Long Range Financial Plan Findings and Challenges
Period 2022 to 2031

Agenda

1. Tax Supported Capital Forecast 2022-2031
2. Capital Reserve Challenges 2017-2021
3. Proposed Dedicated Tax Levy
4. Current Debt Limits
5. Capital Financing Challenges
6. Operating Forecast
7. Tax Levy Implications

Tax-Supported Capital Forecast: 2022-2031

Kawartha Lakes Jump In

- For the forthcoming long-term financial plan (LTFP), a tax-supported capital forecast for 2022-2031 has been developed based on prevailing municipal service levels as set out by:
  - Legislation
  - Asset Management Plan
  - Service master plans
  - Development Charges (DC) Background Study
  - Previous budgets
  - Other direction provided by Council
- Total investment associated with the forecast is approximately $959M.

Tax-Supported Capital Forecast: 2022-2031

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- Capital expenditures are organized into four categories:
  - Baseline: Required to keep existing assets in a state of good repair and facilitative of prevailing municipal service levels ($476.4M).
  - Expansionary: Primarily growth-related, but inclusive of expansions arising from major legislated or Council-directed upgrades in municipal service levels ($223.2M).
  - External: Related to Kawartha Lakes Police Service and Kawartha Lakes-Haliburton Housing Corporation ($230.9M)
  - Special Projects: While technically operating in nature, these are infrequent initiatives (e.g. studies) best managed as though they are capital projects ($28.3M).

Tax-Supported Capital Forecast: 2022-2031

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- Capital financing is drawn from several sources:
  - Capital Reserve
  - DC Reserve
  - Haul Routes Reserve
  - Public Works Fleet Reserve
  - Kawartha Lakes Police Service Reserve
  - Other Reserves
  - Federal Gas Tax Fund Grant
  - Provincial Gas Tax Fund Grant
  - Ontario Community Investment Fund Grant
  - Other Grants / External Contributions
  - Sales of Housing Assets
  - Tax Levy (special projects only)
  - Debenture

Tax-Supported Capital Forecast: 2022-2031

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- The operating forecast notionally holds static the annual contribution to the capital reserve at its 2021 level ($9.1M/year).
  - The capital forecast presently takes this contribution level as given.
- To ensure the capital forecast balances, capital needs that cannot be met by other means are notionally financed by debenture.
  - This places immense pressure on debt load and debt limits.
- Capital requirements exceed existing financial capacity mainly for the capital reserve, DC reserve and debenture.

Capital Reserve Challenges: 2017-2021

- The single greatest challenge faced by the capital forecast is the highly deficient contribution to the capital reserve of $9.1M/year.

- In 2017 that contribution was $13.1M/year, and in 2021 it should be about $25.1M/year instead of the actual $9.1M/year.

- Accounting for cost inflation, this means that capital reserve financing has lost almost half (48.5%) of its financial capacity since 2017.

- It also means the contribution is forecasted to be only about 35% of its sustainable level in 2022.

Capital Reserve Challenges: 2017-2021

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- The existing LTFP, adopted in 2017 for the 2018-2027 period, has the capital reserve contribution becoming sustainable by about 2022-2023.

- So how did the contribution instead decline and thereby become even more deficient than it was previously?

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

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

Capital Reserve Challenges: 2017-2021

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- These <u>major deviations</u> from the LTFP have starved the capital reserve of contributions, rendering the contribution even more deficient than it was previously.

- This <u>severely compromises</u> 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 <u>entirely unsustainable</u> if prevailing municipal service levels are to be maintained.

Proposed Dedicated 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 dedicated capital levy is anticipated to help achieve that goal.

