



# Report to Finance and Corporate Services Committee

**TO: FINANCE AND CORPORATE SERVICES COMMITTEE**

**FROM: C. MILLAR, DIRECTOR OF FINANCE AND TREASURER**

**J. COWLES, SENIOR MANAGER OF CORPORATE FINANCE AND INVESTMENT, EXTENSION 5347**

**M. JERMEY, MANAGER OF BUSINESS PLANNING AND BUDGET, EXTENSION 4407**

**DATE: NOVEMBER 22, 2017**

**SUBJECT: LONG RANGE FINANCIAL PLAN AND FINANCIAL POLICIES FRAMEWORK UPDATE**

---

## **RECOMMENDED MOTION**

1. That the BMA reports attached as Appendix "A" (Financial Condition Assessment) and Appendix "B" (Long Range Financial Plan) to the Report to the Finance and Corporate Services Committee dated November 22, 2017, be received as the basis for the recommended Financial Policies Framework.
2. That the existing Financial Policies Framework be replaced with the revised Financial Policies Framework as identified in Appendix "C" to the Report to the Finance and Corporate Services Committee dated November 22, 2017.
3. That the following strategies be implemented to strengthen the City's financial condition:
  - a) That beginning in 2019, the Tax Capital Reserve contribution plan be modified as shown in Appendix "D" to the Report to the Finance and Corporate Services Committee dated November 22, 2017;
  - b) That staff be authorized to establish a "Capital Contributions Reserve" with the Reserve to be funded by landowner capital contributions collected under the Salem/Hewitt's Memorandum of Understanding (MoU), and the Reserve be used to fund the growth related as prescribed in the MoU; and
  - c) That staff be authorized to establish a "Community Benefit Reserve" with the Reserve to be funded by dividends received from Barrie Hydro Holdings Inc. to a maximum reserve balance of \$10 million, and the Reserve be used to fund projects and initiatives deemed to have significant strategic and/or community benefit.

## **PURPOSE & BACKGROUND**

4. The purpose of this report is to recommend changes to the City's Financial Policies Framework, present updates to the Long Range Financial Plan (LRFP), and discuss the City's financial condition. This includes:
  - a) An analysis of new strategies that can strengthen the City's financial condition;
  - b) Revisions to the City's Financial Policies Framework to support the new strategies; and
  - c) The establishment of reserves for new revenue streams.



# Report to Finance and Corporate Services Committee

## Purpose of a Long Range Financial Plan

5. The LRFP is a comprehensive plan used to guide decision making. It includes a set of strategies, principles, and policies used in conjunction with a five year financial projection for operating, capital, and user rate budgets. At a minimum, the LRFP supports assessments of the financial impact that decisions can have on the City's financial condition, now and in the future.
6. The forecasting capability provided by the LRFP increases the potential for the City to manage and improve its financial condition and monitor the key elements of sustainability, vulnerability and flexibility. It also provides the capability to identify the relationship between service levels, spending levels and capital investment decisions on future tax and user rates.

## **ANALYSIS**

7. In General, the basis for the LRFP is the 2017 Capital Plan and approved 2017 Operating Budget. Adjustments were made for material amendments that were known at the time (e.g. First Responders Campus). Additional assumptions were required to produce the LRFP, and these are set out in the consultant's report.

## The City of Barrie's Financial Condition

8. The Financial Policies Framework provides guidelines that serve as business rules in the LRFP. Based on these rules and the projections provided by the LRFP, Council can assess current and future implications associated with its financing decisions. Annually, the Business Plan describes the City's financial condition based on current, approved financial policies, and recommended services and service levels.

### ***Sustainability***

9. Sustainability is a government's ability to maintain current services and service levels without increasing property taxes or its debt burden. The prudent use of debt is acknowledged as a fundamental component to well developed and credible financial management, and supports financial discipline and stability.
10. Total debt outstanding, which includes debt for growth related projects that are recovered from future DC revenues, tax and water/wastewater debt, has been trending upward since 2012. The City's total debt charges as a percentage of own source revenues is well below the Provincial limit, and below the City's self-imposed limit. However, as a result of the low average balance in the Tax Capital Reserve (TCR), and to fulfil forecasted capital needs, additional tax supported debt will be required.
11. The City's total debt includes debt related to DC borrowings. Based on leading practices, it is prudent to have a limit of debt outstanding in relation to the DC Eligible Costs in the DC Background Study. The City's DC related debt outstanding is 20% of the total eligible costs in the 2014 Background Study. A limit of 25% is considered appropriate to balance the repayment of debt issued for development, and to sustain and ensure adequate infrastructure, services and resources to support City growth plans.
12. An important strategy for reducing reliance on debt and the cost of financing is to maintain healthy reserve balances. Maintaining reserves allows the City to accumulate funds for future and contingent liabilities, and provide a cushion for unexpected shifts in revenues and expenditures. Healthy reserves also indicate advanced financial planning and are viewed favourably by credit rating agencies.



# Report to Finance and Corporate Services Committee

## *Flexibility*

13. Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden. Policy changes that improve sustainability also maintain or enhance flexibility.
14. The degree to which the City has flexibility is also examined through an understanding of the cost of municipal services and affordability metrics. Regarding affordability, the residential tax affordability and residential water and wastewater affordability metrics, measured as a percentage of income were 3.6% and 2.5% respectively, both within the City's targets, but approaching the tax recommended target limit.

## *Vulnerability*

15. Vulnerability is the extent to which a government becomes dependent on, and therefore vulnerable to, funding from senior levels of government over which it has no control. Long term implications arise from receiving funding from senior levels of government as there is a risk that service levels become inflated, without long term funding to sustain the service.
16. The availability of reserve and reserve funds help mitigate the risk that funding from senior levels of government will artificially inflate service levels. The City's reserve and reserve fund levels have been historically low, and although improvements are evident, they continue to be lower than recommended levels.

## Financial Condition Assessment Recommendations

17. The Table in Appendix "E" contains the list of recommendations from the Financial Condition Assessment (Phase 1 of the LRFP), and staff's proposed approach to addressing these recommendations. The recommendations cover the City's Reserve and Reserve Fund Management, Debt Management, Growth and Development, and Financial Position policies.

## **Specific Strategies to Improve Financial Condition**

18. The LRFP identifies several specific strategies to improve the City's financial condition going forward. The following is a list of proposed strategies:
  - a) The establishment of a Community Benefit Reserve with the Reserve to be funded by dividends received from Barrie Hydro Holdings Inc. (BHHI) to a maximum reserve balance of \$10 million, and the Reserve be used to fund projects and initiatives deemed to have significant strategic and/or community benefit;
  - b) The establishment of a Capital Contributions Reserve to be funded by landowner capital contributions collected under the Salem/Hewitt's Memorandum of Understanding signed in 2014, and the reserve be used to fund the growth related component of ineligible development charge services;
  - c) The Tax Stabilization Reserve, used to offset unforeseen and extraordinary expenditure requirements and avoid fluctuations on the tax levy, is currently lower than the City's target, which is lower still than credit rating agencies' recommendations. The proposed target revision (10-15% of own source revenue) is a range which will adhere to credit rating agency recommendations and at a level that would provide sufficient liquidity. However this reserve is funded by year end operating surpluses, which will need to be continued until the target is reached and as City staff produce budgets that are generally very close to actuals, the amount of any surplus has been decreased over the years, limiting the amount to be placed into reserves;



# Report to Finance and Corporate Services Committee

- d) Water and Wastewater Stabilization Reserves are used to offset deficits and cover potential one-time expenditures. As weather conditions affect consumption and the supporting revenues, sufficient levels need to be maintained to cover fluctuations. The City's current target is a minimum which is currently not being met. A new target range (10-15% of own source revenue) is being proposed to improve reserve levels;
- e) Recommendations include the addition of new target limits for total debt (e.g. total debt outstanding will be less than 120% of own source revenue) and DC supported debt outstanding (DC supported debt outstanding will not exceed 25% of DC eligible costs for the forecast period of the latest DC Background Study), the former in accordance with the suggested target of the credit rating agency. Adherence to these targets ensures future debt service payments can be made, provision of essential services will not be jeopardized, undue burden will not be placed on residents and businesses, and the municipality will maintain stability;
- f) The introduction of a DC adequacy test will determine early requirement of a new Development Charges Study that is based on a number of assumptions which, if they change, could significantly impact cash flows. The DC adequacy test will determine if the DC rates are adequate to fully fund growth with respect to the lead-lag nature of DC revenues and expenditures;
- g) Improvements in processes and planning for Program Specific Reserve/Reserve Funds.
- h) The current practice for contributing to the Tax Capital Reserve has become complex, challenging to communicate, and added unnecessary volatility to tax rate increases. The proposed policy, described in Appendix "D", would phase in an increase to the Dedicated Infrastructure Renewal Fund (DIRF) contribution to the Tax Capital Reserve to replace the amortization method. This change is intended to address the short-comings of the current practice, while also addressing the infrastructure funding gap and improving liquidity.

## Financial Policy Framework Updates

- 19. Proposed revisions to the City's Financial Policies Framework Update have been provided in Appendix C. The objectives of the proposed changes are to improve the City's financial condition by building reserves, and protecting the City's credit rating by limiting the level of new debt. The revisions would also improve the degree of guidance provided when making financial decisions and address various housekeeping items. The highlights and a brief description of the proposed changes are identified below:
  - a) **Growth and Development:** Proposed introduction of one new target:
    - i) That on a consolidated basis, the DC Reserve Funds must maintain a positive balance.
  - b) **Strategic initiatives and enhancements:** Proposed changes are to reflect current practices.
  - c) **Debt Management:** Proposed condensing of current targets with the introduction of two new targets :
    - i) The total debt outstanding will be less than 120% of own source revenues, in accordance with the credit rating agency's suggested target; and,
    - ii) DC supported debt outstanding will not exceed 25% of the DC eligible costs for the forecast period of the latest DC Background Study.





## Report to Finance and Corporate Services Committee

- d) **Investments:** No changes are being proposed at this time.
- e) **Operating Surplus/Deficit:** No changes are being proposed at this time.
- f) **Budgeting:** Proposed changes are to formalize and reflect current practices.
- g) **Revenue – User fees and service charges:** No changes are being proposed at this time.
- h) **Revenues – Property Taxation:** No changes are being proposed at this time.
- i) **Revenues – Non-recurring revenues:** Proposed changes are to formalize and reflect current practices.
- j) **Program and services review:** No changes are being proposed at this time
- k) **Financial Position:** No changes are being proposed at this time.
- l) **Reserve/Reserve Fund Management:** Proposed changes are recommended to the guiding principles by removing the amortization method, and reflecting current practices. A statement would be added regarding maintenance of reserve funds according to applicable legislation, and the following three new targets proposed:
  - i) A target range of 10%-15% of total own source revenues will be maintained in the Tax Rate, Water and Wastewater Stabilization Reserves. This replaces three targets that refer to gross operating revenues as targets for the stabilization reserves;
  - ii) A minimum threshold cash balance will be maintained in the Tax Capital Reserves equivalent to one year's worth of the 5 year average of the non-growth tax-supported capital expenditure requirements. This ensures that one year of tax based funding is available in reserves to maintain liquidity; and
  - iii) A DC adequacy test will be prepared and presented to Council, and if the adequacy shows that DC rates are more than 20% below the rate needed to fully fund eligible expenditures, a new Development Charge Study be prepared.
- m) **Capital Project Financial Control Policy:** Proposed wording concerning the use of holding accounts to fund capital projects' costs in excess of approved budget is recommended to improve controls; proposed removal of redundant wording regarding the closing of projects; and, an increase to the amount a capital project may be funded from a holding account when it exceeds its approved budget. This is to increase operational efficiency in the process of project delivery.

### ENVIRONMENTAL MATTERS

20. There are no environmental matters related to the recommendations.



# Report to Finance and Corporate Services Committee

## ALTERNATIVES

21. The following alternatives are available for consideration by Finance and Corporate Services Committee:

**Alternative # 1**

Finance and Corporate Services Committee could maintain the existing Financial Policies Framework.

The current Financial Policies Framework represents a best practice in municipal financial planning. Collectively, however, the policy limits it provides are not sustainable based on the City's current services, service levels, known renewal requirements, and growth related infrastructure needs as identified in the LRFP. The recommendations in this report reflect ongoing steps to improve the City's financial condition.

**Alternative #2**

Finance and Corporate Services Committee could choose to create another policy for funding strategies for the BHHI dividend revenues.

Although this alternative is available, it is not recommended. Setting up a separate reserve allows for specific projects and initiatives for community benefit to be identified for use of the reserve and limits the risk of over-subscribing amounts available.

**Alternative #3**

Finance and Corporate Services Committee could maintain the existing debt limits without the inclusion of new targets proposed.

The current debt capacity limit of 20% is an effective strategy to reduce the City's reliance on debt, but recommendations for additional targets based on own source revenue are supported by the City's credit rating agency and intended to protect the City's current credit rating of AA stable.

**Alternative #4**

Finance and Corporate Services Committee could maintain the current practice for increasing contributions to the Tax Capital Reserve.

This is not recommended as the current practice is confusing and cumbersome, whereas the proposed policy will streamline the process and achieve the intent of increasing the balance in the TCR, while balancing funding requirements and affordability through a phase-in period.

## FINANCIAL

22. The analysis section of the report contains the financial impacts of implementing the proposed strategy.

## LINKAGE TO 2014-2018 STRATEGIC PLAN

23. The recommendations included in this Report support the following goal identified in the 2014-2018 Strategic Plan:

- Responsible Spending

24. The recommendations included in this Report support the goal of responsible spending by establishing a reasonable and affordable set of strategies and policies that represent the initial step to ensure that the needs of the community can be met now and in the future.



# Report to Finance and Corporate Services Committee

## APPENDIX "A"

### 2017 Financial Condition Assessment

(See Attachment)

# CITY OF BARRIE - 2017 FINANCIAL CONDITION ASSESSMENT



*October 2017*

**Table of Contents**

**Executive Summary**

**City of Barrie - Long Range Financial Plan** 1

**City of Barrie - Financial Condition Assessment - Introduction** 2

Trend Analysis 3

Peer Analysis 3

Financial Condition Assessment - Introduction 4

Financial Condition Assessment—Questions to Consider 8

Financial Condition Assessment—Key Indicators 9

**Section 1: Growth and Socio-Economic Indicators** 10

Population Changes 12

Peer Municipal Comparisons—Population Growth 13

Population Density 13

Age Demographics and Quality of Life 14

Employment and Labour Force Indicators 15

Commercial and Industrial Vacancy Rates 13

Construction Activity 16

Assessment Composition 18

Changes in Assessment 19

Richness of the Assessment Base 19

Household Income 20

Summary - Growth and Socio-Economic Indicators 21

**Table of Contents**

<b>Section 2: Municipal Levy, Property Taxes and Affordability</b>	22
Municipal and Education Property Taxes	24
Factors Impacting the City’s Net Levy	25
Municipal Levy Per Capita and Per \$100,000 of Assessment Comparison	25
Property Taxes Residential—Peer Comparisons	26
Water and Sewer Costs	27
Affordability	27
Municipal Tax Ratios	28
Summary - Municipal Levy, Property Taxes and Affordability	29
<b>Section 3: Financial Position</b>	30
Asset Consumption Ratio	32
Introduction to Reserves and Reserve Funds	33
Discretionary Reserves as a % of Taxation	35
Summary of Reserves/Reserve Funds 2012-2016	36
Capital Reserves	38
Stabilization Reserve/Reserve Funds	45
Corporate Reserves	47
Program Specific Operating Reserves	48
Capital Growth and Development Reserves/Reserve Funds	49
City of Barrie's Financial Policies - Growth	50
Debt Management	53
Financial Position	57
Taxes Receivable	59
Summary - Financial Position Trend, Observation	60
<b>Conclusion</b>	62

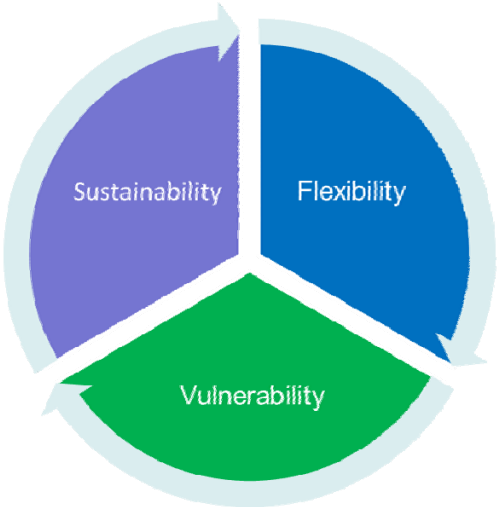


# Executive Summary

**Executive Summary**

BMA Management Consulting Inc. (BMA) was retained by the City of Barrie to assist in the preparation of a Long Range Financial Plan. The first step in the preparation of the Long Range Financial Plan is to undertake a *Financial Condition Assessment*. This first phase provides an analysis of the current financial position of the City using a number of recognized financial indicators. As described by the Public Sector Accounting Board (PSAB), the intent of providing an evaluation of a municipality’s financial condition is to evaluate a municipality’s financial outlook and performance. This will help form the foundation for the establishment of a long range financial plan which is the second phase of this project.

The Financial Condition Assessment was evaluated using the PSAB guidelines which recommend consideration of the following:



The report is structured to include three main sections as follows:

*Growth and Socio-Economic Indicators*

*Municipal Levy, Property Taxes & Affordability Indicators*

*Financial Position Indicators*

The report includes trend analysis to consider how the City of Barrie’s financial and socio-economic conditions have changed over time. It also includes a comparison to peer municipalities.



At the conclusion of each section, a dashboard has been included to summarize the results.

	<i>Positive, stay the course</i>
	<i>Caution: May need review and additional policies in the long range financial plan</i>



**Summary—Growth and Socio-Economic Indicators**










Demographic and social trends have been a significant impact on a municipality’s fiscal position by affecting the labour force, income distribution and demand for municipal services. Population growth is important as it drives the economic health of the City. A growing population creates an environment that supports business growth as well by providing an evolving and vibrant labour force. Growth in the population base as well as the business environment also results in an increase in the assessment base which supports greater tax revenues for the City and the opportunity for new and improved services.

The City benefits from a young and growing population; however, similar to the trend experienced by other Ontario municipalities, the proportion of population over 65 is increasing. The City has experienced tremendous growth in population over the past 25 years and is forecast to grow by an additional 49% to the year 2031. Barrie is faced with the need to provide additional infrastructure to service new growth at the same time existing assets are reaching an age where renewal/replacement is required.

Barrie also benefits from a low unemployment rate and higher than average employment rate.

The City’s property assessment base is well diversified which helps support the delivery of municipal programs and services. A strong assessment base is critical to a municipality’s ability to generate revenues. Barrie’s assessment has been trending up over the past 5 years and is above the peer average. Construction activity has been trending down over the past three years but is projected to increase in 2017 and beyond.

Barrie’s average household income is above the peer average.

<i>Indicator</i>	<i>Rating</i>
<i>Population Growth</i>	Neutral
<i>Population Density</i>	
<i>Demographics</i>	
<i>Unemployment Rate</i>	
<i>Employment Rate</i>	
<i>Construction Activity</i>	
<i>Assessment Composition</i>	
<i>Richness of the Assessment Base</i>	
<i>Assessment Growth</i>	
<i>Household Income</i>	

**Summary—Municipal Levy, Property Taxes and Affordability**

Prior to establishing a long range financial plan, it is important to understand the cost of municipal services as well as affordability metrics. This section of the Financial Condition Assessment provides an overview of 2017 municipal tax levy, trends experienced over the past several years in the City of Barrie and in relation to peer municipalities. To take into consideration affordability, property taxes were reviewed in relation to average household income as was the cost of water/wastewater services.

Barrie’s tax levy per capita is amongst the lowest of municipalities surveyed and the City’s levy per \$100,000 of assessment is lower than the survey average.

Barrie’s taxes on a typical 2 storey home is the lowest in the survey of peer municipalities.

Barrie’s water and wastewater charges for an average residential property are below the peer average and is well below the target of 2.5% of gross household income.

Total municipal burden for taxes and water/ww costs for an average residential property as a percentage of average household income in Barrie is below the survey average.

<i>Indicator</i>	<i>Rating</i>
<i>Municipal Levy Per Capita</i>	
<i>Municipal Levy Per \$100,000 of Weighted Assessment</i>	
<i>Property Taxes on an Average Residential Home</i>	
<i>Water/WW Costs—Residential</i>	
<i>Water/WW Costs—Non-Residential</i>	
<i>Residential Tax Affordability</i>	
<i>Residential Water/WW Affordability</i>	
<i>Non-Residential Tax Ratios</i>	

**Summary—Financial Position**

This section of the report includes an assessment of reserves, debt and the City’s overall financial position.

Maintaining Reserve/Reserve Funds are a critical component of a municipality’s long-term sustainability. The following is a comparison of tax, water and wastewater reserves as a % of own source reserves in comparison to the average of peer municipalities.

2016	Barrie	Peer Average
Reserves as a % of Taxation	31%	58%
Water Reserves as a % of OSR	86%	85%
WW Reserves as a % of OSR	52%	77%

As shown above, Barrie’s tax and wastewater reserves as a percentage of own source revenues are below the average of the peer municipalities and the water is slightly higher than the peer average.

Capital reserves provide financial flexibility to meet capital replacement requirements and help to achieve the long-term financial sustainability of the City’s assets. Tax Capital Reserves have increased from \$32.6 million in 2012 to \$36.9 million in 2016; however, based on historical costs, tax based assets increased by \$200 million over the same time period.

Ideally capital reserves should be approximately equal to accumulated amortization. The City’s reserve balances in relation to the accumulated amortization is considerably lower than recommended.

**Comparison of Capital Reserves to Accumulated Amortization**

(000's)	Reserve Balance	Accumulated Amortization	Reserves as a % of Accumulated Amortization
Tax	\$ 36,926	\$ 377,384	10%
Water	\$ 20,569	\$ 76,184	27%
Wastewater	\$ 15,001	\$ 201,252	7%

Amortization is based on historical costs and replacement costs will be substantially higher. To compound the problems identified above the City’s capital reserve is not used exclusively for the replacement of capital assets. It is also used to fund the non-DC eligible portion of growth costs and new initiatives identified by the City.

The asset consumption ratio which measures the age of a municipality’s capital assets and the extent to which they have been consumed shows Barrie has relatively low asset consumption ratios for tax, water and wastewater assets and has less immediate needs than municipalities with an older infrastructure.

Funding the costs of infrastructure replacement is a paramount concern for most municipalities but is particularly challenging in municipalities experiencing significant growth, as in the case of Barrie. With limited funding, the City prioritizes capital requests to ensure highest priority budgets are funded. Additional funding strategies will be addressed in the long-range financial plan to gradually close the infrastructure gap.

GFOA and credit rating agencies recommends municipalities maintain stabilization reserves at 10%-15% of own source revenues. As shown in the table, the existing stabilization ratio is below the recommended level.

	Stabilization Ratio
Tax	3%
Water	7%
Wastewater	6%

Development charges are used to fund growth related capital expenditures; however, there is considerable lead times required to plan and build growth in advance of new growth occurring. As a result, the City has had to issue significant amounts of debt in advance of development charge collections. The following is an analysis of the current Development Charge Reserve Fund balances and debt outstanding against the reserves.

	Reserve Ending Balance (millions)	DC Debt Outstanding (millions)	Net (millions)
Tax	\$ 38	\$ (35)	\$ 3
Water	\$ (18)	\$ (136)	\$ (154)
Wastewater	\$ (2)	\$ (84)	\$ (86)

There is a cash flow risk to the City if growth occurs lower than anticipated in the Development Charge Background Study as development charge revenues are required to service existing debt plus pay for planned new capital infrastructure.

Debt is an important indicator of the City’s financial health and is an appropriate way of financing longer life capital infrastructure. The prudent use of debt is acknowledged as a fundamental component to well developed and credible financial management. The City has \$310 million of debt outstanding as of December 31, 2016; 83.5% of which is recoverable from DC reserves. The following is a comparison of debt recoverable from taxes and rates in comparison to the peer municipalities.

	2016	Barrie	Peer Average
Tax Debt Charges as a % of OSR		3.4%	3.0%
Tax Debt Outstanding per Capita	\$	546	\$ 724
Water Debt Interest as a % of OSR		24.5%	5.8%
Water Debt Outstanding per Capita	\$	972	\$ 293
WW Debt Interest as a % of OSR		13.0%	5.2%
WW Debt Outstanding per Capita	\$	673	\$ 314

The City’s policy for debt states that all debt charges for DC borrowings as a percentage of own source revenue will be less than 1% with a maximum repayment level in each year not to exceed 10% of DC revenues. Both of these targets were exceeded in 2016.

Total debt outstanding as at December 2016 is at 98% of own source revenues. Credit rating agencies state that if debt outstanding exceeds 120% of own source revenues, it may lead to negative implications.

Maintaining a strong financial position is a critical component of a municipality's long-range financial plan. Credit rating agencies recommend a ratio of 1:1; meaning there is at least a \$1 of financial assets for every \$1 of financial liabilities. Barrie's ratio is 0.6:1 meaning there is 0.6 of financial assets to every \$1 of debt. Barrie's net financial position has trended up since 2012; however, it is still in a negative position and lower than the peer municipal average. Approximately \$254.3 million of debt outstanding in 2016 is related to growth capital projects and will be recovered from future development charges which, if excluded, would move Barrie into a positive position.

### Summary of Recommendations

The following is a summary of the recommendations made in this report that, if approved, should result in an improvement to the financial position.

1. Maintain a minimum threshold cash balance in the Tax Capital Reserves, equivalent to one year's worth of the 5 year average of the non-growth tax-supported capital expenditure requirements. This ensures that one year of tax based funding is available in reserves to maintain liquidity.
2. Target for Tax Stabilization Reserve—A target range of 10%-15% of total own source revenues be maintained in the Tax Rate Stabilization Reserve.
3. Target for Water/WW Stabilization Reserve—A target range of 10%-15% of total own source revenues to be maintained in the Water and Wastewater Rate Stabilization Reserves.
4. Continue to monitor Corporate Reserves and undertake actuarial valuations to establish funding requirements.
5. That a financial plan for all Program Specific Reserves/Reserve Funds be prepared to ensure that there are adequate funds to sustain the program requirements. The plans should be reviewed annually in conjunction with the budget process.
6. That spending from any Program Specific Reserves/Reserve Funds in any one year not exceed the uncommitted balance in the reserve fund at the end of the preceding year.
7. That a development charge adequacy test be prepared and presented to Council and if the adequacy test shows that DC rates are more than 20% below the rate needed to fully fund eligible expenditures, a new Development Charges Study be prepared.
8. That on a consolidated basis, the DC Reserve Funds must maintain a positive balance.
9. That the following be added to the City's debt limit targets:
  - Total debt outstanding will be less than 120% of own source revenues, in accordance with the credit rating agency's suggested target.
  - DC supported debt outstanding not to exceed 25% of the DC eligible costs for the forecast period of the latest DC Background Study.
11. That the City continue monitoring its financial position, taking into consideration account forecast changes that would impact assets and liabilities.

Indicator	Rating
<i>Asset Consumption Ratios</i>	
<i>Tax Discretionary Reserves as a % of Taxation</i>	
<i>Water Reserves as a % of Own Source Revenues</i>	
<i>Wastewater Reserves as a % of Own Source Revenues</i>	
<i>Infrastructure Sustainability Ratio</i>	
<i>Tax Stabilization Reserves</i>	
<i>Water/WW Stabilization Reserves</i>	
<i>Corporate Reserves</i>	
<i>Program Specific Reserves</i>	
<i>Capital—Growth and Development—Tax</i>	
<i>Growth and Development—Water and Wastewater</i>	
<i>Tax Debt Management</i>	
<i>Water/WW Debt Management</i>	
<i>Financial Position</i>	
<i>Taxes Receivable</i>	

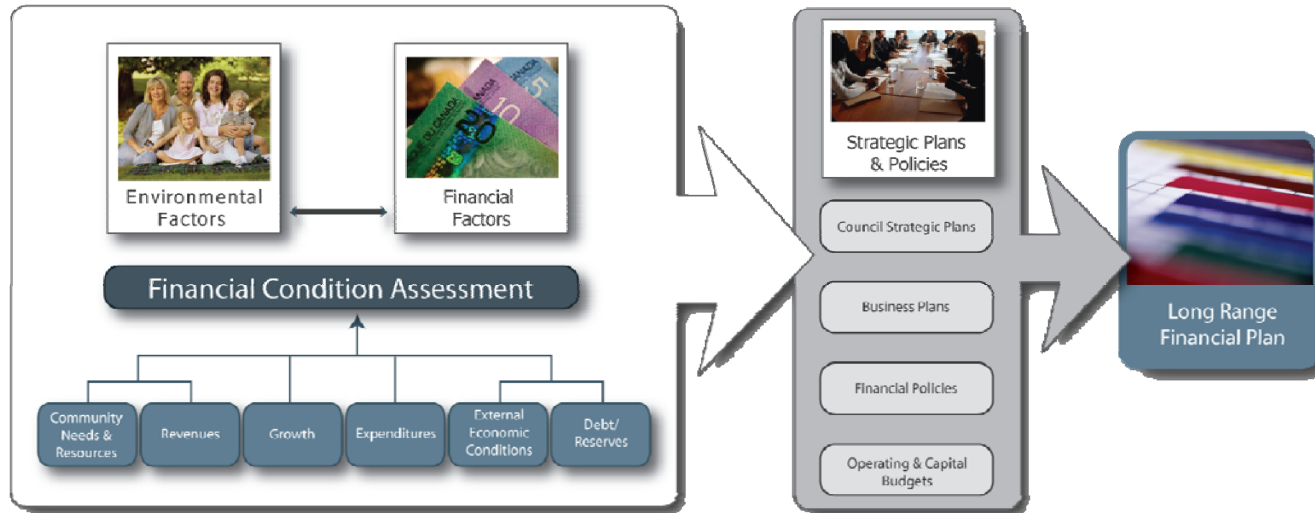
The Financial Condition Assessment is a starting position for presenting “as is” or current state information, identification of challenges and policies that may need to be revisited in the development of a strategic 5-year Long Range Financial Plan based on growth forecasts, the 5-year capital requirements and operating programs and service costs.

The next step in the process is the development of a Long Range Financial Plan to ensure that alignment with the City’s various strategic planning documents such as strategic plans, development charge studies, master plans, growth forecasts, official plan, departmental business plans etc. The City’s existing Financial Policies will be reviewed to identify any areas where policy refinement is recommended based on leading practices and issue identification.

*Report Introduction*

**Introduction—Long Range Financial Plan**

BMA Management Consulting Inc. (BMA) was engaged by the City of Barrie to assist in the preparation of a Long Range Financial Plan (LRFP). A LRFP is the balancing act between existing service levels, growth and development, service level changes and weighing those requirements against long-term financial sustainability, debt and the community tax and rate burden. This balance is what creates public value. The following provides a high level overview of the process that was followed in the development of the LRFP.



The first step in the preparation of the Long Range Financial Plan is to undertake a **financial condition assessment**, review financial policies and, based on the findings, update the City’s Financial Policies. The City’s goal in the development of financial policies is to *“place the City’s finances on a sound and sustainable footing so that financial, service and infrastructure standards can be met without resorting to unplanned or excessive increases in rates or disruptive cuts in services.”*

A viable LRFP results in strategies to achieve and maintain financial sustainability and resiliency; and identifies how to provide consistent service levels while addressing community concerns within financial constraints. **Key financial and socio-economic indicators** have been included to help evaluate the City’s existing financial condition and to identify future challenges and opportunities. Industry recognized indicators that are used by credit rating agencies and/or recommended by Government Finance Officers’ Association (GFOA) have been included. In addition, research from other municipalities has been included to provide examples of where policies and practices have been implemented.



### Financial Condition Assessment

The LRFP will integrate with the organization’s strategic objectives and priorities as reflected in the City’s strategic and business plans to ensure long term financial sustainability and adhere to financial stewardship principles, as outlined by the Public Sector Accounting Board.

As described by Public Sector Accounting Board, the intent of providing an evaluation of a municipality’s financial condition is to evaluate a municipality’s financial outlook and performance. This will help form the foundation for the establishment of a long range financial plan which is the second phase of this project. The outcome of the plan is to ensure long-range financial sustainability and a continuation of Barrie’s high quality credit rating. Barrie’s strong financial position is maintained when balance among sustainability, flexibility and vulnerability is maintained.

<b>Sustainability</b>	<b>Flexibility</b>	<b>Vulnerability</b>
<p><b>Whether a government is living within its means</b></p> <p><i>Financial Sustainability is the City’s ability to provide and maintain planned service and infrastructure levels without resorting to unplanned increases in rates, disruptive cuts to services or increasing the debt burden on the economy.</i></p>	<p><b>Whether a government can meet rising commitments by expanding its revenues or increasing its debt.</b></p> <p><i>Flexibility is related to debt and taxes; it is the City’s ability to change either debt levels or taxes to meet financial obligations. Flexibility is whether or not the City has the ability to issue debt responsibility without impact on the credit rating or the ability to generate needed revenues.</i></p>	<p><b>The extent to which a government relies on money from the Federal government or other outside sources to pay for existing programs.</b></p> <p><i>Vulnerability is the degree to which the City becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence. This indicator measures the extent to which a City can manage its financial affairs without having to rely on others.</i></p>

The usefulness of indicators is not in the numbers themselves, but the analysis of what is driving the indicator. It is therefore more useful to consider the combined results of several broad indicators in assessing performance rather than any one indicator on its own.

### Trend Analysis

The problems that create fiscal challenges seldom emerge overnight, rather they develop slowly, thus making potential problems less obvious. Analyzing the trends of the City’s key financial performance and socio-economic indicators offer several advantages including:

- It provides information on changes in the City’s financial health, revealing the most current trends;
- It shows how quickly a trend is changing;
- It will form the basis for future forecasting;
- It builds awareness and helps identify the potential need to modify existing policies or develop new strategies; and
- It provides a good indication of where the City is heading.



