Council Report 2017-85

Title: 2018 Draft Budget and 10 Year Financial Plan

Prepared by: Glenn Dees, Director of Finance/Treasurer

Reviewed by: Jennifer Moore, Chief Administrative Officer

Approved by: Jennifer Moore, Chief Administrative Officer

Strategic Plan: The proposed budget is fully aligned with all four strategic pillars identified in the County's strategic plan.

Council Date: December 13, 2017

Recommendation

"Now Therefore Be it Resolved That the 2018 Draft Budget and 10 Year Financial Plan Report be received for information."

Purpose

This report provides an overview of the 2018 budget. It also summarizes a 10 year long term financial forecast, key financial trends including reserve, and debt projections.

Background

Budget Process and Schedule

The County budget process commenced this year on June 21st subsequent to staff receiving Council approval for a target base levy increase of 2.0% for the 2018 budget year and within the long term financial planning model. In addition to the base levy, the dedicated infrastructure levy will result in a further overall increase to the levy of 0.3%. The approval for a target levy increase provided Finance staff the direction to commence drafting budgets with all departments based on a known expectation from Council. Kicking off the budgetary cycle in June facilitates enough time for a December presentation with sufficient opportunities for review and discussion among staff, management and Council as well as providing for public consultation. The timing will allow early tendering of projects and purchases and ideally provide more advantageous pricing. This also allows 2018 initiatives to move forward with funding in place and demonstrates ongoing improvements in the budget process and long term planning. The 2018 draft budget proposes an annual increase of 1.91% to the base levy which is slightly less than the 2.0% target. Staff are recommending that the savings realized from the proposed 2018 budget increase vs the target be redirected into the dedicated infrastructure levy recognizing identified needs under the long-term capital plan. The 2019-2027 long term financial plan is built on annual levy increases of 2.0% after assessment growth. This is the 8th consecutive year with a stable levy increase after more than a decade of volatility in the County tax rates. This year's draft budget process continued to focus on long term financial needs and challenges within the model as opposed to just the current budget year in isolation. The long term model also ensures stable modest increases over the long term.

Beginning in 2012, staff developed a 10 year, long term financial plan for each County department under the Long Term Financial Planning Framework. The long term plan includes operating revenues and expenditures as well as capital. It projects levy impacts as well as the changes to debt levels and reserves over that 10 year period. This is becoming common practice among municipalities with many going as far as formally adopting multi-year budgets aligned with the term of Council. The 2018 budget includes an additional nine years of projections through 2027. Staff revise the forecast each year to include changes in Provincial funding, refining estimates based on new information, prioritizing projects, adding the details of recently approved master plans, and using reserves to achieve a stable annual levy increase. This year the long term plan continues to specifically earmark levy dollars dedicated to capital throughout the 10 years as was introduced and adopted within the model commencing with the 2016 budget. Council provided staff with direction to target a dedicated infrastructure levy based on 2.0% of the 2017 capital budget with a 0.5% escalation factor in each year of the 2019-2027 long term forecast based on the prior year capital budget.

The draft 2018 budget and long term financial plan is aligned with the County's Strategic Plan 2015 - 2019, approved September 16, 2015. The existing strategic plan identifies four strategic pillars:

1. Economic Innovation and Prosperity
2. Sustainable Infrastructure and Services
3. Thriving & Inclusive Communities
4. Organizational Excellence

The draft budget funds the continuation of all current programs and services although some specific programs will see minor modifications that are the result of changes to Provincial subsidies and/or program guidelines and legislation as well as a continual drive to ensure the best value for the programs delivered by the County. It also identifies financial resources to advance initiatives identified in the strategic plan such as plans to promote economic innovation and prosperity. Each department has prepared business plans and issue papers that clearly map their plans and projects to the corporate strategic plan. The detailed business plans will be available to the public on the County website, or in printed copy upon request, in December 2017 immediately following the budget presentation to Council.

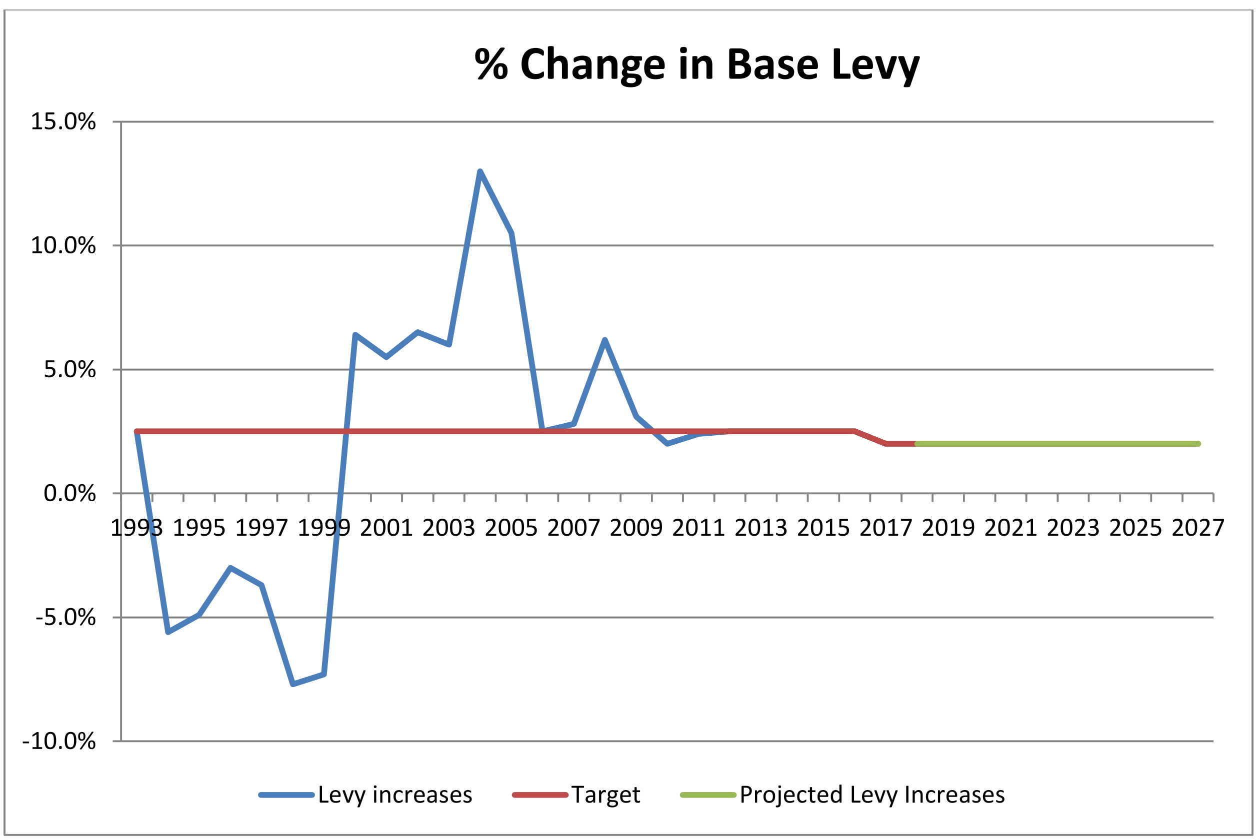
Preliminary draft budgets were developed by each division in July/August 2017 and then reviewed with Department Coordinators (2 Councillors) at the monthly meetings in September and October. The 2018 budget schedule included facilitation of a public information open house. Northumberland County staff held a Financial Planning Framework Open House on

July 27, 2017. The intent of the open house was to educate and engage the public on the County's services and budgetary processes. At the open house event a survey/feedback form was provided to attendees and was subsequently posted on the County website allowing for responses up until August 23rd. Results were reported to Council in September. The budget was consolidated by the Finance department who worked closely with each division and Department Coordinators to make adjustments, find efficiencies and meet the general targets set in the previously endorsed 10 year plan. Staff have worked to bring the draft budget to Council as early as possible to ensure 2018 projects can be started early in the new year.

Long Term Financial Planning Framework

Recognizing needs primarily under the Sustainable Infrastructure and Services strategic pillar, County staff annually prepare a ten year financial planning model in accordance with methodologies derived under an adopted Long Term Financial Planning Framework (LTFPF). The County has adopted a financial strategy within this framework that is focused on long term needs and challenges as opposed to focusing solely on the current budget year levy impact. In order to ensure consistent and modest levy increases over time, this framework adopts a philosophy of establishing a targeted annual increase within the current year budget and the nine year forecast.

In prior years the County experienced significant volatility in annual levy decreases/increases. Since adopting the LTFPF, the County has realized stable annual levy increases and this approach carries forward within the long term financial model as displayed below:



This chart helps to display how each year is interlinked and how decisions focusing on the short term can impact on future years. In the '90's the County experienced levy rate reductions and then in subsequent years implemented significant increases trying to rebuild operating and capital budgets particularly in light of Provincial downloads. In conjunction with this, reserves were depleted as a means for financing routine capital items and in some instances projects were completed and recorded as unfinanced capital within the Financial Statements. Working capital was minimal and the operating line of credit was frequently utilized to maintain cash flow requirements.

Prudent long term focused planning under the existing framework allows for improved financial positioning by building upon reserves. Minimization of debt servicing costs is achieved with the issuing of debt for only larger, non-routine capital projects. Striving towards a more sustainable financial model, escalation of annual capital budgets is a key priority.

The County continues to work towards addressing the infrastructure deficit. Much of the infrastructure the County owns was downloaded from the Province in the form of roads, bridges and social housing. In many instances, this infrastructure is nearing the end of useful life and is inefficient and costly to operate and maintain. The current asset management plan indicates that the County should be spending $27.4M per annum on infrastructure; however, the long term model anticipates spending significantly below this threshold even though major capital projects such as the GPL rebuild and Trent River Crossing are included within the current financial plan. In 2016, the County introduced a dedicated infrastructure levy. Even with the implementation of this special purpose levy, infrastructure spending is only marginally gaining ground relative to the asset management plan.

The index used for the base levy increase in the current model is based on 2.0% as approved by Council. Prior to the 2017 budget, prior models had been assumed at a 2.5%. When establishing the index it is important that this be aligned with actual economic factors that impact on municipal spending and are representative of the types of expenditures incurred. Under the LTFPF the index utilized in the model is reviewed annually. The Consumer Price Index (CPI) is a measure that is often suggested for municipal budgeting and forecasting. However, this is not necessarily indicative of the composition of spending incurred by most municipalities depending upon geographic location and the types of services provided. A significant proportion of County expenditures are related to capital and external services which can be more accurately predicted based on Construction Price Indexes. These indexes reflect the changes in costs for construction materials and skilled and unskilled labour. Also of significant proportions within the composition of costs for the County are salaries/wages and benefits, utilities and insurance. The weighting of these expenditures as comprised within the overall County budget must be considered in deriving a realistic targeted increase under the LTFPF.

Levy increases that are set below a reasonable index level in the long term model ultimately result in deferral of capital items, increases to the infrastructure deficit and a further aged asset base leading to increased maintenance costs. Sustained periods of time with insufficient levy increases will likely negatively impact on future years' service level standards and ultimately limit future flexibility for financing larger projects resulting in increased debt servicing costs.

The LTFPF provides for ease of budgeting in that subsequent budget years are already populated in detail with capital items identified. The further out in the forecast the greater the level of uncertainty with assumptions that are established at a high level for items such as projected capital costs, interest rates, etc. However, in the short term, assumptions and capital items are more accurately identified and provide for an “off the shelf” budget for the subsequent budget year.

Consultations

To provide for enhanced public engagement and input into the County’s annual budget and long-term financial plan, staff facilitated a public information open house as formally noted in the schedule for the 2018 budgetary cycle. The event was advertised via social media, the County website, newspapers and radio. The purpose was to engage and educate the public on processes under the County’s Long-term Financial Planning Framework, County services under discretionary and non-discretionary programs, and long-term financial planning strategies. An overview of long-term priorities was provided focusing on future challenges for sustainability and the ability to maintain service levels across all County departments. Alignment with the Strategic Plan was discussed within the framework. Information on various master plans and their initiatives highlighting impacts within the model was provided.

Input from the public was encouraged at the open house. Management from all County departments was in attendance. Following a formal presentation to the attendees by the CAO and Treasurer, there was an opportunity for the public to engage with senior County management for questions and dialogue on any items that the members of the public wished to discuss. A survey/feedback form was provided at the open house and was subsequently posted on the County’s website. As part of the budgetary process, staff committed to compiling results of the survey to report to Council in consideration for the 2018 budget and in development of the 2019-2027 long-term financial plan. Staff provided a report to County Council highlighting responses of the open house and survey.

There were approximately eleven individuals from the public who attended the open house. The majority stayed after the presentation and engaged with County staff. Feedback forms were provided to all attendees at the open house, although none were completed at the event. The feedback form was available on the County website until August 23rd and one response was received. Subsequent to this, County staff contacted one of the attendees who canvassed for additional responses as a final opportunity for input while drafting this report. One additional feedback form was received prior to publishing the report.