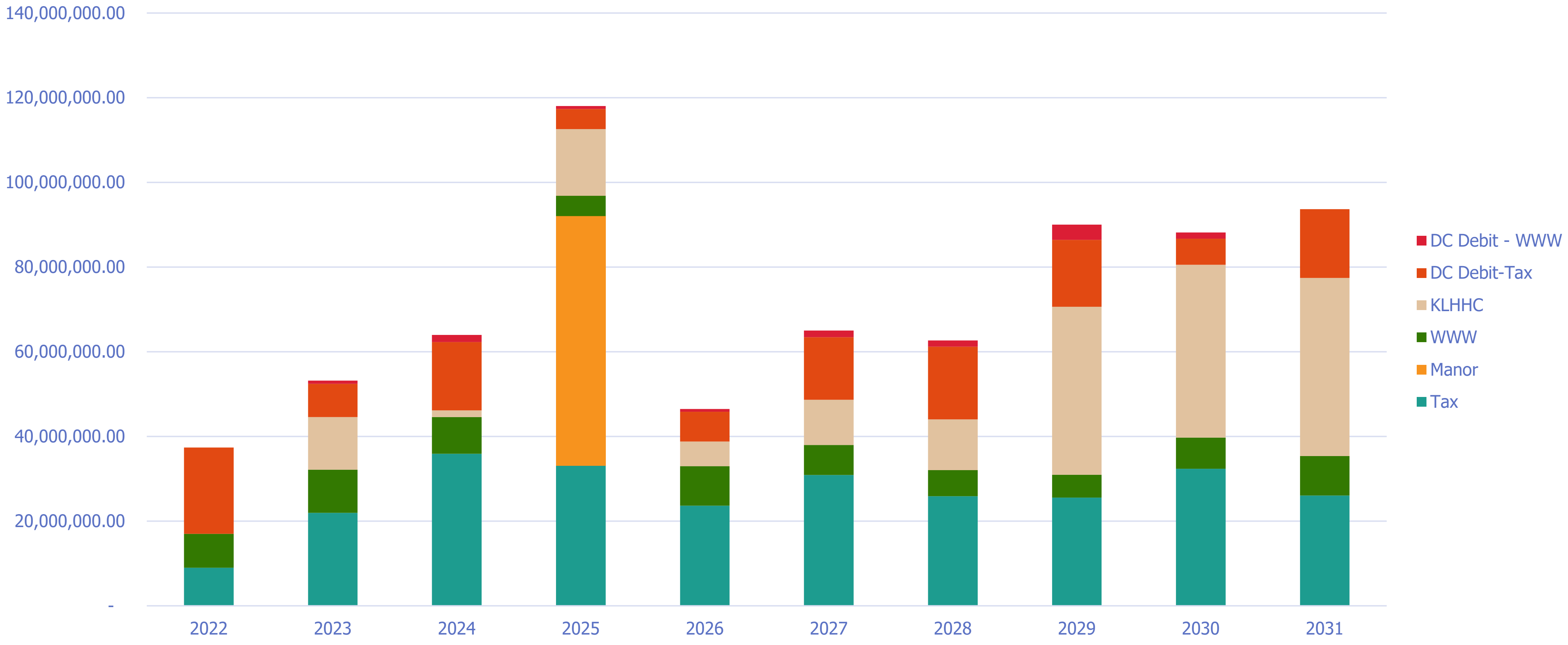
Proposed Dedicated Capital Levy: 2022-2031

- A dedicated 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 thereby raised is dedicated to tax-supported capital purposes.
- A capital levy based on tax increases of 1.5%/year would raise the capital reserve contribution from $9.1M/year in 2021 to a sustainable level of $31.8M/year by 2031.

Current Debt Limits

Category	Debt Limit	Balance 2020	Balance 2031
Tax Debt	$25,000,000	$22,537,140	$201,742,183
Special Tax Debt	$38,907,000	$25,144,854	$4,075,141
Water and Wastewater(WWW)	$49,500,000	$42,833,923	$60,651,741
Special WWW Debt	$10,080,000	$ -	$6,048,000
Development Charge Debt	$ -	$24,164,535	$118,001,669
Tile Drain	$ -	$ 244,518	$253,713
KLH HC	$ -	$10,579,430	$170,457,845
North West Trunk – Dev Pay	$ -	$10,003,186	$2,665,086
Total	**$123,487,000**	**$135,507,586**	**$563,895,378**