### Peer Analysis

Peer analysis has also been included to gain perspective on the City’s financial health in relation to other municipalities. Figure 1 summarizes the peer municipalities selected.

Figure 1—Peer Municipal Comparator Group

	2016 Population	Land Area	2016 population density per km
Brantford	97,496	72	1,354
Chatham-Kent	101,647	2,458	41
Greater Sudbury	161,531	3,228	50
Guelph	131,794	87	1,511
Kingston	123,798	415	298
London	383,822	420	914
Thunder Bay	107,909	328	329
<b>Barrie</b>	<b>141,434</b>	<b>99</b>	<b>1,428</b>

All of the above comparators are single tier municipalities, providing similar services as the City of Barrie, with a focus on municipalities with a population of approximately 100,000 or greater.

*City of Barrie—Financial Condition Assessment—Introduction*

## City of Barrie—Financial Condition Assessment—Introduction

The City of Barrie has a AA rating which demonstrates the City’s commitment to fiscal responsibility. Standard & Poor’s Credit Rating Agency rated the City’s outlook as stable, stating the following:

*“On Oct. 27, 2017, S&P Global Ratings affirmed its 'AA' long-term issuer credit rating on the City of Barrie*

- The stable outlook reflects our expectations that, in the next two years, the city's economy will expand healthily while its liquidity levels will be more than sufficient to cover financial commitments.*
- We expect that Barrie will continue to run deficits after capital expenditures that will fluctuate as its capital plan progresses.*
- At the same time, we expect the city's stable economic growth and experienced financial management to support fiscal performance throughout our two-year outlook period.*
- We believe that Barrie's creditworthiness benefits from the quality of its financial management, with generally strong political consensus in passing budgets without major amendments or delays and prudent financial policies and practices that demonstrate good transparency and disclosure.”*

An update to the City’s long range financial plan is yet another step in the City’s commitment to financial management and builds on the significant work that has already been undertaken by the City.



Existing Financial Policies

As will be reviewed in this report, the City has a Financial Policies Framework that includes the following financial elements:

- *Growth and Development*
  - *Strategic Initiatives and Enhancements*
  - *Debt Management*
  - *Investments*
  - *Operating Surplus/Deficit*
  - *Budgeting*
  - *Asset Management*
  - *Revenues – User Fees and Service Charges*
  - *Revenues – Property Taxation*
  - *Revenues – Non Recurring Revenues*
  - *Program Review*
  - *Financial Position*
  - *Reserve/Reserve Fund Management*
  - *Capital Project Financial Control Policy*
- 

***Excerpts from the 2017 Business Plan and Capital Plan—Investment Priorities***

The 2017 Business Plan and Capital Plan includes the following as key 2017 investment priorities:

- *Continuing to address our infrastructure deficit;*
- *Continuing to work towards financial sustainability;*
- *Protecting the public, our assets and our environment with a focus on environmental protection;*
- *Continuing to prepare for growth;*
- *Better serving our customers and ensuring we meet Legislated requirements for accessibility through AODA compliance;*
- *Supporting our staff and growing our talent so we can better deliver services;*
- *Continuing to work towards greater automation by building our technology infrastructure and business systems; and*
- *Continuing to focus on growing our economy.*

These priorities help set the stage upon which a long range financial plan can be developed.



*Financial Condition Assessment—Questions to Consider*

Finally, at the conclusion of the Financial Condition Assessment, the following questions will be addressed to help set the stage for the development of the financial forecast.

- 1. Can the City continue to pay for the services currently provided?*
- 2. Is there sufficient financial flexibility to address unexpected events, uncertainty and future liabilities?*
- 3. Is the City's infrastructure network sustainable and adequately funded?*



Financial Condition Assessment—Key Indicators

The Financial Condition Assessment includes the following:

**Growth and Socio-Economic Indicators**



This includes an evaluation of the City’s growth and socio-economic indicators which are largely external to the City’s control but important to understand from a planning and forecasting perspective. These indicators are closely interrelated and affect each other in a continuous cycle of cause and effect.

- Population
- Employment Statistics
- Building Construction Activity
- Property Assessment
- Household Income

**Municipal Levy, Property Taxes & Affordability Indicators**



This includes an evaluation of the cost of municipal programs and services and how these costs translate into municipal property taxes from a taxpayer and ratepayer affordability perspective to gain perspective on whether there are any affordability concerns.

- Municipal Levy
- Comparison of Relative Taxes
- Water and Wastewater Costs
- Municipal Property Taxes as a % of Income
- Water/WW Costs as a % of Income
- Tax Ratios

**Financial Position Indicators**



This includes an evaluation of the City’s financial framework upon which the City operates. These indicators help determine if modifications are needed to the City’s existing financial policies and strategies as part of the development of the long range financial plan.

- Asset Consumption Ratio
- Reserves & Reserve Funds
- Debt
- Municipal Financial Position
- Asset and Liabilities





# Section 1: Growth and Socio-Economic Indicators

### Growth and Socio-Economic Indicators

Growth and socio-economic indicators describe and quantify a community’s wealth and economic condition and provide insight into the community’s collective ability to generate revenue relative to the community’s demand for public services. Strong population growth drives the economic health of a municipality and creates an environment that supports business growth. It also provides an evolving and vibrant labour force that the business community relies on to produce goods and services.

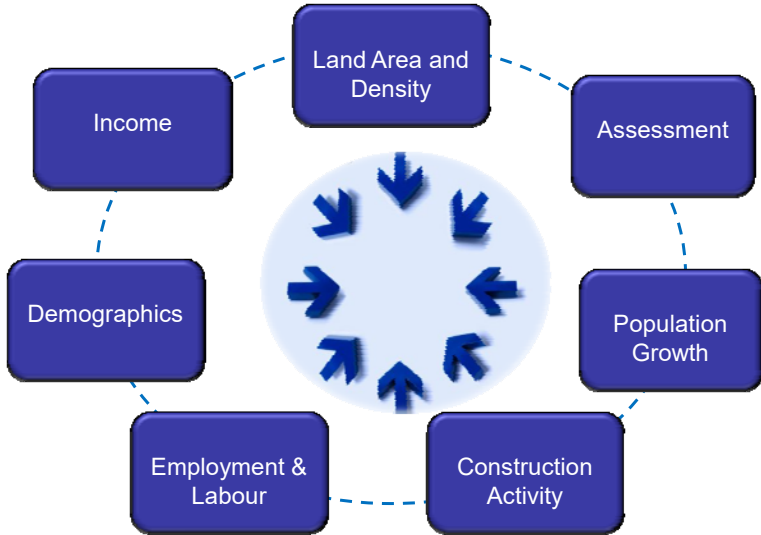
An examination of economic and demographic characteristics can identify, for example, the following types of situations:

- An inclining tax base and correspondingly, the community’s ability to pay for public services;
- A need to shift public service priorities because of demographic changes in the community; and
- A need to shift public policies because of changes in economic and legislative conditions.

This section of the financial condition assessment explores the trends associated with growth and socio-economic indicators for the City of Barrie.

#### Excerpts—City of Barrie 2017 Business Plan & Capital Plan

*“The City is moving into a **high growth period** and needs to set the financial foundation to manage costs driven by the growth anticipated over the next number of years while continuing to maintain current service levels and existing infrastructure, and to ensure long term fiscal sustainability.”*

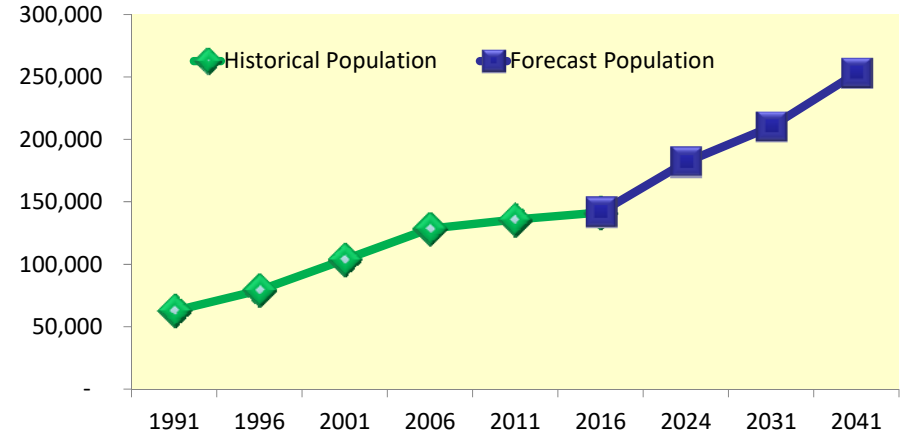


**Population Changes**

Changes in population directly impact both revenues (assessment base) and expenditures (service demand). The following summarizes key findings related to the City’s population growth:

- Barrie has grown from a population of 62,700 in 1991 to over 141,400 in 2016 (125% increase); however, revenue often lag behind the expenditures. This increase in population has resulted in substantial new capital infrastructure which ultimately has to be replaced. Population is forecast to exceed 253,000 by 2041, a 79% increase over 2016.
- In January 2010, the Barrie Innisfil Boundary Adjustment Act 2009 came into effect extending the boundary of the City to include 2,293 hectares of land previously located in Innisfil.
- Increases in population can create immediate pressures for new capital outlay and increased demands for services. Some of the new infrastructure to service growth is not eligible under the *Development Charges Act* which places pressure on the existing taxpayers. Realized growth in property tax revenue will provide some relief to the tax rate.
- The continued need for additional infrastructure to accommodate further growth will take place at the same time that some of the existing assets are reaching an age where their renewal/replacement is required.

**Figure 2—City of Barrie—Population Changes**



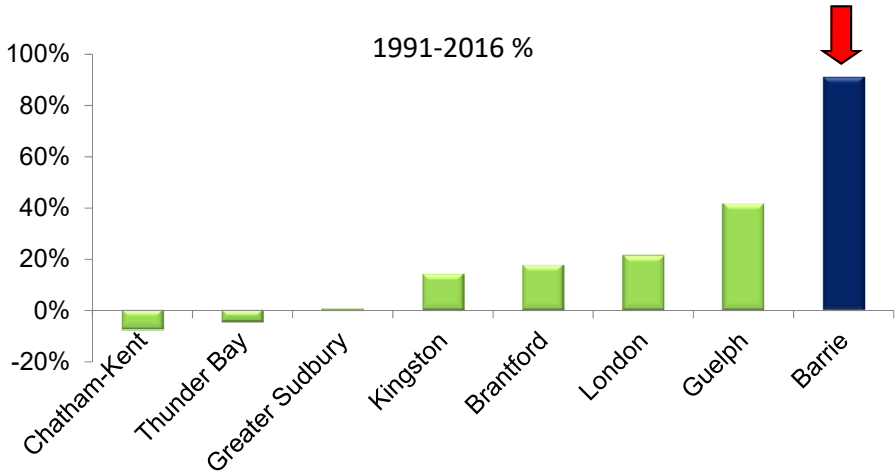
Source: Stats Canada (Historical), City’s Planning Department (Forecast)

**Excerpts—City of Barrie Official Plan 2017**

*“The Provincial Growth Plan identifies the City of Barrie as a primary settlement area in the Simcoe Sub-Area. In addition, Downtown Barrie is identified as an urban growth centre.”*

*“The Province’s Growth Plan as modified on January 19, 2012, has identified a forecasted population of 210,000 within the City’s municipal boundaries by the year 2031 to be achieved through a mix of new development and intensification. Infrastructure improvements are also planned to facilitate the achievement of this population.”*

Figure 3—Population Changes—Peer Municipalities



Source: Stats Canada

- Over the past 25 years, Barrie’s population growth was the highest in the survey of peer municipalities.

Figure 4—Population Density—Peer Municipalities

	2016 Population	Land Area	2016 population density per km
Brantford	97,496	72	1,354
Chatham-Kent	101,647	2,458	41
Greater Sudbury	161,531	3,228	50
Guelph	131,794	87	1,511
Kingston	123,798	415	298
London	383,822	420	914
Thunder Bay	107,909	328	329
<b>Barrie</b>	<b>141,434</b>	<b>99</b>	<b>1,428</b>

Source: Stats Canada

Population Density

Population density indicates the number of residents living in an area (usually measured by square kilometre). Density readings can lend insight into the age of a city, growth patterns, zoning practices, new development opportunities and the level of multi-family unit housing.

High population density can also indicate whether a city may be reaching build-out, as well as service and infrastructure needs, such as additional public transit or street routes. Barrie has the second highest population density per km.

Intensification has a number of benefits, as identified by the Province of Ontario including, reducing carbon footprint, improving access to public transit, using resources such as land, buildings and infrastructure effectively, enhancing community identity and creating active streets that promote healthier patterns of activity. Intensification in the City’s built up areas can have implications on the way some services are delivered as well as their cost. The City has developed policies and guidelines that direct the type of development envisioned for some of Barrie’s currently built up areas.

*Excerpts from S&P Credit Rating*

*“The City’s population has increased healthily, and greater employment opportunities brighten growth prospects. To accommodate growth, Barrie is focusing on intensification as it continues work on the development plan for annexed lands.”*

**Age Demographics and Quality of Life**

The age profile of a population affects City expenditures. For example, expenditures may be affected by seniors requiring higher public service costs and families with young children desiring enhanced services for recreational and related programs.

- The City has a higher percentage of residents that are 19 years of age or under compared to the Ontario average which can increase the needs for recreational programs and services.
- The City has a higher percentage of working age population between the ages of 20-54 years of age in comparison to the Ontario average.
- The City has a lower percentage of residents that are ages 55+.

**Excerpts—City of Barrie’s Standard and Poor’s Credit Rating**

*“The City benefits from a young and growing population and from its proximity to the Greater Toronto Area.”*

- Trends over time in Barrie are similar to the Ontario average whereby there is an increase in the percentage of persons age 55+ and a decrease in the percentage of the population 44 years of age or lower. The transition to an older population has implications for service delivery including parks and recreation, transit and community planning.

**Figure 5—Age Profile**

Age Profile	2011 Barrie	2016 Barrie	Barrie Trend	2011 Ontario	2016 Ontario	Ontario Trend
Age 0 - 14	19.3%	18.0%	↓	17.0%	16.4%	↓
Age 15 - 19	7.6%	6.8%	↓	6.7%	6.0%	↓
Age 20 - 44	34.8%	34.0%	↓	33.0%	32.3%	↓
Age 45 - 54	16.0%	15.4%	↓	16.0%	14.8%	↓
Age 55 - 64	10.2%	11.9%	↑	12.7%	13.6%	↑
Age 65+	12.1%	13.9%	↑	14.6%	16.7%	↑
Total	100.0%	100.0%		100.0%	100.0%	

Source: Stats Canada



**Employment and Labour Force Indicators**

Labour force statistics are an important measure of the economy’s potential.

- The larger the percentage of the population that enters the labour force; the larger the potential output and standard of living. Growth in the labour force implies expanding potential.
- The rate of employment is a measure of and an influence on the community’s ability to support its local business sector.
- Municipalities with higher employment rates are likely to have higher standards of living, other things being equal.
- A decline in employment base or higher than average rates of unemployment, can be a warning signal that overall economic activity may be declining.
- The **unemployment rate** is the percentage of the labour force that actively seeks work but is unable to find work at any given time.

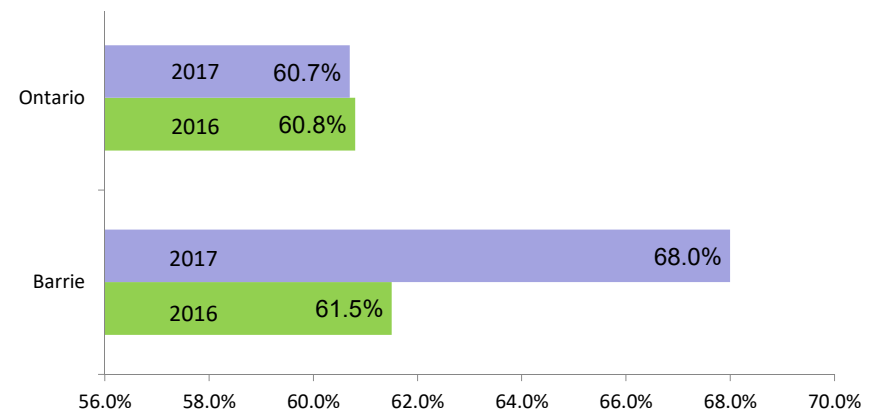
**Figure 6—Unemployment Rates**



Source: Stats Canada, June 2016 and 2017

- As shown in figure 6, from 2016-2017, there has been a decrease in the unemployment rate in the Barrie CMA from 7.5% to 5.6%, compared with the Ontario unemployment rate of 6.4%. Barrie has shown positive trends in unemployment over the past 5 years, as identified in the City’s most recent credit rating where unemployment fell from 9.7% in 2011.

**Figure 7—Employment Rates**



Source: Stats Canada, June 2016 and 2017

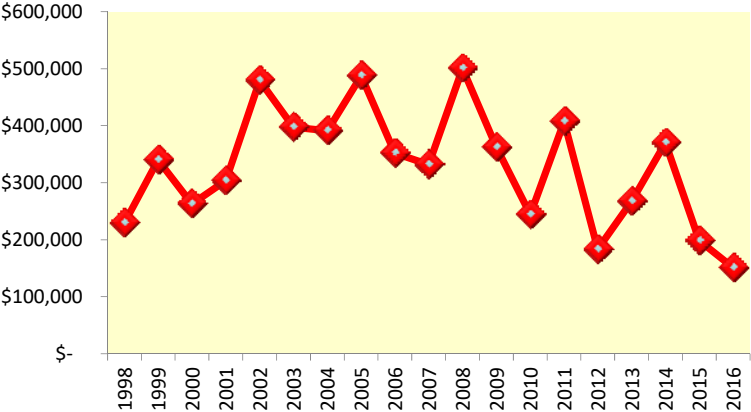
- The **employment rate** is the percentage of total number of working-age people (includes working age people not actively seeking employment) who have jobs. The employment rate shows a community’s ability to put its population to work and thereby generate income to its citizens. As shown in figure 7, the employment rate in the Barrie CMA increased from 2016-2017 and is considerably higher than the Ontario average. In fact, across the Ontario CMAs, Barrie has the second highest employment rate (Guelph is higher at 69.6%).



**Construction Activity**

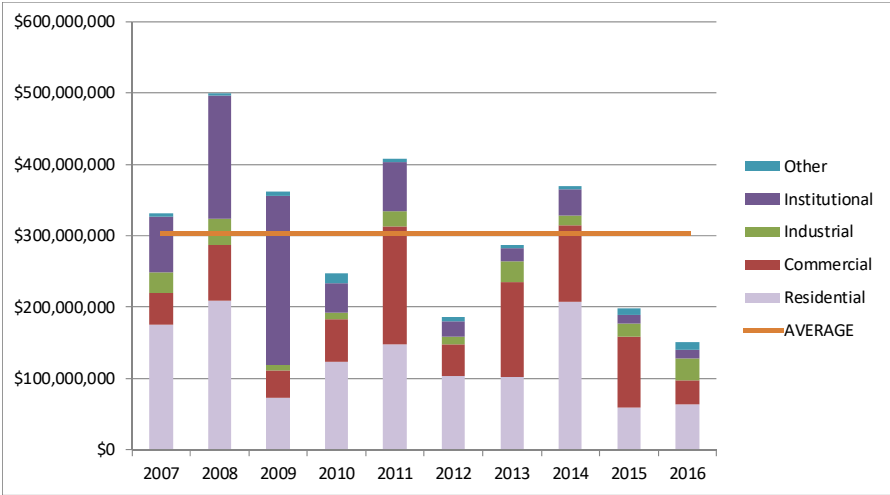
- Another growth related indicator is the construction activity within a municipality which provides information on both residential and non-residential development. Building permits and capital investment are strong indicators of how buoyant business feels about the economy. Changes in building activity impact other factors such as the employment base, income and property values.
- It is important to look at building cycles over a relatively long period of time to identify trends in construction activity. One large project in any year can have a significant impact of the overall construction activity.
- Figure 8 provides the trends experienced in the City of Barrie for the past 19 years. As shown below, the construction varies considerably from year to year but has been trending down in the last decade. For example, from 2007-2011 the construction activity was \$1.8 billion compared with \$1.2 billion from 2012-2016.

**Figure 8—Total Construction Activity—City of Barrie (000's)**



- Generally, a municipality’s net operating costs (expenditure increase net of the associated growth in assessment) to service residential development is higher than the net operating cost of servicing commercial or industrial development because many services such as recreation, libraries and parks are provided for use by residents.
- The ideal condition is to have sufficient commercial and industrial development to offset the net increase in operating costs associated with residential development. Non-residential development is desirable in terms of developing a strong assessment base upon which to raise taxes and in providing employment opportunities.
- Over the past 10 years, residential/non-residential construction activity (on a \$ of construction) is a 42/58 split in the City of Barrie, representing a good balance between residential and non-residential development.

**Figure 9—Residential and Non-Residential Construction**



Source: Building year end reports

Figure 10—Construction Activity—5 Year Detail

Construction Activity (000's)	2012	2013	2014	2015	2016
Residential	\$ 103,865	\$ 102,361	\$ 206,979	\$ 59,144	\$ 64,431
Commercial	\$ 44,623	\$ 132,539	\$ 108,027	\$ 99,781	\$ 33,464
Industrial	\$ 10,951	\$ 29,400	\$ 13,601	\$ 18,151	\$ 30,014
Institutional	\$ 20,775	\$ 17,592	\$ 35,947	\$ 11,560	\$ 12,731
Other	\$ 6,409	\$ 5,326	\$ 5,418	\$ 9,815	\$ 10,410
<b>TOTAL</b>	<b>\$ 186,624</b>	<b>\$ 287,219</b>	<b>\$ 369,971</b>	<b>\$ 198,452</b>	<b>\$ 151,050</b>

Source: City of Barrie, year end reports

- Construction activity has increased significantly in 2017. As of Sept. 2017, the construction activity was \$235 million, led by residential construction in the amount of \$122 million (exceeding 2016 residential construction for the entire year).

Figure 11—Residential/Non-Residential Construction Activity—Peer Municipal Comparators

% Residential Construction Value	
5 Year Average	
Thunder Bay	34%
Greater Sudbury	39%
Kingston	40%
Brantford	52%
Guelph	59%
Chatham-Kent	61%
London	66%
<b>Average</b>	<b>53%</b>
<b>Barrie</b>	<b>42%</b>

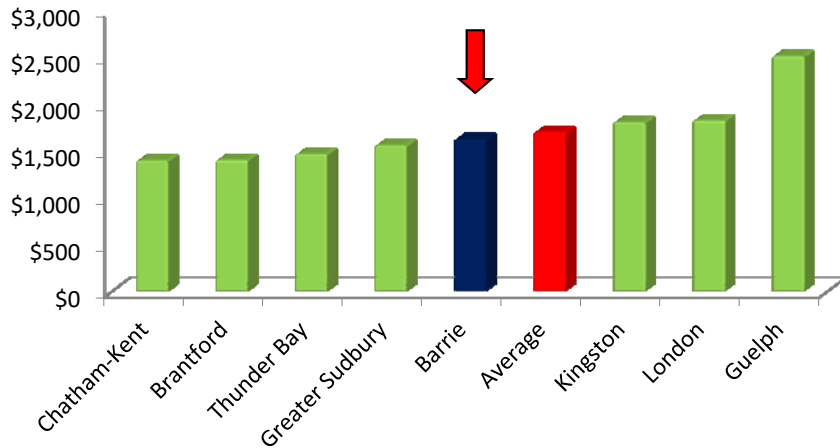
- Ideally, a municipality should have sufficient non-residential development to offset the high service operating costs associated with residential development.
- A comparison was undertaken of the type of construction across the peer municipalities over the last five years. As shown in figure 11, Barrie’s proportion of construction that is residential over the past five years is lower than the survey average, reflecting a strong proportional amount of non-residential construction.



Assessment Composition

Building permit value per capita is used as an indicator of the relative construction activity within each peer municipality.

Figure 12—Construction Activity Per Capita—Peer Municipal Comparators—5 Year Average



Source: City year end construction reports

- As show in figure 12, the average building permit value per capita from 2012-2016 in Barrie was slightly lower than the survey average.

Property assessment is the basis upon which the City raises taxes. A strong assessment base is critical to a municipality’s ability to generate revenues. Assessment composition provides an understanding of the mix of assessment. Credit rating agencies review the tax base and its composition to assess the financial capacity of a municipality. In comparison to the peer municipalities, Barrie’s assessment composition represents an excellent balance between residential and non-residential.

- As previously mentioned, it is more desirable to have a larger share of non-residential assessment as the municipal cost of service is generally lower than residential.

Figure 13—2017 Weighted Assessment Composition

	Multi-						Managed
	Residential	Residential	Commercial	Industrial	Pipelines	Farmlands	Forests
Brantford	63.0%	6.9%	22.1%	7.9%	0.1%	0.0%	0.0%
Chatham-Kent	64.6%	3.6%	16.7%	4.1%	1.3%	9.7%	0.0%
Greater Sudbury	65.7%	6.4%	19.4%	8.0%	0.5%	0.0%	0.0%
Guelph	65.8%	7.4%	19.0%	7.6%	0.3%	0.0%	0.0%
Kingston	61.9%	10.2%	25.5%	2.0%	0.3%	0.1%	0.0%
London	70.6%	6.1%	20.9%	2.0%	0.4%	0.1%	0.0%
Thunder Bay	62.3%	7.8%	26.2%	3.0%	0.8%	0.0%	0.0%
Average	64.8%	6.9%	21.4%	4.9%	0.5%	1.4%	0.0%
Barrie	71.2%	3.5%	22.3%	2.6%	0.2%	0.1%	0.0%

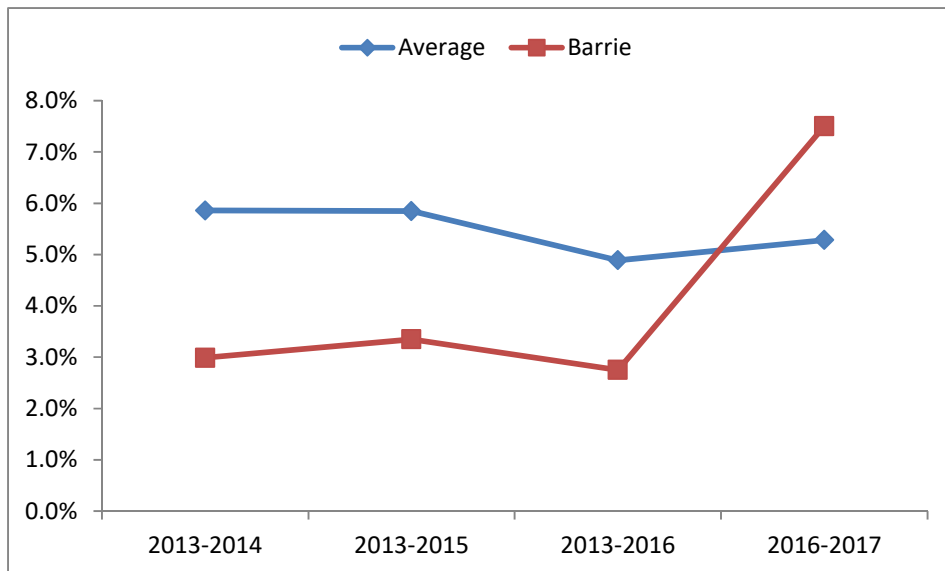
Source: BMA Municipal Study using assessment bylaws

**Changes in Assessment**

Assessment growth, the richness of the assessment base and assessment composition are important indicators of fiscal strength.

- Assessment increases include changes in assessment related to growth as well as changes in market value of existing properties (which does not generate additional revenues). As shown in figure 14, from 2013-2016, the assessment increase in Barrie was lower than the peer average. From 2016-2017 the assessment increase in Barrie was above the survey average. This is consistent with the trends identified in the relative growth in construction activity.

**Figure 14—Changes in Unweighted Assessment**



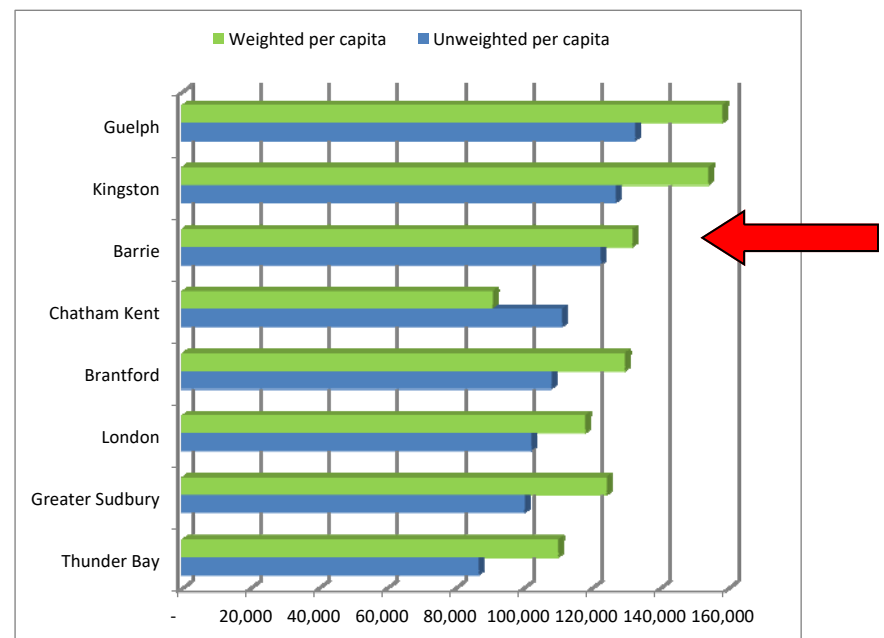
Source: BMA Municipal Studies using CVA

**Richness of the Assessment Base**

Assessment per capita statistics have been compared to provide an indication of the “richness” of the assessment base in each municipality as well as changes in assessment from year to year. Higher per capita assessment provides capacity to fund relatively more spending.

- Unweighted assessment provides the actual current value assessment of the properties.
- Weighted assessment reflects the basis upon which property taxes are levied after applying the tax ratios to the unweighted assessment.
- Barrie’s weighted assessment base per capita is above the survey average of the peer municipal comparison, reflecting a relatively higher assessment base upon which to raise taxes.

**Figure 15—2017 Unweighted & Weighted Assessment Per Capita**



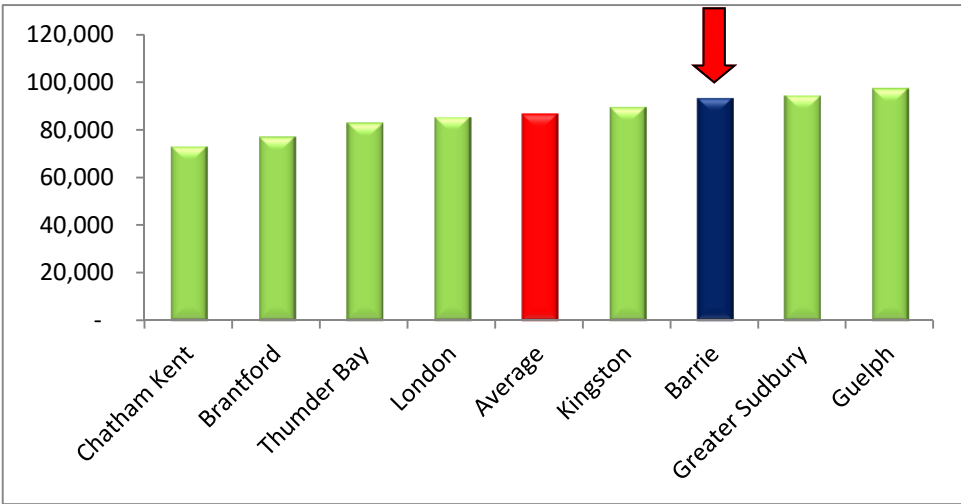
Source: BMA Municipal Studies using CVA

**Household Income**

Credit rating agencies use household income as an important measure of a municipality’s ability to meet its financial obligations.










- As shown in figure 16, in 2017, average household income in the City of Barrie is \$93,900 which was higher than the peer municipal average (\$87,000).

**Figure 16—2017 Gross Household Income**



Source: Manifold Data Mining Inc.

## Summary—Socio-Economic Indicators

Indicator	Trend, Observation	Rating
<i>Population Growth</i>	Barrie experienced the largest growth in the peer municipalities surveyed since 1991. The City is moving into a high growth period over the next 25 years, which can create pressure for capital outlay and increased demand for services while at the same time replacing current assets.	Neutral
<i>Population Density</i>	Amongst the highest population densities in the peer municipal surveyed.	
<i>Demographics</i>	Barrie benefits from a higher than average working population. There has been an increase in the proportion of the population over 65, consistent with trends across Ontario which will have implications on service delivery.	
<i>Unemployment Rate</i>	Barrie's CMA has trended down over past two years and is lower than the Ontario average.	
<i>Employment Rate</i>	Barrie's CMA has trending up over past two years and is considerably higher than the Ontario average.	
<i>Construction Activity</i>	Barrie's construction activity has been trending down over the past decade. However, in 2017, construction has been strong. Barrie has an excellent mix of residential and non-residential construction. It is anticipated construction activity will increase significantly as the annexed lands become serviced.	
<i>Assessment Composition</i>	Good mix of residential and non-residential assessment upon which to raise taxes.	
<i>Richness of the Assessment Base</i>	Assessment per capita, which is an indicator of the richness of the assessment base reflects a higher than average assessment base upon which to raise taxes.	
<i>Assessment Growth</i>	While the assessment base continues to grow, it was below the peer municipal average from 2013-2016 but exceeded the average growth from 2016-2017.	
<i>Household Income</i>	Average household income is above the peer average.	