Discussion

2018 Budget Overview and Economic Outlook

The 2018 draft budget proposes a 1.91% base levy increase. This proposed increase is slightly higher then the annual inflation rate of 1.4% as reported by Statistics Canada for the month of October 2017 and is less than the inflation target of 2.0% as set by the Bank of Canada in monetary policy. As mentioned above, many of the goods and services purchased by the County move independently of the general rate of inflation as determined by a consumer basket of goods. The annual Non-residential Building Construction Index at the 3rd quarter 2017 was 3.0% for the greater Toronto area which is a more indicative measure of costs related to County infrastructure construction projects. Legislation under the Fair Workplaces, Better Jobs Act (Bill 148) is placing demands on wages and benefits costs. The 2018 budget anticipates an increase of $203,000, or 0.40% on the base levy, as a result of public holiday pay for part-time staff and personal emergency leave. Amendments made to Bill 148 prior to becoming law will exempt municipal workers providing essential services from the new legislation for on-call pay that will become effective commencing in 2019. The County is also monitoring the overall impact of these legislative changes from an Economic Development and service perspective as well as the immediate direct impacts to the County budget. Further, the County will continue to face financial pressure in order to deliver programs and services and simultaneously invest in infrastructure and contribute to reserves for the considerable future needs.

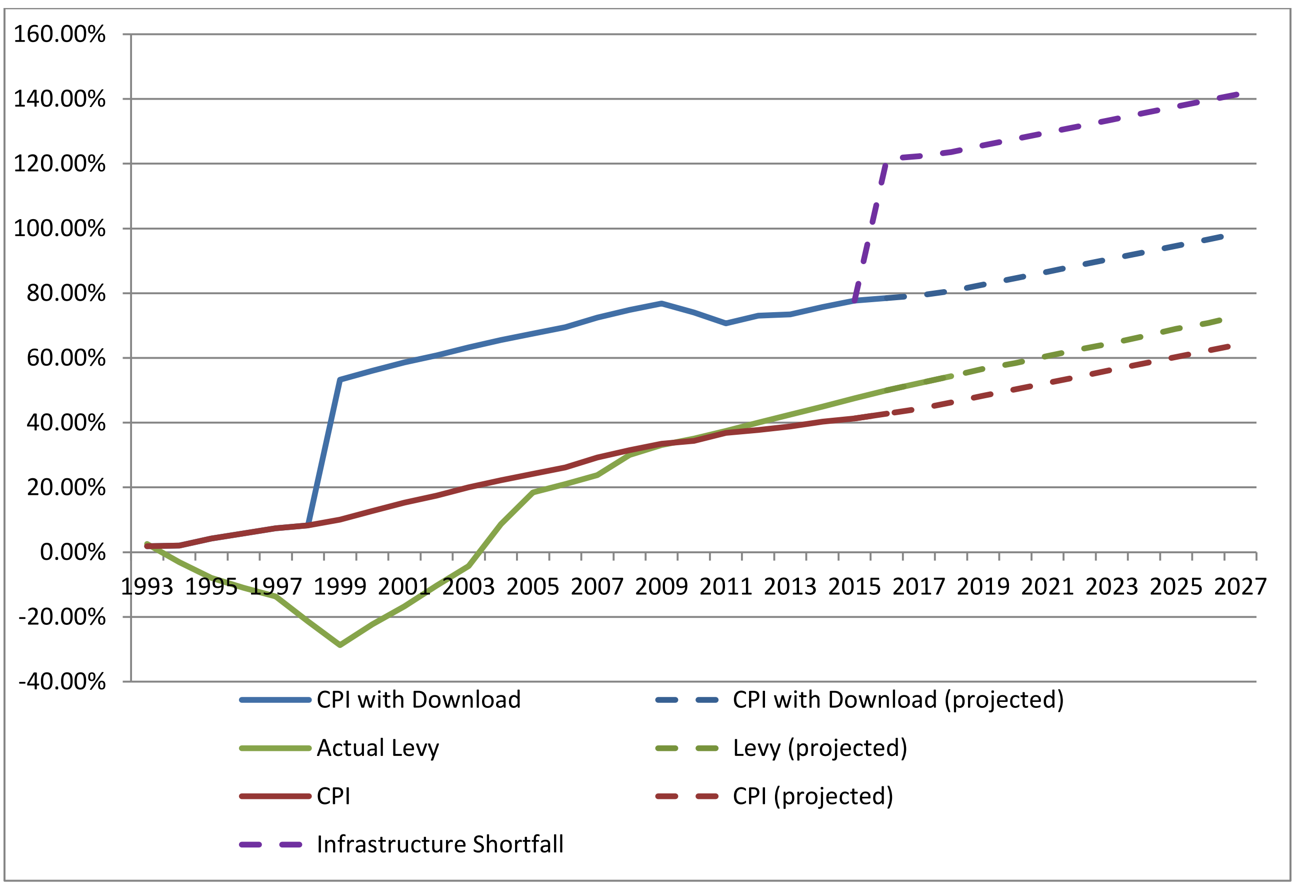
Similar to last year, there remains a significant degree of uncertainty in assessing the Canadian economic outlook. Continued negotiations and ongoing uncertainty over the survival of the North American Free Trade Agreement (NAFTA) coinciding with protectionist trade measures represents the largest threats to the Canadian economy. Canadian Gross Domestic Product (GDP) is anticipated to lead all G7 nations at approximately 3.1% for 2017. However, financial risks in the economy remain high particularly amid high consumer and household debt levels in conjunction with elevated housing prices. GDP is anticipated to moderate through 2018, and beyond, likely in the range of 2.2% according to recent forecasts. Revisions to Canada's overall GDP growth rate will be made as uncertainties around NAFTA negotiations become known. To date in 2017, the Bank of Canada (BOC) has raised the trend setting overnight interest rate on two occasions in July and September from 0.50% to 1.00%. These increases removed the two rate cuts introduced in 2015 to counteract impacts to the economy from the energy sector and low crude prices. It is anticipated by economists that the BOC will continue to raise rates but at a more tentative pace in 2018. The BOC will focus on economic data to assess the possibility of higher interest rates; primarily focused on indebted households, GDP and the economy's capacity, wage growth and inflation. The Canadian inflation rate at 1.4% year-over-year in October is well below the 2% the BOC targets for in its monetary policy. Economists are forecasting the inflation rate to move upwards towards the 2% target by the end of 2018 and for interest rate hikes to resume in the second quarter of 2018. The sustained period of lower inflation in prior years as well as the general economic conditions have benefitted the County in several ways:

- Purchases of services have seen significant competition and favourable pricing
- Fuel prices have remained stable
- Salary and benefit increases have levelled off and
- Asphalt cement prices have been favourable

As mentioned, many of the County's expenditures move independently of inflation. Additionally, the County has not fully re-established sustainable budgets for all departments such as transportation and waste. Inflationary increases will make it increasingly difficult to continue to limit tax levy increases to 2.0% without impacting programs and services or seeing the infrastructure deficit worsen.

The chart below has been included in budget presentations over the past several years. It continues to be relevant as it provides a clear picture of the actual changes in the County levy compared to inflation and program changes. The green line shows the major decrease in the County levy through the 1990's when budgets were slashed across all departments. However, program responsibilities such as County Roads stayed the same so by 2000 the County's programs were all seriously underfunded. From 1998-2001, a range of former Provincial and Federal programs, such as Social Housing, several roads and EMS, were downloaded to the County with significant financial costs. From 2000-2005, the levy increases were steep as Council struggled to meet its responsibilities to fund and operate all of the former and new downloaded services. The red line represents the Consumer Price Index (CPI) and shows how, theoretically, the County levy should have been increased to sustain its original program responsibilities only. The blue line is a theoretical line showing how the levy should have been increased from 1993 to today to handle both the original and downloaded program responsibilities. The purple dashed line reflects the additional investment in capital that was recommended in the County's 2014 Asset Management Plan. While this chart shows significant financial challenges in the past, the County is much more financially stable as we have made up much of the ground previously lost.

Levy vs Consumer Price



We have continued to project stable increases over the next several years. However, as we continue on the path of financial rebuilding, annual levy increases need to begin to address the perpetual shortfall in infrastructure funding. The Provincial government is unlikely to provide any substantial continuous financial assistance in the near term given their ongoing financial challenges and substantial deficit. The Federal Gas Tax continues to be the only consistent infrastructure funding available. The Province introduced formula based OCIF funding in 2015 which has been expanded but the amount of funding is still immaterial to the overall County budget. Other programs, such as the OCIF application based funding program, are sporadic and require competition with other municipalities. In an environment where almost all municipalities are in need of infrastructure investments, the competition is fierce to chase relatively small pots of funding. Therefore, the level of annual increases are being reconsidered for future budgets as we develop plans to reach sustainable funding levels for both operating and capital budgets.

In 2017, the County benefitted from:

- Competitive markets producing favourable pricing for most tenders and RFPs
- Stable asphalt cement prices
- Continued stable fuel pricing
- Provincial subsidies for Paramedics, long term care and most Social Services programs met budget expectations
- One-time non-recurring POA fee revenues
- MRF commodity pricing
- Stable caseloads in Social Services and program savings, and
- Low inflation

However, the County was financially challenged by:

- Low Canadian dollar causing equipment purchases to escalate, and
- Waste leachate haulage and treatment costs

All of these trends have been reflected in the 2018 draft budget in addition to other factors including:

- Additional upload to the Province for the County's portion of OW program costs in 2018
- Fair Workplaces, Better Jobs Act (Bill 148) for wages/benefits costs
- Impacts of the Waste Master Plan that was approved in 2014
- Conservative interest revenue projections based on ongoing low interest rates
- Debt servicing cost savings from paying down debt in 2017 allocated to reserves
- Reserve allocations for future projects, and
- Use of conservative estimates where Provincial subsidies are subject to change or unconfirmed for 2018

The 2018 draft budget (**cash basis**) is as follows:

		2016 (M$) Budget	2017 (M$) Budget	2018 (M$) Draft
Revenue				
	Levy	50.5	52.3	54.1
	Grants & Subsidies	34.0	36.8	39.1
	Other Revenue	16.0	16.7	17.1
	Total Revenue	100.5	105.8	110.3
Borrowing				
	Debenture	4.2	2.2	7.3
	Internal Borrowing	0	0	0
	Total Borrowing	4.2	2.2	7.3
Total Revenue & Borrowing		104.7	108.0	117.6
Expenditures				
	Operating	85.1	90.2	94.6
	Capital	18.5	17.1	22.4
	Debt Principal Repayment	1.3	1.8	1.3
	Total Expenditure	104.9	109.1	118.3
Reserves				
	Transfer to Reserve	4.9	5.3	6.1
	Prior Year Project Carryover*	(4.0)	(2.0)	(3.7)
	Transfer from Reserve	(1.3)	(4.4)	(3.0)
	Net Change in Reserves	(0.4)	(1.1)	(0.7)
Total Expenditures & Reserves		104.5	108.0	117.6

* The prior year project carryover will be approved per by-law in November and December 2017.

