing demands arise over the years. It was felt, however, that it was important to acknowledge and address them to whatever degree possible within the 2013 Budget process. The policies were presented in a report to Committee of the Whole on December 11, 2013 and approved on December 18, 2013 for use, as appropriate, in development of the 2013 Budget.

Further comments from the Focus Group centered primarily on how to communicate the findings and the plan to the community. Based on the discussion with the Focus Group, the Working Group suggested a two stage public consultation process comprised of a further targeted focus group session in the afternoon followed by a public open house in the evening. These sessions were held on January 24, 2013 and the SFP was made available for public comment in accordance with the public consultation policy with comments received through February 12, 2013.

The first focus group consisted of nine members of the public. In addition to members of the first focus group, the second focus group saw an additional 48 residents invited of which eight were able to attend. This group received a presentation similar to the original focus group and participated in valuable discussion of the SFP and the challenges it identifies.

The open house was unfortunately only attended by five residents of which two were part of the original focus group. A representative from BMA and staff were available to answer questions and provide info to the attendees.

On February 5, 2013 staff provided an overview presentation of the SFP to the Parks, Recreation and Culture Advisory Committee. The Committee considered the presentation, asked questions of staff and has submitted a consolidated position on the SFP as part of the public comments.

Public Comments

The SFP was available at Municipal facilities and on the website for public review and comment from January 25, 2013 through February 12, 2013. Six comments were received. They are summarized below and attached in detail.

Gord Walter – remarks that in his opinion borrowing for capital limits financial control options in the future and that consideration needs to be given to the actual need for projects and ensuring projects do not exceed resources. He also comments that for the financial plan to work it will need to be effectively monitored.

Paul Evans – comments that Council will face the challenge of communicating the hard choices in terms that are understandable. He indicates that the hard choices will include increased fees and taxes as well as spending and service reductions. Mr. Evans also comments on the challenge of controlling salary and benefit costs and ensuring consideration is given overall to what is affordable.

John Cullen – expressing concern about how the plan will be implemented and that he feels the plan focuses on raising taxes with little consideration of how to reduce expenses and reconsidering the extent of capital spending on expansion type projects. Mr. Cullen expressed his concern of the cost of salaries and benefits.

Marc Vermeire - provides comments that suggest undertaking what is in essence the Asset Management Plan process that the Municipality is completing in 2013, however he suggests that staff should be able to complete the analysis without a consultant. He provides an interpretation of the draft 2013 Budget with suggesting it is decreasing planning and increasing funds for finance and administration, however the budget document explains the net decrease in Planning is the result of increased revenue estimates based on historical revenues and transfer of legal costs from Planning to Administration. Mr. Vermeire summarizes that in his opinion increasing taxes is not warranted and that focus needs to be on why more funding is needed.

Pat Bryan –comments that the plan makes sense.

Parks, Recreation and Culture Advisory Committee - indicated that it supports the increase of user fees to include a capital component, however is not supportive of that increase in the form of a surcharge.

Gerald Blackstock – indicates that overall the SFP seems prudent and conservative and raises hard questions before any crisis emerges.

Generally, the comments received focus on finding the right way to increase revenues with a strong focus on managing and controlling expenses, both operating and capital.

Summary

Significant work has gone into identifying the financial challenges the Municipality currently faces and will face over the next ten years and beyond. The Base Model forecast outlines the financial pressures associated with the current service levels, existing infrastructure maintenance and implementation of Council adopted master plans. Models 1, 2 and 3 identify options (cost reductions through efficiencies and service level adjustments, increased revenues through user fees or surcharges) that Council can consider in the future to balance the requirements of the Municipality with the tax capacity of the property owners.

Council has adopted, in draft, financial policy statements that establish guidelines within which the Municipality will operate and which will serve to support achieving sustainability. It is recommended that these policy statements be formally adopted and consolidated into a revised Budget Policy document and applied as deemed appropriate by Council. Implementation of these policy statements will require difficult decisions regarding levels of services, fee increases and ultimately tax levels, however, this approach does not require selection of one of the models presented or development of a model that represents a "target" tax levy increase. The policy statements do not reflect any particular model but rather represent principles that Council can apply, as appropriate, in setting Municipal budgets in the future.

CONCLUSION:

The Municipality of Port Hope, like other municipalities in Ontario, provides programs and services within a very limited funding framework. Financial planning and prioritization is critical to ensure ongoing sustainability. The SFP reviews the challenges and risks faced by the Municipality and provides options Council can consider to address existing and anticipated future challenges. Adoption of the policy statements will provide a framework to assist the Municipality in preparing for these challenges.