## Section 2: Municipal Levy, Property Taxes and Affordability

## Municipal Levy, Property Taxes and Affordability

Prior to developing a long range financial plan, it is important to understand the cost of municipal services as well as affordability metrics. Consistent with the experiences across other Ontario municipalities, the City of Barrie has requirements to replace infrastructure at the same time that there are needs for new programs and initiatives to meet growth and changing demographics which impacts the programs and services offered.

This section of the Financial Condition Assessment provides an overview of the cost of municipal services in the City of Barrie and in relation to peer municipalities. In addition, property taxes are reviewed in relation to household income to provide an indication of the affordability of services in the City of Barrie. Finally, this section of the report compares the competitiveness of non-residential property taxes.



### Excerpts—City of Barrie 2017 Business Plan—Strategic Focus

- *Develop a comprehensive Strategic Planning framework that aligns Council, the Community and the Organization.*
- *Increase corporate accountability within the organization at all levels.*
- *Implement strategies that support economic diversification through growth and development of new industry clusters. Increase economic resiliency through innovation and entrepreneurship and enable the economy to create a range of high quality career opportunities.*
- *Position Barrie as a premiere destination for business investment in Ontario*
- *Develop and build strong relationships with the business community to maximize opportunities for collaboration and efficient service delivery.*
- *Develop innovative communication and advertising strategies to build effective relationships internally and externally, to address public relations and marketing needs and to identify and encourage opportunities for proactive and positive media coverage.*
- *Extend the life of the landfill through enhanced waste diversion programs*
- *Enhance through comprehensive transportation planning, an inter-connected community through access to and across the Highway 400.*
- *Provide a public transportation system that is a viable alternative to the automobile.*

**Municipal and Education Property Taxes**

Property taxpayers in the City of Barrie receive municipal programs and services through a single tier government structure. In 2017, the proposed average residential property tax bill of \$3,992 will fund the following programs: City Services \$2,220 (55.5%), Education \$541 (13.5%), and Service Partners \$1,231 (31%). The education portion is determined by the Province of Ontario and for 2017 it's assumed there will be no change to the rate.

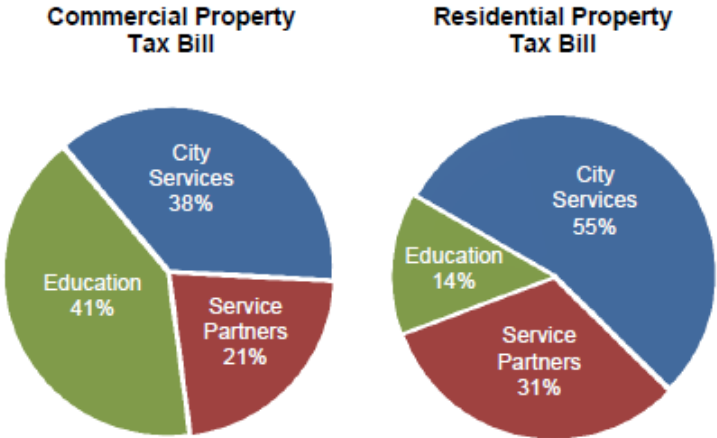
The average commercial property tax bill contributes 41% of their tax dollar to education compared to a 14% contribution from residential. Commercial properties contribute proportionately less of their total tax payment to support municipal services. An Industrial property tax bill has the same breakdown as a commercial property tax bill.

**Excerpts—2018 Business Plan and Budget Directions**

*“The City of Barrie’s approach to budgeting emphasizes the use of business plans that describe what will be accomplished with requested resources. This enhances Council’s control over the Corporation’s financial and non-financial resources, since choices about services and service levels drive costs.”*

*“The strategic plan set out for the term of the 2014-2018 Council includes four key goals: Vibrant Business Environment; Responsible Spending; Inclusive Community; and, Well Planned Transportation. The 2018 Business Plan will seek to align with these strategic objectives and incorporate the necessary steps within the 2018 work plan to achieve the desired outcomes.”*

**Figure 17—2017 City of Barrie Residential and Non-Residential Tax Bill**



### Factors Impacting the City’s Net Levy

That are a number of challenges identified in the City’s Business Plan that impact the City’s levy including:

- Legislative requirements;
- Inflation, the basket of goods the City pays for (labour, fuel, electricity, etc.) is increasing faster than the average inflation rate;
- General price increases, in some cases exceeding inflation;
- Increasing debt servicing costs;
- Growth related increases in operating expenditures;
- Contractual increases; and
- Funding the infrastructure funding gap by providing adequate and stable funding for capital reinvestment to ensure financial sustainability.

#### *Excerpts - City of Barrie 2017 Business Plan*

*“The City of Barrie’s 2017 Business Plan and Budget sets out how the City recommends to allocate resources in 2017 to deliver essential and key city services at the level of service expected by the Community.*

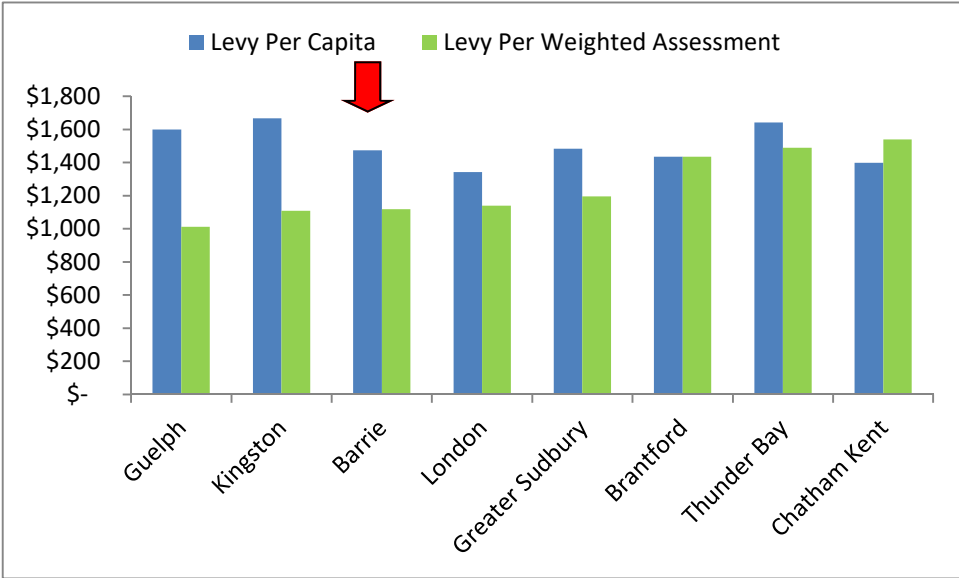
### Municipal Levy Per Capita and Per \$100,000 of Assessment Comparison

In order to better understand the relative municipal tax position for the City, a comparison of net municipal levies was calculated based on a per \$100,000 of assessment as well as on a per capita levy basis. This analysis does not indicate value for money or the effectiveness in meeting community objectives as net municipal expenditures may vary as a result of:

- Different service levels;
- Variations in the types of services;
- Different methods of providing services;
- Different residential/non-residential assessment composition;
- Varying demand for services;
- Locational factors;
- Demographic differences;
- Socio-economic differences;
- Urban/rural composition differences;
- User fee policies;
- Age of infrastructure; and
- Use of reserves.



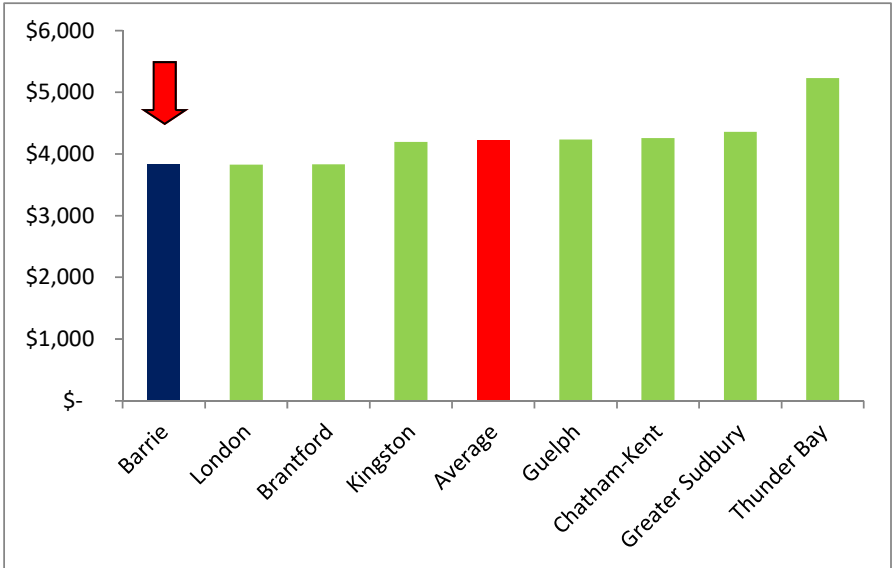
Figure 18—2017 Levy Analysis



Source: BMA Municipal Study using 2017 Levy By-laws for each municipality

- The City of Barrie has lower than average municipal spending on a per capita basis, reflecting a lower tax burden in relation to the population.
- A comparison of the 2017 levy per \$100,000 of weighted assessment provides an indication of the levy in relation to the assessment base upon which taxes are raised. As shown in figure 18, Barrie also has a lower than average levy per \$100,000 of assessment.

Figure 19—2017 Residential Property Taxes 2 Storey



Source: BMA Municipal Study using 2017 Levy By-laws for each municipality and MPAC 2017 CVA information

- A calculation was made of the property taxes paid for a 2 storey home in the City of Barrie compared to the peer municipalities. This was calculated using the 2017 municipal residential property tax rates.
- As shown above, the residential tax burden in Barrie is the lowest in the survey of peer municipalities.

**Water and Sewer Costs**

The cost of water and wastewater services for various types of customers was undertaken using the 2017 rates.

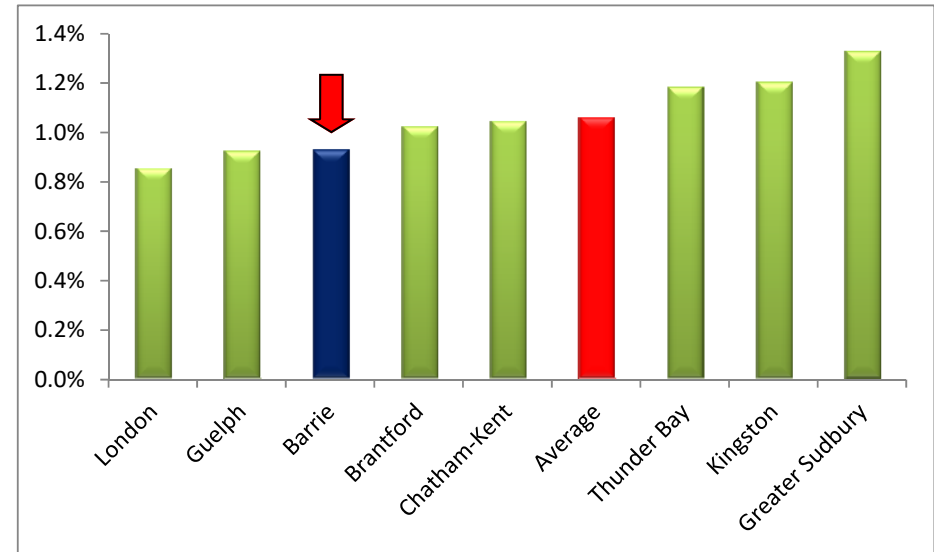
**Figure 20—Water and Wastewater 2017 Cost of Service**

	Residential 200 m <sup>3</sup> 5/8"		Commercial 10,000 m <sup>3</sup> 2"		Industrial 30,000 m <sup>3</sup> 3"		Industrial 100,000 m <sup>3</sup> 4"	
Brantford	\$ 879	\$ 38,536	\$ 115,455	\$ 384,295				
Chatham-Kent	\$ 992	\$ 24,358	\$ 64,892	\$ 154,392				
Greater Sudbury	\$ 1,108	\$ 35,387	\$ 102,353	\$ 327,693				
Guelph	\$ 903	\$ 36,529	\$ 107,873	\$ 353,653				
Kingston	\$ 1,081	\$ 23,310	\$ 65,585	\$ 210,102				
London	\$ 836	\$ 24,484	\$ 68,833	\$ 214,278				
Thunder Bay	\$ 1,111	\$ 24,293	\$ 65,941	\$ 202,735				
<b>Average</b>	<b>\$ 987</b>	<b>\$ 29,557</b>	<b>\$ 84,419</b>	<b>\$ 263,878</b>				
<b>Barrie</b>	<b>\$ 872</b>	<b>\$ 37,635</b>	<b>\$ 111,038</b>	<b>\$ 360,648</b>				

- As shown above, the cost of water and wastewater for a residential customer consuming 200 m<sup>3</sup> a year is below the survey average in the City of Barrie.
- Commercial and Industrial properties in Barrie consuming larger quantities of water are above the survey average. This is due, in part, to the inclining water rate structure.

**Affordability**

**Figure 21—Residential Water/WW Affordability Comparisons**



- A comparison of the water/ww costs for a typical residential customer (200 m<sup>3</sup> annually) in Barrie was undertaken in relation to household income. As shown above, Barrie’s costs are 0.9% which is below the survey average and is well below the target policy of ensuring that costs not exceed 2.5% of household income.

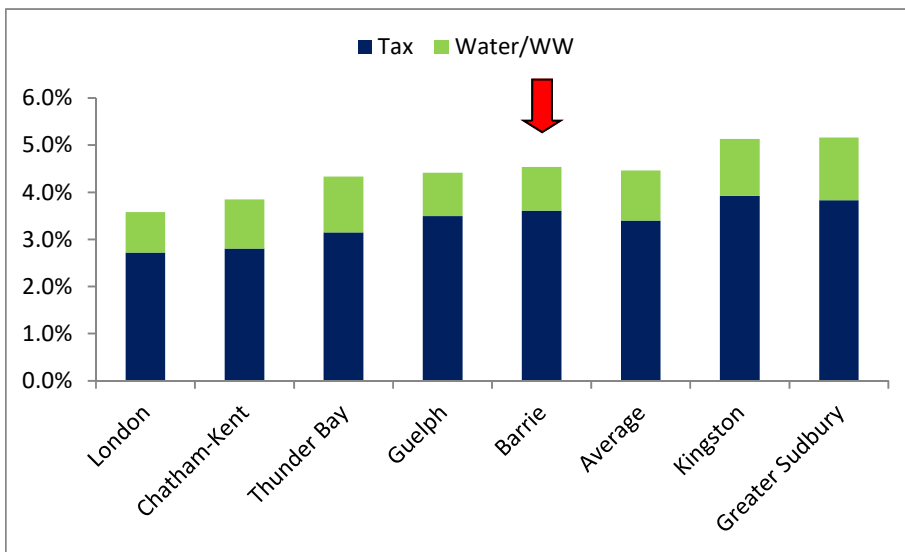
**Excerpts - Financial Policy Framework**

- *Taxes levied for municipal purposes, based on an average dwelling value, not to exceed 4% of average household income.*
- *Average water and wastewater costs as a percentage of household income not to exceed 2.5%*

**Municipal Tax Ratios**

The following graph compares municipal property taxes based on an average valued house in each of the municipalities using the MPAC database as well as the average household income to get an appreciation of the tax burden on a typical home in each municipality. The graph also includes the water/ww cost of service in relation to household income to provide a complete picture of the cost of service and affordability.

**Figure 22—2017 Tax Affordability Comparisons**



Source: MPAC Dwelling values, tax rates from by-laws

- Municipal property taxes, based on an average dwelling value in Barrie in relation to average household income are 3.6% in Barrie below the City’s target of keeping property taxes in relation to income at or below 4%.
- The combined affordability metric for tax, water/ww as shown in figure 22 in Barrie is lower than the peer average.

Tax ratios define each property class’s rate of taxation in relation to the rate of the residential property class. The tax ratio for the residential class is set by the province at 1.00. The different relative burdens are reflected in the tax ratios. These relative burdens are used to calculate the municipal tax rate of each property class in relation to the residential class.









As shown in figure 23, the tax ratios in the City of Barrie are below the average for peer municipalities. This supports economic development by providing a low property tax environment for non-residential properties, however, lower commercial and industrial tax ratios places more of a burden on the residential sector.

**Figure 23—2017 Tax Ratios**

2017 Tax Ratios			
	Multi-Residential	Commercial	Industrial
Brantford	1.952	1.864	2.378
Chatham-Kent	2.000	1.950	2.161
Greater Sudbury	2.122	2.067	4.311
Guelph	1.953	1.864	2.233
Kingston	2.000	1.980	2.630
London	1.888	1.950	1.950
Thunder Bay	2.567	2.144	2.488
Average	2.069	1.974	2.593
Barrie	1.000	1.433	1.516

Source: 2017 BMA Municipal Study using Tax by-laws

Summary—Municipal Levy, Property Taxes and Affordability

Indicator	Trend, Observation	Rating
<b>Municipal Levy Per Capita</b>	The City of Barrie’s total municipal levy per capita in 2017 is lower than the peer survey average.	
<b>Municipal Levy Per \$100,000 of Weighted Assessment</b>	The City of Barrie’s total municipal levy per \$100,000 of weighted assessment is lower than the peer survey average. This is the basis upon which taxes are levied.	
<b>Property Taxes on an Average Residential Home</b>	Property taxes on an average 2 storey house in the City of Barrie is the lowest in the survey of peer municipalities	
<b>Water/WW Costs—Residential</b>	Water/WW costs in the City of Barrie for a typical residential customer consuming 200 m <sup>3</sup> per year are below the survey average of peer municipalities surveyed.	
<b>Water/WW Costs—Non-Residential</b>	Water/WW costs in the City of Barrie for mid to large commercial and industrial properties is above the survey average of peer municipalities. The City’s inclining rate structure has an impact of the cost of service in Barrie.	
<b>Residential Tax Affordability</b>	Municipal property taxes as a percentage of income (excluding education) were compared using the median dwelling value in each area municipality. Using this affordability metric, the property tax burden in Barrie was 3.6%, lower than the City’s target of 4%.	
<b>Residential Water/WW Affordability</b>	The water/ww costs as a percentage of household income in Barrie was below the survey average and well below the City’s target of keeping costs at or below 2.5% of household income.	
<b>Non-Residential Tax Ratios</b>	The non-residential tax ratios are lower than the survey average of peer municipalities, providing a competitive tax environment for businesses in the community.	



# Section 3: Financial Position

## Barrie's Financial Position

**Reserves/Reserve Funds** are established by Council to assist with long term financial stability and financial planning. They are an important financial indicator in a City's overall financial health. By maintaining reserves, the City can accumulate funds for future or contingent liabilities; a key link to long-term financial planning practices. The availability of reserves also reduces the cost of financing capital as it allows a municipality to avoid debt interest payments. They also provide a cushion to absorb unexpected shifts in revenues and expenditures. Credit rating agencies consider municipalities with higher reserves more advanced in their financial planning.

**Debt** is an important indicator of the City's financial health and is an appropriate way of financing longer life items, especially new assets or new corporate initiatives that are not fully recovered through DCs since future taxpayers, that receive the benefit, will also pay through future debt charges. However, when debt levels get too high, it compromises the City's flexibility to fund programs and services.

**Financial Position** of the City is important to consider as this takes into consideration the City's total financial assets and liabilities.

**Taxes Receivable**, as a percentage of taxes levied, is an indicator of the overall economic health whereby trends and industry benchmarks can be evaluated.

### Excerpts— S&P Rating October 2017

*"The ratings on Barrie reflect our expectation that, despite the high level of capital spending budgeted for the next several years, strong support from senior levels of government and stable economic growth will continue to support its liquidity levels and keep debt sustainable."*

*We believe that debt and liquidity management are prudent and that the budget identifies major risks.*

*We could take a positive rating action in the next two years if better financial management practices result in improved budgetary performance, as shown by small after-capital deficits, leading to declining debt levels or increasing debt service coverage ratios."*

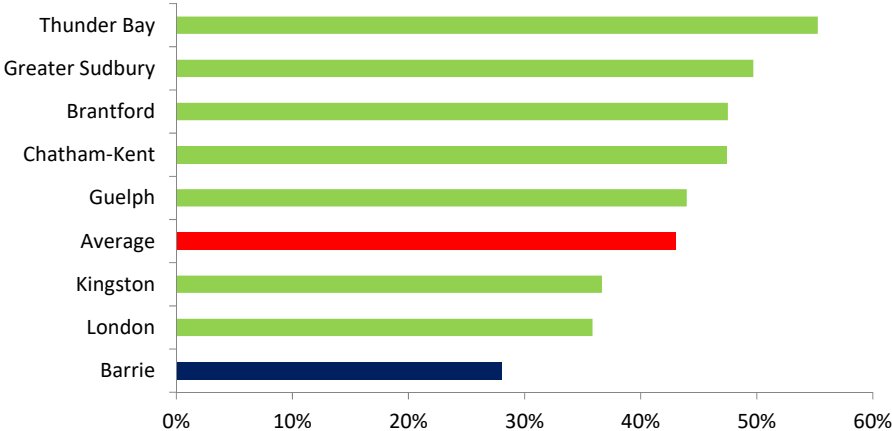


S&P Global  
Ratings

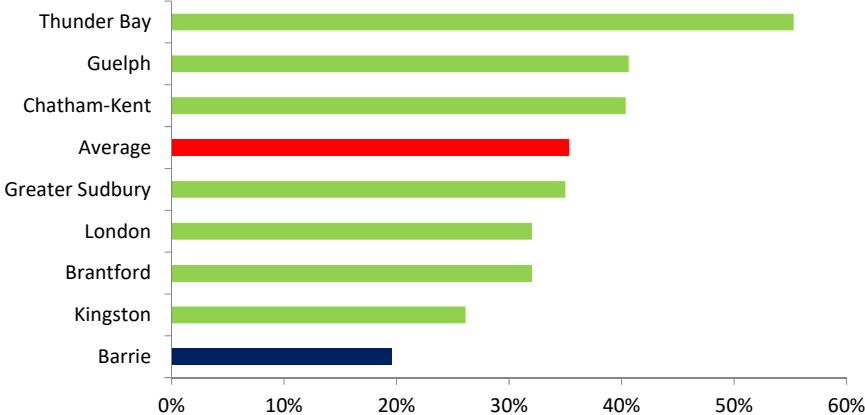
**Asset Consumption Ratio**

- The asset consumption ratio measures the age of a municipality’s capital assets and the extent to which they have been consumed. This is important to consider in the context of the need for reserves and reserve balances.
- Barrie has the lowest asset consumption ratio of all municipalities surveyed in Tax, Water and Wastewater.
- According to the Ministry of Municipal Affairs and Housing, a ratio of less than 25% is considered relatively new infrastructure , as is the case for Barrie in Water assets.
- 26%-50% is considered moderately new infrastructure (as is the case for Barrie Tax and Wastewater assets).
- Although Barrie has a recognized infrastructure gap, the City has less immediate needs than municipalities with older infrastructure (e.g. Greater Sudbury, Thunder Bay, Brantford).

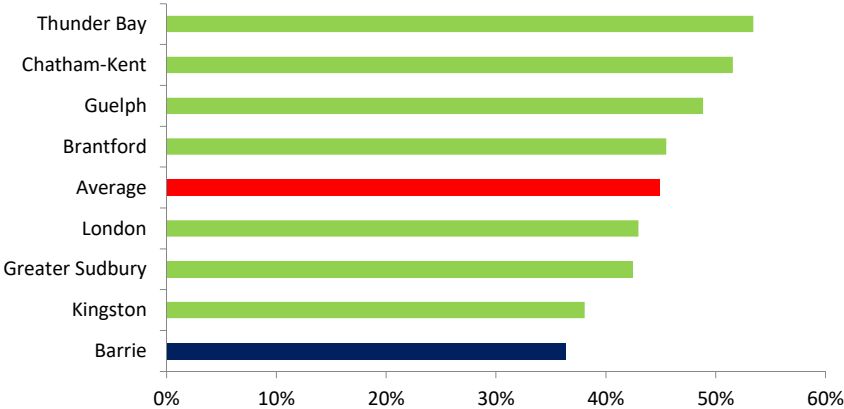
**Figure 24—2016 Tax Asset Consumption Ratio**



**Figure 25—2016 Water Asset Consumption Ratio**



**Figure 26—2016 Wastewater Asset Consumption Ratio**



Source: FIRs

*Introduction to Reserves and Reserve Funds*

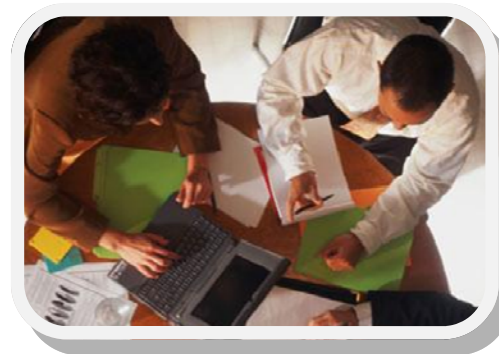
Maintaining sufficient reserves and reserve funds are a critical component of the City’s long-term financial planning. The purposes for maintaining reserves are:

- ✓ To provide **stabilization** in the face of variable and uncontrollable factors (growth, interest rates, changes in subsidies) and to ensure adequate and **sustainable cash flows**;
- ✓ To provide financing for **one-time** or short term requirements without permanently impacting the tax rates thereby reducing reliance on long-term debt;
- ✓ To make provisions for **replacement or acquisition of capital assets**;
- ✓ To provide **flexibility** to manage debt levels and protect the City’s financial position; and
- ✓ To provide for **future liabilities** incurred in the current year, but paid for in the future.

The City of Barrie maintains numerous Discretionary and Obligatory Reserve/Reserve Funds and has a long history of maintaining prudent reserve policies to support financial sustainability.

**Reserve Funds** are created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality. Obligatory reserve funds can only be used for their prescribed purpose. E.g. Development Charges Reserve Funds.

**Discretionary Reserve Funds** are established, based on Council direction, to finance future expenditures for which the City has the authority to spend money or to provide for a specific contingent liability.





*Reserve/Reserve Fund Management Policies*

The City of Barrie has a number of guiding principles and targets with respect to management of the reserves and reserve funds as outlined in the City’s Financial Policy Framework shown below.

*Excerpts— Financial Policy Framework*

**Guiding Principles**

- The Capital Reserves are to be used for the future replacement or acquisition of capital assets
- The Rate Stabilization Reserves are to be utilized to provide rate stability by smoothing the effect of variable or unanticipated expenditures or revenues and to provide funding for one time or short term requirements.
- The City determines future capital reserve requirements based on the stock of its tangible capital assets, condition assessment and lifecycle costing
- The tax rate supported Capital Reserves will be managed on a consolidated basis for effective management of the capital financing program
- All reserves and reserve funds will be supported by a financial plan identifying contribution sources and projected disbursements required to meet their planned future obligations.

**Targets**

- As debt charges mature, the annual amount that is no longer required from the operating budget in the year of maturity shall be transferred for that year and subsequent years to the Tax Capital Reserve in order to build a reserve for future major refurbishment, renovation, capital improvement or replacement expenditures.
- The contribution to Tax Capital Reserves for existing corporate facilities be increased by a minimum of \$200,000 annually.
- Annual phased contributions to the Tax Capital Reserve of 0.5% to 2.5% of the value of each new facility will be established immediately from the operating budget upon financing approval. These funds will be used for long term costs such as roof replacements and HVAC upgrades or replacements.
- The annual contribution from the operating budget to the Landfill Closure Reserve be increased by 10% until the estimated landfill closure date of 2026. Annual tax rate supported operating surpluses be allocated by transferring 50% to the Tax Rate Stabilization Reserve and 50% to the Tax Capital Reserve.

*Discretionary Reserves/Reserve Funds as Comparisons*

- Five per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Tax Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures.
  - A range of no more than ten per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Water Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures
  - A range of no more than ten per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Wastewater Rate Stabilization Reserve to cover potential deficits and to fund one-time nonrecurring expenditures.
  - Minimum/maximum reserves and reserve fund thresholds will be established and regularly reviewed.
- 
- As will be discussed in this section of the report, the City has also introduced additional strategies to support the replacement of assets and infrastructure to ensure that the City’s capital assets continue to be in a state of good repair.

- The discretionary reserves/reserve funds as a percentage of taxation was evaluated, in relation to other peer municipalities. Note that this analysis excludes obligatory reserve funds (e.g. Development Charges). The need for reserves will vary based on services provided, the age, composition and amount of assets and other liabilities.
- The City of Barrie’s discretionary reserves as a percentage of taxation have been stable over the past 5 years however are the lowest in the survey.
- Water Reserves as a % of Own Source Revenues is just above the survey average.
- Wastewater Reserves as a % of Own Source Revenues is below the survey average.

*Figure 27—Reserve Comparisons*

2016	Barrie	Peer Average
Reserves as a % of Taxation	31%	58%
Water Reserves as a % of OSR	86%	85%
WW Reserves as a % of OSR	52%	77%

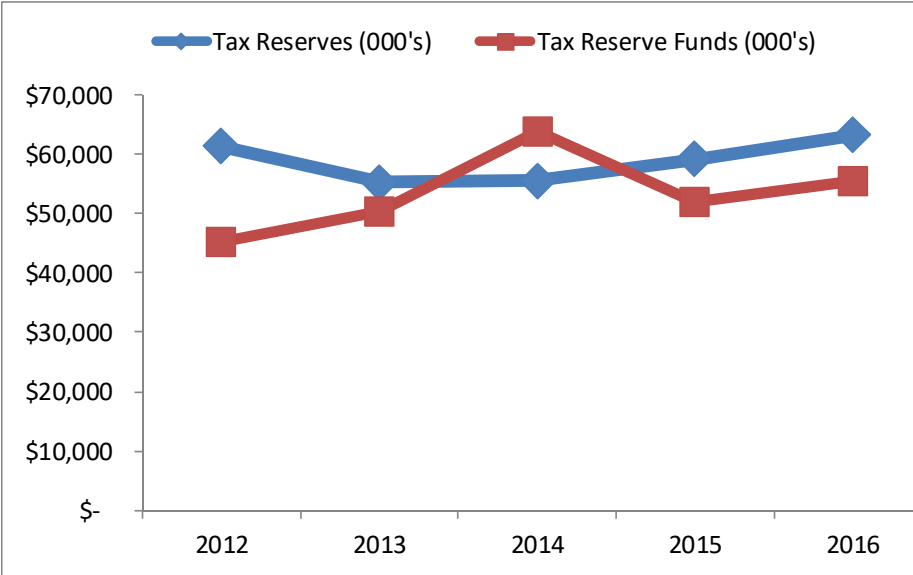
Source: FIRs

Figure 28—Summary of Reserves/Reserve Funds 2012-2016

Reserves and Reserve Funds (000's)	2012	2013	2014	2015	2016	% change 5 year
<b>Reserves - Tax</b>						
Tax Capital Reserves	\$ 32,550	\$ 30,746	\$ 33,470	\$ 33,975	\$ 36,926	13%
County of Simcoe Capital Reserve	\$ 740	\$ 376	\$ 1,094	\$ 1,250	\$ 563	-24%
Other Program Specific	\$ 10,395	\$ 8,246	\$ 8,634	\$ 7,559	\$ 9,406	-10%
Corporate	\$ 13,945	\$ 13,763	\$ 11,676	\$ 10,612	\$ 10,160	-27%
Tax Rate Stabilization	\$ 2,349	\$ 1,546	\$ 1,131	\$ 6,059	\$ 5,925	152%
Parking	\$ 1,351	\$ 643	\$ (444)	\$ (208)	\$ 187	-86%
<b>Total - Reserves Tax</b>	<b>\$ 61,330</b>	<b>\$ 55,319</b>	<b>\$ 55,562</b>	<b>\$ 59,246</b>	<b>\$ 63,166</b>	<b>3%</b>
<b>Reserve Funds</b>						
Development Charges - Tax Based	\$ 29,192	\$ 37,386	\$ 47,353	\$ 35,011	\$ 38,032	30%
Provincial/Federal Gas Tax	\$ 12,833	\$ 9,486	\$ 12,137	\$ 11,912	\$ 11,138	-13%
Other	\$ 3,160	\$ 3,461	\$ 4,324	\$ 5,160	\$ 6,382	102%
<b>Total - Reserve Funds Tax</b>	<b>\$ 45,185</b>	<b>\$ 50,334</b>	<b>\$ 63,814</b>	<b>\$ 52,083</b>	<b>\$ 55,553</b>	<b>23%</b>
<b>Reserves - Water/WW</b>						
Water Capital Reserve	\$ 20,928	\$ 14,793	\$ 11,957	\$ 16,475	\$ 20,569	-2%
Water Rate Stabilization Reserve	\$ 1,835	\$ 2,696	\$ 2,804	\$ 2,299	\$ 1,870	2%
WW Capital Reserve	\$ (11,841)	\$ (7,601)	\$ (2,997)	\$ 6,910	\$ 15,001	
WW Rate Stabilization Reserve	\$ 1,198	\$ 1,863	\$ 2,254	\$ 1,899	\$ 1,859	55%
<b>Total - Reserves Water/WW</b>	<b>\$ 12,119</b>	<b>\$ 11,751</b>	<b>\$ 14,018</b>	<b>\$ 27,582</b>	<b>\$ 39,299</b>	<b>224%</b>
<b>Reserve Funds- Water/WW</b>						
Development Charges - Water	\$ (6,557)	\$ (8,464)	\$ (8,593)	\$ (15,677)	\$ (18,128)	
Development Charges - Wastewater	\$ 10,734	\$ 9,822	\$ 9,649	\$ 3,610	\$ (2,435)	
<b>Total - Reserve Funds Water/WW</b>	<b>\$ 4,177</b>	<b>\$ 1,358</b>	<b>\$ 1,057</b>	<b>\$ (12,068)</b>	<b>\$ (20,563)</b>	
<b>Total Reserve and Reserve Funds</b>	<b>\$ 122,811</b>	<b>\$ 118,762</b>	<b>\$ 134,451</b>	<b>\$ 126,844</b>	<b>\$ 137,455</b>	<b>12%</b>

Source: City's year end reserve report

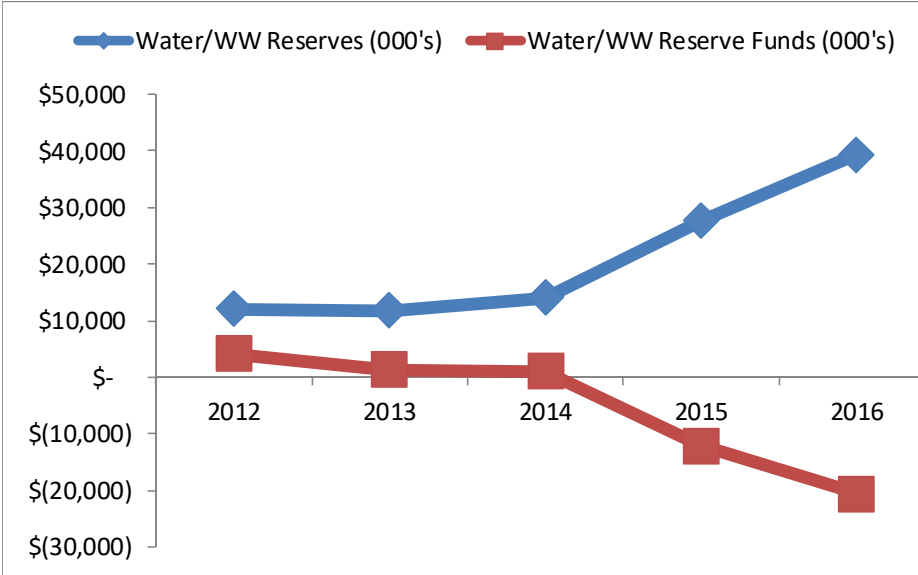
Figure 29—City of Barrie Tax Reserves/Reserve Fund Trends



Source: City year end files

- Reserve funds play a very important role in the City’s finances and provide a strong indicator of the City’s overall financial health. For this reason, the management of reserves and reserve funds is vitally important.
- The tax reserves have experienced an increase of approximately \$5 million over the past 5 years, however, the City’s tax levy has increased by approximately \$33 million and tax related tangible capital assets have increased by approximately \$188 million based on historical costs..
- The Tax Reserve Funds which includes Development Charge Reserve Funds as well as Provincial/Federal Gas Tax increased 23% over the past 5 years.