New Debt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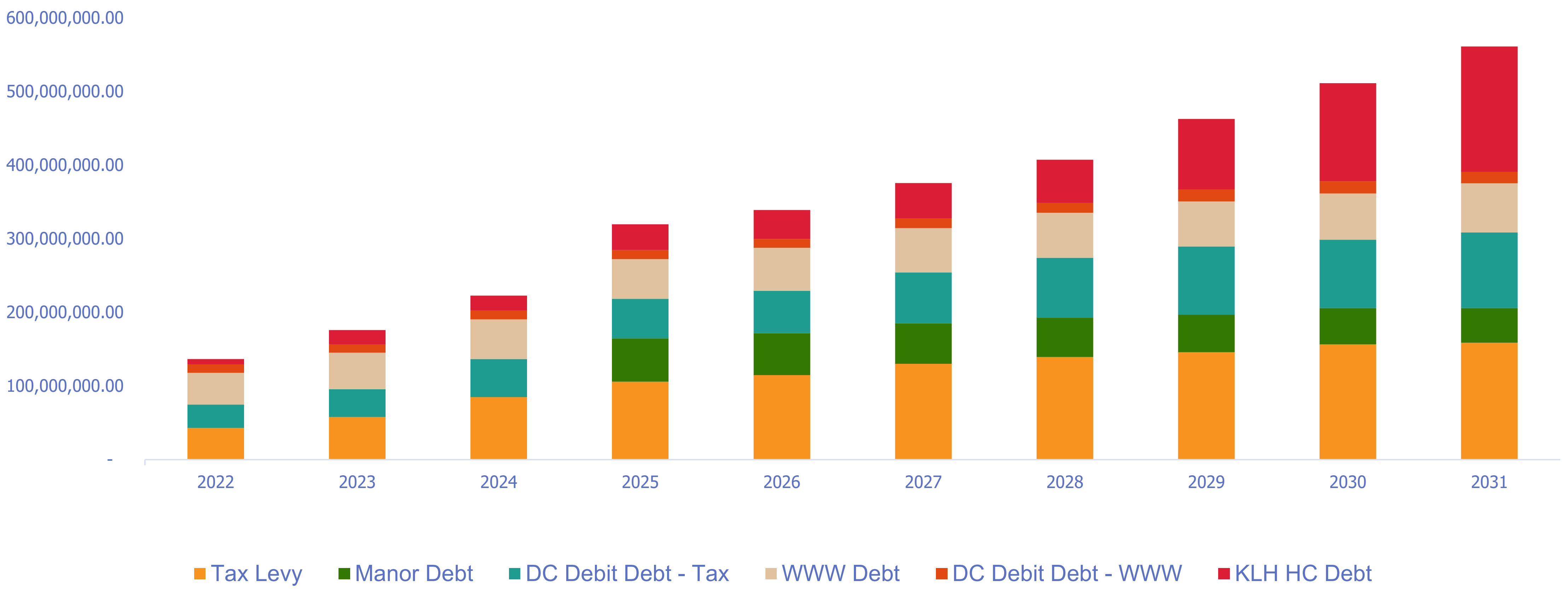
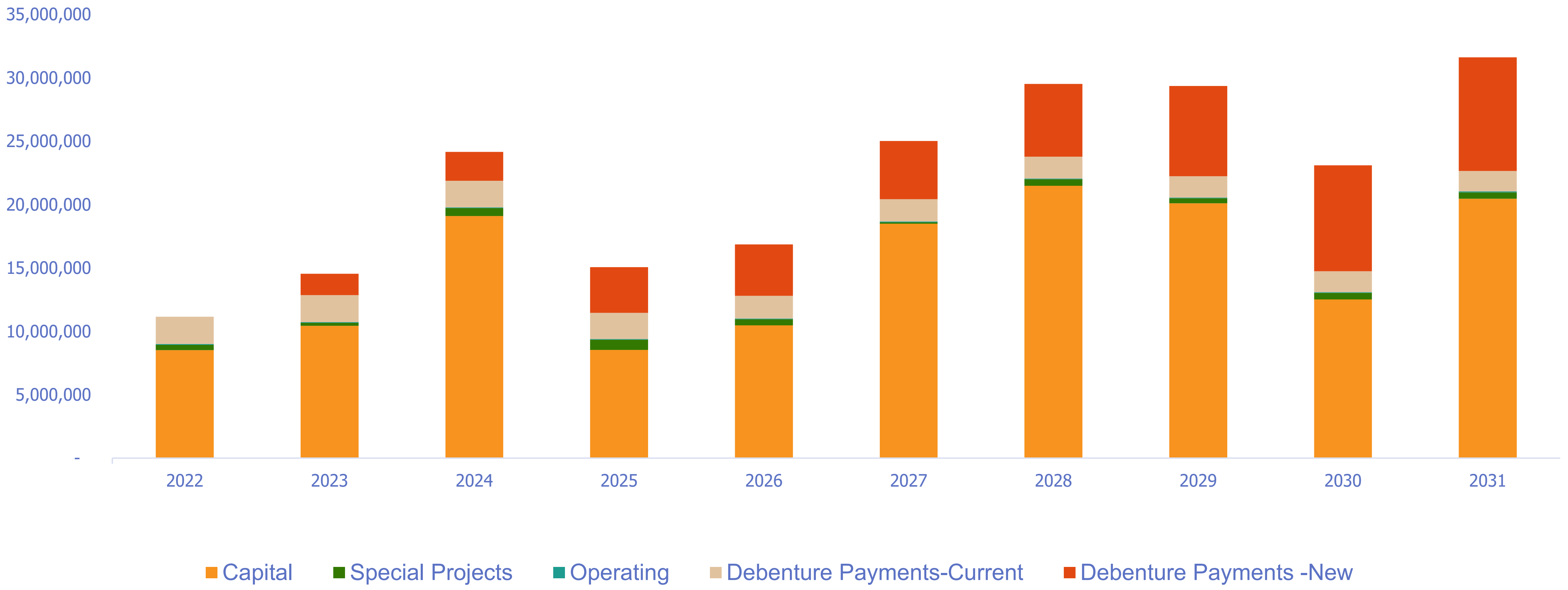
Total Debt