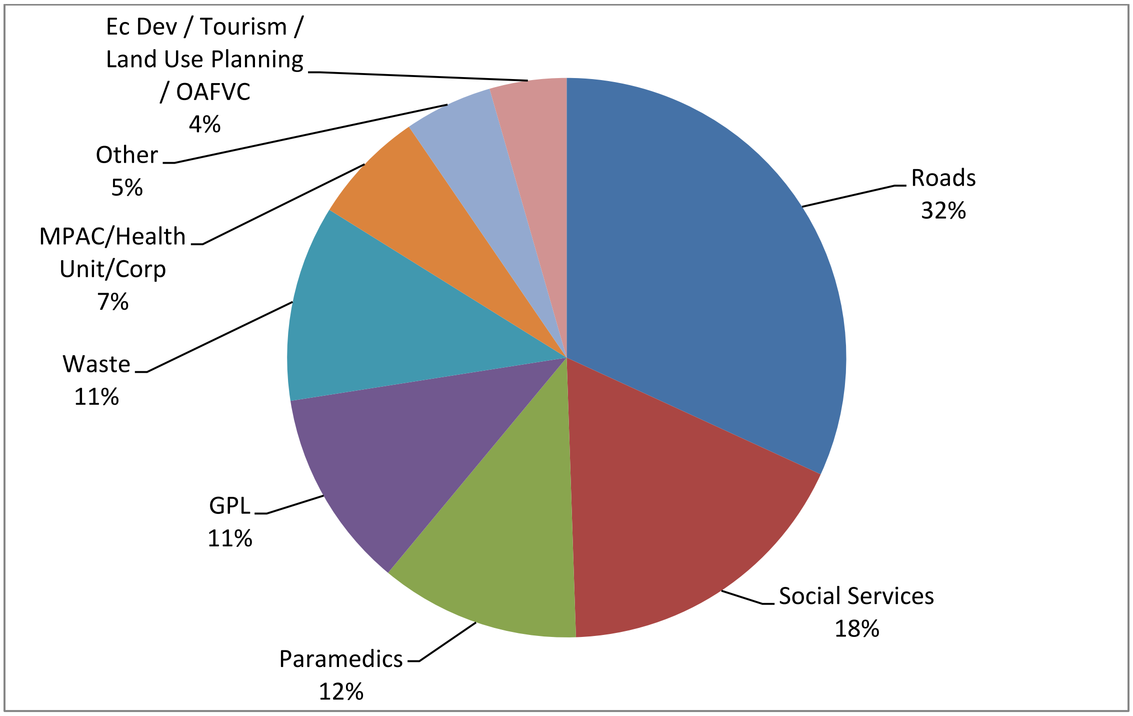
The 2018 draft budget (**accrual basis**) is as follows:

		2016 (M$) Budget	2017 (M$) Budget	2018 (M$) Draft
Cash Budget		104.5	108.0	117.6
Less:				
	Debt Principal Repayment	1.3	1.8	1.3
	Capital	18.5	17.1	22.4
	Internal Borrowing	0	0	0
	Debenture Financing	4.2	2.2	7.3
		(24.0)	(21.1)	(31.0)
Add:				
	Amortization	8.2	8.2	8.6
	Future Employee Benefits Liability	0.2	0.2	0.2
	Landfill Post Closure Liability	(3.4)	0.6	0.6
		5.0	9.0	9.4
Accrual Based Budget		85.5	95.9	96.0

Levy

Each County department is funded through multiple sources. The proposed $54.1M levy is split across the County operating departments as outlined in the graph below. Approximately 32% of the levy is directed to the Transportation department as the Federal Gas Tax is the only other significant source of revenue for roads maintenance and construction projects. About 18% of the levy goes to the Community and Social Services department. This is split fairly evenly between Social Housing and Social Services programs. The proportionate share of levy for Social Services was reduced in 2018 with the continued upload of OW costs. Paramedics require 12% of the levy to fund the County's portion of operating costs as well as capital. The Golden Plough Lodge is allocated 11% of the levy and continues to contribute to reserves towards the future rebuild of the facility. The Golden Plough Lodge receives a Provincial subsidy and accommodation revenue from residents in addition to the levy. The Waste division receives about 11% of the levy. Waste has multiple other sources of revenue such as bag tags, tipping fees and the sale of recycled materials. The levy requirements for these departments remain consistent with previous years. A further 7% of the levy funds the County's required payments to the Health Unit and MPAC. The balance of the levy funds various smaller departments including Economic Development, Tourism, the Forest, Land Use Planning and Emergency Planning and Health and Safety. The relative departmental levy allocations for 2018 are generally consistent with the prior year.

2018 Levy by Department



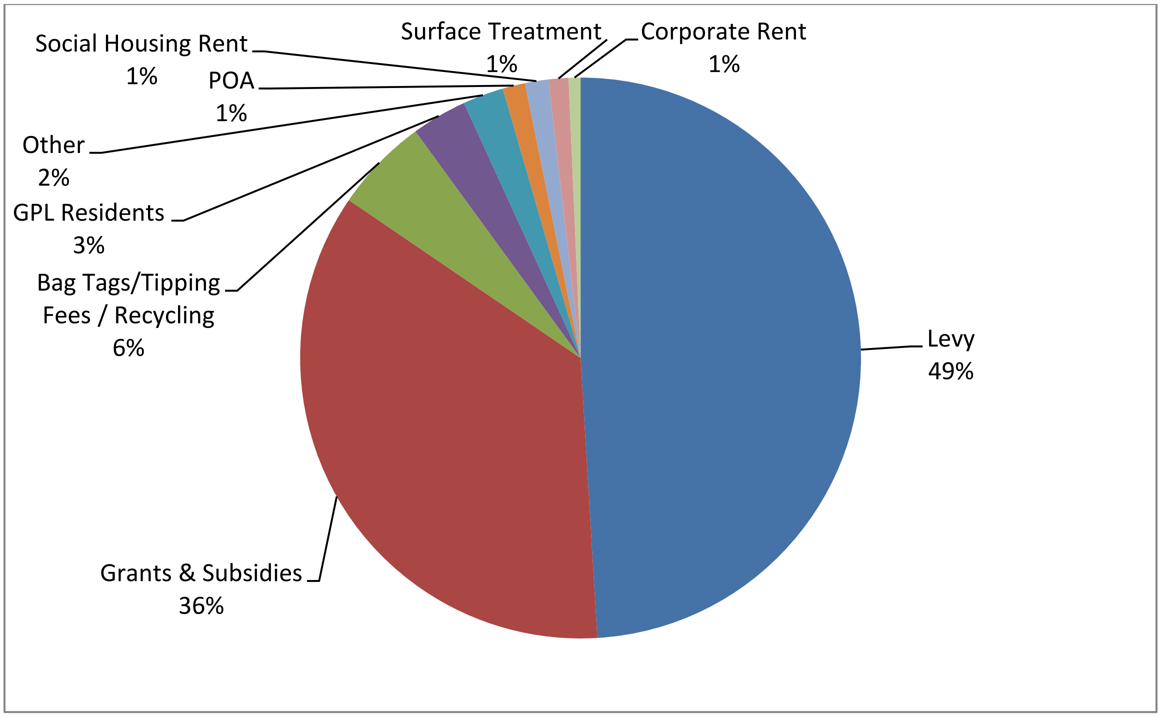
The support departments (Human Resources, Finance, Information Technology, Facilities, Corporate Management, Records Management, and Communications) are funded through internally allocated charges to each operating department. Each department is charged as follows:

Corporate Department	Allocation Method
IT	Number of computers by department
HR	Number of employees in each department
Finance	Percent of total County budget
Corporate Management	Percent of total County budget
Facilities	Percent of office space used by each department
Communications	Percent of total County budget
Clerk/Records Management	Percent of total County budget

Revenue

The County funds its programs, services and infrastructure through a number of sources. The largest single source of revenue is property taxes or the tax levy at 49%. An additional 36% of County operations are funded by grants and subsidies from the Provincial and Federal governments. Several departments generate significant revenue for their programs through rents, sale of recycled materials, accommodation fees for long term care, fees such as bag tags and tipping fees, and Provincial Offences fines. The relative proportion of revenue sources is consistent with previous years.

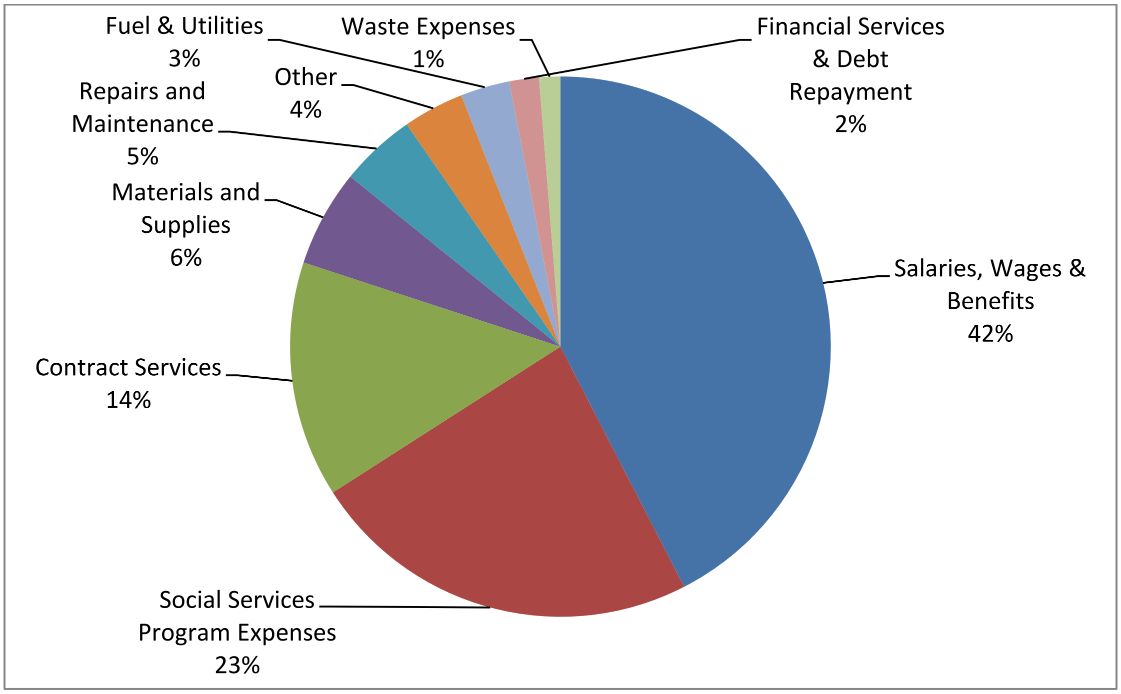
2018 Revenue Sources



Expenditures

In 2018, approximately 42% of operating expenditures will be spent on staffing costs due to the fact that many services provided by the County are labour intensive such as long term care and paramedics. Salaries and benefits relative portion of expenditures remains consistent year over year. About 23% of the County's operating budget is spent on Social Services programs although a significant portion of these costs are flow-through dollars and are funded directly by the Province. The County spends 14% of their operating costs on external services which include all forms of contract services including waste collection, engineering, auditing, legal, repairs and maintenance and a number of other specialized services. External services also include annual fees to the Municipal Property Assessment Corporation (MPAC) and the Health Unit. Materials and supplies account for 6% of operating expenditures and consist of medical supplies, raw food for the long term care home, sand and salt for roads, maintenance materials, office supplies and many other goods required for County operations. The balance of operating expenditures includes repairs and maintenance, fuel, utilities, waste expenses (primarily leachate management) and debt servicing.

2018 Operating Expenditures

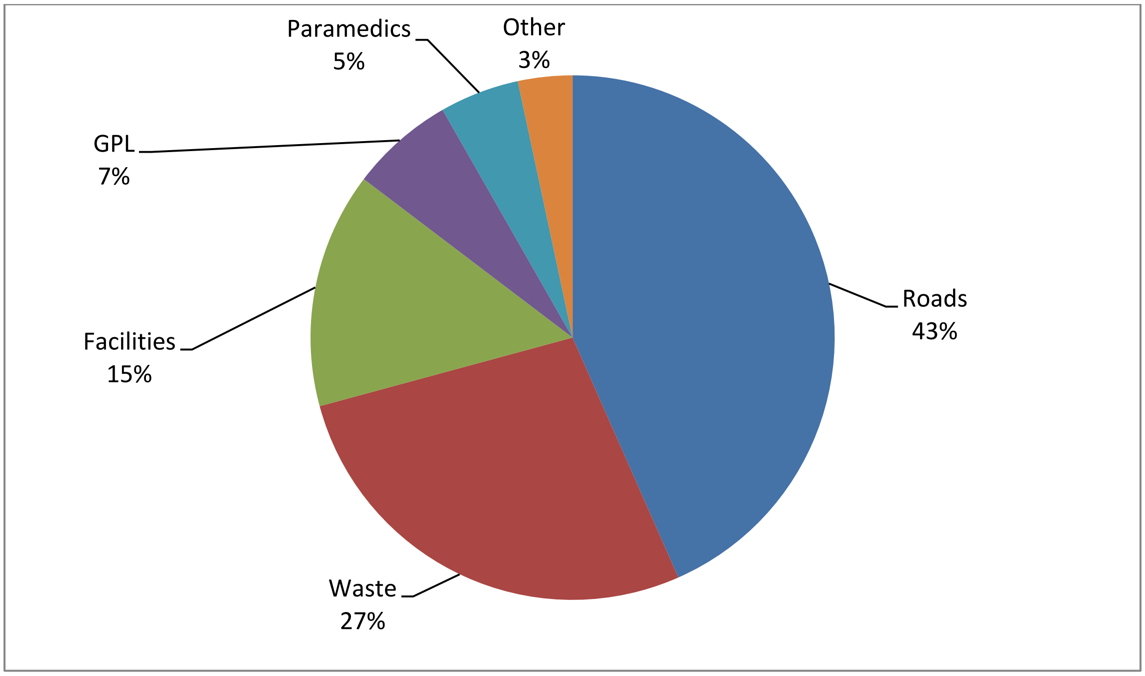


The majority of the capital expenditures will be directed to the Transportation (43%) and Waste (27%) departments. These departments manage the vast majority of the County's infrastructure. Social Housing and Facilities also manage a significant portion of the County assets. However, once again, most 2018 expenditures are repairs and maintenance. The balance of the capital budget will be spent in Paramedics and at the Golden Plough Lodge where costs will be incurred attributable to commencement of design and architectural services for the rebuild of the facility.