Figure 30—City of Barrie Water/WW Reserves/Reserve Funds



- Water and Wastewater Reserves which are used to support the capital program and provide rate stabilization have increased 224% over the past 5 years. In 2014, debt charges previously funded from rates were deemed to be growth related, decreasing the DC Reserve Funds and increasing reserves.
- The Water and Wastewater Development Charge Reserve Fund is in a negative position and has declined from combined balance of \$4.2 million to negative \$20.6 million.

### Capital Reserves—Introduction

- Capital Reserves provide financial flexibility to meet long term financing requirements and help achieve the long term financial sustainability of the City’s assets. They are used to finance the state of good repair requirements of the existing assets and to fund other capital work not eligible for DC funding.
- Part of the capital budgeting process in the City of Barrie is planning for the long range costs of owning and maintaining the assets (the “full-life” cycle costs).
- Also, the City has prepared a Corporate Asset Management Plan (CAM). The purpose of the CAM is to set the future direction for the management of all city assets and to report on the current, and projected future state of those assets. The goal of asset management is to meet required levels of service, in the most cost effective manner, through the management of assets for present and future customers.
- The City operates on a number of Guiding Principles to support asset management as identified in its financial policy framework.

### Excerpts—City of Barrie’s Financial Policies

#### Guiding Principles

- *“Capital assets are maintained and/or replaced based on an analysis of the lowest cost purchase method (including, but not limited to, public-private partnership opportunities, lease versus buy, debt financing)*
- *Capital assets that the City does not require to meet its current or future program or operational requirements are disposed*
- *An objective and transparent asset management framework is used to evaluate asset condition and the corresponding need and priority for maintenance or replacement*
- *In years where an asset maintenance gap exists, priority in spending is as follows:*
  - *Assets that impact public health, safety and operational requirement*
  - *Where long term financial returns are highest*

#### Targets

- *Asset maintenance gaps to be identified and then a plan implemented to gradually eliminate with all assets fully sustained thereafter*
- *Identify maintenance/replacement priorities via an annual “State of the Corporate Assets” report and reflect these priorities in the City’s annual business plan and capital budget”*

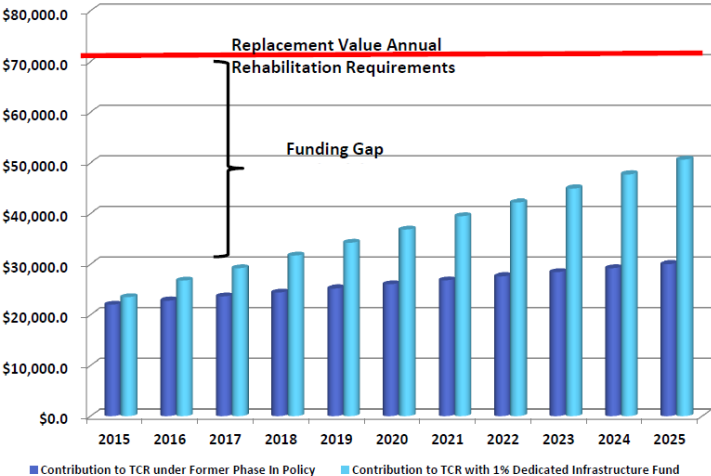
**Excerpts—City of Barrie’s 2017 Business Plan**

“The City of Barrie owns \$1.6 billion in infrastructure, based on historical costs. The current dollar value of this infrastructure is considerably higher, at approximately \$3.3 billion in replacement cost. The City’s annual requirements for repairing and rehabilitating aging infrastructure is considerably higher than current funding levels resulting in a significant backlog in infrastructure renewal.

To address the significant backlog in infrastructure renewal, in 2015 City Council approved the implementation of a **Dedicated Infrastructure Renewal Fund**, which requires an incremental 1% increase in taxes annually. This fund will be used to increase infrastructure rehabilitation for tax-supported infrastructure – roads, sidewalks, storm sewers, parks, buildings, fleet and equipment. The 2017 Business Plan and Budget includes \$2.5 million for the increase in the Dedicated Infrastructure Renewal Fund, which has a 1% impact on the property tax bill.”

“In order to reduce the City’s reliance on debt and build appropriate capital reserves to support renewal needs, the City’s financial policy framework identifies the need to increase the annual contribution to the tax capital reserve for new amortization costs. Amortization costs reflect the cost of infrastructure used up during a year, and how much funding that should be set aside on a yearly basis over the life of the asset to allow for eventual replacement of the asset. The proposed 2017 Business Plan and Budget includes **increasing the contribution to tax for new amortization costs by \$1 million or 0.4% on the average tax bill.**”

**Dedicated Infrastructure Fund Significantly Increases Transfers to Tax Capital Reserve over 10 Years**



**Reserves as a % of Accumulated Amortization**

- The City should set aside funds, on a regular and planned basis, to support infrastructure renewal. An indicator to determine the adequacy of capital reserves that support infrastructure replacement is to compare the infrastructure reserve balances in relation to the accumulated amortization.
- Accumulated amortization is based on historical costs and does not represent the amount of money that will ultimately be required to replace assets. For example, if costs were to increase by 2% annually related to inflation, in 20 years the cost to replace the asset would increase by 50%.
- Water and wastewater capital reserves are also well below the accumulated amortization.
- The reserve requirements should be based on the timing of capital asset replacements from condition assessments. However, comparing capital reserves to accumulated amortization is still useful to gauge the potential reserve requirements.

**Figure 31—Reserves as a % of Accumulated Amortization**

(000's)	Reserve Balance	Accumulated Amortization	Reserves as a % of Accumulated Amortization
Tax	\$ 36,926	\$ 377,384	10%
Water	\$ 20,569	\$ 76,184	27%
Wastewater	\$ 15,001	\$ 201,252	7%

- Tax supported capital reserves are at 10% of accumulated amortization.
- Capital Reserves are not used exclusively for replacement of infrastructure; they are currently also being used to fund the non-DC eligible portion of new capital infrastructure and new non-growth related capital initiatives.

**Capital Reserves Summary**

- Figure 32 provides a summary of the Capital Reserves used to support the tax base, figure 33 provides a summary of the Water and Wastewater Capital Reserves and figure 34 provides a summary of the County of Simcoe Capital Reserve. As will be described in this section of the report, while the Capital Reserves supporting tax based programs and Water/WW assets have increased over the past 5 years, there is a significant infrastructure gap that must be addressed as well as funding for the future replacement of capital assets. The City is committed to addressing this challenge through prudent financial strategies.

**Figure 32—Tax Capital Reserve Year End Balances 2012-2016 (000's)**

Capital Reserves (000's)	2012	2013	2014	2015	2016	5 Year % Change
General Capital	\$ 24,011	\$ 21,682	\$ 24,347	\$ 24,829	\$ 28,203	17%
Capital Expenditure	\$ 7,160	\$ 6,162	\$ 6,162	\$ 6,162	\$ 6,105	-15%
Tax Rate Capital Holding	\$ 1,378	\$ 2,901	\$ 2,960	\$ 2,982	\$ 2,616	90%
Urban Renewal	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	0%
<b>Total Capital Reserves</b>	<b>\$ 32,550</b>	<b>\$ 30,746</b>	<b>\$ 33,470</b>	<b>\$ 33,975</b>	<b>\$ 36,926</b>	<b>13%</b>

**Figure 33—Water/WW Capital Reserve Year End Balances 2012-2016 (000's)**

Capital Reserves (000's)	2012	2013	2014	2015	2016	5 Year % Change
Water Capital Reserve	\$ 20,928	\$ 14,793	\$ 11,957	\$ 16,475	\$ 20,569	-2%
WW Capital Reserve	\$ (11,841)	\$ (7,601)	\$ (2,997)	\$ 6,910	\$ 15,001	
<b>Total Water/WW Capital</b>	<b>\$ 9,087</b>	<b>\$ 7,191</b>	<b>\$ 8,960</b>	<b>\$ 23,384</b>	<b>\$ 35,570</b>	<b>291%</b>

**Figure 34—County of Simcoe Capital Reserve Year End Balances 2012-2016 (000's)**

Capital Reserves (000's)	2012	2013	2014	2015	2016	5 Year % Change
County of Simcoe Capital Reserve	\$ 1,249	\$ 740	\$ 376	\$ 1,094	\$ 1,250	0%

Source: City's year end reserve report



### Tax Capital Reserve Trends and Observations

- The Tax Capital Reserve is the main funding source for all tax-supported, non-growth related capital work. This includes, but is not limited to, all renewal work on roads, storm sewers/ponds, parks, facilities, landfill projects, and fleet, as well as most corporate need projects. This reserve also funds strategic City projects and the non-DC eligible portion of growth projects.
- The Tax Capital Reserve has a balance of \$23.7 million.
- The Tax Holding Reserve serves as a funding source when capital project's costs exceed its budget by no more than the lesser of 10% of the capital project's approved budget or \$250,000. This reserve has increased by \$1.2 million in the past 5 years.
- Consistent with the experience in virtually all Canadian municipalities, the City of Barrie has an infrastructure deficit that must be taken into consideration in the development of the long range financial plan.
- With limited funding, prioritization of capital requests at the corporate level is used as an approach to ensure highest priority projects across the corporation are funded. To this end, the City developed a Corporate Asset Management Strategy focused on evidence-based decision making, risk management, and optimizing investment of limited financial resources to support service levels.
- The Fiscal Impact Analysis, undertaken by Watson & Associates Economists Ltd. in 2014 identifies net tax supported non-growth capital expenditures (existing infrastructure) of approximately \$1.37 billion over the next ten years, for an average annual amount of \$74 million. The 2017 transfer to the Capital Reserve was \$29.5 million, resulting in an annual shortfall of close to \$48 million.
- Infrastructure spending requirements are significantly underfunded and replacement costs are increasing.
- The City is proactively working to address the infrastructure gap, introducing a number of strategies including:
  - Establishing a Dedicated Infrastructure Renewal Fund, equivalent to an annual incremental 1% increase on the average residential tax bill.
  - Increasing the tax capital reserve contribution for amortization costs associated with new assets. However, in 2017, only 25% of the calculated amortization was included with a phase in strategy planned.
  - As debt charges matures, the amount of the debt charges is used to increase reserve contributions.

### Water and Wastewater Capital Reserve Trends and Observations

- The Water and Wastewater Capital Reserves are used to fund rate supported non-growth capital work. The City's consolidated Water and Wastewater Capital Reserves have increased since 2012; however, there are outstanding commitments in the amount of \$8 million.
- These Capital Reserves have increased in the past five years as a result of two main factors:
  - Debt servicing costs associated with the Surface Water Treatment Plant (SWTP) and Waste Pollution Control Centre (WPCC) were funded from a mix of in-year user rates and DCs prior to the 2014 DC Background Study. The 2014 DC Study identified these assets as 100% growth. Subsequent to the 2014 DC Study, the debt servicing costs are funded 100% from DCs. The revenue previously used to service the debt was redirected to the capital reserves for Water and Wastewater.
  - Annually, contributions to the capital reserves have been increased to address infrastructure deficits in these programs as well as the future planned replacement of capital assets as they come due for replacement.

### County of Simcoe Capital Reserve Trends and Observations

- The City is party to an agreement with the County of Simcoe for the delivery of services for Long-Term Care and Senior Services, Paramedic Services, Social Housing and Community Services. As part of this agreement, the City contributes funding to the County's Capital plan on a prescribed basis.
- The County of Simcoe Capital Reserve is maintained to fund the non-growth portion of County Capital Projects. Any growth related funding for the County projects are funded from the City's DC reserves and the impact is reflected in the DC tables previously identified.
- From 2017-2021, it is forecast that the City will be drawing \$14.4 million from this reserve. Staff are recommending gradually increasing the annual contribution over the next three years from the current \$1.1 million to \$2.1 million to match the funding requirements.

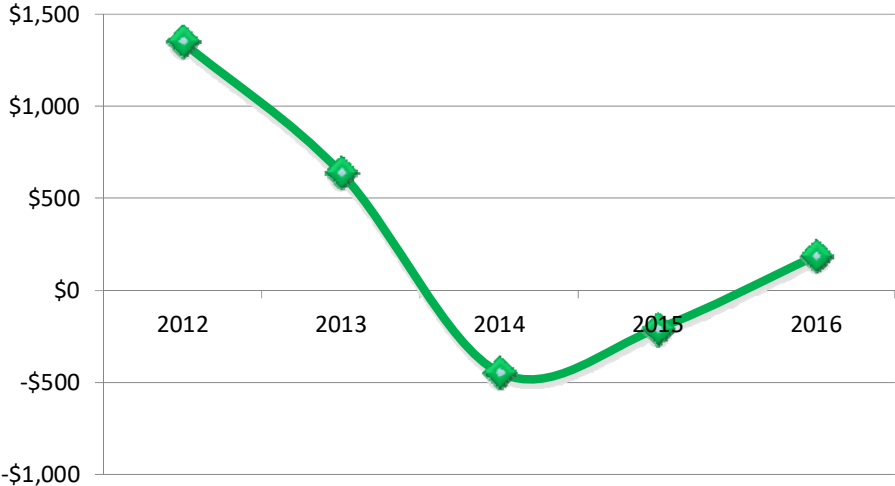
### Recommendations—Capital Reserves

1. Maintain a minimum threshold cash balance in the Tax Capital Reserves, equivalent to one year's worth of the 5 year average of the non-growth tax-supported capital expenditure requirements. This ensures that one year of tax based funding is available in reserves to maintain liquidity.
  - Based on the 2017-2021 capital budget, this would be equivalent to approximately \$44 million. The 2016 capital reserve balance was approximately \$38 million (including the County Capital Reserve).

*Parking Reserve*

- The parking service is intended to be self-sustaining through user pay revenue. However, the current operating model for the service has proven unable to generate sufficient revenue to meet the cost of annual operations on an ongoing basis.

*Figure 35—Parking Reserve 2012-2016 (000's)*



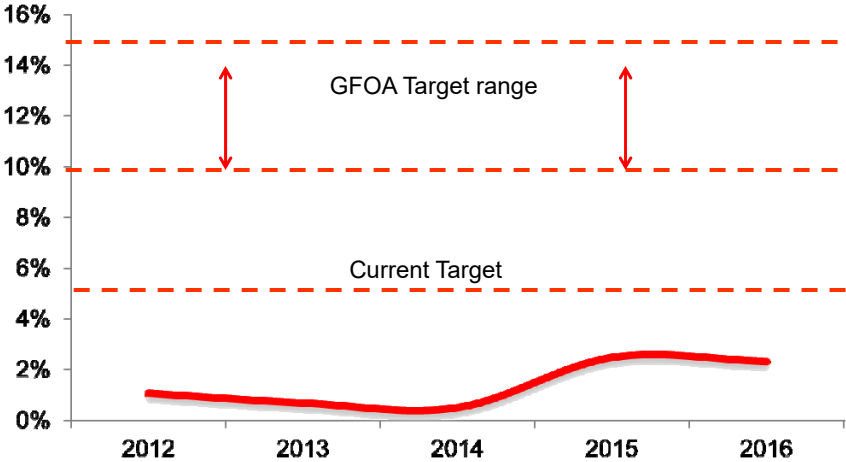
**Stabilization Reserves/Reserve Funds**

The City has a Tax Stabilization Reserve which is used to:

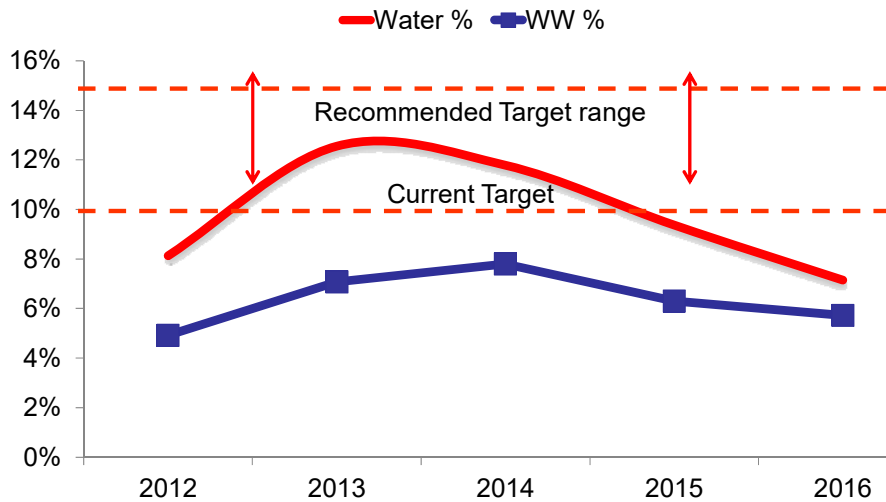
- offset extraordinary and unforeseen expenditure requirements;
- fund one-time expenditures;
- fund one-time revenue shortfalls;
- avoid fluctuations on the tax levy;
- severe weather;
- manage cash flows; and
- provide sufficient liquidity.

- GFOA recommends that municipalities maintains, at a minimum, Stabilization Reserves/Reserve Funds for the general tax base equal to two months of own source revenues (equivalent to approximately 15%) to provide sufficient liquidity and protection against unforeseen events.
- Credit rating agencies consider 10%-15% of Stabilization Reserves as a percentage of Own Source Revenues as good.
- The City’s existing policy of maintaining a minimum of 5% of own source revenues is below GFOA and credit rating agencies recommendations.
- As shown in figure 36, the Tax Stabilization Reserves as a percentage of Own Source Revenues in Barrie have been well below the target range from 2012-2016 but experienced an increase in 2015 resulting from a transfer of a portion of the operating surplus. This reserve is funded from year-end surpluses and no budgeted contributions are currently made.

**Figure 36—Tax Stabilization Reserve as a % of Own Source**



**Figure 37—Water/WW Stabilization Reserves as a % of Own Source Revenues**



Source: City reserve reports and FIRs

- The City has a target of ten per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained in the Water and Wastewater Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures.
- As shown above, the Water and Wastewater Stabilization Reserves as a percentage of own source revenues are currently below the City’s recommended target range at 7% and 6% respectively.

- The City’s existing Water and Wastewater rate structure recovers approximately 60% of revenues from the volumetric rates. As weather conditions vary considerably which impacts the amount of water consumed and the supporting revenues, there is a need to establish a target that is sufficient to cover fluctuations in consumption as well as unforeseen expenditures.
- The City’s target of 10% reflects the recommended minimum amount that should be maintained.

**Recommendations—Stabilization Reserves**

1. **Target for Tax Stabilization Reserve**—A target range of 10%-15% of total own source revenues be maintained in the Tax Rate Stabilization Reserve.
2. **Target for Water/WW Stabilization Reserve**—A target range of 10%-15% of total own source revenues to be maintained in the Water and Wastewater Rate Stabilization Reserves.

### Corporate Reserves

One of the measures of financial sustainability is that future generations are not forced to pay for services provided to the current generation. The City incurs liabilities that do not have to be paid immediately. For instance, the City will face future budget pressures as the City workforce ages and post-retirement or post-employment benefits start to be paid out in larger quantities. Prudent and sustainable financial management strategies are needed to ensure future generations are not required to absorb a disproportionate share of these costs. As such, the City has a number of Corporate Reserves (16) to protect against the consequences of certain risks, liabilities and corporate programs in such areas as insurance, WSIB and employee benefits.

### Observations

- While the City has a number of practices and procedures related to its Corporate Reserves/Reserve Funds, there are no formalized policies included in the Financial Policies and Procedures document.
- The City's Sick Leave and Vacation Pay programs are funded on a pay-as-you-go basis. The City funds are on a cash basis as these benefits are paid. These reserves are used to smooth the impact of these obligations.
- The Sick Leave Reserve and the Vacation Pay Reserves have not been required over the past 5 years.

- Consistent with the practice in the City of Barrie, it is common for municipalities to establish Employee Benefit Reserve Funds to provide for employee accident and benefit liabilities.
- Municipalities undertake actuarial valuations for a number of corporate services to determine potential liabilities which is consistent with the practice in the City of Barrie.
- The WSIB Reserve which is used to help reduce the future impact of workplace safety insurance costs decreased 36% over the past 5 years. If this trend continues, there may be an impact on the budget to support the pay-as-you-go approach.
- The extent of the associated unfunded liabilities varies across the municipal sector based on the underlying entitlements and, as such, there is no consistent strategy identified in terms of the coverage required or target balance for corporate reserves.

### Recommendations—Corporate Reserves

1. That the City continue to monitor Corporate Reserves and undertake actuarial valuations to establish funding requirements.

### *Program Specific Operating Reserves*

- Program Specific Reserves/Reserve Funds are set aside in response to specific programs or special funding that has been received. Policies or practices have been established for a number of the Program Specific Reserves/Reserve Funds. Each is specific to the underlying reason for establishing the reserve.
- It is anticipated that the City will continue to establish Program Specific Reserve Funds based on the changing needs and priorities of the community.
- On a consolidated basis, the Program Specific Reserves have declined 10% over the past 5 years.
- Program Specific Reserves have been established for landfill development and to set aside funds for the eventual closure of the existing landfill. The existing reserve balance is \$2.7 million. Annual contributions of \$200,000 is being made to the Landfill closure. The estimated liability related to the landfill closure and post closure liabilities is estimated at \$6.3 million. The landfill site is expected to reach its capacity in 19 years.
- The Building Code Surplus Reserve has declined from a balance of \$1.8 million in 2012 to a negative balance of \$270,000 in 2016. This reserve provides for funds to continue operating and capital needs of the building permits process affected by fluctuating development. Contributions are made based on year end Building Services net position (surplus/deficit). In each of the past 5 years, there have been deficits, reflective of slower construction activity in the past several years.

### *Recommendations—Program Specific Operating Reserves*

1. That a financial plan for all Program Specific Reserves/Reserve Funds be prepared to ensure that there are adequate funds to sustain the program requirements. The plans should be reviewed annually in conjunction with the budget process.
2. That spending from any Program Specific Reserves/Reserve Funds in any one year not exceed the uncommitted balance in the reserve fund at the end of the preceding year.

### *Provincial/Federal Reserve Funds*

- The Federal Gas Tax has been committed as a permanent transfer to municipalities. In addition to the amount allocated in the capital budget, Federal Gas Tax funds are being utilized in the operating budget. The City works towards an optimal balance between capital and operating when allocating the funding, which can be used up to 5 years after transfer to the municipality.

**Capital Growth and Development Reserves/Reserve Funds**

There are several main classifications of Capital Growth Reserves and Reserve Funds which will be described in the next section of the report.

**Figure 38—Capital Growth and Development Reserves/Reserve Funds**

Growth Related Reserve Funds (000's)	2012	2013	2014	2015	2016	5 Year % Change
Tax Development Charge RF	\$ 29,192	\$ 37,386	\$ 47,353	\$ 35,011	\$ 38,032	30%
Water DC RF	\$ (6,557)	\$ (8,464)	\$ (8,593)	\$ (15,677)	\$ (18,128)	
WW DC RF	\$ 10,734	\$ 9,822	\$ 9,649	\$ 3,610	\$ (2,435)	
Lot Levies/Developer Contributions	\$ 833	\$ 844	\$ 856	\$ 865	\$ 779	-7%
Recreational Land in Lieu RF	\$ 2,326	\$ 2,617	\$ 3,468	\$ 4,296	\$ 5,603	141%
<b>Total DC Reserve Funds</b>	<b>\$ 36,528</b>	<b>\$ 42,206</b>	<b>\$ 52,734</b>	<b>\$ 28,103</b>	<b>\$ 23,852</b>	<b>-35%</b>

- **Development Charges Reserve Funds**—Obligatory Reserve Funds under the Development Charges Act. There are tax and water/wastewater DCs which includes City wide and area specific DCs.
- **Lot Levies/Developer Contributions**—Obligatory Reserve Funds under Section 14 of the old Development Charges Act.
- **Recreational Land in Lieu Reserve Fund**—Obligatory Reserve Funds under the Planning Act R.S.O. 1990 c.P.13.



**Excerpts—City of Barrie’s Financial Policies—Growth**

Growth includes capital projects and operating costs related to the economic maturity and expansion within the City. The Development Charges Act permits the City to fund the growth portion of new infrastructure required to support new development from a charge levied at the building permit stage. This infrastructure must be maintained by the City, resulting in the need for an increased operating budget. While new residents bring in more taxation, they also participate in City programs, resulting in increased costs to maintain the same standard of service.

**Guiding Principles**

- Asset acquisitions and construction are subject to a cost and benefit analysis that considers initial and lifecycle expenditures and alternative financing arrangements;
- The Development Charge (DC) Bylaw will be used to recover the costs of growth to the full extent permitted by legislation (thereby minimizing the financial burden of the costs of growth on existing residents);
- Growth projects are undertaken as DC’s are collected, consistent with the DC Background Study.
- Certain projects can proceed in advance of collection of DC’s subject to the availability of funds/financing;
- Other methods will be explored with developers/others to fund growth related projects that are not eligible for development charges; and

- Official Plan discussion about options to expand the urban boundary should include the projected impact on the operating budget and capital budget as well as an estimate of property tax revenue.

**Targets**

- DC’s to be applied to the full extent permitted by legislation;
- The cost associated with growth included in the operating budget will be identified and compared to new assessment generated by growth with impacts to existing taxpayers quantified where possible;
- The cost associated with development charge discounts will be identified and reported; and
- The cost impact of growth will be identified and quantified in the operating budget.

**Observations**

- Lot Levy Reserve Funds comprise funds that were collected under the old lot levy system and the interest earned over the years. Whenever a developer, that has prepaid under Lot Levies, develops the related lands, they are entitled to a Section 14 credit and the funds are transferred from the Lot Levy Reserve Funds to the Development Charges Reserve Funds. The consolidated balance in these Reserve Funds is \$0.8 million.

- Pursuant to the *Planning Act R.S.O. 1990 c.P.13* as amended, monies received in lieu of parkland dedication are to be set aside in this reserve fund and are to be spent only for the acquisition of land to be used for park or other recreational purposes, including the erection and repair of buildings and the acquisitions of machinery for park or other public recreational purposes. These Reserve Funds have increased 141% over the past 5 years.
- Although the intent of DCs is to ensure that growth pays for itself, there are restrictions in the Provincial *Development Charges Act (DCA)*. For example, the City cannot use DCs to pay for some capital projects including entertainment facilities, tourism facilities, hospitals and municipal administrative buildings and only recover 90% of costs for soft services.
- Funding for the future infrastructure repair and replacement resides within the municipality, predominantly the tax and rate base, as does the associated operating costs related to the growth in programs and services. As such, it is critical that the City has a clear understanding of the future implications of infrastructure decisions made today by incorporating these costs into the long range financial plan.
- There is considerable lead time required to plan and build municipal infrastructure to support growth. This takes place in advance of the growth in the assessment base and the associated contributing tax revenues which places an additional challenge on municipal finances in the short term.
- The City, in an effort to help address the cash flow challenges, has taken proactive steps in developing policies to support receiving DC revenues for the annexed lands as early in the process as possible.
- While the policy target includes a provision that DC's will be applied to the full extent permitted by legislation, the current City-Wide DC By-law 2014-108 includes two discretionary discounts, one within the City Centre Planning Area and one which provides a reduced DC rate for the first 1.2 million square feet of non-residential, non-retail development within the City. These discounts have the effect of reducing the amount of DC's the City would have otherwise collected. Note: The remaining discount at the end of June 2017 was approximately 200,000 square feet. It is anticipated that this discount will be fully exhausted by year end.
- There is a Development Charges Exemption Reserve Fund but the balance is currently at only \$5,000. In 2016, DC discounts in the amount of \$2.8 million were granted. In 2016, these were funded from the Tax Operating Budget, the Tax Capital Reserve and the Water and Wastewater Operating rate revenues.
- The 2016 year end consolidated Tax Development Charges Reserve Funds are \$38 million and have increased 30% over the past 5 years. The Water DC Reserve Funds were in a negative \$18.1 million position in 2016 and the Wastewater DCs were negative \$2.4 million.

- Also, there is currently considerable DC debt outstanding. As of December 31, 2016, there is debt outstanding which will be repaid from future development charge revenues as follows:
  - \$135.7 million in Water DC debt
  - \$83.6 million in WW DC debt
  - \$35 million in Tax DC debt
- For 2017, annual debt payments to be paid from DC revenues total approximately \$18 million.
- There is risk associated with lower than anticipated growth as DC revenues form a significant portion of the debt repayment strategy.
- The DC Background Study is based on a number of assumptions e.g. population and employment growth, cost of capital projects, timing of capital projects and revenue projections. Assumptions could change which could significantly impact cash flows. Each year an adequacy test should be prepared based on updated information regarding growth, capital expenditures, projected revenues and additional borrowing costs to fund increased spending to determine if DC rates are adequate to fully fund eligible expenditures..
- This will help set realistic boundaries on priorities and support decision based processes.

**Excerpts—City of Barrie’s DC Deferral Policy—2015**

- *“The City’s intensification plans for both its built boundary and the annexed lands will be achieved with the innovative financing tools identified in the City’s Fiscal Impact Analysis (FIA). These tools include receiving payments of DC’s earlier in the development process, entering front end financing agreements with developers, and receiving voluntary contributions to cover costs not recoverable through the Development Charges Act (DCA). This strategy, seeking to collect DCs as early in the development process as possible, has been accepted by members of the development community who have signed a Memorandum of Understanding (MOU) accepting these principles.”*

**Recommendations—Capital Growth and DCs**

1. That a development charge adequacy test be prepared and presented to Council and if the adequacy test shows that DC rates are more than 20% below the rate needed to fully fund eligible expenditures, a new Development Charges Study be prepared.
2. That on a consolidated basis, the DC Reserve Funds must maintain a positive balance.

### Debt Management - Introduction

The prudent use of debt is acknowledged as a fundamental component to well developed and credible financial management and supports financial discipline and stability.

Adherence to a debt management plan signals to credit rating agencies and capital markets that the municipality is well managed and should meet its obligations.

Increasing levels of debt that are growing faster than tax revenues will also put pressure on other programs and future capital priorities and reduce the amount of discretionary spending in the operating budget.

To mitigate these concerns, municipalities need to strike a balance with debt. Too little debt can severely restrict the funds available for financing infrastructure, while too much debt is fiscally unsustainable over the long-term.

Hence, municipalities need to ensure that:

- Future debt service payments can be made in full and on time, without jeopardizing the provision of essential services;
- Outstanding debt obligations will not threaten long-term financial stability of the municipality; and
- The amount of outstanding debt will not place undue burden on residents and businesses.

#### Excerpts—Standard and Poor’s Credit Rating Oct. 2016

*“The stable outlook reflects our expectation that, in the next two years, Barrie’s economy will remain very strong, its liquidity position will remain exceptional and debt burden will remain moderate at less than 120% of operating revenues. We could take a positive rating action in the next two years if, all else equal, budgetary performance improved as shown by consistent after-capital surpluses leading to declining debt levels or increasing debt service coverage ratios.”*

#### Excerpts from the City’s Debt Management Policy

Debt includes long-term debt and capital lease obligations. As stipulated in the Municipal Act, long-term debt can only be used to finance capital assets. The term of the debt must be equal to or less than the life of the asset subject to limitations imposed under the Municipal Act. The Province limits the total amount of debt that a municipality can issue to 25 per cent of its own-source revenues (all revenue received less Federal and Provincial Grants). The City issues debt that is repaid from a variety of sources including water, wastewater and parking user rate, development charges, provincial/federal gas tax and property taxation and local improvements.