The recommendations of this report are consistent with the Corporate Strategic Plan Operating Principles of accountability and innovation and the Strategic Priority of sustainability.

Original Signed by:

Liz Araujo, CGA
Director of Finance

Municipality of Port Hope
Strategic Financial Plan Policy Statements

The following represent the policy statements included in the Strategic Financial Plan.

1. The Municipality will maintain all infrastructure in a state of good repair by implementing life cycle costing and providing annual contributions to the Capital Reserves to fund the renewal of assets based on a rate which reflects the consumption of that asset by current taxpayers.
2. Capital Reserves will be used to fund the replacement or refurbishment of existing assets.
3. Contributions to the Capital Reserves will be funded through calculated annual contributions from the Operating Budget based on capital replacement costs. As new assets are constructed, contributions to Capital Reserves for their replacement will be made. If the new assets are funded through debt, annual contributions to the Capital Reserve will be made once the debt repayments have been completed or as the serial debenture payment reduces. Based on affordability considerations, a phase-in strategy will be developed for inclusion in the annual preparation of the Operating and Capital Budgets.
4. A business case will be prepared for new capital initiatives including operating cost implications which will include a cost benefit analysis that incorporate sustainability principles and identifies alignment with the corporate strategies priorities.
5. Any new assets that are internally financed from the Capital Reserves will repay the appropriate reserve, including interest, from future operating budgets over the life of the asset.
6. A 5-10 year Capital Budget will be annually presented to Council, including anticipated funding sources, reserves and debt forecasts.
7. Advanced techniques, improved technologies, better materials and best practices will be incorporated in all infrastructure programs.
8. The Municipality will maintain one consolidated Stabilization Reserve which will only be used for extraordinary or one-time expenditures including previous years' operating deficits.
9. The target balance for the consolidated Tax Stabilization Reserve will be set at 4.5%-6% of the Municipality's tax own source revenues (taking into account the LLRW Fund).
10. A financial plan will be prepared for each of the Corporate Reserves to ensure that there are adequate funds available to meet the underlying liabilities. The plans will be reviewed annually in conjunction with the budget process.
11. Tax Debt Charges as a percentage of Tax Own Source Revenues will not exceed 10%.
12. Long term debt financing will be restricted to specific project types:

a. Increased/new services to residents for new initiatives
b. New, non-recurring infrastructure requirements
c. Projects which are supported by a business plan that show revenues will cover capital and interest costs
d. Projects where the cost of deferring expenditures exceeds debt servicing costs
e. Project costs not recovered from Development Charges
f. Projects tied to third party matching funding

Note: These restrictions may have to be phased in to meet short term budget challenges.

13. The length of the term of debt will not exceed the useful life of the underlying asset.
14. The Municipality will monitor and report on all forms of debt annually.
15. The Municipality will maintain a Strategic Financial Plan to assess the long-term financial implications of current and proposed policies.
16. The Operating and Capital Budgets will be aligned with the Municipality's Strategic Financial Plan.
17. Financial trends will be monitored closely through the use of key financial indicators which will be reported to Council on an annual basis as part of the budget and financial planning process.
18. Program and service reviews will continue to be undertaken to ensure that they are provided in an efficient and cost effective manner and meet the needs and priorities of the community.
19. Service levels will be defined and will be included in departmental business plans and budgets.
20. The Municipality will evaluate and monitor new initiatives, budget results, and resource allocation, through the use of a mixture of output, outcome, and efficiency measures.
21. Efficiency gains will be directed to fund the infrastructure funding gap.
22. User fees will be considered by the Municipality where:
    a. There is a clear relationship between the fees paid by users and the benefits received by the user.
    b. A member of the public has a choice as to the extent to which he/she uses the service.
    c. It is administratively feasible to collect the charge at a reasonable cost (e.g. the administrative cost to charge a user fee is high).
    d. The benefits can be quantified and attributed to the user.
23. The Municipality will review and update user fees annually taking into consideration the increase in all costs (direct and indirect), the current "market" situation, and minimizing the negative impacts to the public that would result in not limiting access to the service.
24. A comprehensive user fee review will be undertaken a minimum of every five years, or earlier, as required to reflect changes in the cost of service, demand for service or service offerings.
25. The Municipality will follow an aggressive, consistent, but sensitive to

the circumstances policy of collecting revenues with a collection policy goal for outstanding taxes receivable to be no more than 10% of taxes levied.