Key capital projects & purchases in 2018 include:

- Roads and bridge work
- Cell development at Brighton landfill
- Organics transfer station
- Upgrades to Transfer Station Public Drop Off Areas
- Roseneath Emergency Services Base
- Trent Hills Emergency Services Base
- Equipment replacement in Transportation, Waste & Paramedics (snow plows, trucks, ambulances, power lift stretchers)
- Social Housing and corporate building upgrades and equipment replacement
- Implementation of HRIS software systems
- Website redesign
- Commencement of GPL rebuild project for design and architectural services

2018 Capital Expenditures



Since 2009, the revised Public Sector Accounting Board (PSAB) standards have been in place. These standards required that clear definitions of capital be adopted by municipalities. Capital is generally defined as new, replacement or betterment projects or purchases greater than $5,000 with a useful life of more than one year. Where high value purchases are made to improve or expand upon an existing asset, it is measured against specific criteria to determine whether it will be recorded as a capital or operating expenditure. Examples of the criteria include extending the useful life of the asset and the value of the improvements relative to the total value of that asset. Now that the standards have been in place for several years, the County will undertake a review of the tangible capital asset policy. It is important to review the application of the standards at this time as the data is now being used by the Province to determine funding allocations.

Based on requirements as outlined within the provincial Building Together Guide for Municipal Asset Management Plans, the County developed an asset management plan in 2013. The Province required that the asset management plan be completed in order for municipalities to be eligible for any future infrastructure funding programs. The asset management plan clearly identifies and prioritizes the critical infrastructure needs of the County and was presented to Council and approved in March 2014. An RFP was issued and awarded in the fall of 2016 for the procurement of asset management software to ensure the data is kept current for effective decision making. In addition to the financial data management and reporting, this type of software generally has many other tools that assist with or link into GIS mapping, customer service issues tracking and asset maintenance processes. Implementation commenced in 2016/17 and is anticipated to be completed in 2018 with user acceptance testing currently underway.

Tax Impact

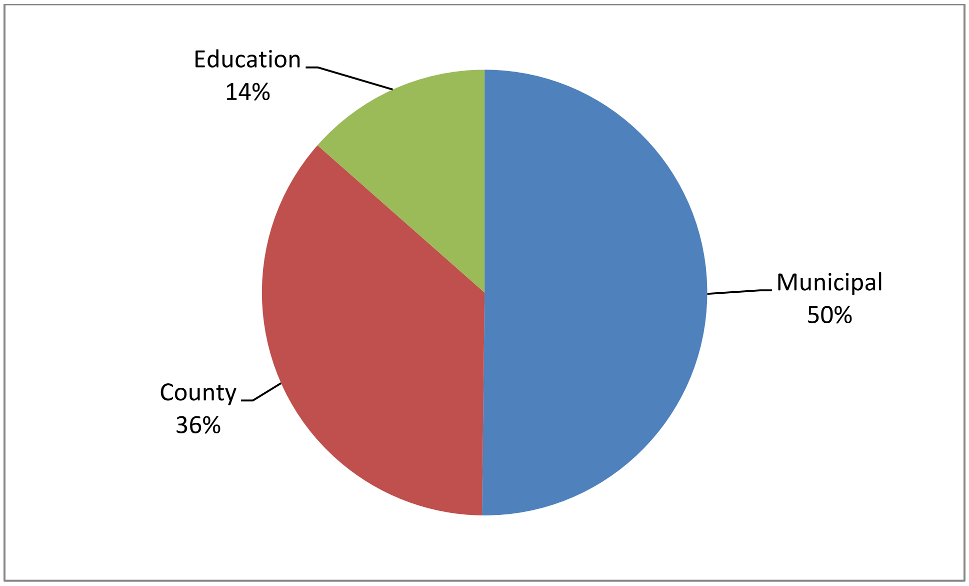
Each year it is difficult to balance the need to increase property taxes to ensure the continuation of service and maintenance of assets with the challenging economic circumstances of the County. The EOWC identified in a white paper some of the challenges faced by rural Eastern Ontario when setting tax rates which include:

- Almost 90% of the local assessment is residential
- Average personal earnings are less than the Provincial average
- One in five people are a senior citizen
- Lower share of income from employment earnings
- Lower share of the workforce with college or university education
- Lower shelter costs for owned homes but there are longer more expensive commutes
- Larger share of homes needing major repairs

While these factors make it difficult to increase property taxes, they also support the need for sustainable programs and services delivered by municipal governments. Further, the balancing of immediate and future needs is critical to setting reasonable and appropriate rates to balance current and future budget considerations. The overall **estimated** tax impact from the County increase for 2018 is about $11 for the median single family home.

Property taxes have three components: Municipal, County and Education. The portion of the property tax bill allocated to the County varies across the seven member municipalities. The County and Education tax rates are the same across all seven member municipalities. However, the local municipal tax rates vary by municipality depending on the types of programs and services offered. On average, the local municipalities account for just over half of a property tax bill at 50.2% with the County and Education making up the balance at 36.3% and 13.5% respectively. In recent years, the education tax rate in Northumberland has declined modestly. This has resulted in a slight shift in the proportionate split of local tax dollars. On average, municipalities have been the primary beneficiary.

How Are Property Taxes Allocated?

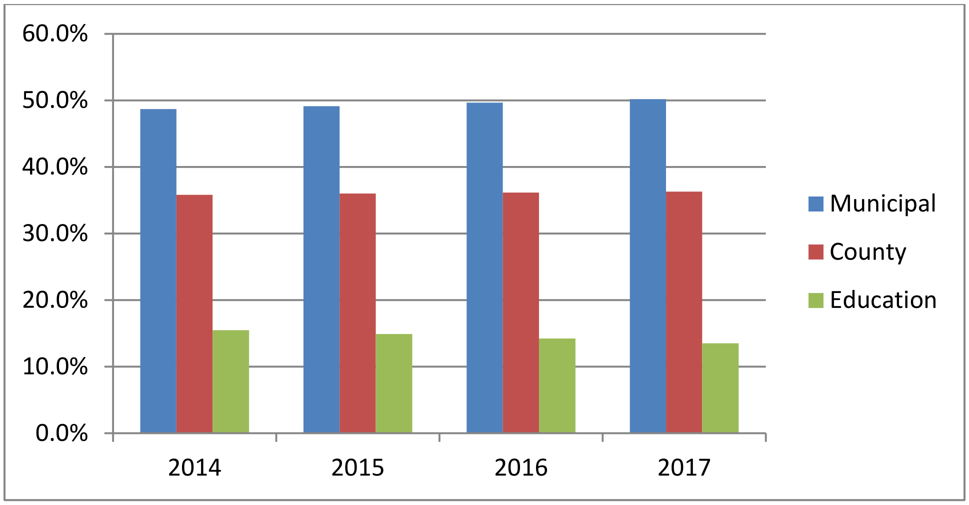


2017 Tax Rate Split

	Municipal	County	Education
Port Hope (Ward1)	59.4%	29.6%	11.0%
Cobourg	56.2%	32.0%	11.9%
Trent Hills	54.3%	33.3%	12.4%
Cramahe	52.8%	34.4%	12.8%
Hamilton	44.7%	40.3%	15.0%
Brighton	46.1%	39.3%	14.6%
Alnwick/Haldimand	44.4%	40.5%	15.1%
Port Hope (Ward 2)	43.7%	41.0%	15.3%
Average 2017	**50.2%**	**36.3%**	**13.5%**
Average 2016	49.7%	36.1%	14.2%
Average 2015	49.1%	36.0%	14.9%
Average 2014	48.7%	35.8%	15.5%

The allocation of the municipal tax dollar was fairly consistent between 2014 and 2017. The slightly lower education tax rate continued to create a small amount of tax room for the lower tier municipalities and the County. In 2017, the ongoing reduction in the education tax rate saw slightly more of each property tax dollar shift from education to the member municipalities and the County.

Relative Share of Property Tax Dollars



The draft budget would see the actual residential tax rate decrease to an **estimated** 0.00473901 from .00481138 based on current tax policy. The primary cause for the decrease in the rate is the increases and shift in assessment that has occurred between tax classes as a result of MPAC property reassessments. On a four year cycle MPAC reassesses all properties within Ontario. In 2016, MPAC provided reassessment valuations based on a valuation date of January 1, 2016. This represents an update from January 1, 2012 valuations. The CVA from the 2016 reassessment is utilized for property taxation calculations in the four year taxation cycle of 2017-2020. **The final tax roll information is not yet available and the tax rate will change when the final data is published by MPAC. Further changes could be realized once the tax policies for 2018 are approved in the new-year subsequent to budget approval**. The median assessed value for a single family dwelling is $227,750 for 2017. This is an increase of $5,750 over the median assessed property in 2016. Using these median values, a typical property owner would see their annual property tax for the County portion increase by approximately $11.18. The increase in assessed value is more than offsetting the impact from the lower tax rate. It is important to note that these estimates are based on the median household and the actual impact will depend on the assessment of each individual property. Properties are assessed by MPAC and many factors are considered in determining a property's assessed value.

The County levy is allocated to each of the member municipalities based on weighted assessment. Growth does not occur consistently across the municipalities and changes in assessment values can vary among the municipalities as well. Therefore, each year the weighted assessment is recalculated to determine the distribution of the levy across the municipalities. Based on the preliminary tax roll data and the existing County tax policies, the distribution will be approximately as follows:

Levy Distribution by Municipality

	%	$
Alnwick/Haldimand	9.30%	5,030,065
Brighton	12.62%	6,827,011
Cobourg	24.54%	13,277,107
Cramahe	6.56%	3,550,518
Hamilton	13.10%	7,090,795
Port Hope	19.84%	10,736,128
Trent Hills	14.04%	7,596,728
County Total	**100%**	**54,108,351**

County staff initiated a formal tax policy review as authorized by Council under resolution 2017-03-15-61. Further to this, Council directed staff to report on findings of the policy review and options for tax policy changes under resolution 2017-10-11-222. The results of the policy review were presented to County Council on October 18, 2017.

There were several factors that highlighted the need for a formal tax policy review. The County tax policies have remained fairly constant for over a decade. In 2017, the Ministry of Finance made a number of changes to statutes within the property taxation legislative framework increasing flexibilities for municipal tax policy setting. Reassessment of properties by MPAC resulted in a shift in the proportion of assessment and taxation burden across property classes commencing in 2017. Various individuals and organizations have contacted staff and Councilors requesting changes to tax policy as it applies to an applicable tax class of interest to them.

In light of this, and at the direction of Council, staff undertook a formal property tax policy review for consideration when adopting the property taxation policies for 2018. This is to ensure that potential impacts to property owners in all tax classes as a result of any policy changes are fully understood. Any recommendations for policy changes will be presented to Council upon analysis of the impacts based on final return of the assessment roll and subsequent to budget approval.

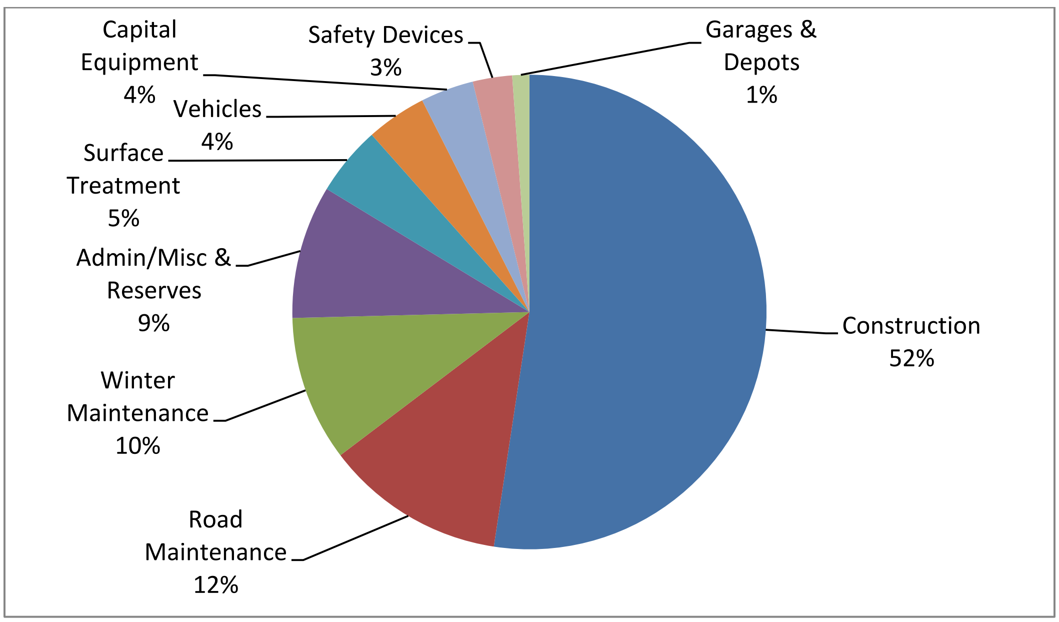
Departmental Summaries

Below is a brief overview of the draft budget for the major County departments. For more detail, please review the department business plans and issue papers in the budget books.