The Province regulates the amount of debt by setting a repayment limit of 25% of own source revenue. If the City were to reach that limit, future operating budgets would be severely constrained or revenues would have to increase significantly.

### Guiding Principles

- Long-term debt to be used only for the purchase, construction, or replacement of assets excluding vehicles, machinery and equipment with long useful lives that provide a benefit for future taxpayers;
- Long-term debt for replacement and refurbishment of existing capital assets be reduced and ultimately eliminated;
- Short-term borrowing (e.g. line of credit, bank overdraft) to be used where feasible if cash flow is forthcoming or as an interim measure prior to issuance of long-term debt;
- Debt must be affordable to the citizens. The overall measure of the affordability of debt is the burden of principal and interest relative to city's own source revenue (i.e. not including government grants);
- Debt must not result in significant tax or user rate increases;
- The total amount of debt issued must not compromise the City's credit rating;
- Debt may be considered when it leverages funds from other levels of government;
- Before borrowing for growth related tax rate supported capital projects all developer related advanced financing arrangements that are in accordance with the Development Charges legislation must be exhausted; and
- Where debt is issued on behalf of development charges, the repayments to be recovered from future development charge revenues, including interest, be tracked separately.

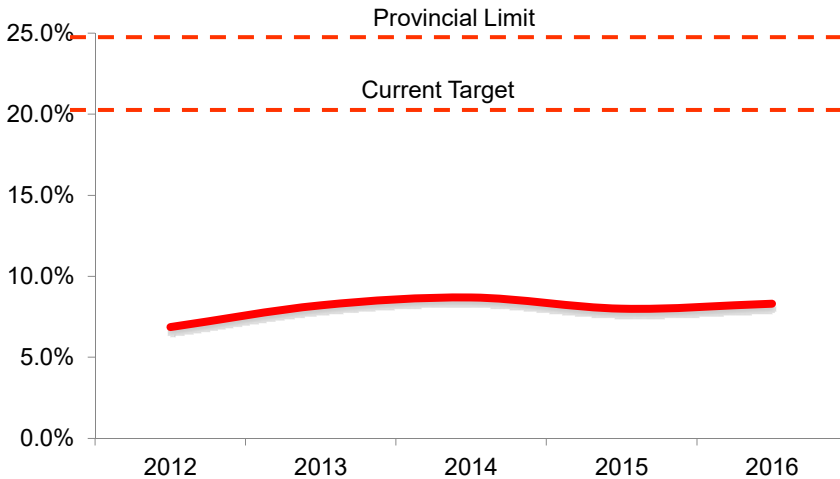
### Targets

- More than 2/3 of all outstanding tax rate supported debt to be retired within 10 years in any single reporting period;
- Average debt retirement period for all of the City's outstanding debt not to exceed 12 years in any single reporting period;
- Limit annual debt payments to 20% of own source revenues;
- Principal and interest for tax rate supported debt not exceed 10% of the City's net levy requirement;
- Principal and interest for water rate supported debt not to exceed 25% of the City's water revenues by 2018;
- Principal and interest for wastewater rate supported debt not to exceed 25% of the City's wastewater revenues by 2014;
- Short-term borrowing not be used for longer than three years for any given construction project or asset acquisition;
- All debt charges for DC borrowings as a percentage of net revenue fund revenue will be less than 1% with a maximum repayment level in each year not to exceed 10% of the reserve fund deposits; and
- The maximum term of borrowing for growth related tax rate supported projects will not exceed 10 years.

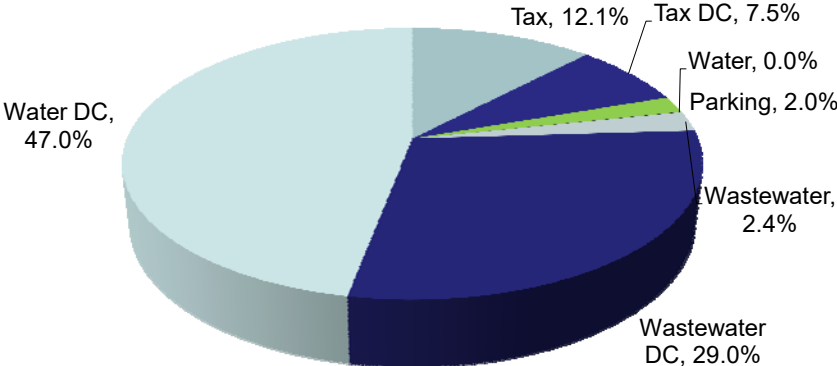
**Observations**

- According to the City’s 2017 Business Plan, the City’s debt policy includes limiting annual debt servicing costs to 20 per cent of own source revenues, which is lower than the provincial limit of 25 per cent.
- As shown in figure 39, the City’s total debt charges as a percentage of own source revenues is well below the Provincial limit and below the City’s strategy to maintain a level of 20% or lower.

**Figure 39—Total Debt Charges as a % of Own Source Revenues**

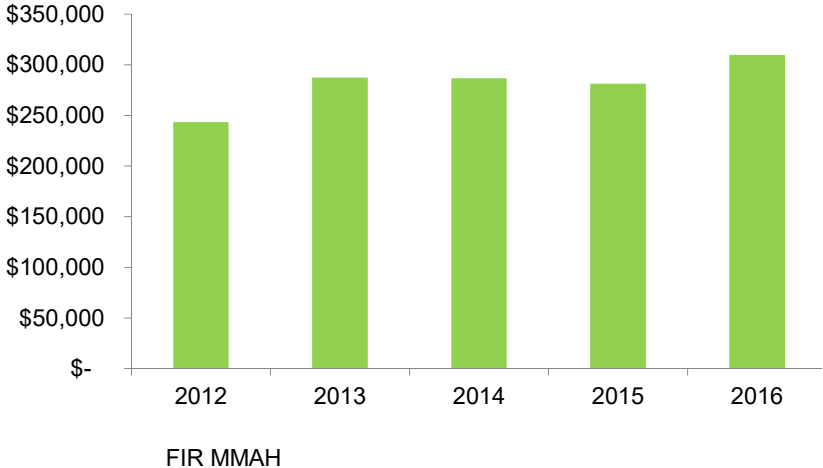


**Figure 40—Debt Outstanding—2017**



- As shown above, 47% of the debt outstanding is for water; 31% for wastewater and the remaining 22% for tax programs. Note that only 12.1% of the debt outstanding is funded from the tax base.
- 83.5% of the debt outstanding is recoverable from DC revenues.

**Figure 41—Debt Outstanding—2012-2016 (000’s)**



- Debt outstanding has been trending upward since 2012. Based on the FIR for 2016, the City has \$310 million in debt outstanding. This includes debt for growth related projects that will be recovered from future DC revenues and it includes tax and water/wastewater debt.
- The City is achieving its target that more than 2/3 of all outstanding tax rate supported debt to be retired within 10 years.
- As result of a low average balance in the Tax Capital Reserve, in order to fund the proposed 2017 capital five year forecast, it is projected an additional \$60 million of new tax supported debt will be required.
- The City’s policy for debt includes a limit on DC debt as follows: *All debt charges for DC borrowings as a percentage of net revenue fund revenue will be less than 1% with a maximum repayment level in each year not to exceed 10% of the reserve fund deposits.*
  - Debt charges related to DC borrowings in 2016 was \$17.1 million which is 5.4% of own source revenues, **significantly higher than the target of 1%**.
  - Debt repayments for DC borrowings in relation to the DC revenues in 2016 was 72%, **exceeding the target cap of 10%**.
- Based on leading practices it is prudent to have a limit of DC debt outstanding in relation to the total DC Eligible Costs in the DC Background Study. The City’s debt DC related debt outstanding is 20% of the total eligible recovery costs included in the 2014 DC Background Study. A limit of 25% is considered to be an appropriate balance between two competing revenues generated by development charges:
  - to sustain and ensure adequate infrastructure (capital), services and resources to support the City’s growth plans;
  - to repay the debt issued for development
- The City’s total debt outstanding as at December 31, 2016 was approximately \$310 million which is 98% of own source revenues. As stated by Standard and Poor’s credit rating agency if debt exceeds 120% of own source revenues it may lead to negative implications for the City’s credit rating.

Figure 42—Debt Comparisons 2016

2016	Barrie	Peer Average
Tax Debt Charges as a % of OSR	3.4%	3.0%
Tax Debt Outstanding per Capita	\$ 546	\$ 724
Water Debt Interest as a % of OSR	24.5%	5.8%
Water Debt Outstanding per Capita	\$ 972	\$ 293
WW Debt Interest as a % of OSR	13.0%	5.2%
WW Debt Outstanding per Capita	\$ 673	\$ 314

- The City’s tax debt charges as a percentage of own source revenues is slightly above the peer municipal survey. Tax Debt Outstanding Per Capita is below the survey average.



- The City’s water and wastewater debt interest charges as a percentage of own source revenues is by far the highest in the survey as is the water and wastewater debt outstanding per capita. Note that the comparisons using the FIR available information does not provide sufficient information to compare water and wastewater total debt charges (principal and interest).
- This debt is largely related to growth related capital that is recoverable from future Development Charge revenues. Should growth not take place as planned, there is some risk to the City from a cash flow perspective.

**Recommendations—Debt**

1. That the following be added to the City’s debt limit targets:
  - Total debt outstanding will be less than 120% of own source revenues, in accordance with the credit rating agency’s suggested target.
  - DC supported debt outstanding not to exceed 25% of the DC eligible costs for the forecast period of the latest DC Background Study.

**Financial Position**

Maintaining a strong financial position is a critical part of a municipality’s long range financial plan. A municipality’s financial position is defined as the total fund balances including equity in business government enterprises less liabilities.

**Findings and Observations**

- A comparison was made of the City’s overall financial position from 2012 to 2016. As illustrated in figure 43, investment in Barrie Hydro has increased by \$23.6 million from 2012-2016. Long Term Liabilities have increased by \$66.4 million over the same period.
- Overall, Barrie’s net financial position has improved by \$34.2 million from 2012-2016, however continues to be a negative position, mainly the result of DC debt outstanding of approximately \$254 million..
- In comparison to the peer municipalities, the financial position per capita in Barrie is amongst the lowest in the survey.
- Credit rating agencies recommend a ration of 1:1, meaning that there is at least \$1 of financial assets for every \$1 of financial liabilities. Credit rating agencies consider a municipality’s financial position trend when evaluating their credit rating.
- There are a number of recommendations dealing with debt and reserves contained in this report that, if approved, would improve Barrie’s financial position.



Figure 43—2012-2016 Financial Position (000's)

	2012	2016	% Change
<b>Assets</b>			
Cash & Investments	\$ 60,524	\$ 121,728	101%
Receivables	\$ 40,662	\$ 52,731	30%
Investments in Hydro	\$ 99,442	\$ 123,060	24%
Other	\$ 8,792	\$ 4,819	-45%
<b>Total Assets</b>	<b>\$ 209,421</b>	<b>\$ 302,337</b>	<b>44%</b>
<b>Liabilities</b>			
Temporary Loans	\$ 20,000		
Accounts Payable	\$ 60,290	\$ 75,279	25%
Deferred Revenue	\$ 57,294	\$ 47,196	-18%
Long Term Liabilities	\$ 243,461	\$ 309,858	27%
Solid Waste Mgmt Facility Liabilities	\$ 20,417	\$ 6,294	-69%
Post Employment Benefits	\$ 30,109	\$ 51,622	71%
<b>Total Liabilities</b>	<b>\$ 431,571</b>	<b>\$ 490,249</b>	<b>14%</b>
<b>Net Financial Position</b>	<b>\$ (222,149)</b>	<b>\$ (187,912)</b>	<b>-15%</b>

Figure 44—City of Barrie—Financial Position

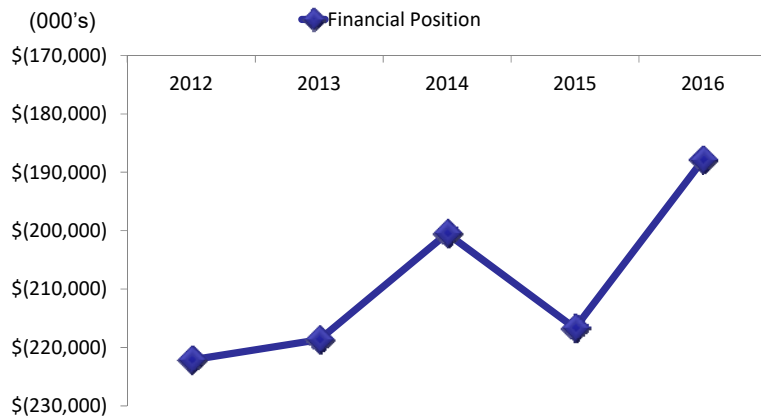


Figure 45— 2016 Financial Position Per Capita



Note: Approximately \$254.3 million of debt outstanding in 2016 is related to growth capital projects and will be recovered from future development charges which, if excluded, would move Barrie into a positive position. As shown previously, Barrie is the fastest growth municipality and as such the impact on growth related debt is higher than in other municipalities surveyed.

**Recommendation—Financial Position**

1. That the City continue monitoring its financial position, taking into consideration account forecast changes that would impact assets and liabilities.

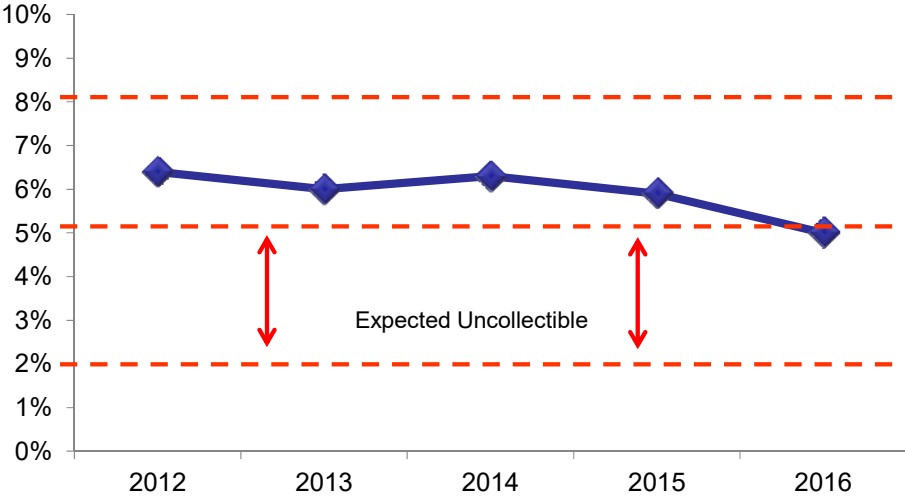
**Taxes Receivable**

Every year, a percentage of property owners are unable to pay property taxes. If this percentage increases over time, it may indicate an overall decline in the municipality’s economic health. Credit rating agencies assume that municipalities normally will be unable to collect 2 - 5% of its property taxes within the year that taxes are due. If uncollected property taxes rise to more than 8%, credit rating firms consider this a negative factor because it may signal potential instability in the property tax base.

**Findings and Observations**

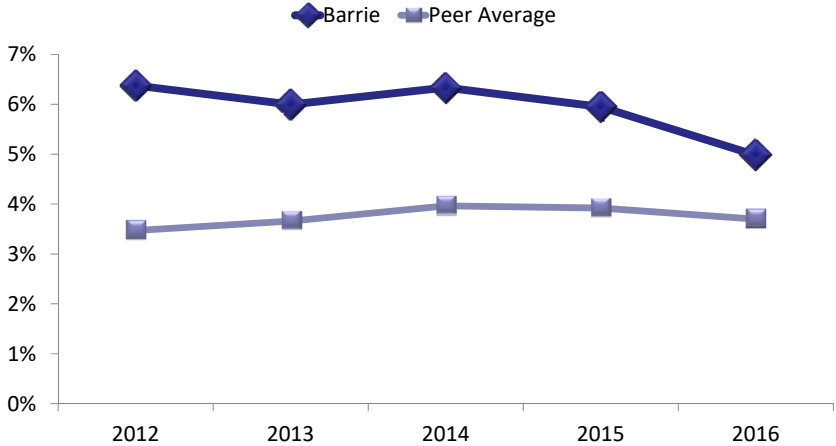
- Barrie’s ratio has been trending down from 2012-2016.
- In 2016, Barrie was within the targeted range.

**Figure 46—Taxes Receivable as a % of Taxes Levied**



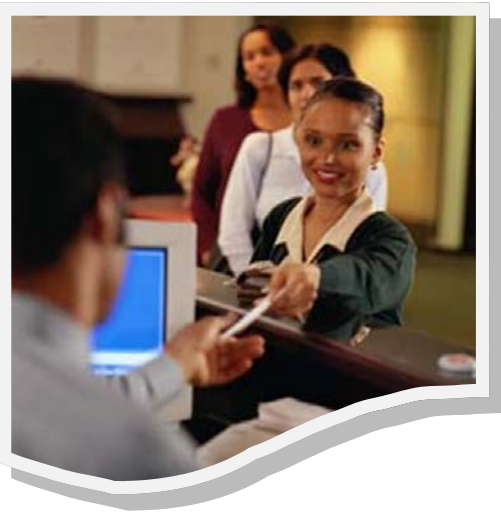
Source: FIRs

**Figure 47—Taxes Receivable as a % of Taxes Levied**



















Source: FIRs

- Barrie’s taxes receivable as a percentage of taxes levied is above the peer average over the past 5 years but is trending down.



Summary—Financial Position

Indicator	Trend, Observation	Rating
<b>Asset Consumption Ratios</b>	The City’s tax and water asset consumption ratios are the lowest in the survey reflecting a relatively new asset base.	
<b>Tax Discretionary Reserves as a % of Taxation</b>	The City of Barrie’s Discretionary Reserves have remained relatively consistent, on an absolute basis as well as in relation to taxation. The City’s tax reserve position is the lowest in the survey of peer municipalities. The City has put in place a strategy to gradually increase contributions to the reserve.	
<b>Water Reserves as a % of Own Source Revenues</b>	The City of Barrie’s water reserves as a percentage of own source revenues has decreased over the past 5 years but is at the survey of peer municipalities. There is an infrastructure funding gap.	
<b>Wastewater Reserves as a % of Own Source Revenues</b>	The City of Barrie’s wastewater reserves as a percentage of own source revenues has increased significantly over the past 5 years but continues to be lower than the survey of peer municipalities. There is an infrastructure funding gap.	
<b>Infrastructure Sustainability Ratio</b>	The City’s infrastructure sustainability ratio for tax, water and wastewater reflect relatively low reserve balances in relation to the amount of assets that have been amortized. A plan has been established to gradually increase contributions to capital.	
<b>Tax Stabilization Reserves</b>	The City’s Tax Stabilization Reserves as a percentage of Own Source Revenues has trended up in the past two years but is considerably below the recommended target.	
<b>Water/WW Stabilization Reserves</b>	The City’s Water/WW Stabilization Reserves as a percentage of Own Source Revenues have been trended down and are below the recommended target	
<b>Corporate Reserves</b>	The City’s Corporate Reserves, on a consolidated basis, have been trending down over the past 5 years. This is primarily driven by the decline in WSIB Reserve. If this trend continues, there may be an impact on the budget to support the pay-as-you-go approach	

Indicator	Trend, Observation	Rating
<i>Parking Reserve</i>	The City’s strategy is to operate parking on a self-sustaining basis. The Reserve has declined over the past 5 years as there have been operating deficits in a number of years.	
<i>Program Specific Reserves</i>	As construction activity has been lower than in previous cycles, the City’s Building Reserve is now in a negative position but will be recovered from future surpluses. The City is proactively setting aside funds for the closure of the landfill. This reserve has increased 95% over the 5 year period.	
<i>Capital—Growth and Development—Tax</i>	The City’s Tax DC Reserve Funds have been increasing over the past 5 years.	
<i>Capital—Growth and Development—Water and Wastewater</i>	The City’s Water and Wastewater DC Reserve Funds have been decreasing over the past 5 years and are in a negative position. Anticipated future growth revenues will be used to improve the financial position.	
<i>Tax Debt Management</i>	A prudent debt management plan has been established in the City of Barrie which has been endorsed by the City’s credit rating agency. The Tax debt is well below the City’s policy.	
<i>Water/WW Debt Management</i>	The City’s Water/WW debt has been increasing and is driven primarily to growth related capital which will be funded from future development charge revenues. The debt levels are the highest in the survey of peer municipalities. Should growth and revenues not materialize as planned, there is some risk to the City.	
<i>Financial Position</i>	The financial position is trending upward but remains in a negative position and is below the peer municipal average. However, the majority of the debt outstanding is related to growth projects that will be funded from future development charge revenues.	
<i>Taxes Receivable</i>	Taxes receivable as a percentage of taxes levied is trending downward since 2014. The taxes receivable ratio in 2016 is within the industry benchmark range.	

## Conclusion

Based on the analysis undertaken, the following questions have been addressed to help set the stage for the development of the long range financial plan.

- 1. Can the City continue to pay for the services currently provided?*
- 2. Is there sufficient financial flexibility to address unexpected events, uncertainty and future liabilities?*
- 3. Is the City's infrastructure network sustainable and adequately funded?*



## 1. Can the City continue to pay for the services currently provided?

A number of positive indicators support the City's ongoing ability to pay for services, including:

- A well diversified assessment base and an excellent balance of residential and non-residential construction
- A lower than average municipal levy per capita and a per \$100,000 of assessment
- Higher than average assessment per capita
- Lower than average residential water/wastewater costs and property taxes on a typical home and is the lowest in the peer survey
- Residential water/wastewater costs as a percentage of household income is 0.9%, well below the target of 2.5%
- Property taxes as a percentage of household income is below the City's target maximum of 4%
- Higher than Ontario average of residents in working ages of 20-55 years
- Lower than average and decreasing unemployment rates in relation to the Ontario average
- Significantly higher than average employment rates in Barrie in relation to the Ontario average, also showing improvement since 2016
- Higher than average household income than peer municipal average
- Low tax ratios for non-residential properties

There are a number of challenges, however, that the City must plan for in the future:

- Outstanding DC related debt is approximately \$254 million and there is potential risk to taxpayers to service debt if growth does not occur as forecast
- With an increase in population forecast of approximately 69,000 by the year 2031, there will be additional capital and operating costs that must be funded. While the majority of growth related capital expenditures are funded through development charges, some of the new infrastructure required for new growth is not eligible under the *Development Charges Act* which places pressure on the tax rate and the water/wastewater rates as does the increases in operating expenditures.
- To be able to pay for services currently provided, the City must ensure that:
  - There is recognition that many of the City's costs are increasing at a rate faster than inflation
  - It continues to stay on its path toward financial sustainability and resiliency through well planned and executed strategies and that there is an alignment between the programs/services provided with shifts in demographics and the community's willingness to pay for services

## 2. Is there sufficient financial flexibility to address unexpected events, uncertainty and future liabilities?

The City of Barrie has a number of positive indicators that reflect a reasonable level of financial flexibility including:

- Strong financial policies in place to provide the City with financial resilience in dealing with future financial challenges
- Low levels of non-growth related debt
- Forward looking strategies to address infrastructure replacement funding challenges
- Lower than average asset consumption ratio for all assets which reflects a newer asset base with less immediate needs for asset replacement than peer municipalities

The City, however, faces some challenges that will be considered in the long range financial plan including:

- Finding the right balance between delivering services demanded by the community in an affordable manner
- Providing adequate funding for asset renewal needs
- Lower than required Capital Reserves
- Lower than recommended Stabilization Reserves
- Relatively high DC debt levels, exceeding the City's target maximum debt with additional forecast requirements over the next 10 years
- Total debt outstanding in relation to own source revenue has increased, currently at 98%, which, if the trend continues, will approach the recommended limit of 120%, as identified by the City's crediting rating agency which, if exceeded could negatively impact the City's credit rating
- Funding non-development charge eligible portion of growth related capital costs
- Net financial position while improving is in a negative position

### 3. Is the City's infrastructure network sustainable and adequately funded?

- Municipalities are responsible for a disproportionately large portion of public infrastructure in relation to the revenue sources available. The City owns \$3.3 billion in infrastructure assets based on replacement costs.
- The City has an infrastructure funding gap and is growing as the City's annual contributions towards capital renewal is lower than the annual depreciation costs. The infrastructure gap can only be narrowed by increasing tax and rate-based funding raised through an infrastructure levy and issuing debt. A commitment to maintain infrastructure is a key strategic goal in the City's Business Plan. However, due to funding constraints, not all asset renewal needs could be funded over the next 10 years.
- In order to address this infrastructure funding shortfall, the City has developed enhanced infrastructure funding strategies and mechanisms.
  - Although the continuation of a 1% capital infrastructure will improve capital infrastructure funding, it is not sufficient to cover the projected infrastructure replacement funding requirements. This situation may result in deterioration in the quality of its infrastructure which, in turn, will increase maintenance costs and could affect some service levels
  - Increasing the contribution to tax for new amortization costs by \$1 million
- The City's capital reserve which is used to fund the replacement of capital assets is also being used to fund the non-development charge eligible capital costs and other strategic initiatives.
- The City undertakes a corporate prioritization process to identify projects with the greater need
- Even with these enhanced infrastructure funding strategies as detailed above, the City of Barrie, like all municipalities in Ontario, will continue to require increased infrastructure funding support from provincial and federal governments to close the infrastructure gap which will be addressed in the long range financial plan.





# Report to Finance and Corporate Services Committee

## APPENDIX "B"

### Long Range Financial Plan 2017 - 2021

(See Attachment)



# Long Range Financial Plan 2017-2021



City of Barrie

## *Table of Contents*

<i>Introduction</i>	1	<i>Water/Wastewater Long Range Financial Plan</i>	18
<i>Strengths/Opportunities</i>	4	Sources of Data and Assumptions	19
<i>Future Challenges/Risks</i>	5	Water/WW Forecast Expenditures	20
<i>Tax Supported Long Range Financial Plan</i>	6	Operating Expenditure Summary	20
Sources of Data and Assumptions	7	Ratepayer Affordability	21
Forecast Property Tax Increase	11	Water/WW Capital Budget	21
Operating Expenditure Summary	11	Water/WW Capital Reserve Forecast	22
Taxpayer Affordability	12	Tax Supported Debt Forecast	23
Tax Capital Budget	13	Water/WW DC Financial Position	24
Tax Capital Reserve Forecast	14	<i>Parking Long Range Financial Plan</i>	25
Community Benefit Reserve	15	Sources of Data and Assumptions	26
Capital Contribution Reserve	15	Parking Forecast Expenditures	27
Tax Supported Debt Forecast	16	Parking Forecast Revenues	27
Tax DC Financial Position	17	Parking Capital Budget	28
		Parking Capital Reserve Forecast	28
		<i>Summary Long Range Financial Plan</i>	29

## Introduction

### *What is a Long Range Financial Plan?*

The City of Barrie, like other municipalities in Ontario has to fund programs and services it provides within a limited funding framework—namely, it must address rising costs, the demands of growth, increased service responsibilities and aging infrastructure with relatively flat revenue streams and limited ability to modify the services it provides.

The City of Barrie is taking a proactive approach and has recognized the need for a long-term financial planning process that assesses the financial implications of current and proposed policies as well as Council approved decisions. This is an ongoing process and the City has been regularly updating its financial forecast as material changes occur to provide Council with sufficient information to make informed decisions.

A Long Range Financial Plan (LRFP) is a comprehensive financial plan that contains statements of strategies, principles and policies to guide financial decision-making as well as a ten-year financial projection. The goal is to ensure that the City is in a sound financial position and can finance services to the public on a sustainable basis.

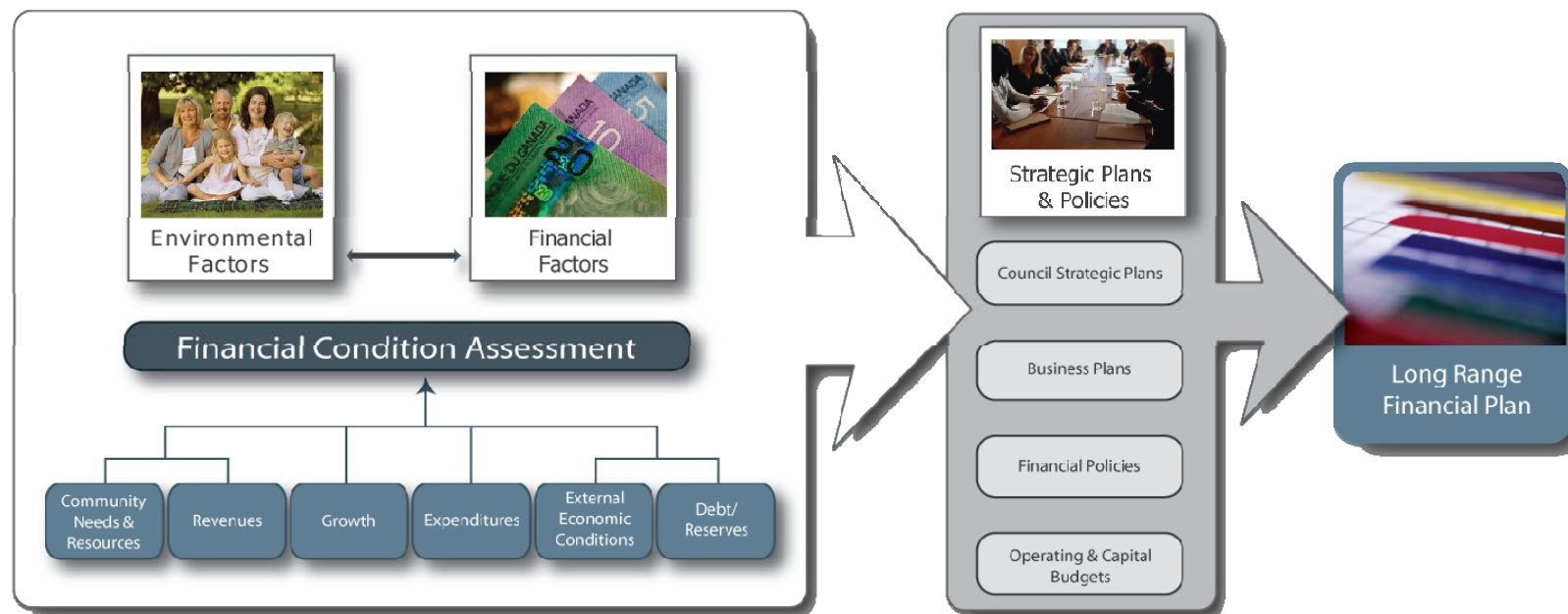
The purpose of the LRFP is to measure the City’s capacity to meet operating needs as well as to implement the strategic priorities of Council. As such, a LRFP creates a more purposeful approach to long-term financial management and helps align short term actions with long term financial strategies.

This document puts the City’s financial condition in perspective, discusses the current challenges and risks and provides a financial forecast, consistent with the strategic direction of the City. The plan also provides a framework for guiding the annual budget and the financial planning over a longer horizon. The LRFP helps to understand the implications that today’s decisions have on future budgets.



**LRFP Review Process**

The following diagram provides a high level overview of the building blocks used to develop the City’s LRFP.



The first step in the preparation of the Long Range Financial Plan was to undertake a **Financial Condition Assessment**, review financial policies and, based on the findings, update the City’s **Financial Policies**. This was completed in a separate report and provided a 5 year historical trend and peer comparison using multiple financial and socio-economic indicators.

The next phase in the process was to work with staff in the development of the **Financial Forecasting Model** with a focus on designing the system to support future decision-making. The **LRFP** ensures alignment with the City’s various strategic planning documents such as strategic plans, development charge studies, master plans, growth forecasts, official plan, departmental business plans etc.

### ***General Approach to Preparing the City's LRFP***

The LRFP provides a projection of the City's operating and capital requirements and statement of financial position over the next 5 years. It identifies the key financial strategies that will influence the building of a sustainable long-term financial future. The LRFP takes into account:

- Expected expenses and capital outlays for each year of the plan
- Expected revenues for each year and their source
- Performance measures to enable assessment of the Council's strategic priorities
- Assumptions that have been used in the development of the LRFP
- Sensitivity analysis on key assumptions most likely to affect long-range financial planning and sustainability to ensure that the City is aware of the key levers that will impact the LRFP and that should be monitored over time

### ***Updating the LRFP***

Although great effort has been made to present accurate financial projections, based upon the data available at this time, a LRFP is a dynamic document and should be updated and re-evaluated, on an ongoing basis. As such, the 2017 LRFP should be considered a work-in-progress.

The intent is to provide Council with regular updates to this document, so it will be useful in the ongoing cycle of business planning and budgeting.

The City is a fast growth and dynamic municipality with a number of initiatives underway or being considered over the next 5 years. As such, it is anticipated that updates to the LRFP will:

- Amend the assumptions, projections and strategies, as required, based on changes in the municipal environment
- Continue building awareness of the results of 5 year projections of current operating and capital spending and funding levels
- Assist the City in determining the extent of its financial challenges
- Reconfirm the key financial goals and strategies that should guide future planning
- Spur the development of actions in future business plans that would respond to the long-term strategies

## Barrie's Strengths/Opportunities to Support Future Growth and Financial Sustainability

- **Strong Assessment Base**—Barrie has a well diversified assessment base and an excellent balance of residential and non-residential construction. The assessment base is also strong reflecting a good base upon which to raise taxes. Construction activity has increased significantly in 2017 and is forecast to continue to grow over the next five years.
- **Controlled Municipal Spending**—Efforts have been made annually to control municipal spending and this is reflective in lower than average municipal levy per capita and per \$100,000 of assessment in relation to peer municipalities.
- **Taxpayer and Ratepayer Affordability**—The City's municipal tax burden and water/wastewater costs for a typical residential customer are relatively low in relation to the peer municipalities surveyed and the cost of service in relation to household income continues to be below the City's affordability threshold which aligns with industry standards.
- **Population**—Barrie benefits from a young and growing population and from its proximity to the GTA.
- **Employment**—The City has lower than average and decreasing unemployment rates in relation to the Ontario average and significantly higher than average employment rates reflecting a strong local economy.
- **Strong Financial Policies**—The City has a comprehensive financial policy framework upon which decisions are based. This includes asset management strategies, reserve, debt and investment strategies. These financial policies provide the City with financial resilience in dealing with future financial challenges.
- **Competitive Tax Policies**—The City has low tax ratios for non-residential properties which support economic development.
- **Low Levels of Non-Growth Related Debt**—The City has low levels of non-growth related debt.
- **Relatively Newer Assets**—The City benefits from lower than average asset consumption ratio for all assets which reflects a newer asset base with less immediate needs for asset replacement than many other peer municipalities.
- **Hydro Dividend**—The annual hydro dividend which commences in 2018 will provide additional financial resources which can be used to fund community based projects or other Council priorities.
- **New Tax Policy Flexibility**—The City, along with other Ontario municipalities has enhanced opportunities to modify tax policies to align with community needs.