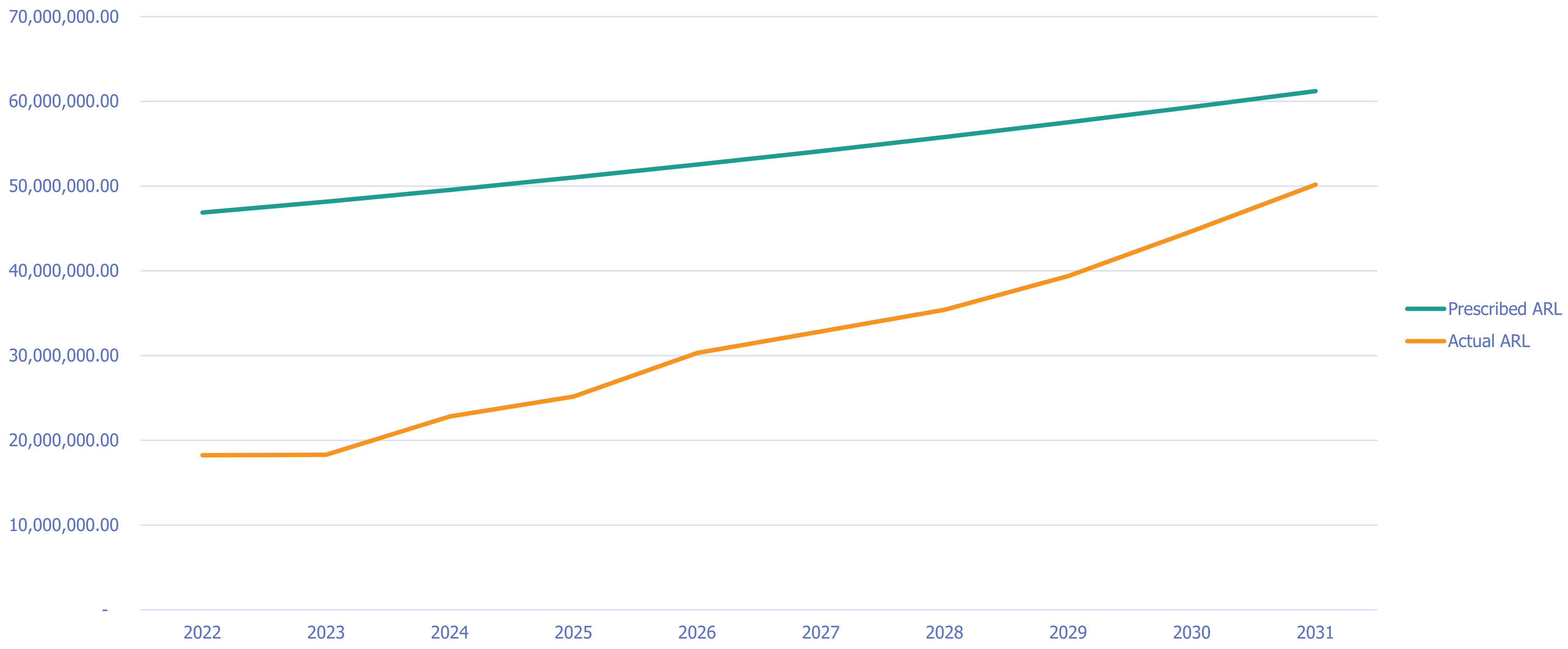


Opportunity • Community • Naturally