Transportation

The Transportation department draft budget is $23.7M. This includes road maintenance for winter and summer, surface treatment and construction activities. This includes some funds carried over from 2017 projects that were incomplete or deferred at the end of 2017 such as Trent River bridge studies & design, road rehabilitation for County Rd 2 Strathy to Rogers Rd, and service expansion for County Rd 2/Wilkins Gate. The department is primarily funded by the levy but also receives Federal Gas Tax funding and to a lessor extent funding under the Ontario Community Infrastructure Funding (OCIF) formula based funding model. The department also receives full cost recovery for providing surface treatment services to the member municipalities.

Transportation Expenditures



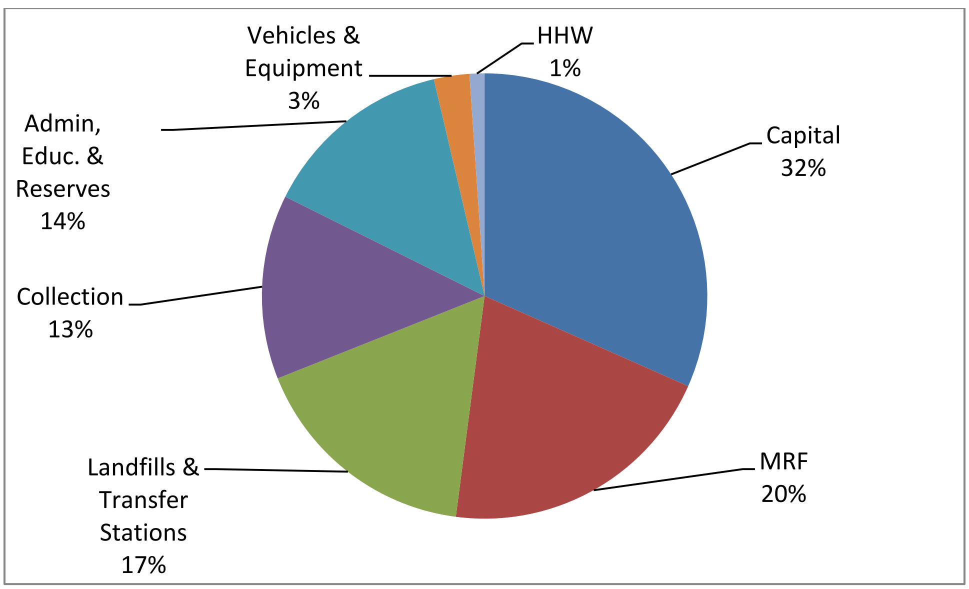
The Transportation department has included three issue papers related to re-occurring annual requests. It has been a priority to ramp-up the Roads and Bridges construction budget. The budget includes issue papers to continue with the annual increase to the roads construction base budget. There are also issue papers to replace equipment which is at the end of life and capital maintenance of transportation facilities. Both of these issue papers capture items or projects that were previously identified in the 10 year plan. Further to annual recurring issue papers, there are issue papers for the implementation of the Emerald Ash Borer action plan, and staffing requests for a GIS/Asset Management Coordinator and a Seasonal Roads Operator.

In addition to the issue papers, the consolidated budget identified building the bridge reserve as a priority. $10.3M will be spent on major capital projects to improve the County's 503km road system in 2018.

Waste Services

The Waste Services draft budget is $19.4M. This includes the Material Recovery Facility (MRF) operations, curbside collection, landfill operation, closed landfill monitoring, the Household Hazardous Waste (HHW) program and the planning and education activities as well as capital projects. The draft budget includes $4.0M for the ongoing Brighton Landfill development project. The Waste department is unique in that it has many revenue sources to fund operations. The department continues to experience significant financial pressure and relies on the levy to fund a significant portion of its operations each year. This will continue well into the future as the County implements the commitments identified in the 2014 Waste Master Plan, sees limited funding from the Province and risk of instability in non-tax revenues.

Waste Expenditures

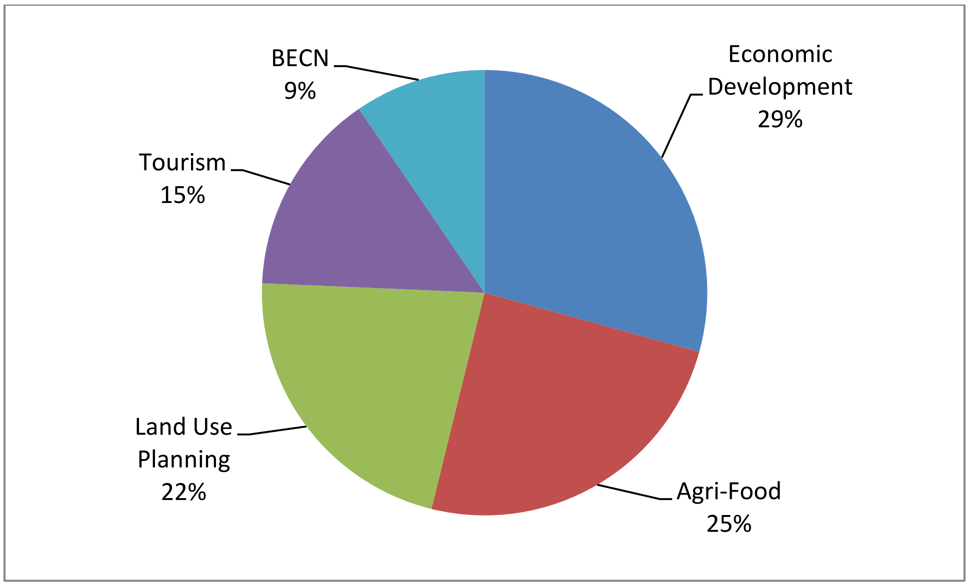


The Waste department issue papers include an annual request for the purchase of capital equipment which is included in the base budget. There is also an issue paper to develop a remediation plan to address current and foreseeable environmental impacts from the Highland Drive Landfill and construction of an organics transfer station

Economic Development, Land Use Planning & Tourism

The draft Economic Development budget for 2017 is $3.9M. This includes the economic development and tourism operations as well as the Ontario Agri-Food Venture Centre (OAFVC) and the Business and Entrepreneurship Centre (BECN). Land Use Planning and Plumbing and Septic inspections. This department's operations are funded primarily by the County levy with some small contributions from grants, permits and revenues from the OAFVC. The department did not submit any issue papers for the 2018 budget

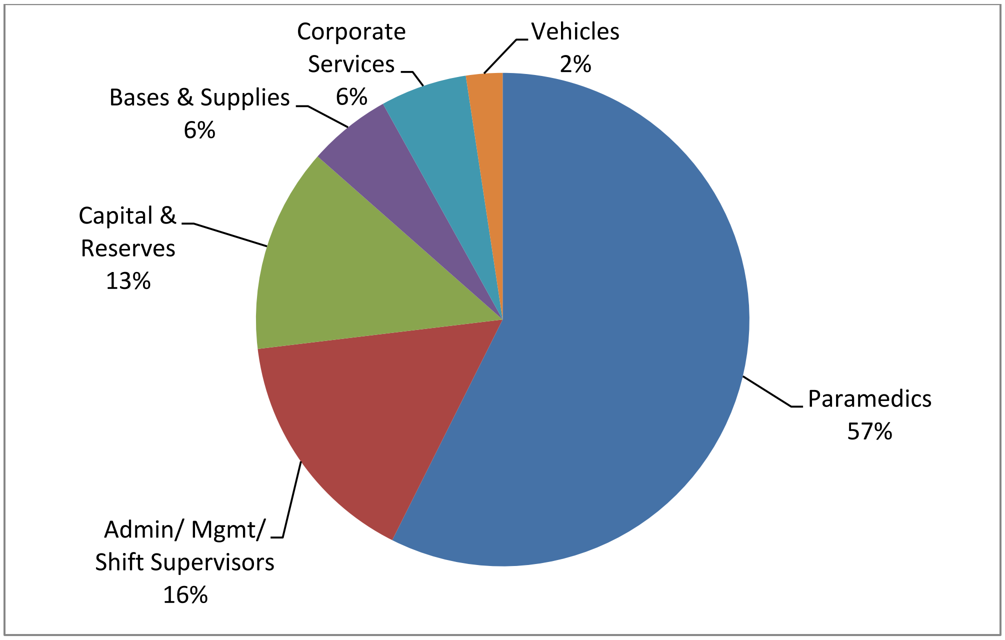
Economic Development, Land Use Planning & Tourism Expenditures



Northumberland Paramedics

The proposed 2018 budget for the Paramedics department is $13.7M. This includes the operation of six bases and a fleet of ambulances and emergency response vehicles. Paramedic operations costs are funded 50% by the County levy and 50% from the Provincial subsidy. Capital costs and reserves contributions are funded solely by the County levy with the asset amortization being subsidized by the Province. The Paramedics department has included two issue papers in the draft 2018 budget inclusive of the acquisition of new power stretchers with lift/load systems and the implementation of a Primary Care Paramedic – Autonomous IV (PCP-AIV) training program.

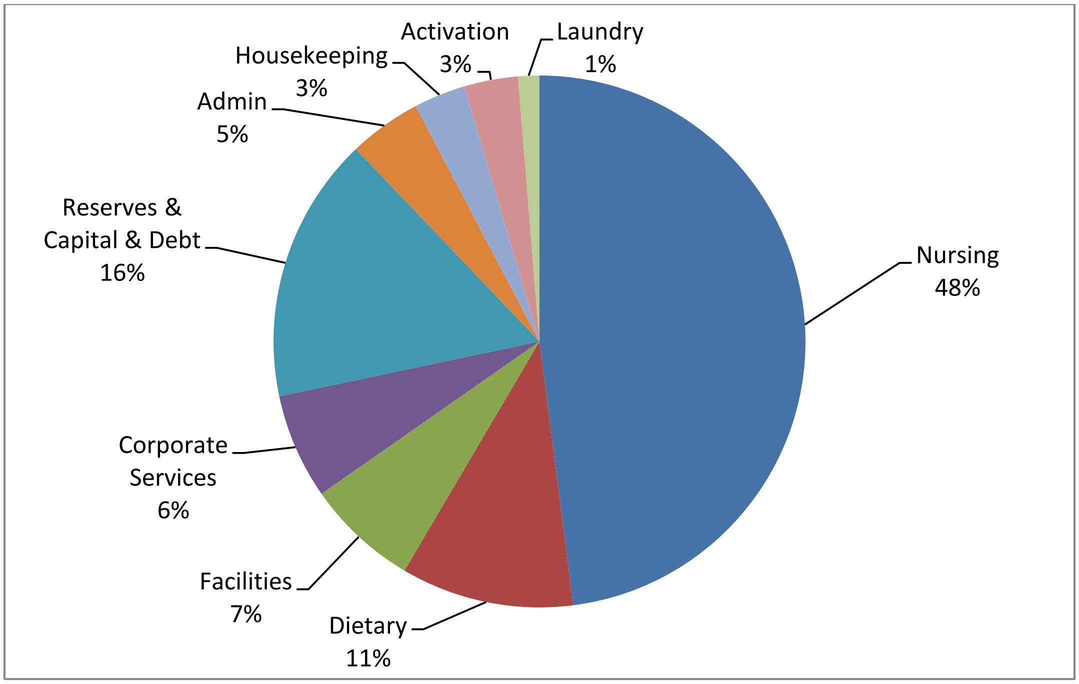
Northumberland Paramedic Expenditures



Golden Plough Lodge

The Golden Plough Lodge (GPL) draft 2018 budget is $17.8M. The GPL provides nursing, dietary, housekeeping, maintenance, life enrichment programs and accommodations to the residents. In addition to the levy attributed to the GPL, funding is received through the Provincial per diem subsidy and resident accommodation revenue. However, the increase in Provincial funding is not projected to be adequate to fund the increasing needs. The GPL is required by the Province to rebuild the facility and annual levy contributions to a reserve account are being made to partially reduce the amount to be debentured at the time of the rebuild. The 2018 budget proposes the continuation of transfers to the GPL rebuild reserve totaling $1.4M within the year. The GPL has an issue paper in their draft budget for self-managed communication training as a component of the County employee engagement initiative. Two issue papers are requesting part-time staffing positions to be increased to full-time for a Life Enrichment Aide and the Environmental Services Supervisor.