## Future Challenges/Risks

- **Increasing Costs**—Many of the City’s costs are not directly controlled by the municipality (e.g. County services, Police).
- **Growth Related Pressures**—With an increase in population forecast of approximately 69,000 by the year 2031, there will be additional capital and operating costs that must be funded. While the majority of growth related capital costs are funded through DCs, some costs are not eligible under the *Development Charges Act* which places pressure on the tax, water/ww rates.
- **Stabilization Reserve Balances**—The City’s Stabilization Reserves are lower than the target levels and have been for a number of years which compromises the ability to fund unforeseen events.
- **Changes in Interest Rates**—Under the existing economic conditions, interest rates are low. It is unknown how long these conditions will continue and may impact the debt servicing costs in the future.
- **Future Salary and Benefit Negotiations**—The forecast is based on an assumption of similar annual increases as have been recently experienced. Contracts are scheduled for renegotiation during the forecast period.
- **High Levels of DC Recoverable Debt**—The City has high DC debt levels with additional forecast requirements over the next 5 years. A prolonged economic slowdown could put existing taxpayers at risk. Total debt outstanding in relation to own source revenue has increased, currently at 98%, which, if the trend continues, will approach the recommended limit of 120%, as identified by the City’s crediting rating agency.
- **Infrastructure Funding Gap**—The City’s infrastructure gap is growing as the City’s annual contributions towards capital renewal is lower than the annual depreciation costs. Also, Capital Reserves are used to fund non-eligible DC growth related capital projects. A commitment to maintain infrastructure is a key strategic goal in the City’s Business Plan. However, due to funding constraints, not all asset renewal needs could be funded over the next 5 years.
- **Tax Resistance**—Although Barrie’s residential property taxes are low, there is pressure to control tax increases.
- **Finding the Right Balance**—Finding the right balance between delivering services demanded by the community in an affordable manner is a challenge. Balance is also required in terms of maintaining the existing assets in a state of good repair while at the same time financing growth related projects and new strategic initiatives.



*Tax Supported Long Range Financial Plan*



## Long Range Financial Plan Sources of Data and Assumptions

The 5 year Tax-Supported Operating Budget forecast is based on the approved 2017 Operating Budget and a projection based on assumptions over the next four years. The forecast provides an indication of what the City's financial situation may look like in 5 years if the environment were to unfold as forecast and the City were to continue providing the current services in the same manner.

### Sources of Information

There are a number of sources of data that were used in the development of the LRF. These include the following:

- **2017-2020 Operating Budget**—The forecast is based on the City's approved 2017 Operating Budget and three year forecast.
- **5 Year Capital Budget**—This includes both tax and rate supported capital programs based on the approved 2017 Capital Budget and also includes the First Responders Campus. Commitments from prior year approved budgets was also taken into consideration in the LRF.
- **Financial Policies**—The LRF uses the City's existing financial policies for debt and reserves.
- **Assessment Growth**—The 2014 DC Background Study was used to forecast assessment growth. [Appendix A](#) provides additional information on the assumptions used with respect to growth in the assessment base.
- **Reserves/Reserve Funds**—The forecast is based on year end balances in the Reserves/Reserve Funds as of December 31, 2016.
- **Borrowing Costs**—The forecast includes existing debt that the City has issued using debt schedules provided by the City and has been broken down into growth and non-growth related debt. Future debt has been issued at 10 years using the Infrastructure Ontario rates for municipalities (2.99%) for the majority of projects and 20 years for the First Responders Campus project (3.45%).
- **Simcoe County 5 Year Forecast**—The Operating expenditures included in the forecast are based on the most current information available from the County for each of the services.

**Budget Assumptions**

- **Operating Expenditures**—While the 2017-2020 Operating forecast were primarily used, with some adjustments made which will be described in this section of the report, the following assumptions were used for 2021.

	2021
<b>Expenditures</b>	
Salaries & Wages	2.00%
Benefits	1.50%
Fire Salaries & Wages	3.00%
Fire Benefits	2.50%
Materials & Supplies	1.50%
Utilities & Fuels	2.00%
Equipment & Capital Purchases	2.00%
Consultants & Contracted Services	5.00%
Repairs & Maintenance	2.00%
Rents & Other Expenses	2.00%
Grant Expenses & External Transfers	2.00%
<b>Other Large External Contracts</b>	
Garbage	6.00%
Recycling	6.00%
Organics	5.00%
Yard Collection	4.50%
Winter Salt	15.00%
Traffic	6.00%
Transit	3.00%
MPAC	5.00%

- Large contracts have been forecast separately to reflect different assumptions based on the best available information on growth as well as contract information. As shown in the table, the contracted services are forecast to increase at a rate exceeding inflation.

- **Boards and Agency Assumptions**

	2021
<b>Board and Agencies</b>	
Barrie Police Services	2.00%
Barrie Public Library	2.00%
Conservation Authorities	3.00%
Tourism Barrie	0.00%

- **Growth Related Expenditure Forecast**—Growth related operating expenditure including the following were developed by City staff in the respective areas.

(000's)	2018	2019	2020	2021
Hydro Dividend	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
\$4,500 per unit Developer	\$ 4,796	\$ 6,861	\$ 9,138	\$ 9,175

- **Investment Interest**—Assumed to be 2% annually.

- **Contributions to Capital Reserves**—The City has a number of strategies that are currently employed to increase the contributions to the Capital Reserve to address the infrastructure gap. These include:
  - Base Capital Contribution
  - Amortization - Increasing the contribution to tax for new amortization of assets. The amount of new assets and associated amortization varies greatly from year to year which can cause volatility
  - Dedicated Infrastructure Renewal Fund—An incremental 1% increase in taxes annually.

The following reflects the assumptions included in the forecast:

(000's)	2017	2018	2019	2020	2021
Capital Contribution					
Base	\$ 25,495	\$ 29,451	\$ 33,851	\$ 38,252	\$ 42,653
Amortization	\$ 1,000	\$ 1,500	\$ 2,000	\$ 2,000	\$ 2,040
Infrastructure Renewal	\$ 2,500	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,448
Total Reserve Contributions	\$ 28,995	\$ 33,351	\$ 38,251	\$ 42,652	\$ 47,141

- **New Sources of Revenue**—There are two new sources of revenues that have been taken into consideration for the forecast:

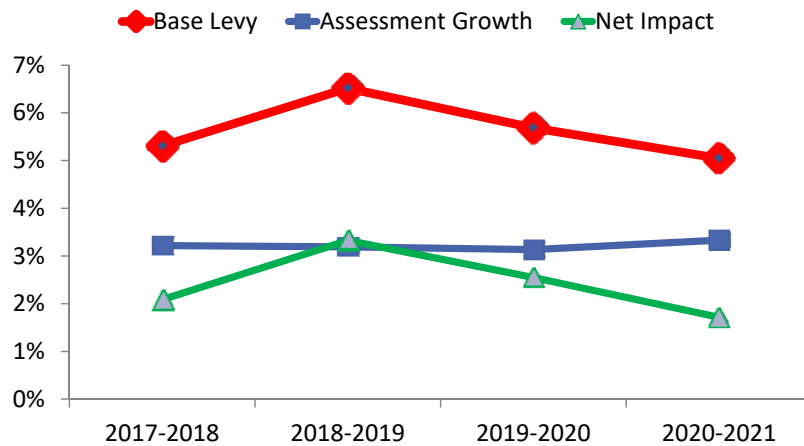
(000's)	2018	2019	2020	2021
Hydro Dividend	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
\$4,500 per unit Capital Contribution	\$ 4,796	\$ 6,861	\$ 9,138	\$ 9,175

- Hydro Dividend revenues are commencing in 2018 and the forecast assumes that these funds would be transferred to a separate **Community Benefit Reserve** which would be used, at Council discretion. These could be used to reduce debt, fund new initiatives or used to fund capital requirements.
- Capital Contributions of \$4,500/unit annexed lands are forecast to commence in 2018 and these funds have been transferred to separate reserve called **Capital Contributions Reserves**. This Reserve was established to:
  - Provide funds for the mandatory 10% reductions
  - Other ineligible growth related capital costs

As policy decisions are yet to be made with respect to the above noted new Reserves, the funds have been set in separate reserves.

- 
- **Proposed Policy Change—2018**—Since 1998, the Vacant Unit Rebate and Vacant/Excess Land Subclasses have provided tax rebates and reductions to property owners who have vacancies in commercial and industrial buildings or land as follows.
    - **Vacant Unit Rebates:** The Vacant Unit Rebate provides a tax rebate to property owners who have vacancies in commercial and industrial buildings. This application-based program is administered by municipalities. The current rebate is 30% of the property tax for vacant commercial space and 35% for vacant industrial space.
    - **Vacant and Excess Land Property Tax Subclass:** Commercial and industrial properties or portions of these properties in the Vacant and Excess Land Property Tax Subclasses are taxed at a fixed percentage rate below the tax rate of the broad class. These properties are discounted at 30% to 35% of the full Commercial and/or Industrial rate.
    - **Bill 70, Building Ontario Up for Everyone Act, 2016** provides municipalities with the flexibility to tailor the programs for the Vacant Unit Rebate and Vacant/Excess Land Subclasses. This change is intended to allow municipalities to tailor the vacant rebate and reduction programs to reflect community needs and circumstances, while considering the interests of local businesses.
  - Upper- and single-tier municipalities that have decided to change the programs can notify the Minister of their intent to utilize this flexibility and provide details of the proposed changes along with a council resolution.
  - Based on discussions with staff, the proposed 2018 Budget will ask Council to consider eliminating the Vacant Unit Rebate which would reduce the City's expenditures by approximately \$400,000. Currently, the rebates are set at 30% for commercial and 35% for industrial property classes.
  - Note that there is also the option to eliminate the tax ratio discount for excess/vacant land subclass which has not been included in the financial model but staff will be bringing forward a report in the Spring of 2018 for Council to consider. These programs are subject to approval by the Province and would require consultation with the community to ensure alignment with community goals and objectives.
  - **DC Industrial Charge Exemption**—The forecast assumes the elimination of the industrial charge exemption when it expires in 2017.
-

**Property Tax Forecast**

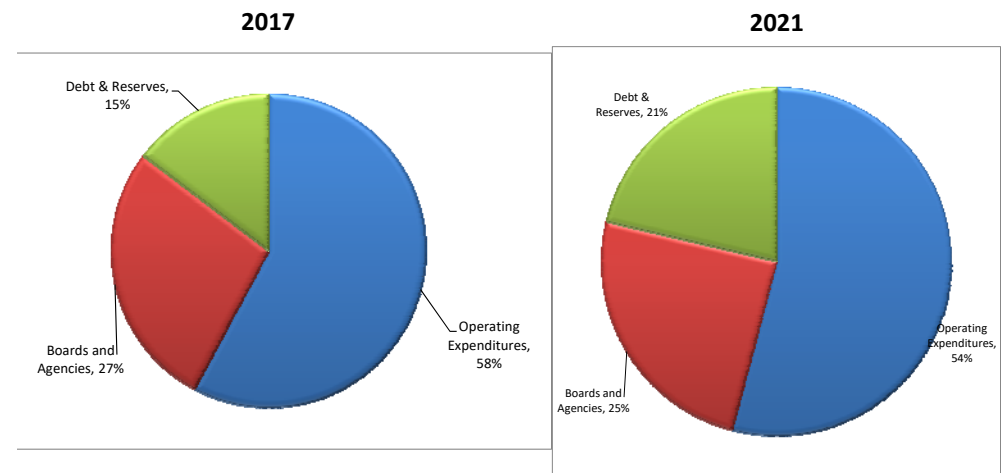


	Base Levy	Assessment Growth	Net Impact
2017-2018	5.3%	3.2%	2.1%
2018-2019	6.5%	3.2%	3.3%
2019-2020	5.7%	3.1%	2.6%
2020-2021	5.0%	3.3%	1.7%

- The forecast levy increase ranges from 5.0%-6.5% annually, excluding growth in assessment.
- Assessment growth is forecast to be in the range of 3.1%-3.3% over the forecast period, resulting in a **net property tax impact of 1.7%-3.3% annually**.

- From 2017-2021, contributions to reserves and debt charges increased by \$33.6 million, an increase of 80% over the 5 year period.
- The following summarizes the gross expenditures by major item of expenditure in 2017 and 2021.

**2017-2021 Operating Expenditure Summary**



- As shown above, the City's operating expenditures accounts for 54% of the gross operating expenditures in 2021 compared with 58% in 2017
- Debt and reserve charges account for 21% of operating expenditures in 2021 compared with 15% in 2017.

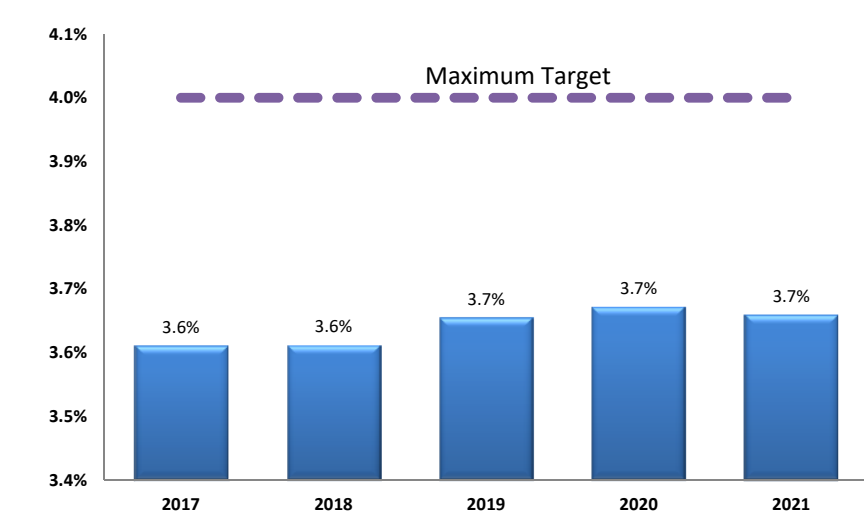
### Taxpayer Affordability

The taxes levied for municipal purposes should be at a level to fund/protect the City’s financial condition, investment in infrastructure, on-going expenditures and liabilities incurred. However, this must be balanced against the community’s ability to pay for services.

The City’s policy is to ensure that taxes levied for municipal purposes, based on an average dwelling value not exceed 4.0% of average household income. As reflected in the 2017 Financial Condition Assessment:

- Municipal property taxes, based on an average dwelling value in Barrie in relation to average household income are 3.6% below the City’s target of keeping property taxes in relation to income at or below 4%.
- The approach used to calculate taxes as a percentage of income was to compare the average incomes from the 2017 estimated household income, as provided by Manifold Data Mining in relation to the municipal property taxes on an average dwelling value in Barrie.
- The forecast represents changes, over time, based on the projections for the Operating Budget, average dwelling values and average household income, assumed to be 2% annually.

### Municipal Property Taxes as a % of Household Income

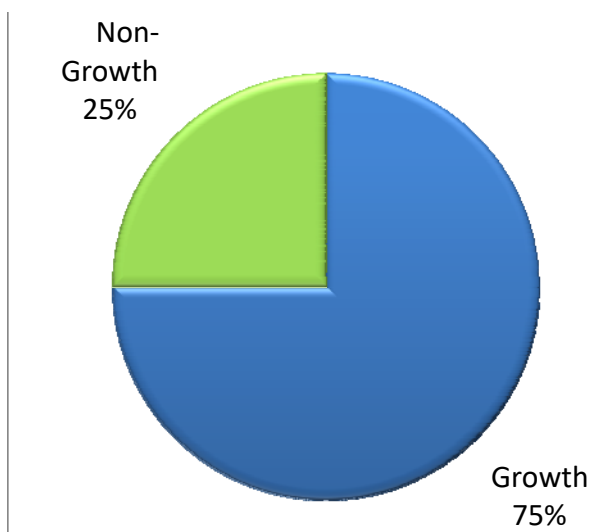


- Average household income in 2017 is assumed to be \$93,900 and the average dwelling value, using the 2017 MPAC data is approximately \$299,000.
- As shown above, the municipal tax burden as a percentage of average household income remains below the maximum threshold of 4%.

**Tax Capital Budget—Type of Project**

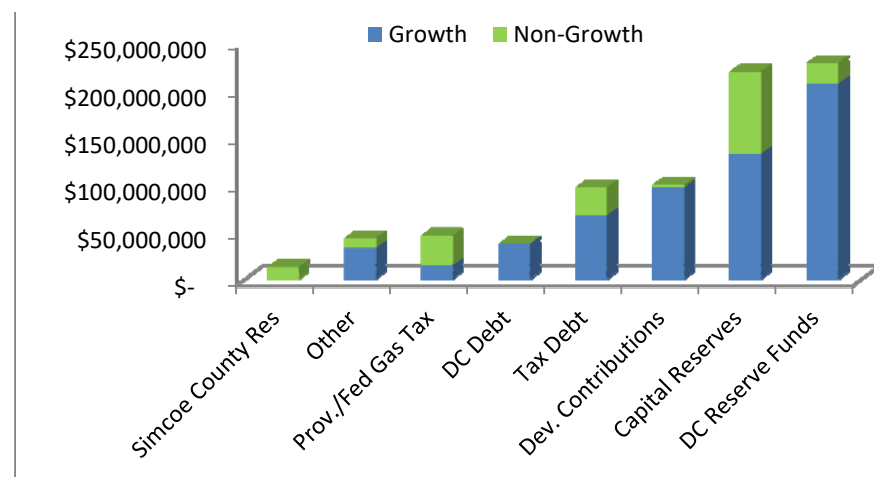
- The 5 year Tax-Supported Capital Budget of \$785.7 million is largely driven by growth related capital projects (75%).

(millions)	2017	2018	2019	2020	2021	5 yr TOTAL
Growth	\$ 97.71	\$ 129.30	\$ 118.32	\$ 130.97	\$ 113.00	\$ 589.30
Non-Growth	\$ 102.44	\$ 28.71	\$ 16.40	\$ 24.45	\$ 24.44	\$ 196.44
Total Tax Capital Exp.	\$ 200.15	\$ 158.01	\$ 134.72	\$ 155.43	\$ 137.43	\$ 785.74



- Appendix B** provides additional detail on the 5 year Tax Capital Financing plan by year and by funding source.

**Tax-Capital Budget—Financing**



- As shown above, over the next 5 years funding from the DC Reserve Funds (\$229 million) which is equivalent to 29% of the total financing sources. DC Debt accounts for an additional 5% of the total financing. There is a risk to current taxpayers associated with repayment of these debentures, should the projected growth not take place as planned.
- Approximately \$219.7 million (28%) of the 5 year capital program will be financed from the Tax Capital Reserves; of which \$133 million is related to growth projects.
- Over the next five years, \$97 million in tax related debt issuance is planned.



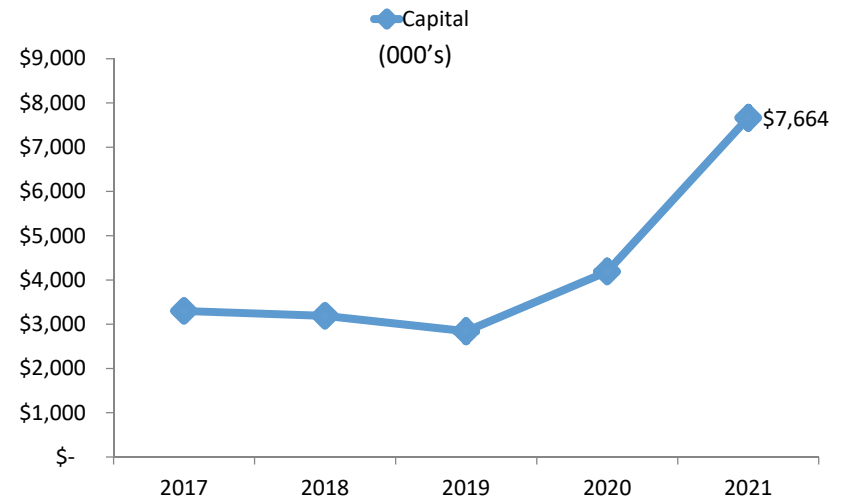
**Tax Capital Reserve Forecast**

- According to the City’s Guiding Principles, the Capital Reserves are to be used for the future replacement or acquisition of capital assets. The Tax Capital Reserves and Reserve Funds are currently insufficient to meet the full cost of renewal and replacement of existing assets. In addition, as shown in the following table, approximately \$133 million of the Capital Reserves over the next 5 years will be used to fund growth related projects. This is contributing to the relatively low level of Capital Reserves.

(000's)	2017	2018	2019	2020	2021
Opening Balance	\$ 36,926	\$ 3,299	\$ 3,189	\$ 2,842	\$ 4,188
Contribution from Operating	\$ 28,995	\$ 33,351	\$ 38,251	\$ 42,652	\$ 47,141
<u>Contributions to Capital</u>					
Growth Related Capital	\$ (22,783)	\$ (20,962)	\$ (31,045)	\$ (28,688)	\$ (29,408)
Non-Growth Related Capital	\$ (39,839)	\$ (12,500)	\$ (7,553)	\$ (12,618)	\$ (14,257)
<b>Ending Balance</b>	<b>\$ 3,299</b>	<b>\$ 3,189</b>	<b>\$ 2,842</b>	<b>\$ 4,188</b>	<b>\$ 7,664</b>

- The Tax-Supported Capital Reserve Fund has a projected ending balance of \$7.6 million in 2021. To maintain liquidity and have flexibility for emergency situations, leading practice is to maintain a capital reserve balance equivalent to the 5 year average annual non-growth related capital expenditures. This is equivalent to \$47 million, well above the 2021 forecast balance. Contributions to the Capital Reserves is being gradually increased to address historical funding shortfalls. The recommended LRFPP incorporates a phased approach to building reserve flexibility. By doing so, over time, the City will be less reliant on debt as a source of financing and will have the necessary funds available for full lifecycle costing.

**Tax Capital Reserve Forecast**



### ***Community Benefit Reserve Forecast***

- Commencing in 2018, the annual hydro dividends are estimated at \$5 million each year. This provides the opportunity to fund new initiatives, the replacement of capital assets and/or reduce reliance on debt. These funds have be set aside in a new reserve called Community Benefit Reserve.
- ***Community Benefit Reserve – Policy Statement*** – A Community Benefit Reserve be established and funded from dividends received from Barrie Hydro Holdings Inc. to a maximum reserve balance of \$10 million. This reserve will be used to fund projects and initiatives deemed to have significant strategic and/or Community benefit.

### ***Capital Contribution Reserve Fund Forecast***

- Commencing in 2018, the Capital Contribution Reserve will be funded from the \$4,500/unit developer contribution.
- At the end of 5 years, the forecast revenues to be generated is close to \$30 million which is available to fund non-DC eligible growth related capital projects in the annexed lands.
- ***Capital Contribution Reserve – Policy Statement*** – As per the Memorandum of Understanding signed in June 2014, the capital contribution reserve will be used for the growth related component of ineligible development charge services in the Annexed Area, and other restrictions on development charge funding.

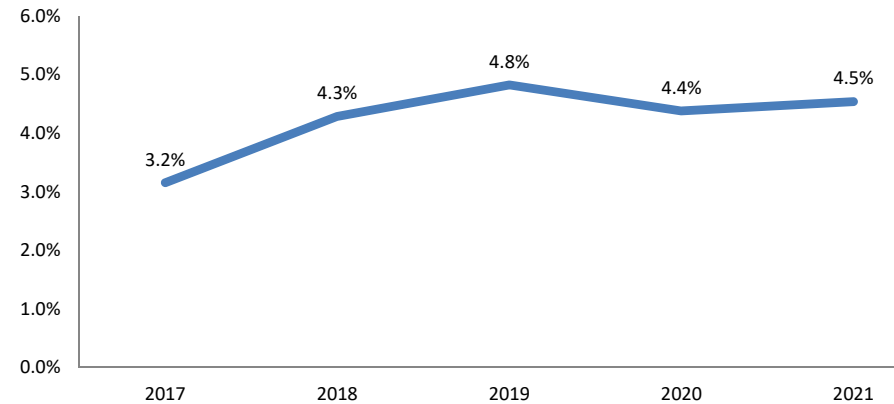
**Tax Supported Debt Forecast**

- The City has prudently managed tax related debt and this continues to be the case over the forecast period.

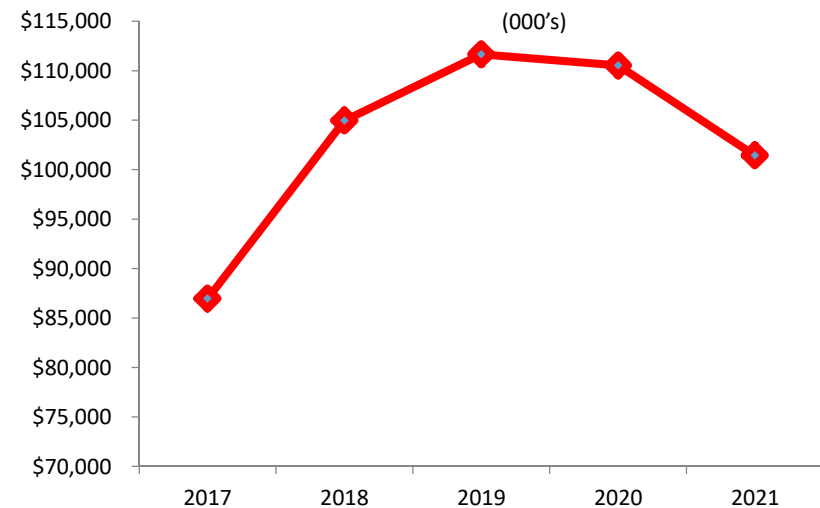
The City has a number of tax debt related targets including the following:

- More than 2/3 of all outstanding tax rate supported debt to be retired within 10 years in any single reporting period. **Note:** All tax related debt forecast is set at 10 year, achieving this target.
- Principal and interest for tax rate supported debt not exceed 10% of the City’s net levy requirement. **Note:** The tax-related debt forecast principal and interest is well below the target, ranging from 3.8%-6% over the five year period.
- The City also considers debt affordability. The overall measure of the affordability of debt is the burden of principal and interest relative to City’s own source revenue should not exceed 20%. **Note:** This target is being met throughout the forecast period. This graph also excludes debt charges that will be repaid by future development charges.

**Tax Debt Charges as a % of Own Source Revenues**



**Tax Debt Outstanding Recoverable from Property Taxes**



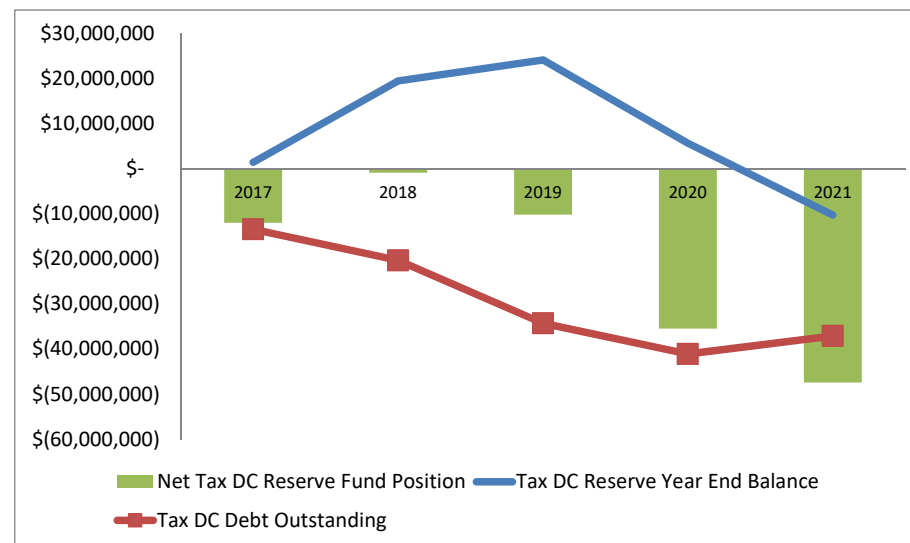
- Under the financing plan, debt outstanding will peak in 2019 at approximately \$111.7 million and decline to \$101.4 million in 2021. **Appendix C** provides additional detail with respect to the debt forecast over the 5 year period.

**Tax DC Financial Position**

Growth includes capital projects and operating costs related to the economic maturity and expansion within the City. The City's Guiding Principles with respect to growth include:

- Asset acquisitions and construction are subject to a cost and benefit analysis that considers initial and lifecycle expenditures and alternative financing arrangements;
- The Development Charge (DC) Bylaw will be used to recover the costs of growth to the full extent permitted by legislation (thereby minimizing the financial burden of the costs of growth on existing residents);
- Growth projects are undertaken as DC's are collected, consistent with the DC Background Study.
- Certain projects can proceed in advance of collection of DC's subject to the availability of funds/financing;
- Other methods will be explored with developers/others to fund growth related projects that are not eligible for development charges, such as the Memorandum of Understanding that was signed in 2014; and
- Official Plan discussion about options to expand the urban boundary should include the projected impact on the operating budget and capital budget as well as an estimate of property tax revenue.

**Consolidated Tax DC Financial Position Forecast**



- Over the 5 year period, the planned DC financing is \$266 million of which \$229 million is coming from the DC Reserve Fund and \$37.5 million from DC debt. Over the next 5 years the DC revenues are anticipated to be \$198 million. This results in a funding shortfall.
- As shown above, taking into consideration the DC Reserve Fund balances and the debt outstanding associated with DC growth related projects, there is risk to meet future financial obligations.
- The net DC tax ending financial position is a negative \$47 million in 2021, taking all of the above noted assumptions into consideration.

*Water and Wastewater Long Range Financial Plan*



Water & Wastewater  
Long Range  
Financial Plan

**Long Range Financial Plan Sources of Data and Assumptions—Water/WW**

Consistent with the Tax Operating Budget, the 5 year Water/Wastewater Operating Budget forecast using the following sources of information:

**Sources of Information**

- **2017-2020 Water/WW Operating Budget**—The forecast is based on the City’s approved 2017 Operating Budget and three year forecast.
- **5 Year Capital Budget**—This includes rate supported capital programs based on the approved 2017 Capital Budget as well as the defined sources of financing
- **Financial Policies**—The LRFP uses the City’s existing financial policies for debt and reserves.
- **Reserves/Reserve Funds**—The forecast is based on year end balances in the Reserves/Reserve Funds as of December 31, 2016.
- **Borrowing Costs**—The forecast includes existing debt that the City has issued using debt schedules provided by the City and has been broken down into growth and non-growth related debt. Future debt has been issued at 10-15 years using the Infrastructure Ontario rates for municipalities (2.99%-3.26%).

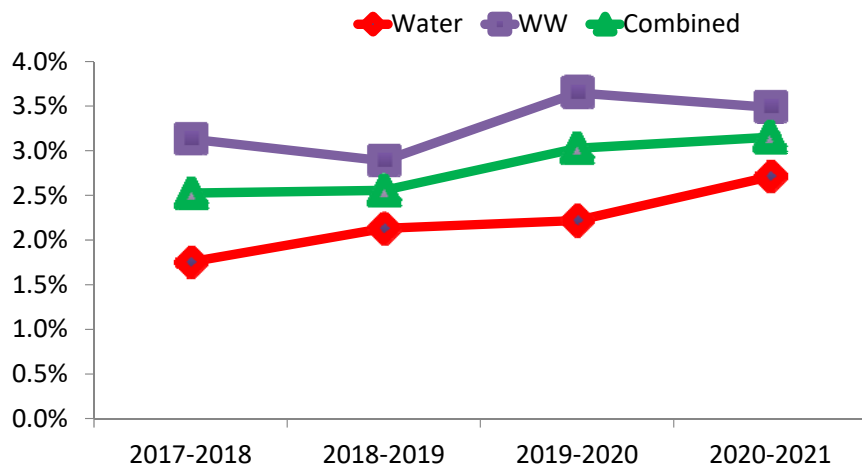
**Budget Assumptions**

- **Operating Expenditures**—While the 2017-2020 Operating forecast were primarily used, with some adjustments made which will be described in this section of the report, the following assumptions were used for 2021.

	2021
<b>Expenditures</b>	
Salaries & Wages	2.00%
Benefits	1.50%
Materials & Supplies	1.50%
Utilities & Fuels	2.00%
Equipment & Capital Purchases	2.00%
Consultants & Contracted Services	5.00%
Repairs & Maintenance	2.00%
Rents & Other Expenses	2.00%
Grant Expenses & External Transfers	2.00%

- **Contributions to Capital Reserves**—The City has strategies in place to gradually increase the contributions to the Water/WW Capital Reserves to address the infrastructure gap.