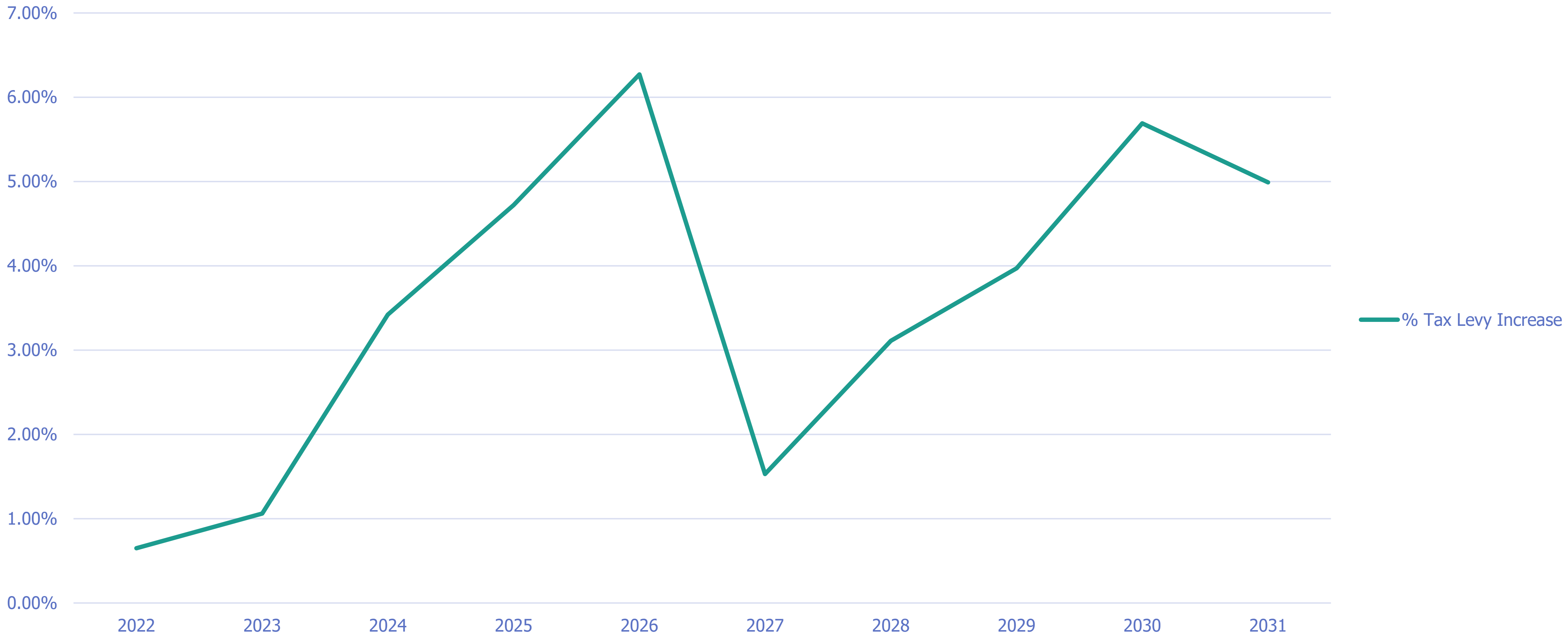
Development Charge Reserve Activity



Annual Repayment Limit (ARL)