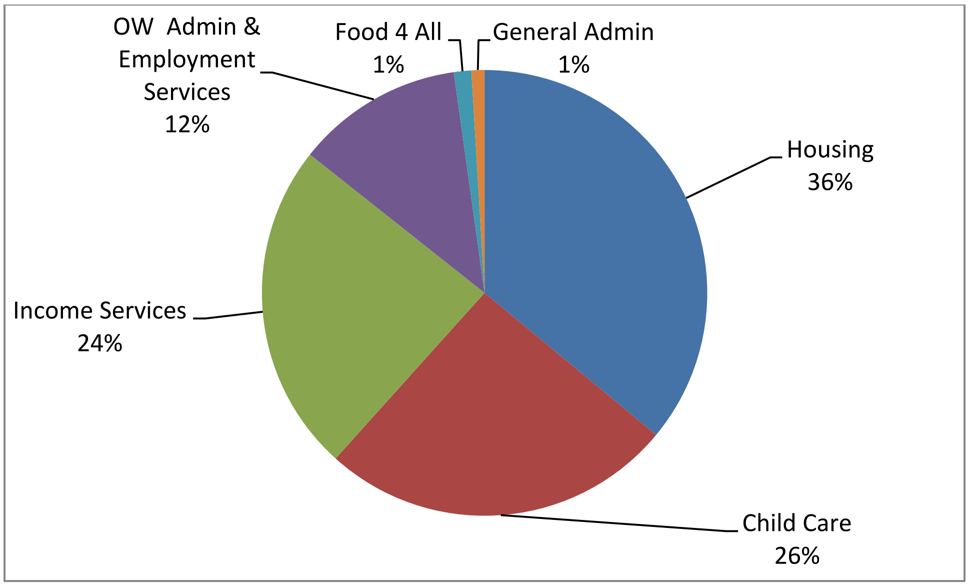
GPL Expenditures



Community & Social Services

The Community & Social Services draft 2018 budget is $32.4M. This includes income services, employment and support services, children's services, housing services, the Food 4 All warehouse and administrative services. The draft budget allocates $9.5M in levy to the Community & Social Services department which is slightly less than the previous year. The OW benefit costs have been uploaded such that they are covering inflation and other program costs. Other sources of revenue are primarily Provincial subsidies and social housing rent. A significant portion of the Community & Social Services revenues come via funding from Provincial Ministries, many of which are for mandatory programs and comprise of a cost sharing component by the County.

Community & Social Services Expenditures



The Community & Social Services department is proposing an issue paper for the 2018 budget for ongoing municipal funding to support homelessness programs primarily being financed from savings in Ontario Works.

Support Services & Corporate Departments

The corporate and support departments include a number of smaller support departments: Finance (Finance, POA), Corporate Services (Forest, Emergency Planning and Health & Safety, Human Resources, Clerk, Records/Archives), IT, Communications and Facilities. These departments are primarily funded through allocations to the various operating departments although the Forest does receive a small portion of the levy. Additionally, corporate includes County payments to the Health Unit and MPAC classified as External Services within the budget.

These departments have included the following issue papers in their proposed 2018 budget:

- Facilitation of an accessibility compliance audit
- Records & Archival Services Assistant full time position
- Communications Officer full time position
- Grant Writer full time position
- Health and Safety Associate full time position
- “Who’s Responding” Communication App

- County Fire Coordinator Mutual Aid Support annual honorarium increase
- Community Safety Awareness Projects funding increase
- Complete repairs and maintenance projects for corporate buildings and Facilities fleet replacement identified in the 10 year plan
- Returning summer student position Energy Conservation planning and project development

10 Year Financial Plan

The development of a long term financial plan is essential to ensuring the ongoing financial sustainability of the County and its assets. A long term plan requires staff to identify future needs and create a financial roadmap to ensure those needs will be met without creating volatile and unexpected tax increases. A thorough understanding of long term needs and related costs is essential to achieving sustainable infrastructure and services. The financial plan developed by staff projects an annual 2.0% increase for continuing operations within the years 2019-2027 as well as a dedicated infrastructure levy.

The strategy of consistent modest increases has worked well to get the County back on track for funding operations. While most departments still face financial challenges and constraints, the County has made great strides in moving closer to adequate and sustainable funding levels. With the detailed asset management reviews completed in recent years, it has become increasingly apparent that this strategy is not sufficient to meet the long term infrastructure needs.

The dedicated infrastructure levy was introduced in the 2016 budget and was applied within the long term financial plan. The proposed 2018 budget calculates the dedicated infrastructure levy based on 2.0% of the 2017 capital budget with a 0.5% escalation factor in each year of the 2019-2027 long term forecast based on the prior year capital budget. While the infrastructure needs remain unchanged, the timeframe to implement these increases has been re-evaluated and is recommended to escalate slowly over several years. This reflects the persistent economic challenges across Northumberland County and the demands on member municipalities to keep tax rates low. The need for additional infrastructure tax dollars is a critical issue but low borrowing costs and promises of infrastructure funding from other levels of government there are some alternate means of financing likely to be available for the foreseeable future. The 10 year financial plan priorities are fully funded using a combination of levy increases, reserves and debt. The plan continues to respect the need for stable and predictable levy increases from year to year.

The revised long term plan identifies a portion of the projected increases for infrastructure. At the end of the 10 years, funding will not have reached a sustainable level and will require further increases beyond the term of the long term plan. This type of strategy to build infrastructure funding is being used frequently by municipalities across the Province.

As indicated previously, the Bank of Canada’s target range for inflation is 1 to 3 percent with the monetary policy aimed at the 2% target midpoint. Staff assumed this level of inflation for the purpose of the long term plan with slightly higher factors applied for more volatile items such as utilities and fuel. Where future prices are extremely difficult to project on a 10 year horizon such as asphalt, a lump sum amount has been used with project specifications to be increased or decreased as funding permits. These assumptions allowed staff to target an operating expenditure increase of 2% on average.

A long term plan is an 'evergreen' document or a constant work in progress. The first 10 year plan was developed as part of the 2012 budget process. Changes in legislation, unplanned events such as severe weather, and the economy can all have dramatic impacts on one or many years. Therefore, the original document has been revised as part of the current budget process to reflect new information such as changes to Provincial subsidies or current economic conditions.

While this long term plan meets operating and basic capital needs, it does not allow the County to make any significant progress in reducing the infrastructure deficit. This is not unique to Northumberland as it is a challenge facing municipalities across the Province. The County's roads and bridges are by far the largest single asset type. Utilizing information in the Transportation Master Plan, the asset management software, upon its implementation, will allow for a more detailed estimate of infrastructure needs and timing will be incorporated into the long term financial plan.

Projects that are on the horizon for 2020 and beyond are:

- Golden Plough Lodge rebuild as mandated by the Ministry of Health and Long Term Care
- Several major bridge projects including Campbellford
- Implementation of the Waste Master Plan including residual waste environmental assessment, organics, remediation transfer and landfill space
- Implementation of the Transportation Master Plan
- Social Housing repairs & maintenance needs as well as demand for increased affordable housing across the County

Capital Assets & Infrastructure Deficit

The County has made major strides in recent years to rebuild capital and maintenance budgets despite many financial challenges. There is an ongoing commitment to ramp up the roads and bridges budgets and the housing repairs and maintenance budget is nearing a sustainable level. The County has also purchased or made major repairs to corporate buildings, Paramedic bases and roads depots. With millions of dollars being invested in the County's infrastructure, the assets are remaining safe and operational to meet service objectives. Unfortunately, many of the County's assets are still relatively old and in many cases are approaching either the end of their useful life or a point where major rehabilitation will be required.

The County completed an Asset Management (AM) Plan in 2013 and it was approved by County Council in January 2014 as required by the Province. The AM Plan is a robust document that includes a vast amount of information and even more data is available in the supporting spreadsheets and fixed asset system. However, it is important to recognize that the AM Plan is an evergreen document and will require updates on a regular basis. For example, the Waste Master Plan and the Transportation Master will both require significant changes to the current version of the plan. The first version of the AM Plan only includes major assets. The data does not include most equipment or vehicles and it does not value landfills and transfer stations in any way. The additional assets will be included in future revisions.

Building on the province's 2012 Building Together: Guide for Municipal Asset Management Plans, the Infrastructure for Jobs and Prosperity Act, 2015 was proclaimed on May 1, 2016 and includes an authority for the province to regulate municipal asset management planning. Under regulation proposals, all municipalities would be required to develop and adopt a strategic asset management policy by January 1, 2019. At least every five years from that date municipalities would be required to review and update the policy. Municipalities would be required to prepare an asset management plan in three phases:

1. Phase I would address core infrastructure assets, and would be required to be completed by January 1, 2020.
2. Phase II would expand on Phase I by including all infrastructure assets in the plan by January 1, 2021.
3. Phase III would require further details to be provided for all infrastructure assets by January 1, 2022.

The Province continues to place a heavy reliance on the AM Plan for funding applications. One-time funding such as OCIF is specifically looking for projects to be submitted based on the priority identified within municipal AM Plans. We have also seen a clear focus on core infrastructure which only includes the road and bridge asset types at the County as we do not maintain other types identified as core infrastructure such as water and sewer. The County's AM Plan identified roads and bridges as by far the largest need.

The most astounding number in the AM Plan is the projected replacement value of the assets. The chart below summarizes the projected replacement value by major asset type:

Asset Type	**Replacement Cost**
Roads	$723,189,425
Bridges	$124,905,795
MRF Equipment	$4,555,000
Facilities	$82,042,756
Housing	$40,415,388
GPL Building	$51,126,022
Total	$1,026,234,386

Over the next 50-60 years, the infrastructure need will be approximately $1 billion. There are many strategies to extend the life of an asset but even applying the most advanced strategies, it will still require a significant financial investment to keep these assets functioning effectively. In order to manage these needs effectively, approximately $27.4M should be spent annually to replace and maintain assets. The current long term plan provides for an annual asset investment of about $22.0M on average over the next 10 years. That equates to an annual infrastructure shortfall of approximately $5.4M. Initiatives such as ramping up the roads and bridges have begun to narrow this gap slightly. It should also be noted that these projections only address assets currently operated by the County and does not consider growth or inflationary pressures on project costs.

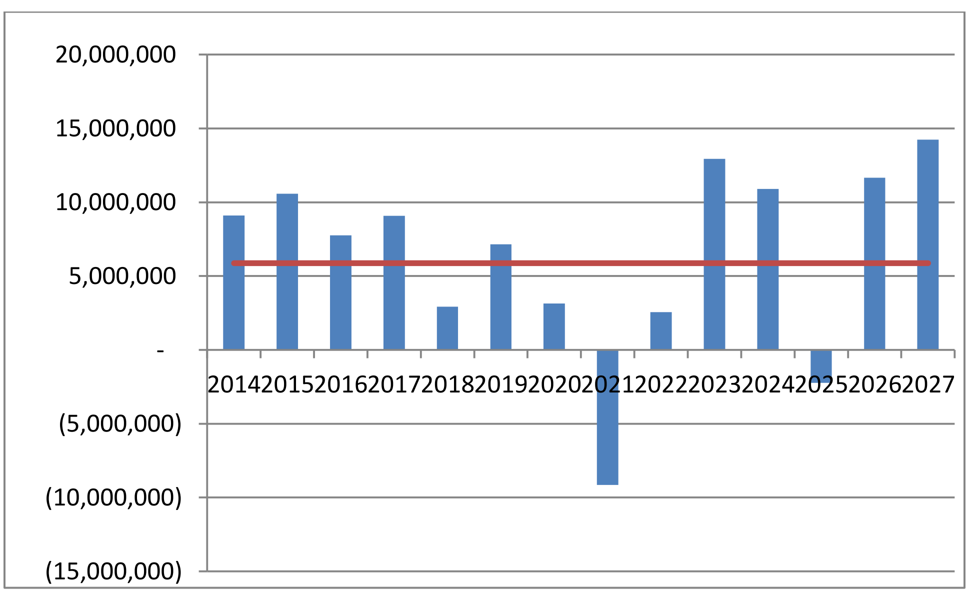
The Ministry of Municipal Affairs (MMA) provides a metric, Asset Consumption Ratio, to measure the percentage of the consumption of assets relative to original acquisition costs. This metric shows that Northumberland is performing just slightly better than the Provincial average. However, the total assets are almost half depreciated or ‘used up’ and the trend indicates that overall the County is losing ground on asset replacement. These are theoretical values for accounting purposes and only approximate the actual consumption of the assets’ useful life. However, the trend is alarming in that for all 5 years where data is available, the County has consumed almost half of the asset value and this trend is not turning around. This supports the need for an increased financial commitment to asset rehabilitation and replacement to reverse the trend.