**Forecast Water/WW Rate Revenue Requirements**

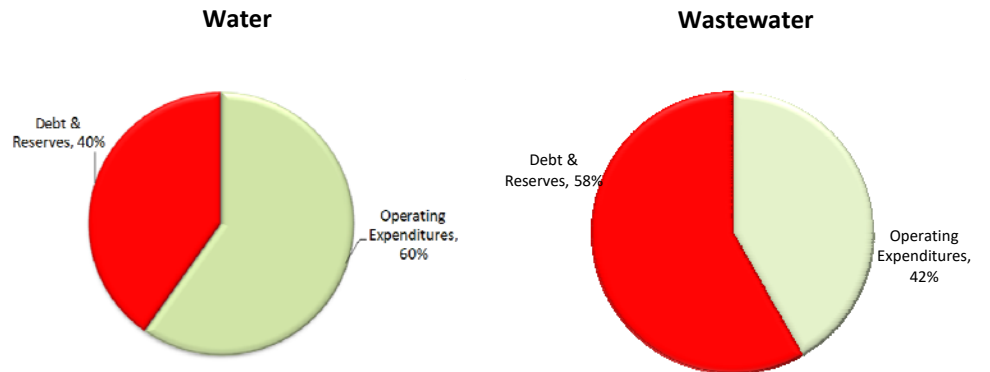


	Water	WW	Combined
2017-2018	1.8%	3.1%	2.5%
2018-2019	2.1%	2.9%	2.6%
2019-2020	2.2%	3.6%	3.0%
2020-2021	2.7%	3.5%	3.2%

- The forecast increase in the combined water/ww rate revenue requirements ranges from 2.5-3.2% annually over the next five years.

- The following summarizes the gross expenditures by major item of expenditure in the last year of the forecast; 2021.

**2021 Water/WW Operating Expenditure Summary**



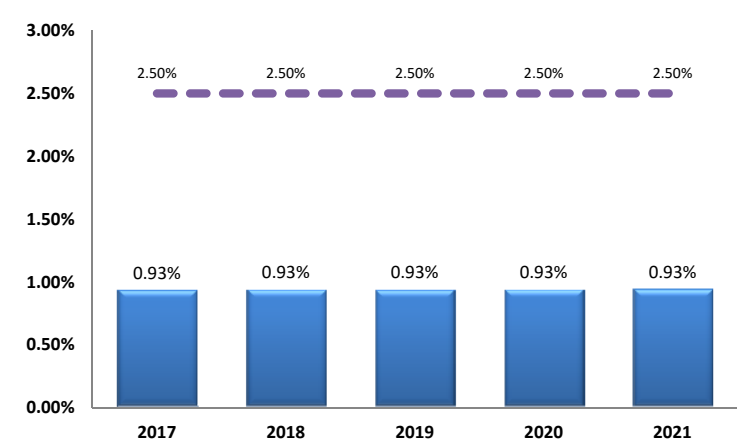
- As shown above, the City’s operating expenditures accounts for 60% of the gross water operating expenditures and 42% of the wastewater expenditures in 2021.
- Debt and reserve charges account for 40% of the expenditures in 2021 for water and 58% in wastewater.

**Ratepayer Affordability**

The City’s policy is to ensure that water/ww costs for municipal purposes, based on an average dwelling value not exceed 2.5% of average household income. As reflected in the 2017 Financial Condition Assessment:

- A comparison of the water/ww costs for a typical residential customer (200 m3 annually) in Barrie was undertaken in relation to household income.
- The forecast represents changes, over time, based on the projections for the Operating Budget, average dwelling values and average household income.
- As shown above, the municipal water/wastewater burden as a percentage of average household income remains well below the maximum threshold of 2.5%.

**Water/WW Costs as a % of Household Income**



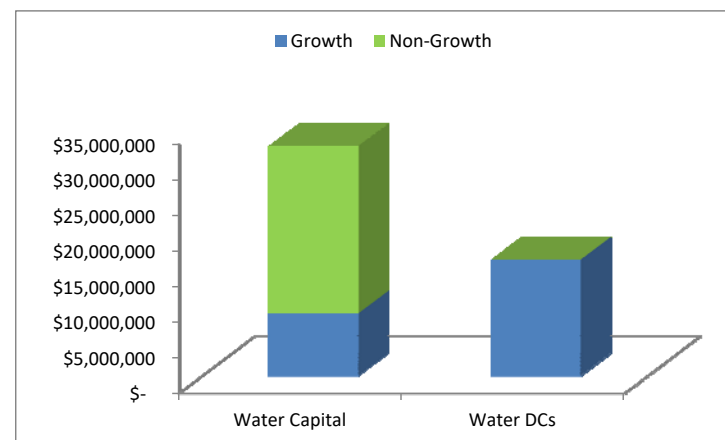
**Water and WW Capital Budget—Type of Project**

- The 5 year Water Capital Budget of \$48.7 million is driven by growth related capital projects (51%).
- The 5 year Wastewater Capital Budget of \$150.65 million is also driven by growth related capital projects (86%).

Water (millions)	2017	2018	2019	2020	2021	5 Yr Total
Growth	\$ 4.76	\$ 5.61	\$ 8.04	\$ 5.35	\$ 1.49	\$ 25.25
Non-Growth	\$ 9.83	\$ 3.36	\$ 2.48	\$ 4.11	\$ 3.67	\$ 23.45
<b>Total</b>	<b>\$ 14.58</b>	<b>\$ 8.97</b>	<b>\$ 10.52</b>	<b>\$ 9.46</b>	<b>\$ 5.17</b>	<b>\$ 48.70</b>
WW (millions)						
Growth	\$ 17.41	\$ 28.43	\$ 29.77	\$ 31.09	\$ 22.52	\$ 129.23
Non-Growth	\$ 5.72	\$ 2.78	\$ 4.13	\$ 5.28	\$ 3.51	\$ 21.42
<b>Total</b>	<b>\$ 23.13</b>	<b>\$ 31.21</b>	<b>\$ 33.90</b>	<b>\$ 36.37</b>	<b>\$ 26.03</b>	<b>\$ 150.65</b>

- **Appendix B** provides additional detail on the 5 year Water/WW Capital Financing plan by year and by funding source.

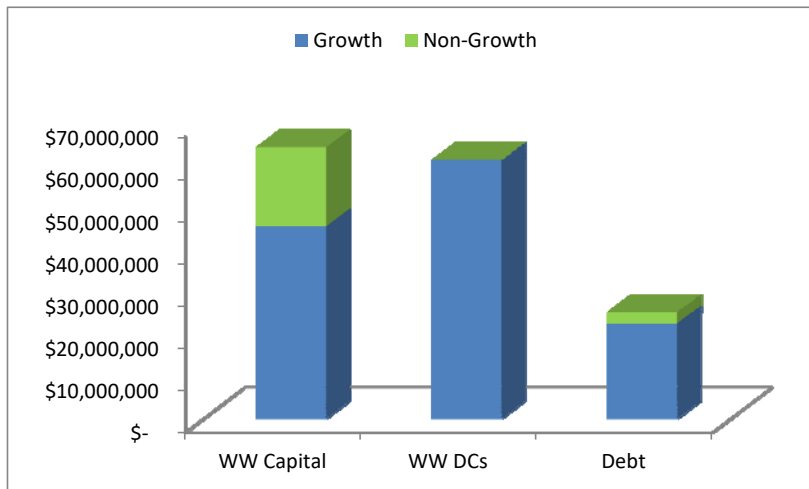
**Water Capital Budget—Financing**





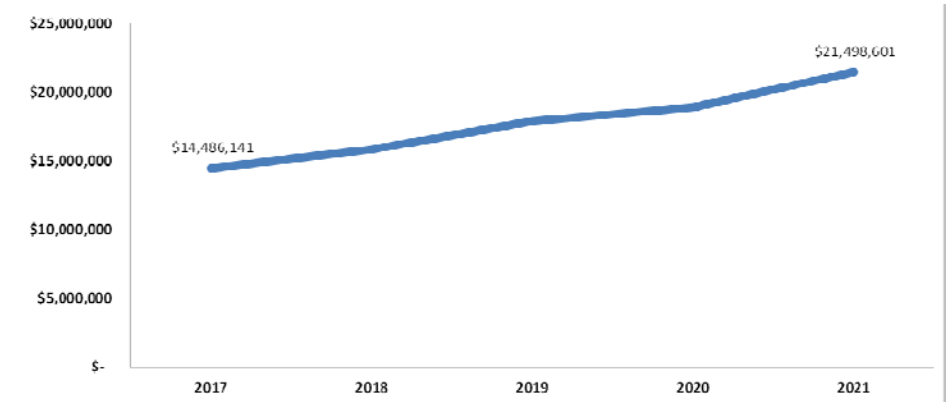
- The largest source of financing over the next 5 years for water capital infrastructure is from the Water Capital Reserve (\$33 million) which is equal to 66% of the total 5 year capital. Approximately \$8.8 million of funding required from the Water Capital Reserve is to support growth related projects.
- The Water DC Reserve accounts for the remainder of the financing in the amount of \$16.4 million.

**5 Year Wastewater-Capital Budget—Financing**

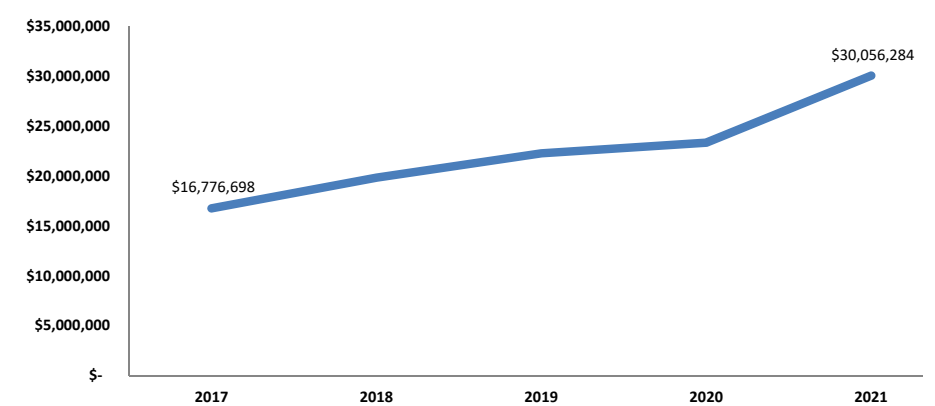


- The largest source of financing over the next 5 years for wastewater capital is from the Wastewater Capital Reserve (\$64 million) which is equal to 43% of the total 5 year capital. Approximately \$45.5 million of funding required from the Water Capital program is to support growth related projects.
- DC Reserve funding in wastewater over the next 5 year is \$61.2 million and there is a planned debt issuance of \$25.3 million for growth related projects.

**Water Capital Reserve Forecast**



**Wastewater Capital Reserve Forecast**



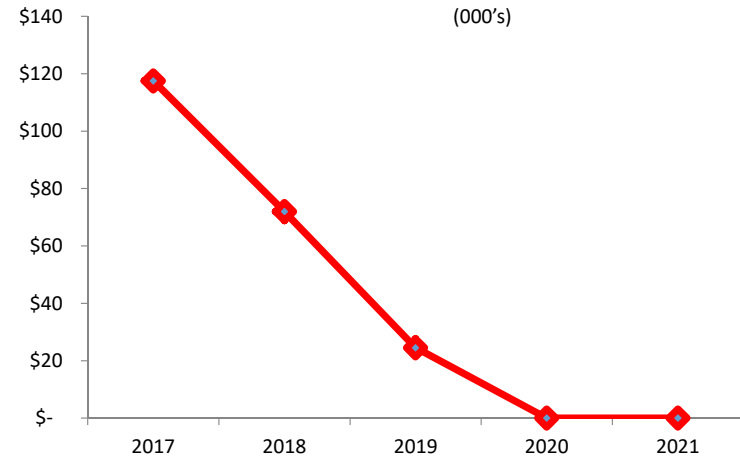
- The Water and Wastewater Reserves both increase over the five year time period. This is required to fund existing infrastructure deficits which were identified by the City in the Asset Management Plan and future capital replacements. The 5 year increase in Water is 48% and Wastewater it is 79%.

**5 Year—Water/WW Rate Supported Debt Forecast**

The City has two Water/WW debt related targets for debt that will be recovered from water/ww rates including the following:

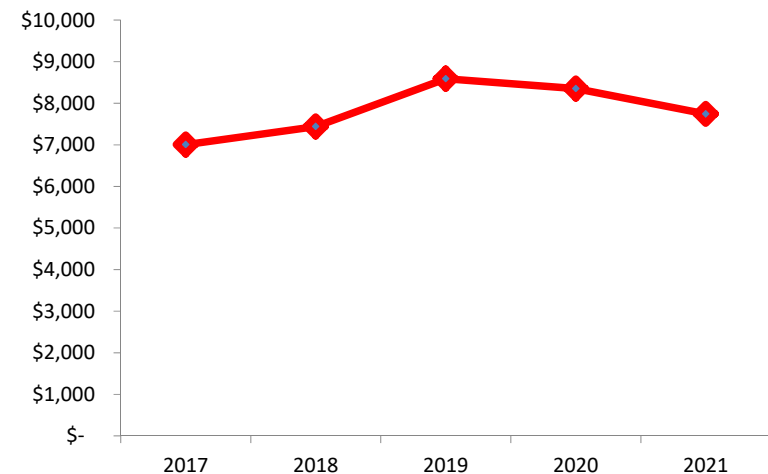
- Principal and interest for water rate supported debt not to exceed 25% of the City’s water revenues by 2018. **Note:** The Water Debt Charges as a percentage of revenues for debt that will be recovered from rates is very low throughout the forecast, less than 1%. No new debt is planned to be issued for Water.
- Principal and interest for wastewater rate supported debt not to exceed 25% of the City’s wastewater revenues by 2014. **Note:** The Wastewater Debt Charges as a percentage of revenues for debt that will be recovered from rates is very low throughout the forecast, capping at 3%.
- **Appendix C** provides additional detail with respect to the debt forecast over the 5 year period.

**Water Debt Outstanding from Rates**



- Under the financing plan, water debt outstanding is eliminated in 2020.

**Wastewater Debt Outstanding**

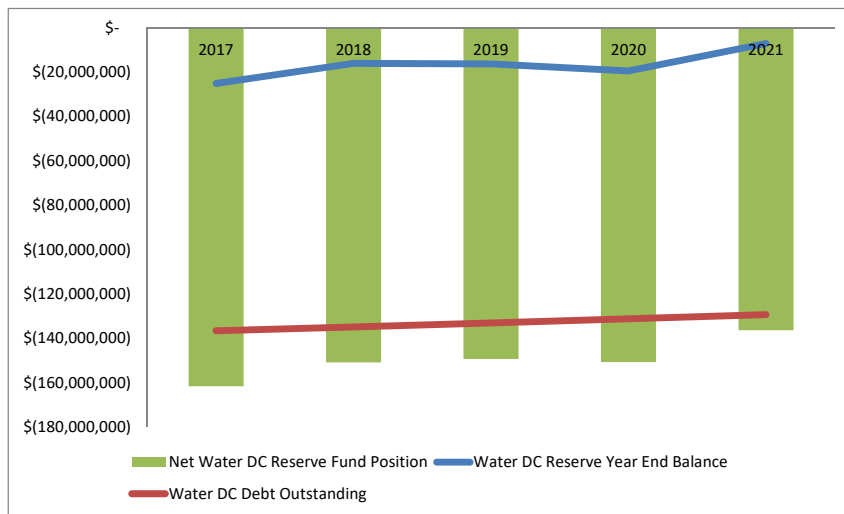


- Debt Outstanding in WW peaks at \$8.5 million in 2019 and then declines.

**Water/WW DC Financial Position**

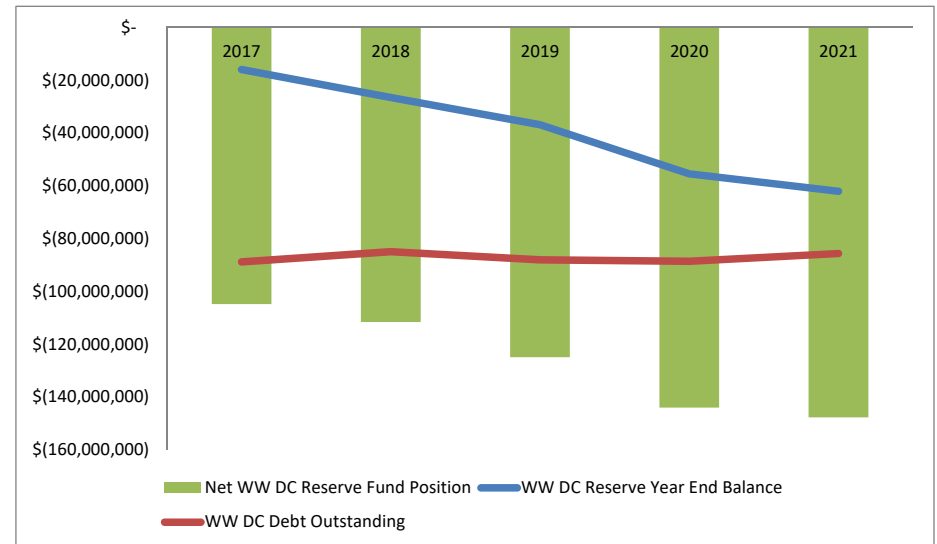
Growth includes capital projects and operating costs related to the economic maturity and expansion within the City. The City’s Guiding Principles with respect to growth were presented in the Tax section on page 17 and these guiding principles also apply to Water and Wastewater.

**Consolidated Water DC Position Forecast**



- There is no planned DC debt issuance over the 5 year period. DC revenues of \$68 million are anticipated over this timeframe. Contributions to the Capital program from DCs is \$16.4 million. There are also repayments made from the DC Reserve to fund DC existing debt in the amount of approximately \$40 million over the next 5 years. Net Water DC Reserve Fund position improves over the forecast period but continues to be in a **negative position of \$136 million in 2021**.

**Consolidated Wastewater DC Position Forecast**



- There is \$22.5 million in DC debt issuance over the 5 year period and there is anticipated DC revenues of \$51 million over this timeframe. Contributions to the Capital program from DCs is \$61.2 million. There are also repayments made from the DC Reserve to fund DC debt in the amount of approximately \$45.5 million over the next 5 years. Net Wastewater DC Reserve Fund position slightly improves over the forecast period but continues to be in a **negative position of \$147.8 million in 2021**.

*Parking Long Range Financial Plan*



Parking Long  
Range Financial  
Plan

Long Range Financial Plan Sources of Data and Assumptions—Parking

Sources of Information

- **2017-2020 Parking Operating Budget**—The forecast is based on the City’s approved 2017 Operating Budget and three year forecast.
- **5 year Capital Budget**—This includes rate supported capital programs based on the approved 2017 Capital Budget as well as the defined sources of financing
- **Financial Policies**—The LRFPP uses the City’s existing financial policies for debt and reserves.
- **Reserves/Reserve Funds**—The forecast is based on year end balances in the Reserves/Reserve Funds as of December 31, 2016. Note that the \$1 million resulting from the sale of parking lands has been credited to this reserve.
- **Borrowing Costs**—The forecast includes existing debt that the City has issued using debt schedules provided by the City.

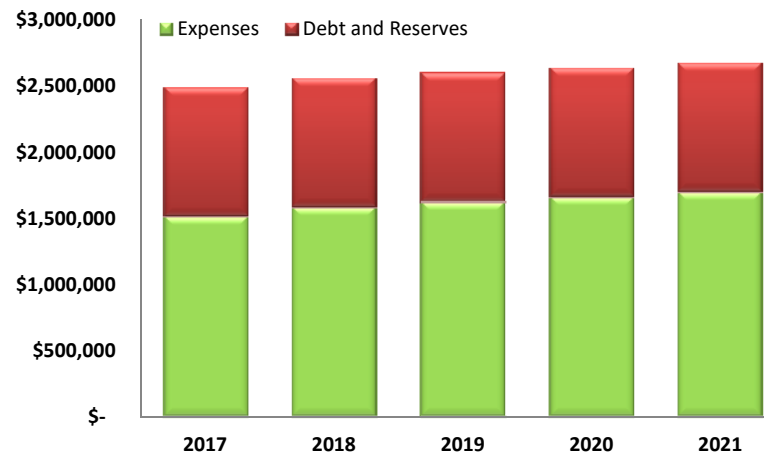
Budget Assumptions

- **Operating Expenditures**—While the 2017-2020 Operating forecast were primarily used, with some adjustments made which will be described in this section of the report, the following assumptions were used for 2021.

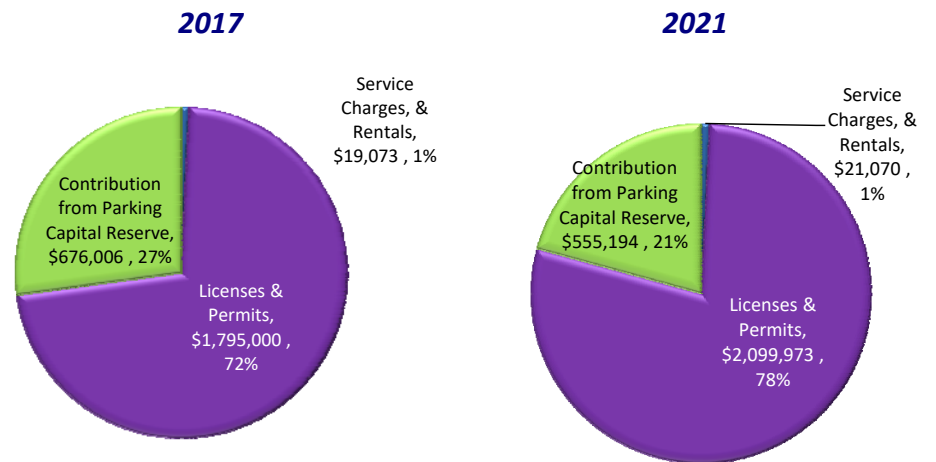
	2021
<b>Expenditures</b>	
Salaries & Wages	2.00%
Benefits	1.50%
Materials & Supplies	1.50%
Utilities & Fuels	2.00%
Equipment & Capital Purchases	2.00%
Consultants & Contracted Services	5.00%
Repairs & Maintenance	2.00%
Rents & Other Expenses	2.00%
Grant Expenses & External Transfers	2.00%

- **Self-Sustaining**—The parking service is intended to be self-sustaining through user pay revenue. Any revenues shortfalls are to be funded from the Parking Reserve.

**Forecast Expenditures—Parking**



**Forecast Operating Revenues—Parking**



- The Parking Gross Expenditures have been graphed above and reflects the major items of expenditure
- The annual increase in gross operating expenditures ranged from 2.3% to 4.7% over the 5 year timeframe.
- Debt charges remain the same throughout the forecast period at \$977,000. This makes up approximately 36% of the total operating expenditures in 2021.

- In 2017, there is a budgeted contribution from the Parking Reserves of \$676,000, comprising 27% of the total revenues. This is forecast to decline to a contribution of \$555,200 in 2021 as a result of increases in forecast licenses and permit revenues.
- The parking service is intended to be self-sustaining through user pay revenue. However, the current operating model for the service has proven unable to generate sufficient revenue to meet the cost of annual operations on an ongoing basis.

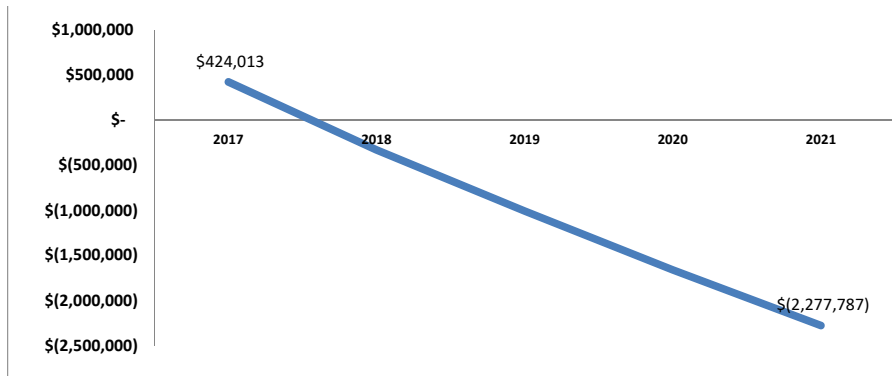
**5 Year Parking-Capital Budget—Type of Project**

Parking Capital	2017	2018	2019	2020	2021	5 Yr Total
Growth	\$ 17,182	\$ -	\$ -	\$ -	\$ -	\$ 17,182
Non-Growth	\$ 77,993	\$ 70,273	\$ 22,854	\$ 22,789	\$ 17,797	\$ 211,706
Total	\$ 95,175	\$ 70,273	\$ 22,854	\$ 22,789	\$ 17,797	\$ 228,889

- It is recommended that the City review its fees and business plans for parking operations to determine if there is an opportunity to operate at full cost recovery.

- The 5 year Parking-Supported Capital Budget is \$228,900, almost exclusively for the repair/replacement of existing assets and is exclusively from the Parking Reserve.

**Parking Reserve Forecast**



- As the revenues from permits and licenses is insufficient to fully fund the Parking Program, contributions from the reserves is required which results in a negative reserve balance forecast in 2021 to be \$2.3 million.

*Summary Long Range Financial Plan*



## 5 Year Forecast Summary

The following summarizes the LRF:

- The City has a number of strengths that will support financial sustainability over the next 5 years, including a strong assessment base, planned future growth, prudent financial policies which have been supported by the City's credit rating agency and low levels of non-growth related debt. Further, new revenue sources will be available over the forecast period through the hydro dividends which can be used to fund community benefit initiatives, reduce debt and fund capital replacement.
- Based on forecast growth in assessment and using the assumptions contained in the financial forecast, the increase to property taxes is in the range of 1.7%-3.3% annually.
- The combined water/wastewater rate revenue requirement change are forecast in the range of 2.5-3.2% annually.
- Affordability for taxpayers and ratepayers continues to be within the City's target which measures the taxes and water/ww costs paid in relation to household income.
- The 5 year Tax Capital Budget is approximately \$785.7 million of which 75% is related to growth projects.
- Over the forecast period, the debt levels are well within the recommended target range for tax and rate supported programs.
- Strategies have been included to gradually grow the Capital Reserves, but there will continue to be an infrastructure funding gap over the next 5 years. This is driven in part by the short term need to utilize the Tax Capital Reserve for new growth as well as the replacement of existing assets and infrastructure.
- The DC growth related debt which is funded from DC revenues reflects a risk to cash flows if growth does not proceed as anticipated. Overall the projected DC reserves are in a negative financial position for tax, water and wastewater.
- The Parking program is not fully funded over the forecast period and requires a review to determine if this service can operate on a self-sustaining basis.
- The City's LRF reflects ongoing need to establish the right balance between delivering services demanded by the existing and growing community and the need to ensure that these services continue to be affordable. On a forward looking basis, the plan also reflects a need to balance maintaining the existing assets in a state of good repair while at the same time financing growth related projects and new strategic initiatives.

---

*Appendices*

---

**Appendix A—Assessment Growth Assumptions**

	2017	2018	2019	2020	2021
New Households	1,320	2,256	2,308	2,340	2,566
% of type					
Single		1,579	1,616	1,638	1,796
Multiple		329	337	342	375
Apartments		347	355	360	395
Single	70.0%	70.0%	70.0%	70.0%	70.0%
Multiple	14.6%	14.6%	14.6%	14.6%	14.6%
Apartments	15.4%	15.4%	15.4%	15.4%	15.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Total square feet addition non-residential	14,830	14,830	14,830	14,830	14,830
Retail	5,530	5,529	5,528	5,527	5,526
Industrial	4,990	4,990	4,990	4,990	4,990
Non-retail	4,310	4,311	4,312	4,313	4,314

source DC Study

## Appendix B—5 Year Capital Financing

	2017	2018	2019	2020	2021	5 yr TOTAL
<b>Tax Financing Plan</b>						
Debt - Tax	\$ (37,221,331)	\$ (27,888,431)	\$ (18,414,819)	\$ (10,693,341)	\$ (2,924,320)	\$ (97,142,243)
Debt - DCs	\$ (2,372,645)	\$ (8,541,678)	\$ (16,312,154)	\$ (10,241,884)	\$ -	\$ (37,468,361)
Non-Growth - Tax Capital Reserves	\$ (39,838,833)	\$ (12,499,769)	\$ (7,553,426)	\$ (12,618,279)	\$ (14,256,645)	\$ (86,766,952)
Growth - Tax Capital Reserves	\$ (22,782,689)	\$ (20,961,639)	\$ (31,045,177)	\$ (28,687,744)	\$ (29,408,072)	\$ (132,885,321)
Non-Growth - Tax Other Reserves	\$ (1,707,881)	\$ (263,873)	\$ (4,494)	\$ (4,143)	\$ (254,279)	\$ (2,234,670)
Growth - Tax Other Reserves	\$ (1,285,082)	\$ (310,000)	\$ -	\$ -	\$ -	\$ (1,595,082)
DC Reserve Funds	\$ (48,626,206)	\$ (40,064,434)	\$ (34,560,314)	\$ (40,765,740)	\$ (64,735,542)	\$ (228,752,235)
Developer Contributions	\$ (13,252,900)	\$ (24,978,164)	\$ (2,987,247)	\$ (42,542,759)	\$ (16,288,133)	\$ (100,049,203)
Other Reserve Funds	\$ (1,638,161)	\$ (270,000)	\$ (270,000)	\$ (270,000)	\$ (270,000)	\$ (2,718,161)
Provincial/Federal Gas Tax	\$ (16,126,767)	\$ (7,270,455)	\$ (10,628,500)	\$ (5,475,510)	\$ (6,814,032)	\$ (46,315,264)
County of Simcoe Reserve	\$ (1,634,918)	\$ (3,361,105)	\$ (2,682,976)	\$ (3,054,488)	\$ (2,071,927)	\$ (12,805,414)
Other Revenues	\$ (13,657,646)	\$ (11,604,196)	\$ (10,259,864)	\$ (1,073,705)	\$ (410,000)	\$ (37,005,411)
<b>Total Financing Tax</b>	<b>\$ (200,145,060)</b>	<b>\$ (158,013,744)</b>	<b>\$ (134,718,970)</b>	<b>\$ (155,427,593)</b>	<b>\$ (137,432,950)</b>	<b>\$ (785,738,317)</b>
<b>Water Financing Plan</b>						
Water Reserves	\$ (12,116,238)	\$ (5,056,043)	\$ (4,559,966)	\$ (5,877,477)	\$ (4,705,189)	\$ (32,314,912)
DC Reserve Funds	\$ (2,468,485)	\$ (3,912,280)	\$ (5,958,950)	\$ (3,581,680)	\$ (461,200)	\$ (16,382,595)
<b>Total Financing</b>	<b>\$ (14,584,723)</b>	<b>\$ (8,968,323)</b>	<b>\$ (10,518,916)</b>	<b>\$ (9,459,157)</b>	<b>\$ (5,166,389)</b>	<b>\$ (48,697,507)</b>
<b>Wastewater Financing Plan</b>						
Wastewater Reserves	\$ (12,677,513)	\$ (12,031,041)	\$ (13,261,240)	\$ (15,466,385)	\$ (10,762,727)	\$ (64,198,906)
DC Reserve Funds	\$ (7,453,695)	\$ (17,402,869)	\$ (10,915,476)	\$ (14,056,272)	\$ (11,371,462)	\$ (61,199,774)
Debt WW	\$ (3,000,000)	\$ (1,775,000)	\$ (9,725,000)	\$ (6,848,000)	\$ (3,900,000)	\$ (25,248,000)
<b>Total Financing</b>	<b>\$ (23,131,208)</b>	<b>\$ (31,208,910)</b>	<b>\$ (33,901,716)</b>	<b>\$ (36,370,657)</b>	<b>\$ (26,034,189)</b>	<b>\$ (150,646,680)</b>

### Appendix C—Debt Forecast

	2017	2018	2019	2020	2021
<b>Population</b>	<b>144,357</b>	<b>149,410</b>	<b>154,580</b>	<b>159,822</b>	<b>165,570</b>
% Change in Population		3.5%	3.5%	3.4%	3.6%
<b>Debt Outstanding Recoverable from Taxes or Rates</b>					
Tax	\$ 86,962,845	\$ 104,958,828	\$ 111,663,636	\$ 110,541,201	\$ 101,434,281
Parking	\$ 6,076,045	\$ 5,386,864	\$ 4,663,711	\$ 3,904,913	\$ 3,108,711
Water	\$ 117,471	\$ 71,973	\$ 24,502	\$ -	\$ -
Wastewater	\$ 7,007,050	\$ 7,440,234	\$ 8,590,166	\$ 8,354,283	\$ 7,742,516
<b>Total Debt Outstanding from Taxes or Rates</b>	<b>\$ 100,163,410</b>	<b>\$ 117,857,899</b>	<b>\$ 124,942,015</b>	<b>\$ 122,800,397</b>	<b>\$ 112,285,507</b>
<b>Debt Outstanding Recoverable from DCs</b>					
Tax	\$ 13,442,140	\$ 20,370,291	\$ 34,263,857	\$ 41,061,253	\$ 37,106,243
Parking	\$ -	\$ -	\$ -	\$ -	\$ -
Water	\$ 136,558,312	\$ 134,869,752	\$ 133,103,762	\$ 131,256,741	\$ 129,324,921
Wastewater	\$ 88,814,795	\$ 85,019,110	\$ 88,077,059	\$ 88,577,438	\$ 85,655,656
<b>Total Debt Outstanding from DCs</b>	<b>\$ 238,815,247</b>	<b>\$ 240,259,153</b>	<b>\$ 255,444,678</b>	<b>\$ 260,895,432</b>	<b>\$ 252,086,819</b>
<b>Total Debt Outstanding</b>					
Tax	\$ 100,404,985	\$ 125,329,120	\$ 145,927,493	\$ 151,602,454	\$ 138,540,523
Parking	\$ 6,076,045	\$ 5,386,864	\$ 4,663,711	\$ 3,904,913	\$ 3,108,711
Water	\$ 136,675,783	\$ 134,941,725	\$ 133,128,263	\$ 131,256,741	\$ 129,324,921
Wastewater	\$ 95,821,844	\$ 92,459,344	\$ 96,667,225	\$ 96,931,722	\$ 93,398,171
<b>Total Debt Outstanding</b>	<b>\$ 338,978,657</b>	<b>\$ 358,117,053</b>	<b>\$ 380,386,692</b>	<b>\$ 383,695,829</b>	<b>\$ 364,372,326</b>