Debt Payments-Tax Levy % Increase



Debt Payments-WWW Fee % Increase

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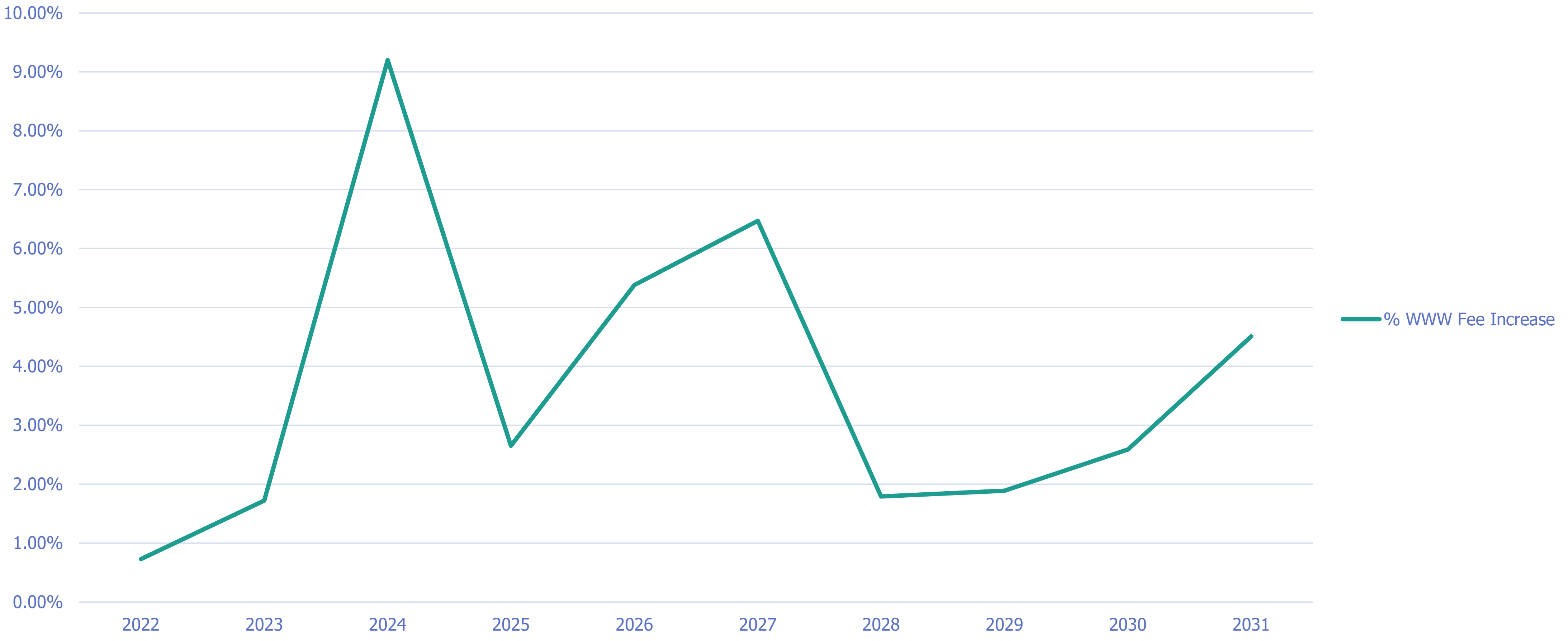
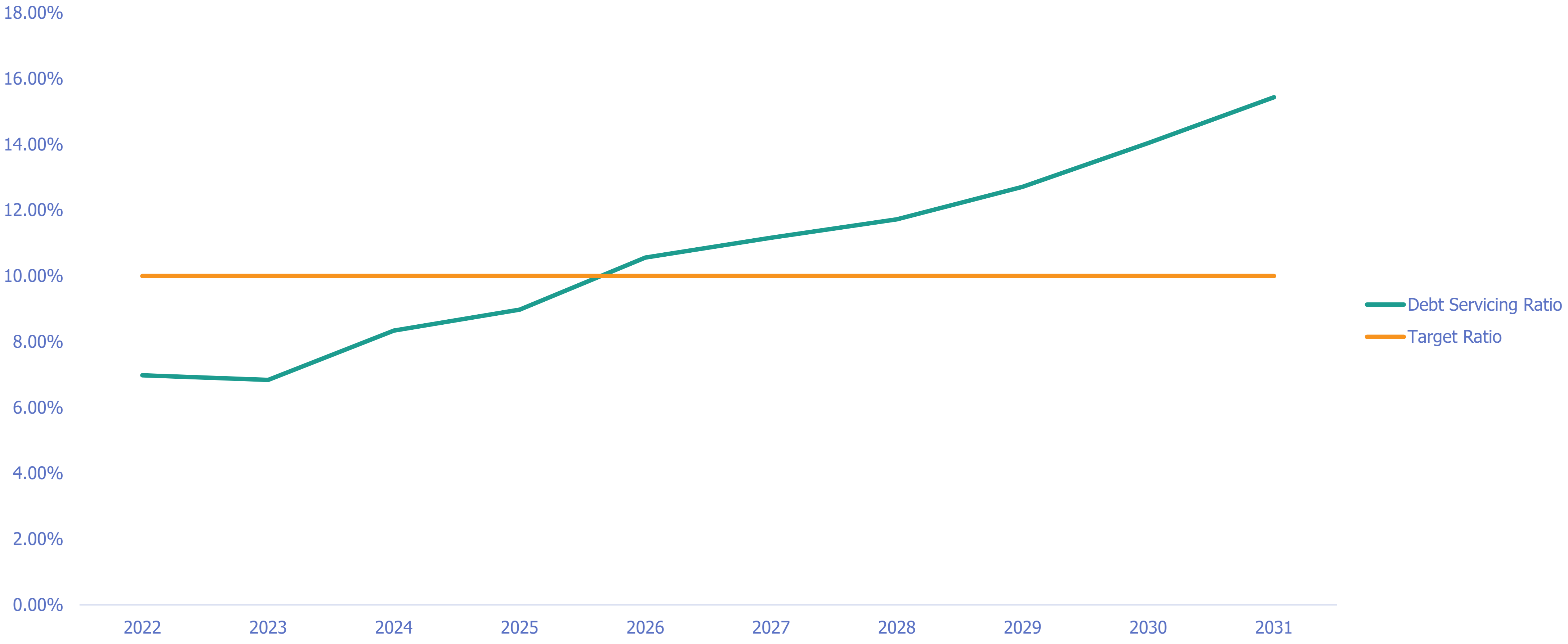


Debt Servicing Ratio



Debt Servicing Ratio Right Sizing

Year	Debt Payment Reduction	Debenture/Capital Plan Reduction
2026	$ 1,594,408	$ 12,264,680
2027	1,807,271	13,902,089
2028	1,790,102	13,770,014
2029	3,190,854	24,545,027
2030	4,477,316	34,440,894
2031	4,819,822	37,075,556
Total Reduction	**$ 17,679,774**	**$135,998,260**

Operating Forecast

Projection Highlights:

- Department Meetings
- Right Sized budget lines
- Applied CPI increase to Revenue and Expense where appropriate
- Grants stayed status quo
- Separation of Operating and Capital Levy

Operating Forecast-Trends

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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**

Tax Levy Implications

- Capital Levy stays consistent at $9.1Million
- Dedicated Infrastructure Levy of 1.5% of total levy
- Increased Tax Levy Requirement of an average of 3.5% to cover debenture principle and interest each year
- Operating Levy of at least 3% to cover pressures in expenditures and grants
- Operating-1% equals a reduction of approx. $1,100,000 in expense or increase in revenue
- Reduction in Debt/Capital Needs to bring plan in under Debt Servicing Ratio