Asset Consumption Ratio

	County	Average
2011	40.5%	44.7%
2012	41.1%	45.8%
2013	42.6%	46.7%
2014	43.8%	47.5%
2015	44.4%	48.6%
2016	45.4%	49.2%

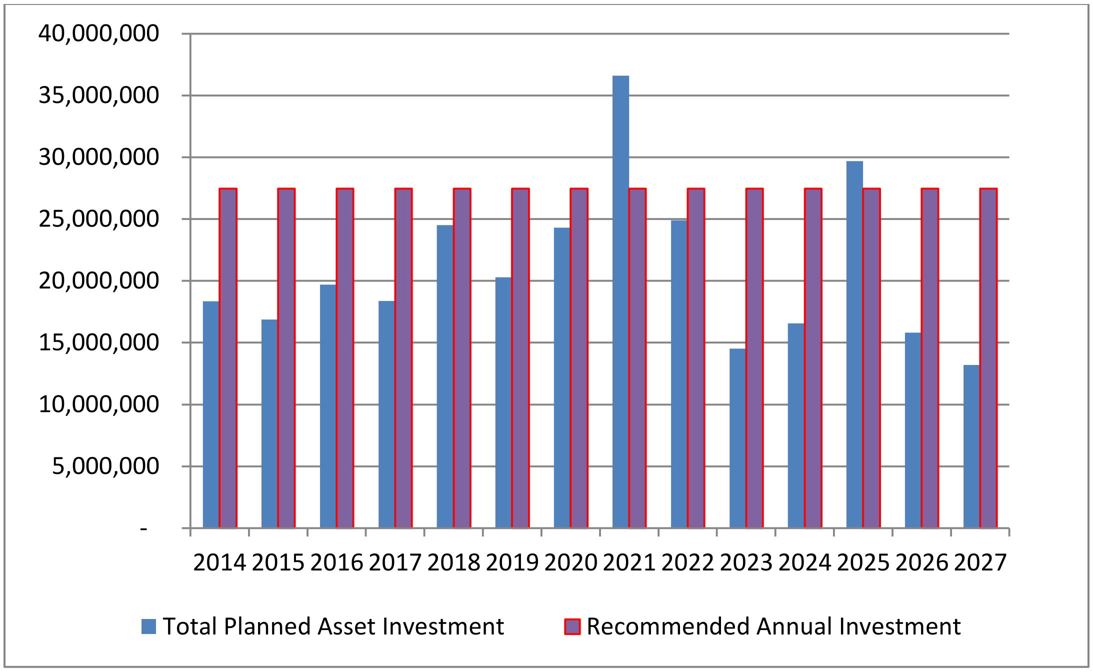
The chart below shows the projected asset funding shortfall on an annual basis over the next 10 years. The GPL rebuild commences with design and architectural costs anticipated in the years 2018 and 2019. Construction costs are forecast to commence in 2020 and carry on through to 2022; therefore, these years reflect heighted investment as a result of this extraordinary large capital project. The Trent River Crossing project is reflected in projections for 2025 as a placeholder.

Annual Asset Investment Shortfall



Comparing the planned asset investment within the 10 year plan and the targets set in the AM Plan, the shortfall is alarming in the chart below.

Capital Investments vs Asset Management Plan Investment Target



The AM plan data can be used to develop more effective strategies to manage the County's assets. Funding strategies are being developed to move toward the target levels. The priorities identified in the AM plan will drive future capital funding applications to ensure money is spent where it is most desperately needed. There is a significant amount of work to be done and strategies to develop now that more robust asset data is available.

This type of infrastructure deficit is not unique to Northumberland County. A study conducted in 2012 by the province of Ontario, the Association of Municipalities of Ontario (AMO) and the City of Toronto predicted that over the next 10 years

"Ontario Municipalities will need about $28 billion to address the investment gap between current funding and what would be needed to repair and maintain the entire municipal inventory of roads, bridges and culverts."[1]

In an effort to close the gap between actual spending on capital and what is required to keep pace with the deterioration of County assets, the draft 2018 budget includes a dedicated infrastructure levy. The amounts set aside from the dedicated infrastructure levy will be used to fund designated infrastructure projects. The amount included as dedicated infrastructure levy in the 2018 budget is $389,769 comprised of $342,944 as calculated based on the target set by Council (2% of the 2017 capital budget costs) and a further $46,825 allocated from savings realized with the proposed operating levy at 1.91% vs. the Council directed target of 2.0%. Council further authorized that staff target for the dedicated infrastructure levy index

[1] Sarah B. Hood, "The Asset Gap," *Municipal Monitor*, Q1 2015, pgs 8-9, (quoting Tom Dawe, Public Sector Digest)

factor to increase by 0.5% in each year of the long term model calculated on the prior year capital budget. Therefore, the dedicated infrastructure amount grows slowly over time. Given the GPL rebuild and Campbellford Bridge are large extraordinary type capital initiatives, they are excluded for the purposes of calculating the dedicated infrastructure levy in the applicable years. The dedicated levy will reach an annual contribution amount of approximately $935k by the end of the 10 year plan.

This strategy is in line with what a number of other Ontario municipalities are starting to do to address the infrastructure gap. Some of those municipalities that now have a similar budget tool to address this problem include the City of Barrie, Newmarket, Brampton, Mississauga, Centre Wellington, and Woolwich Township.

Given the economic challenges within the broader County a slow and steady approach was approved. This will result in only 20% of the annual funding gap being closed at the end of this 10 year plan. Funding opportunities, new technologies and operating efficiencies will all contribute to accelerating the closure of this gap. As economic circumstances change, the pace of ramping up the dedicated levy will be re-evaluated.

Reserves

Reserves are an important tool for long term planning. As part of the long term planning process, reserves are being set aside to pay for future capital projects and unexpected operating expenses such as extreme weather events. As infrastructure needs are becoming better defined through the AM Plan and various departmental master planning processes, it is becoming more apparent that the County will not have near enough funds set aside for future infrastructure needs. The dedicated infrastructure levy assists with building reserves in an effort to be better financially prepared for impending capital needs.

The County’s reserve position has improved through 2015/16. Once again, the County has exceeded the Provincial average when looking at reserve contributions as a percentage of operating expenses. The portion of departmental budgets allocated to reserves has increased but planned reserve contributions need to be further enhanced in future budgets. Reserves allotted specifically for the GPL rebuild and the Campbellford bridge will significantly reduce the County reserve position once these funds are utilized to finance these large extraordinary capital projects. The Ministry of Municipal Affairs has once again assigned a risk rating of low based on the County’s level of reserves in 2016. While this metric is important, it should be noted that MMA uses all reserves for its evaluation. In 2016, this included $4.4M in project carryovers which were only established as temporary reserves. Even after adjusting for the temporary reserves, the County has made significant progress in building reserves.

Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses

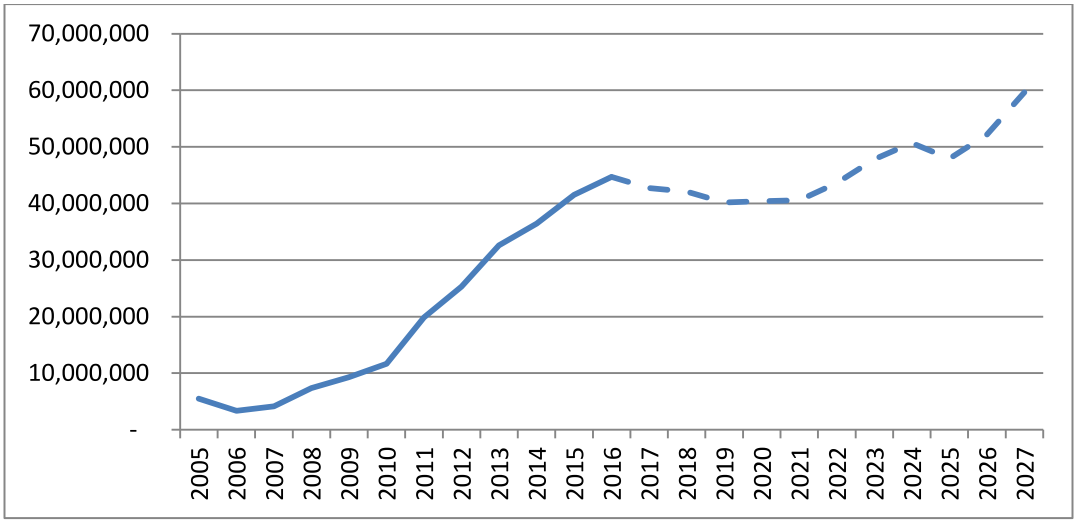
	County	Average
2007	6.1%	23.9%
2008	10.0%	28.1%
2009	12.9%	30.7%
2010	24.8%	30.7%
2011	27.3%	32.9%
2012	31.2%	37.1%
2013	39.2%	33.2%
2014	41.5%	33.3%
2015	46.3%	34.5%
2016	54.0%	35.9%

The County's reserves as a percentage of operating expenses have increased substantially between 2007 and 2016. At the end of 2017, the County's reserve balance is expected to be approximately $42.7M. There has been a conscious effort across all departments to identify needs and increase reserve contributions. However, the ongoing operational needs will continue to prevent reserve contributions from accelerating as quickly as required. The development of an AM Plan and long term financial plan identifies future capital needs and provides a plan for ongoing reserve contributions and withdrawals for major capital projects. Given the number of major projects coming up in the next 10-20 years, the County's reserves will need to continue to grow.

The AM Plan clearly illustrated that despite efforts to save for future projects, the County will still fall far short of the funds needed for infrastructure over the next several decades. The data presented above is helpful to illustrate our progress. However, benchmarking against other upper tier municipalities should be done with caution. Each municipality provides a different range of programs and services and operate different infrastructure. The trends are useful but it is not an 'apples to apples' comparison. It is widely understood that no municipality is contributing to reserves at an adequate level.

The shortfall in reserves will require future tax increases and the assumption of more debt in the near term as infrastructure needs become more critical.

Forecasted Yearend Reserve Balance



There will be approximately $3.7M placed in reserves at the end of 2017 to carryover funds for projects into 2018 that were incomplete at yearend (primarily roads and several smaller projects). Estimated yearend reserve balances are detailed in the chart below.

Estimated Year End Reserve Balances

Reserve	2017 (est)	2018 Additions	2018 Reductions	2018 (est)
Social Housing Reserve	10,712,709	150,000	400,000	10,462,709
Working Funds/General Reserve	6,905,671	1,321,223	831,750	7,395,144
GPL Rebuild Reserve	5,069,077	1,373,846	1,000,000	5,442,923
WSIB Reserves	3,820,241	-	-	3,820,241
Roads Construction Reserve	4,434,832	646,413	1,393,000	3,688,245
Waste Services Capital Reserve	3,072,347	1,150,000	1,606,020	2,616,327
Facilities Capital Reserve	1,828,639	256,050	576,050	1,508,639
Roads Operating Reserve	1,364,082	-	-	1,364,082
Technological Reserve (Ec Dev)	873,057	150,000	-	1,023,057
EMS Vehicle & Equipment Reserve	857,559	731,600	638,600	950,559
Ambulance Base Reserve	733,000	-	-	733,000
Social Services Reserve	724,500	49,500	180,000	594,000
Roads Capital Reserve	539,079	-	-	539,079
Land Use Planning & Inspections	233,884	66,496	-	300,380
Emergency Planning Reserve	280,050	10,000	-	290,050
Human Resources Reserve	277,000	-	27,000	250,000
Ec Dev and Tourism Operating Reserve	237,678	-	-	237,678
Insurance Claims Reserve	136,480	100,000	50,000	186,480
Forest Reserve	129,915	41,416	10,500	160,831
Corporate Service Dept. - Operating Reserve	138,699	-	-	138,699
GPL Capital Reserve	125,458	-	-	125,458
Other Reserves	98,718	-	-	98,718
Workplace Safety Program Reserve	64,468	-	-	64,468
IT/Phone System Replacement Reserve	41,000	10,000	-	51,000
GPL Donations Reserve	26,340	-	-	26,340
	42,724,483	**6,056,545**	**6,712,920**	**42,068,108**

Other liquidity measures indicate significant improvements in the cash position of the County and these measures are directly related to the improved reserve position. The Total Cash & Cash Equivalents as a % of Current Liabilities was rated by MMA as low risk. However, it should be noted that this metric can vary year over year depending on timing of shorter term investments such as GICs as it only captures balances in bank accounts and does not include other very short term and liquid investments. The County continues to invest in GICs, short term, and long term cashable bonds aligned with cash flow requirements ensuring access to funds if required for operations or capital purchases. The change in these liquidity measures reflects timing of cash flows, investment of maturities and investment of short term liquid funds. This County investment strategy has led to a significant increase on the return on the County's investments yields. All investment are low risk, preserve principal and in compliance with the requirements of the Municipal Act.