**Appendix C—Debt Financial Forecast Cont'd**

	2017	2018	2019	2020	2021
<b>Population</b>	<b>144,357</b>	<b>149,410</b>	<b>154,580</b>	<b>159,822</b>	<b>165,570</b>
% Change in Population		3.5%	3.5%	3.4%	3.6%
<b>Debt Charges Recoverable from Taxes and Rates</b>					
Debt Charges - Existing - Tax	\$ 8,252,782	\$ 8,252,782	\$ 8,252,782	\$ 6,293,613	\$ 6,293,613
Debt Charges - New - Tax	\$ -	\$ 4,142,673	\$ 6,569,566	\$ 7,919,754	\$ 9,104,038
Debt Charges - Existing - Parking	\$ 976,794	\$ 976,794	\$ 976,794	\$ 976,794	\$ 976,794
Debt Charges - New - Parking	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Charges - Existing - Water	\$ 50,055	\$ 50,055	\$ 50,055	\$ -	\$ -
Debt Charges - New - Water	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Charges - Existing - WasteWater	\$ 613,025	\$ 613,025	\$ 613,025	\$ 569,348	\$ 569,348
Debt Charges - New - WasteWater	\$ -	\$ -	\$ 93,737	\$ 281,210	\$ 321,985
<b>Total Debt Charges from Taxes and Rates</b>	<b>\$ 9,892,657</b>	<b>\$ 14,035,330</b>	<b>\$ 16,555,960</b>	<b>\$ 16,040,720</b>	<b>\$ 17,265,779</b>
<b>Debt Charges Recoverable from DCs</b>					
Debt Charges DC - Existing - Tax	\$ 1,756,501	\$ 1,756,501	\$ 1,756,501	\$ 792,758	\$ 792,758
Debt Charges DC - New - Tax	\$ -	\$ 278,004	\$ 1,278,839	\$ 3,190,145	\$ 4,390,194
Debt Charges DC - Existing - Parking	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Charges DC - New - Parking	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Charges DC - Existing - Water	\$ 7,917,481	\$ 7,917,481	\$ 7,917,481	\$ 7,917,481	\$ 7,917,481
Debt Charges DC - New - Water	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Charges DC - Existing - WasteWater	\$ 8,219,552	\$ 8,219,552	\$ 8,219,552	\$ 8,219,552	\$ 8,219,552
Debt Charges DC - New - WasteWater	\$ -	\$ 351,512	\$ 465,753	\$ 1,417,765	\$ 2,179,375
<b>Total Debt Charges from DCs</b>	<b>\$ 17,893,533</b>	<b>\$ 18,523,050</b>	<b>\$ 19,638,126</b>	<b>\$ 21,537,701</b>	<b>\$ 23,499,359</b>
<b>Total Debt Charges</b>	<b>\$ 27,786,190</b>	<b>\$ 32,558,380</b>	<b>\$ 36,194,085</b>	<b>\$ 37,578,421</b>	<b>\$ 40,765,138</b>



# Report to Finance and Corporate Services Committee

## APPENDIX “C”

### Proposed Financial Policies Framework

#### Financial Policies Framework

#### Key Principles

The goal of the framework is to place the City’s finances on a sound and sustainable footing so that financial, service and infrastructure standards can be met without resorting to unplanned or excessive increases in rates or disruptive cuts in services. The following key principles apply to all decisions:

Principle	Meaning
Respect for the taxpayer	<ul style="list-style-type: none"> <li>▪ Constant search for excellence and value with due regard to economy, efficiency and effectiveness. Programs subject to periodic internal and external review</li> <li>▪ A City that lives within its means with predictable tax levels.</li> <li>▪ Fair and equitable treatment by other orders of government</li> </ul>
Maintain and enhance the City’s financial condition	<ul style="list-style-type: none"> <li>▪ Sufficient revenues are raised to fund operations, while maintaining appropriate levels of debt and equity</li> <li>▪ Liabilities arising out of current operations fully funded by current taxpayers and user ratepayers</li> </ul>
Maintain assets	<ul style="list-style-type: none"> <li>▪ Physical assets are maintained/replaced using models of best economy</li> </ul>
Look ahead and deal with contingencies	<ul style="list-style-type: none"> <li>▪ Financial decisions based on a multi-year forecast</li> <li>▪ Equity (reserves) provides flexibility to respond to economic cycles and manage financial risk</li> <li>▪ Prudence and flexibility built into the budget</li> <li>▪ Deal with financial issues with permanent solutions</li> </ul>
Borrow only for substantial long-term assets at affordable levels	<ul style="list-style-type: none"> <li>▪ Debt used for specified capital programs at levels affordable to taxpayers and user ratepayers</li> <li>▪ Credit ratings sustained and/or improved</li> </ul>
Diversify revenues	<ul style="list-style-type: none"> <li>▪ “User pay” is an operating principle considered for all program areas; recovery rates are research-based</li> <li>▪ Identify new funding sources/financing methods that maintain or enhance the City’s financial sustainability</li> </ul>
Cautious investor	<ul style="list-style-type: none"> <li>▪ Invests cash balances only in high-grade securities and to the extent that does not result in short term borrowing or bank overdraft situations</li> </ul>
Short and long term financial plans respect the financial policies framework	<ul style="list-style-type: none"> <li>▪ Budget directions and the long-range financial plan respect the financial policies framework</li> </ul>



# Report to Finance and Corporate Services Committee

Principle	Meaning
	<ul style="list-style-type: none"><li>▪ Report on financial condition and performance relative to the framework on an annual basis</li></ul>
Pursue innovation	<ul style="list-style-type: none"><li>▪ Continuously find efficiency and quality improvements in the way we manage and deliver services</li></ul>





# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

### Financial Elements

The financial elements are:

- Growth and development
- Strategic initiatives and enhancements
- Debt Management
- Investments
- Operating surplus/deficit
- Budgeting
- Revenues - user fees and service charges
- Revenues - property taxation
- Revenues – non recurring revenues
- Program review
- Financial position
- Reserve/Reserve Fund Management
- Capital Project Financial Control Policy

The Financial Policies Framework is a high level document appropriate for Council and residents who are interested in financial matters. Staff will have more detailed and prescriptive policies (i.e. debt and capital leasing policy, and investment policy) and targets for internal management purposes. In some instances Council will approve these detailed statements of policy.



# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

### **Growth and Development**

---

Growth includes capital projects and operating costs related to the economic maturity and expansion within the City. The Development Charges Act permits the City to fund the eligible percentage of the growth portion of new infrastructure required to support new development from a charge levied at the building permit stage. This infrastructure must be maintained by the City, resulting in the need for an increased operating budget. While new residents bring in more taxation, they also participate in City programs, resulting in increased costs to maintain the same standard of service.

#### **Guiding Principles:**

- Asset acquisitions and construction are subject to a cost and benefit analysis that considers initial and lifecycle expenditures and alternative financing arrangements
- The Development Charge (DC) Bylaw will be used to recover the costs of growth to the full extent permitted by legislation (thereby minimizing the financial burden of the costs of growth on existing residents)
- Growth projects are undertaken as DC's are collected, consistent with the DC Background Study. Certain projects can proceed in advance of collection of DC's subject to the availability of funds/financing
- Other methods will be explored with developers/others to fund growth related projects that are not eligible for development charges
- Official Plan discussion about options to expand the urban boundary should include the projected impact on the operating budget and capital budget as well as an estimate of property tax revenue
- The Capital Contributions Reserve is to be funded by landowner capital contributions collected under the Salem/Hewitt's Memorandum of Understanding signed in 2014, and the reserve will be used to fund the growth related component of ineligible development charge services.

#### **Targets**

- DC's to be applied to the full extent permitted by legislation
- On a consolidated basis, the DC Reserve Funds must maintain a positive balance
- The cost associated with growth included in the operating budget will be identified and compared to new assessment generated by growth with impacts to existing taxpayers quantified where possible.
- The cost associated with development charge discounts will be identified and reported
- The cost impact of growth will be identified and quantified in the operating budget

#### **Accountability**

- Status of Development Charge accounts reported by the Director of Finance annually to Council and the Province
- The cost of growth will be reported as part of the City's Business Plan and Budget
- The Director of Finance will provide the multi-year cash flows for DC Reserve Funds as part of the annual Business Plan.
- The Director of Finance will annually provide a statement regarding compliance with the application of development charges according to the Development Charges Act and Bill 73.

## APPENDIX "C" (Continued)

### **Strategic Initiatives and Enhancements**

---

Strategic Initiatives include capital projects and additional operating requirements that enhance the quality of life in the City, respond to changes in demand for services, enable organizational efficiency, or are required because of senior levels of government regulation. These items are not related to growth nor are they required to maintain existing assets or programs. Council will establish its priorities for strategic initiatives and enhancements at the beginning of its term.

#### **Guiding Principles**

- Capital strategic initiatives will be advanced based on their priority as established by Council over a multi-year timeframe
- Dedicated sources of funding, such as the Community Benefit Reserve or funding from other levels of government, are to be considered as the first source of financing for strategic initiatives (relative fairness in funding from other levels of government will be sought)
- Council will assess asset management status and the sustainability of City finances when considering strategic initiatives and enhancements
- Identification and analysis of the impact of future operating cost should be completed
- Strategic initiatives and enhancements are highlighted in budget documents

#### **Targets**

- No target is set for strategic initiatives and enhancements, other than the general financial limitations.

#### **Accountability**

- Strategic initiatives and their sources of funding to be specifically identified in the operating and capital budget

## APPENDIX "C" (Continued)

### Debt

---

Debt includes long-term debt and capital lease obligations. As stipulated in the Municipal Act, long-term debt can only be used to finance capital assets. The term of the debt must be equal to or less than the life of the asset subject to limitations imposed under the Municipal Act. The Province limits the total amount of debt that a municipality can issue to 25 per cent of its own-source revenues (all revenue received less Federal and Provincial Grants). The City issues debt that is repaid from a variety of sources including water, wastewater and parking user rate, development charges, provincial/federal gas tax and property taxation and local improvements.

#### Guiding Principles

- Long-term debt to be used only for the purchase, construction, or replacement of assets (excluding vehicles, machinery and equipment) with long useful lives that provide a benefit for future taxpayers
- The term of the debt repayment must match or be less than the expected useful life of the asset.
- Debentures should not be issued if internal funds are available at a lower cost i.e. the interest rate on borrowed DC reserves which must be equivalent to the rate earned if the funds were invested, is less than the cost of borrowing
- Short-term borrowing (e.g. line of credit, bank overdraft) to be used where feasible if cash flow is forthcoming or as an interim measure prior to issuance of long-term debt
- The overall measure of the affordability of debt is the burden of principal and interest relative to the City's own source revenue (i.e. not including government grants)
- The total amount of debt issued must not compromise the City's credit rating
- Debt maturities should be staggered when possible, so that interest rates are contracted at various times and an appropriate balance is maintained between cash flow constraints and the carrying cost of debt.
- Before borrowing for growth related capital projects all developer related advanced financing arrangements that are in accordance with the Development Charges legislation must be exhausted
- Where debt is issued on behalf of development charges, the repayments to be recovered from future development charge revenues, including interest, are to be tracked separately

#### Targets

- Principal and interest must not exceed 20% of own source revenues
- When new debt is issued, 50% of the annual debt charges must be included in the current year budget.
- Short-term borrowing not be used for longer than three years for any given construction project or asset acquisition.
- The total debt outstanding will be less than 120% of own source revenues, in accordance with the credit rating agency's suggested target.
- DC supported debt outstanding not to exceed 25% of the DC eligible costs for the forecast period of the latest DC Background Study



# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

### Accountability

- Council authorizes new debt financing with the annual capital budget or through subsequent amendments as approved by Council.
- Director of Finance determines short term borrowing needs and reports to Council annually on any balance and its use.
- The Director of Finance will seek Council approval on new debt prior to works being formally undertaken and will advise Council of issuance of debt when it is being undertaken.
- The Director of Finance will include in the Annual Staff Report associated with the Business Plan and Budget, a review of debt against the targets.
- The Director of Finance will report to Council on the implications of financing decisions affecting the City's Annual Repayment Limit as required under the Municipal Act.

## APPENDIX "C" (Continued)

### Investments

---

Municipalities are faced with restrictions on the type and duration of investments it may make of any funds not immediately required to meet current operating or capital needs. These funds may include any reserve funds, proceeds from debentures or other monies not immediately required for the ongoing operations of the City but any earnings must be credited to each fund in proportion to the amount invested from it.

#### Guiding Principles

- Investments must only be made from surplus cash not immediately required to satisfy operational or capital needs.
- Investments cannot be made such that the City is placed in an overdraft or borrowing situation, either short-term or long-term.
- Sufficient cash flow analysis and projection must be undertaken to ensure that maturity dates of investments meet current and future obligations as they arise
- Investment will be primarily in highly liquid marketable securities with high credit ratings
- Must not be limited to any one specific issuer or sector to avoid over concentration and reduce risk

#### Targets

- Average rate of return on invested funds to exceed bank account rate of interest by a minimum 1.0%

#### Accountability

- The Director of Finance will provide an annual report with a schedule of investments at year-end and the rate of return for investments maturing during the year.



# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

### Operating Surplus/Deficit

---

Ontario municipalities may not budget an operating deficit. Any operating surplus in any given year is allocated to reserves to ensure target levels are achieved with any amounts above the defined maximum subject to Council direction for disposition. Operating deficits, if not funded from other sources within the year, become the first item of taxation in the subsequent year. Staff report quarterly to Council on the status of spending against budget and provide forecasts at the third quarter, identifying any actions that may be required to eliminate a potential deficit.

#### Guiding Principles

- An operating deficit is funded by the Tax Rate Stabilization Reserve,
- Surpluses are allocated to reserves in accordance with the Reserve/Reserve Fund Management Policy
- Notwithstanding the Reserve/Reserve Fund Management Policy, surpluses not required to meet the rate stabilization reserve balance target will be allocated to the Capital Reserves following any Council approved appropriations.
- Department staff to respect and manage a global budget (higher than expected spending in one area is first offset by savings in another)

#### Targets

- Forecast of year end results provided to Council with the third quarterly report

#### Accountability

- The disposition of a prior year surplus or deficit is reported annually to Council by the Director of Finance
- Director of Finance to issue quarterly reports on finances with comparisons of actual year to budget and previous year

## APPENDIX "C" (Continued)

### Budgeting

---

Council is required to approve a balanced budget each calendar year that must be finalized and approved before final property tax bills can be issued. Included in the operating budget is a forecast for the three following budget years. Assumptions and their associated risks are disclosed in the budget. Council also approves a capital budget that identifies the projects that will be undertaken during the year, how they will be funded, a forecast of projects that will proceed within the term of Council and a 10-year outlook. Capital and operating spending against budget is reported quarterly with adjustments identified throughout the year.

#### Guiding Principles

- The budget utilizes an outcome based budgeting format and reflects the City's business plan
- Financing plans for the City's budget reflect the City's long term financial plan and will not produce material variances to "base case" targets.
- The long term financial plan will take into account long term growth related impacts, new and capital infrastructure maintenance requirements and the operating costs relating to additional capital infrastructure.
- Respect for the taxpayer through a commitment to continuous improvement and a high regard for economy, efficiency and effectiveness
- Budget guidelines will incorporate relevant economic factors and be specific enough to reflect the financial impact of continuing existing services i.e. impacts arising from new labour agreements, anticipated increases in commodity pricing
- Recurring expenditures are to be financed from recurring sources of revenue
- One-time, non-recurring expenditures can be financed, if necessary, from Tax Rate Stabilization Reserves
- The operating budget is to be segmented by:
  - Water, Wastewater and Parking Rate supported;
  - Tax rate supported
- For each budget, Council will consider a range of program eliminations, reductions, efficiencies and enhancements
- If program costs must be constrained, then costs savings will be identified with a focus on the highest savings and the least impact to service levels. All vacant positions should undergo an evaluation to determine if the position can be permanently eliminated through internal restructuring
- Capital budget preparation will consider Council's strategic goals, use a risk based approach to project selection identifying the City's most critical needs, and consider the master plans, infrastructure implementation plans and availability of financial and staff resources.
- The budget will be presented on a functional basis with operating and capital components shown separately
- Any contributions required from the tax operating budget to fund capital requirements will be budgeted as a transfer to the Tax Capital Reserve
- Input from all stakeholders, including the public should be encouraged during the budget preparation cycle





# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

- Key service usage and performance statistics will be maintained and benchmarked where possible to highlight specific service areas where an increased level of funding and support may be required to maintain acceptable service levels and to identify opportunities for improvement.

### Targets

- Taxes levied for municipal purposes, based on an average dwelling value, not to exceed 4% of average household income.
- Average water and wastewater costs as a percentage of household income not to exceed 2.5%. Financial condition measures of flexibility, vulnerability and sustainability in the Long Range Financial Plan will be used to ensure the long term financial health and sustainability of the City as recommended by the Public Sector Accounting Board (PSAB)
- Quantify growth related revenues and expenditures and identify funding shortfalls where possible
- The Long Range Financial Plan should be updated at least every four years, preferably at each new Council

### Accountability

- The Director of Finance to comment on spending relative to budget and the prior year in the quarterly reports
- The Director of Finance to comment on the progress of all authorized capital projects including an assessment of approximate completion.
- Budget documents and the Annual Staff Report associated with the Business Plan and Budget to reveal extent of Council control over various categories of expenses
- The Annual Staff Report associated with the Business Plan and Budget will include an analysis of budget to actual (operating and capital) as well as explanations for the differences

## APPENDIX "C" (Continued)

### **Revenues – User fees and service charges**

---

Funding of municipal services that benefit defined users shall be accomplished by collecting fees and service charges that are at or approaching full cost recovery.

#### **Guiding Principles**

- User fees should be used as a full cost recovery mechanism for services that are provided for the benefit of individuals rather than for the community as a whole and particularly where the use of the municipal service is discretionary to the user.
- Objective criteria is used to determine where user fees apply, and for the range of fees to be applied
- Recovery rates for services consider:
  - Operating and capital costs including an allocation of corporate overhead;
  - Incorporation of an asset renewal or replacement charge
  - Extent of private, commercial and community benefit (note: community benefit includes environmental considerations)
  - Use of service by non-residents (not including tourists);
  - Rates for commercially available services
  - Impact of changing user fees on demand
- Service fees implemented where individual beneficiaries of the service can be identified
- Fees subject to periodic study and review
- Programs to mitigate the impact of fees on specific users should be adjusted in accordance with fees
- Changes in user fees to be transparent and to occur in conjunction with annual operating budget process and Council deliberations.

#### **Targets**

- Capital and operating costs for water, wastewater and parking operations to be 100 per cent recovered by fees (includes associated development charges)
- All other services that have user fees will recover a percentage of cost that reflects Council's decisions about an appropriate level of cost recovery after considering the extent to which:
  - A service provides a private or commercial benefit,
  - A service is routinely supplied to non-residents, or
  - A service provides a community or common good
- User fees and service charges will be updated annually and reported as part of the City's Business Plan and Budget

#### **Accountability**

- Report on user fees and recoveries to be published on an annual basis by the Director of Finance

## APPENDIX "C" (Continued)

### **Revenues – Property taxation**

---

Property taxes are calculated utilizing assessment of property values provided by the Municipal Property Assessment Corporation (MPAC) on an annual basis multiplied by a rate determined for each property class in effect (e.g. residential, commercial, industrial) sufficient to raise required revenues to support planned capital and operating expenditures net of all other revenue sources including payments made in lieu of taxes by senior governments and their agencies.

#### **Guiding Principles:**

- Tax levels adequate to fund/protect the City's:
  - Financial condition;
  - Investment in infrastructure;
  - On-going expenditures (including those of local Boards) ; and
  - Liabilities incurred
- Affordability is assessed by:
  - the overall level of revenue required to finance the City's needs relative to other comparable Ontario cities
  - the typical cost of property taxes as a percentage of household income
- To the extent possible, the burden of property taxes is to be reduced by diversifying revenue sources, such as user fees
- Adequate consideration given to tax relief programs for disabled and senior citizens to be included where feasible and in accordance with provincial legislation
- Capping protection for properties not being taxed at full current value assessment be funded from properties in the same tax class that would otherwise have a tax decrease by clawing back sufficient amounts such that the impact to residential taxpayer is eliminated or minimized (i.e. industrial pays for industrial, commercial pays for commercial, multi-residential pays for multi-residential).

#### **Targets**

- Council will establish directions for staff at the beginning of the budget development process that generally describe, among other details, the level of taxation it deems to be acceptable
- Tax increases for all municipal services will be based on the requirements to maintain existing levels of services and proposed service level changes as well as long range financial planning strategies. Boards and agencies will follow the City's budget directions, subject to further information from them that supports a different increase

#### **Accountability**

- Municipal tax bills will provide details about the components of City spending and changes in tax levels from previous periods
- Special levies will be identified separately
- The Director of Finance will comment in the City's Business Plan and Budget on the City's financial condition

## APPENDIX "C" (Continued)

### **Revenues – Non-recurring Revenues**

---

From time to time, senior governments may provide funding to municipalities that is for a specified purpose (like an infrastructure project) or that is available only for a specified period (usually one year). Similarly, a municipality may receive a financial gain when it sells an asset or enjoy a "windfall" as a result of some unique transactions or events. The nature of these nonrecurring revenues can vary significantly, but overall a municipality has little control over the amount, timing or conditions associated with receiving them. Careful attention needs to be paid to ensure ongoing government operations don't rely on these types of revenues for support, or shortfalls will inevitably occur that put upward pressure on property taxes and/or user fees.

#### **Guiding Principles:**

- Non-recurring revenues will only be used for non-recurring expenditures or to replenish any reserve or reserve fund. Nonrecurring expenditures include studies, investment in tangible capital assets, land and other one-time expenditures.
- The City will not budget for non-recurring revenues except in the case of capital projects where there is reasonable expectation that the grant revenue will be realized and in these instances Council will be kept informed of the status of the grant.
- The availability of funding from senior governments must be assessed in the context of the long-term financial implications associated with receiving it
- Reimbursements, grants or other similar payment for the purchase/construction of tangible capital assets will first be used to reduce the amount of debt financing required or, if that is not possible, be placed in a reserve to begin

#### **Targets**

- Non-recurring revenues will only be used to fund the purchase or construction of tangible capital assets, subject to an analysis of the ongoing cost implications of doing so that indicates the assets can be properly maintained and operated
- Proceeds from the sale of assets will be placed in an appropriate reserve

#### **Accountability**

- The Director of Finance will report the level and source of non-recurring revenues received each year in the City's Annual Staff Report associated with the Business Plan and Budget



# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

### **Program and Services Review**

---

All programs and services are subject to periodic internal and external review. Staff report to Council on performance against pre-determined standards on a quarterly basis.

#### **Guiding Principles**

- Each municipal department will prepare annual business plans prior to developing their budget that clearly describe the relationship between resources, services and service levels
- Executive Management Team will appear before General Committee once every year at budget approval stage to:
  - Review established service-level standards
  - Review department performance with respect to established outcome-based performance measures
- All departments are subject to periodic external and/or internal program review
- Investments in government business enterprises are subject to periodic review to consider public policy mandate and performance
- Barrie is committed to outcome based performance management

#### **Targets**

- Every department will produce data that facilitates a consistent understanding among Council, staff and interested members of the public about the use of resources included in the base operating budget
- Unit cost data will be developed to assess the continued sufficiency and appropriateness of base budget levels, identify productivity improvements and cost saving opportunities
- Managers' individual performance appraisals will include an assessment of their ability to use data for identifying, managing and reporting information about the resources under their control

#### **Accountability**

- Quarterly performance reporting (excluding 1Q) to be produced incorporating data from all departments
- All Directors to produce Performance Plans in the City's annual Business Plan and Budget that are supported by departmental work plans and follow corporate standards



# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

### **Reserve/Reserve Fund Management**

---

Reserves and reserves funds are a critical component of the City's long range financial planning. They are used to provide tax rate and user rate stability by smoothing the effect of variable or unanticipated expenditures or revenues, to provide funding for one time or short term requirements, to provide for future replacement or acquisition of capital assets and to provide the flexibility to manage debt within the City's Debt Policy.

A reserve is established by Council for a specific purpose but the funds do not relate to any particular asset and there is no requirement for the reserves to earn interest. Reserves are created either through a planned contribution established in the budget process or through the transfer of unspent funds at the end of a year. Any transfer of unspent funds at year end must be authorized by Council. A reserve fund is similar to a reserve except that the reserve fund assets are segregated and restricted to meet the purpose of the reserve fund. There are two types of reserve funds; obligatory and discretionary reserve funds. Obligatory reserve funds must be created whenever a statute requires revenue received for special purposes be segregated from the general revenues of the municipality i.e. Development Charges. Discretionary reserve funds are established through a by-law of Council for a specific purpose. Investment income generated by reserve funds must be accumulated in the reserve fund and accounted for as part of it.

#### **Guiding Principles**

- The Capital Reserves are to be used for the replacement, renewal or rehabilitation of capital assets. The Rate Stabilization Reserves are to be utilized to provide rate stability by smoothing the effect of variable or unanticipated expenditures or revenues and to provide funding for one time or short term requirements.
- The City determines future capital reserve requirements based on the stock of its tangible capital assets, condition assessment, lifecycle costing and a calculation of its asset consumption ratio.
- All reserves and reserve funds will be supported by a financial plan identifying contribution sources and projected disbursements required to meet their planned future obligations, which are reviewed annually in conjunction with the Business Plan process.

#### **Targets**

- The annual contribution from the operating budget to the Landfill Closure Reserve be increased by 10% until the estimated landfill closure date of 2035.
- The year-end balance in the Community Benefit Reserve will not exceed \$10 million.
- Annual tax and user rate supported operating surpluses be allocated by transferring 30% to the Tax Rate Stabilization Reserve and 70% to the Tax Capital Reserve.
- A target range of 10%-15% of total own source revenues be maintained in the Tax Rate, Water and Wastewater Stabilization Reserves.
- Maintain a minimum threshold cash balance in the Tax Capital Reserves, equivalent to one year's worth of the 5 year average of the non-growth tax-supported capital expenditure requirements. This ensures that one year of tax based funding is available in reserves to maintain liquidity.
- A development charge adequacy test will be prepared and presented to Council and if the adequacy test shows that DC rates are more than 20% below the rate needed to fully fund eligible expenditures, a new Development Charges Study be prepared.



# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

- Reserve funds will be maintained according to any applicable legislation i.e. Development Charges Act.
- Spending from any Program Specific Reserves/Reserve Funds in any one year not to exceed the uncommitted balance in the reserve fund at the end of the preceding year.

### Accountability

- The Director of Finance will report annually on the status of the City's reserves and reserve funds and the future demands associated with each.



# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

### Capital Project Financial Control Policy

---

Council is required to approve a Capital Plan each year which includes the Capital Budget and the Capital Forecast. The Capital Budget includes capital projects approved for expenditure with related funding sources. The Capital Budget may include Capital Projects or Project Phases that extend over multiple years. In these instances a Capital Spending Plan will also be submitted for approval which represents the annual cash flow projection for each Capital Project. The Capital Forecast represents the projection of expenditures and financing sources that are not included in the Capital Budget but are planned over the next nine years. A Capital Project Status Staff Report will be prepared semi-annually to report on the status of projects and address any additional funding adjustments required to complete the approved projects. Quarterly financial variance reports will report spending plan variances.

#### Guiding Principles

- The current, approved Capital Budget includes all of the capital projects eligible for funding.
- Except for Extraordinary Circumstance purchases made in accordance with the provisions of the Procurement By-law, work that is not part of an approved capital project budget may not proceed without prior approval from Council.
- Holding Accounts will be established to serve as a funding source when a capital project's costs exceed its budget by no more than the lesser of 10% of the capital project's approved budget or \$500,000. Previous use of the holding accounts to fund a project's excess must be added to current use of the holding accounts to calculate the limit of excess over budget in aggregate.
- Aggregate funding requirements that exceed the lesser of 10% of the capital project's approved budget or \$500,000 require Council approval.
- The Finance Department has responsibility for managing Holding Accounts. A Holding Account is funded, up to a prescribed limit, via savings from other capital projects.
- Expenditures for a Capital Project may be incurred or committed only up to the limit approved by Council, subject to the materiality threshold described in this policy.
- A Capital Project will be closed if any of the following criteria are met:
  - Project completed at or under budget
  - Project deleted or deferred in order to finance a new project or to fund over-expenditures in other projects and such deletion or deferral has been approved by Council
  - Project completed over budget and a report recommending a funding source for the over-expenditure has been approved by Council
  - There has been no activity for 18 months
  - There is a substantive change in the nature or scope of the project compared to what was originally approved by Council
- When an incomplete or inactive capital project has been closed funding will be returned to source.

#### Targets

- Completion of Capital Project in accordance with the Capital Plan
- Completion of Capital Projects within 10% or \$500,000 of the Capital Project Budget, whichever is lesser
- Capital Project variances within 10% or \$500,000 (whichever is lesser) are to be funded from Holding Accounts established by project savings from other Capital Projects.





# Report to Finance and Corporate Services Committee

## APPENDIX "C" (Continued)

- Holding accounts and respective target balances will be maintained as follows and reviewed annually:
  - Tax Rate Holding Account \$3,000,000
  - Water Rate Holding Account \$1,000,000
  - Wastewater Rate Holding Account \$1,000,000
  - Parking Rate Holding Account \$ 100,000

### Accountability

- The quarterly variance reports prepared for Council will provide the status of the Capital Spending Plan.
- Staff assigned responsibility for managing capital projects must monitor progress and costs to ensure anticipated over-expenditures are reported to the responsible Department Head as soon as the potential for over-expenditure is identified.
- A semi-annual report will be prepared for Council to:
  - Identify Capital Project Status
  - Report on any anticipated over expenditures that either exceed the materiality threshold or for which insufficient funding exists in the appropriate Holding Account with related financing adjustment recommendations
  - Report on the deferral or closure of projects to either finance new projects or to fund over-expenditures in other projects
  - Address substantive changes in the nature or scope of a Capital Project
  - Recommend the closure of capital accounts and recommend the treatment of project savings and to recommend financing plans for over-expenditures exceeding the materiality threshold.



# Report to Finance and Corporate Services Committee

## APPENDIX "D"

### Tax Capital Reserve Contribution – Current Practice vs. Proposed Policy

Current Practice	Proposed Policy
The prior year contribution to the tax capital reserve (TCR) shall form the base of the current year contribution	No change
<p>In addition to the base contribution, the following additions are made:</p> <p>An Annual Dedicated Infrastructure Renewal Fund contribution equivalent to 1% tax rate increase for average residential tax payer</p> <p style="text-align: center;">+</p> <p>The amount calculated as the 1st year amortization on assets brought in to service less 1st amortization of assets taken out of service and the proportionate share of amortization associated with tax funded debt</p> <p style="text-align: center;">+</p> <p>The annual amount that is no longer required from the operating budget in the year of maturity for tax funded debt.</p>	<p>Ramp-up Dedicated Infrastructure Renewal Fund contribution to 1.7% tax rate increase for average residential tax payer over a minimum of 3 years beginning with the 2019 Budget</p>
Other specified contributions	No change



# Report to Finance and Corporate Services Committee

## APPENDIX "E"

### LRFP Recommendations and Staff's Recommended Approach to addressing

Element	LRFP Recommendation	Staff Recommended Approach
<b>Reserve/Reserve Fund Management</b>	Maintain a minimum threshold cash balance in the Tax Capital Reserves, equivalent to one year's worth of the 5 year average of the non-growth tax-supported capital expenditure requirements. This ensures that one year of tax based funding is available in reserves to maintain liquidity.	Add as a target in Financial Policies Framework
	Increase the contribution to the Tax Capital Reserve with a 1.7% tax rate increase in 2018.	Dedicated Infrastructure Renewal Fund (DIRF) contribution phased in to an annual 1.7% tax rate increase starting in 2019, to be fully realized over a minimum of 3 years.
	A target range of 10%-15% of total own source revenues be maintained in the Tax Rate Stabilization Reserve.	Add as a target in Financial Policies Framework
	A target range of 10%-15% of total own source revenues to be maintained in the Water and Wastewater Rate Stabilization Reserves.	Add as a target in Financial Policies Framework
	Continue to monitor Corporate Reserves and undertake actuarial valuations to establish funding requirements.	No additional action is required
	That a financial plan for all Program Specific Reserves/Reserve Funds be prepared to ensure that there are adequate funds to sustain the program requirements. The plans should be reviewed annually in conjunction with the budget process.	Seek to enhance the current process as part of the overall Business Plan process
	That spending from any Program Specific Reserves/Reserve Funds in any one year not exceed the uncommitted balance in the reserve fund at the end of the preceding year.	Add as a target in Financial Policies Framework



# Report to Finance and Corporate Services Committee

## APPENDIX "E" (Continued)

	That a development charge adequacy test be prepared and presented to Council and if the adequacy test shows that DC rates are more than 20% below the rate needed to fully fund eligible expenditures, a new Development Charges Study be prepared.	Add as a target in Financial Policies Framework
<b>Growth and Development</b>	That on a consolidated basis, the DC Reserve Funds must maintain a positive balance.	Add as a target in Financial Policies Framework
<b>Debt Management</b>	Total debt outstanding will be less than 120% of own source revenues, in accordance with the credit rating agency's suggested target.	Add as a target in Financial Policies Framework
	DC supported debt outstanding not to exceed 25% of the DC eligible costs for the forecast period of the latest DC Background Study.	Add as a target in Financial Policies Framework
<b>Financial Position</b>	That the City continue monitoring its financial position, taking into consideration account forecast changes that would impact assets and liabilities.	No additional action is required