Total Cash & Cash Equivalents as a % of Current Liabilities

	County	Average
2012	97.9%	302.6%
2013	214.9%	317.5%
2014	48.2%	323.9%
2015	188.3%	321.6%
2016	23.5%	280.5%

Debt

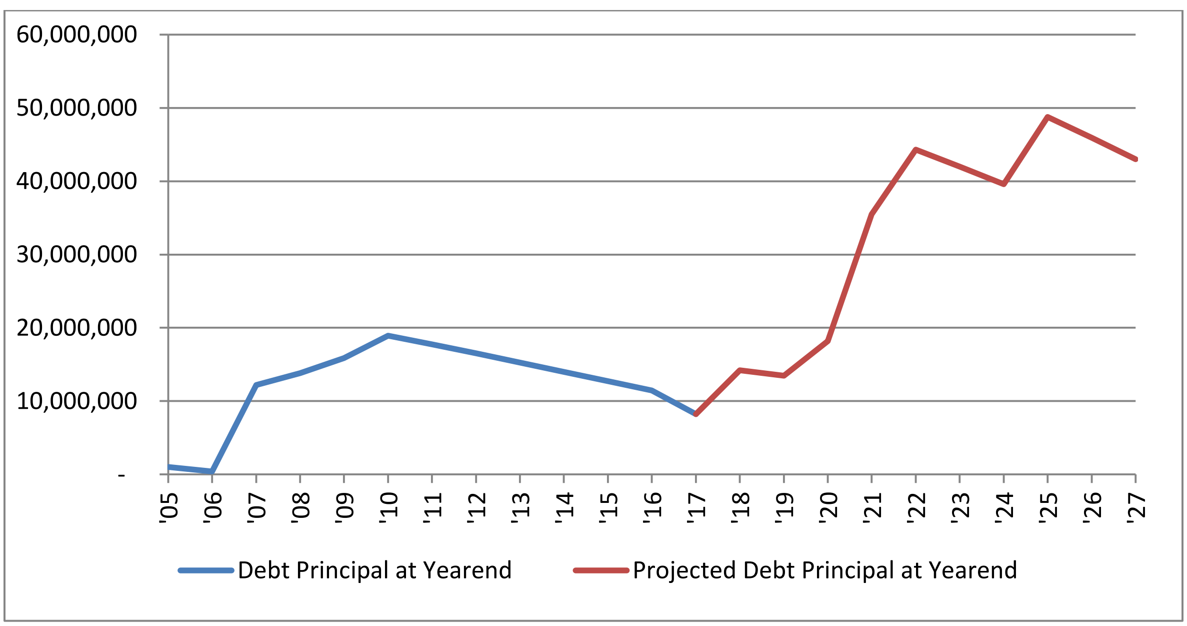
The County's outstanding debt continues to be at a very manageable level. It is well below the annual repayment limit set by MMA. The County did acquire debt in 2017 as was anticipated within the long-term financial plan. Debentures in the amounts of $2.5M and $1.2M were issued by Infrastructure Ontario for the Brighton Landfill expansion and the Cramahe Shared Emergency Base, respectively. Prior to this, the County had not taken on any new debt over the previous 6 years which resulted in the principle outstanding steadily decreasing. The County, as a public body, is able to acquire debt through Infrastructure Ontario with rates that are generally preferable to what can be garnered through private financing sources. The term on the loan for the financing of the new County Headquarters matured in 2017. Given this is an existing asset that would not be eligible for refinancing at lower rates with Infrastructure Ontario, the loan was paid out in the amount of $5.9M utilizing corporate reserves. This will allow for increased debt capacity in future years. The anticipated savings realized from not re-financing this debt have been redirected into reserves.

Capital works in 2018 anticipated to be financed by debt include Brighton Landfill expansion, Roseneath and Trent Hills Shared Emergency Bases and Paramedics power-lift stretchers totaling $7.3M. Municipalities are only permitted to assume debt for capital projects. The debt level projected for 2018 is $14.2M which is approximately $353 per household. The Provincial average was $1,200 per household (based on 2012 data). While the infrastructure in each municipality varies significantly, the County is clearly managing debt at a level well below most other municipalities.

As the longer term financial needs are considered, the County will need to take on some additional debt in the medium and long term. Progress has been made to build reserves for future projects. However, adequate reserves will not be accumulated prior to beginning these critical projects. Major projects that have been identified for partial financing by debt will be the Golden Plough Lodge rebuild and the construction/replacement of the Trent River crossing in Campbellford. It is also anticipated that a new Paramedic base in Brighton will be financed by debt. As more detailed project plans are developed and cost estimates are refined, the specific financing tools will be reevaluated. A portion of these projects will be funded by reserves but it is unlikely sufficient reserves can be set aside in time for these projects. A business case analysis will completed to determine if it is a more prudent business decision to forego the return on invested funds or pay interest on debt. In the current environment of exceptionally low interest rates the difference between options has been marginal.
The exceptionally low cost of debt available to the low risk municipal sector presents an attractive business case. In some instances, it may be more prudent for the County to leave reserve investments in place and assume additional debt at today's low interest rates. Further, the Paramedics bases noted above will be funded 50% by the Provincial subsidy for interest costs which will likely create a small positive margin for the County.

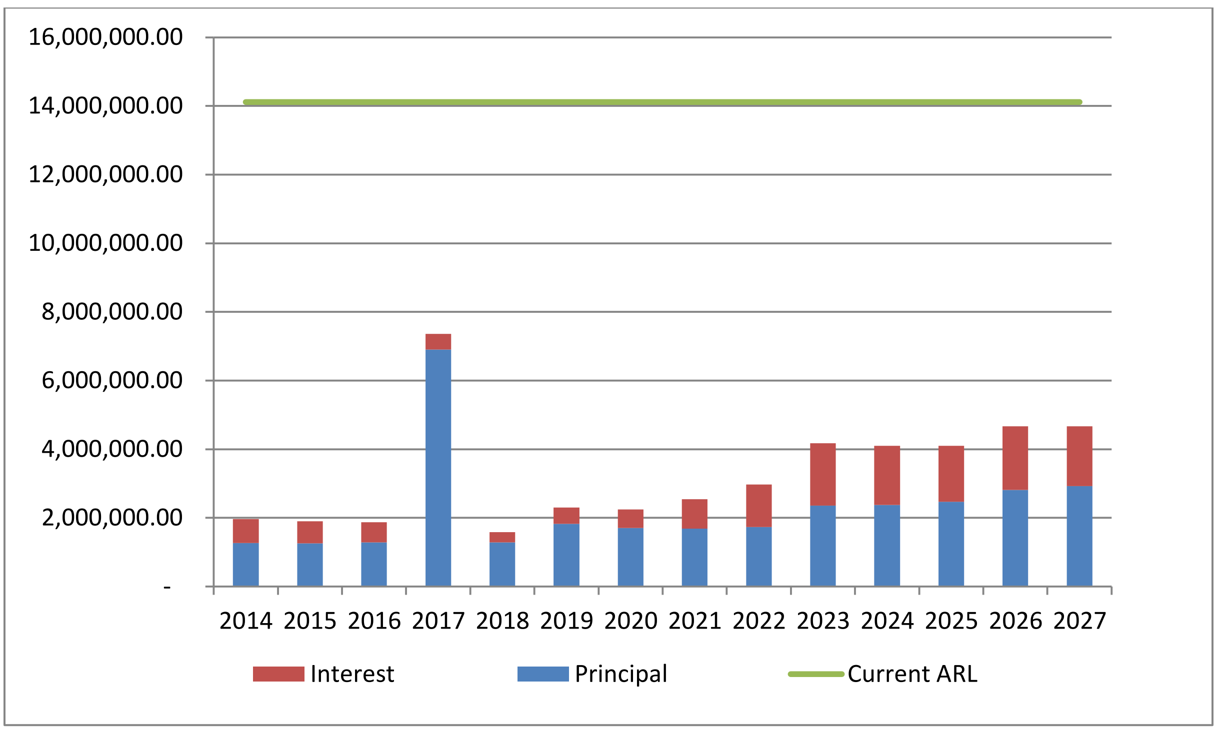
The chart below shows the current debt being paid down and the addition of new debt based on the estimated costs for the projects as noted above. The GPL rebuild commences in 2019 with the initial design and architectural services financed by reserves. It is anticipated that construction financing will commence in the year 2020 with the final debenture being issued in 2023 upon project completion. In the long-term model the total project will be financed 73% by debt and 27% by a reserve specifically earmarked for this. There is a placeholder for the Trent River crossing in Campbellford in 2025 financed 54% by the bridge reserve which is primarily funded by the dedicated infrastructure levy and 46% by debt.

Forecasted Yearend Debt (Principal)



The debt repayment schedule below also shows that the amount of budget dollars required to service the debt will remain relatively flat until about 2021 when financing costs for construction of the GPL rebuild is anticipated to commence. Debt principle costs in 2017 are disproportionately high as a result of paying off the loan for the County Headquarters. The County's annual debt repayment remains well below the maximum permitted per our Annual Repayment Limit (ARL) established by the Province. The 2017 limit set by the Province was $14,113,244. The County continues to have debt room within the ARL. Historically, the focus was on only assuming debt for high value capital projects that will provide taxpayer benefit well into the future. As mentioned above, the very unusual economic circumstances of today with unprecedented low interest rates have prompted a reevaluation of this strategy. These financial circumstances present potential opportunities to strategically advance infrastructure projects and see tax dollars stretched further by using cost effective debt tools.

Debt Repayment Schedule



MMA provides two sustainability metrics to identify concerns with a municipality's ability to continue to pay for servicing long term debt commitments. The County's position had weakened for both of these metrics due to the increase in long term debt since 2006. However, it has shown improvement with a modest amount of debt being issued since 2011. The Net Financial Assets or Net Debt as a % of Own Purpose Taxation metric is rated low as well as the risk rating for Net Financial Assets or Net Debt as a % of Total Operating Revenue. This metric will continue to be a positive indicator of the County's positive debt position.

Net Financial Assets or Net Debt as a % of Own Purpose Taxation Plus User Fees

	County	Average
2007	-40.9%	-6.1%
2008	-31.9%	7.4%
2009	-43.7%	-4.1%
2010	-58.5%	0.8%
2011	-36.3%	6.4%
2012	-27.3%	11.9%
2013	-12.6%	16.3%
2014	-5.5%	17.3%
2015	3.0%	20.5%
2016	13.5%	23.6%

The recent debt has been at relatively low interest rates which are not reflected in the metrics. These low rates have helped keep the cost to service debt at a minimum. The metric measuring debt servicing cost continues to be risk rated as low by MMA and the County remains aligned with the provincial averages.

Debt Servicing Cost as a % of Total Operating Revenue

	County	Average
2007	0.7%	2.1%
2008	1.7%	2.3%
2009	1.8%	2.4%
2010	2.1%	1.9%
2011	2.3%	2.1%
2012	2.2%	2.1%
2013	2.2%	2.0%
2014	2.1%	1.9%
2015	1.9%	1.8%
2016	1.8%	1.8%

Conclusions/Outcomes

The 2018 draft budget and long term financial plan provided a challenge meeting the Council approved target increase within the model at 2.0% recognizing the established long-term needs. Staff were able to find efficiencies in light of additional expenditures resulting in an increase below the target at 1.91%. This allowed for the allocation of the savings into the dedicated infrastructure levy recognizing future capital needs. The Long Term Financial Planning Framework provides the foundation for a well-established budgeting process that sees major projects and initiatives being identified within the long term plan that are simply forwarded into the current budget year. This forward thinking, long term approach has put a significant focus on building reserves, funding strategies and asset management.

The budget and supporting documentation is fully aligned with the 2015-19 strategic plan and will advance the priorities established in that document. Each department has developed a budget document that is linked to the four strategic pillars, the mission and vision. The initiatives identified and funded within the draft budget focus on People, Partnerships and Possibilities, achieving best practices and collaboration.

The proposed 2018 budget does not include any new programs or services but continues to meet the demands for all existing services. The operations are well funded and departments are able to effectively deliver services with this proposed budget. However, funding is still not adequate in areas such as long term care. Shortfalls in Provincially funded services continue to put pressure on the County levy. Recent Provincial legislation is placing additional burdens on budgets either directly or indirectly as a result of increased compliance requirements. Costs are being contained with departments being able to accomplish more with the same or less funding.

The infrastructure needs will be a challenge over the long term but the proposed budget provides for the immediate needs identified by each department and all projects previously identified for 2018 in the long term plan. The budget allows for some reserve contributions as we continue to look forward. This budget lays out a strategy for a dedicated capital levy that will build through each successive year in an effort to reduce the annual infrastructure gap.

The County is financially stable and the 2018 budget focuses on preparing for the future. Each department maintains a strong foundation that is being built on sound fiscal decisions that position the County well to achieve success in delivering quality programs and services, maintaining infrastructure and being in a solid position to respond to the pressures of the economy and needs of the community.