Council Report # 2018-82

Title: 2019 Draft Budget and 10 Year Financial Plan

Prepared by: Glenn Dees, Director of Finance/Treasurer

Reviewed by: Jennifer Moore, CAO

Approved by: Jennifer Moore, CAO

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

Council Date: December 12, 2018

Recommendation

"Now Therefore Be it Resolved That the 2019 Draft Budget and 10 Year Financial Plan Report be received for information."

Purpose

This report provides an overview of the 2019 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 20th subsequent to staff receiving Council approval for a target base levy increase of 2.5% for the 2019 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 0.27%. The approval for a target levy increase derived from economic indicators 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 2019 initiatives to move forward with funding in place and demonstrates ongoing improvements in the budget process and long term planning. The 2019 draft budget proposes an annual increase of 2.5% to the base levy which is aligned with the 2.5% target. The 2020-2028 long term financial plan is built on annual levy increases of 2.5% after assessment growth. This is the 9th 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 2019 budget includes an additional nine years of projections through 2028. Staff revise the forecast each year to include changes in Provincial funding, refining estimates based on new information and legislation, 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 2.5% of the 2018 capital budget with a 0.5% escalation factor in each year of the 2020-2028 long term forecast based on the prior year capital budget.

The draft 2019 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

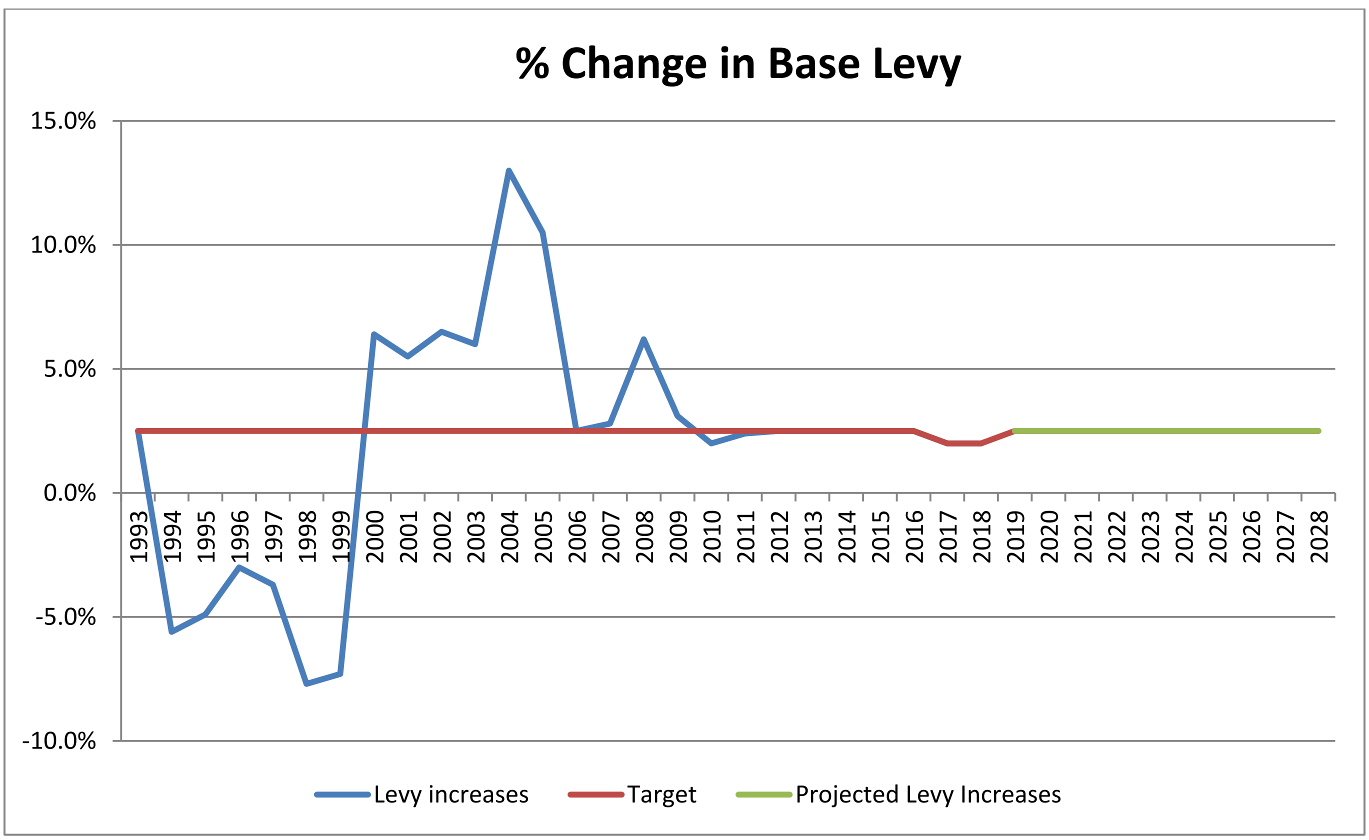
The draft budget funds the continuation of all current programs and services although some specific programs will see minor modifications that are the result of changes to Provincial subsidies and/or program guidelines and legislation as well as a continual drive to ensure the best value for the programs 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 2018 immediately following the initial budget presentation to Council.

Preliminary draft budgets were developed by each division in July/August 2018 and then reviewed at department meetings with Council representatives (2 Councillors) at the monthly meetings in September and October. The 2019 budget schedule included facilitation of a public information open house. Northumberland County staff held a Financial Planning Framework Open House on June 27, 2018. 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. The survey was also available on the County website commencing June 21st allowing for responses up until July 5th. Unfortunately, the public response was very limited despite promotion through both traditional and social media. Results were reported to Council in July. The budget was consolidated by the Finance department who worked closely with each division and sought input from Council representatives 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 2019 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 or projects where debt is available at exceptionally low rates that allow project funds to be stretched further. 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 redevelopment, Trent River Crossing and a consolidated operations facility 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 2.5% as approved by Council. For the 2017 and 2018 budget years the base levy target increases had been set at 2.0% indicative of economic inflationary indices at that time. Prior to the 2017 budget, previous 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 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.

In future years, the County will assess the merits of moving to multi-year budgets. This model is permitted within the Municipal Act and is in use by a number of municipalities across the Province. A multi-year budget would formalize our long term planning process and streamline the work required on an annual basis to prepare a detailed budget as only a few changes are made to reflect unforeseen budgetary items.

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 2019 budgetary cycle. This was the second consecutive year for holding the open house. The event and survey was advertised via social media, the County website, newspapers and radio with a media advisory also issued. 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 also posted on the County's website allowing for responses over a two week period. As part of the budgetary process, staff committed to compiling results of the survey to report to Council in consideration for the 2019 budget and in development of the 2020-2028 long-term financial plan. Staff provided a report to County Council highlighting responses of the open house and survey.

There were five 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 July 5th and one response was received.

Discussion

2019 Budget Overview and Economic Outlook

The 2019 draft budget proposes a 2.5% base levy increase. This proposed increase is aligned with the annual inflation rate of 2.4% as reported by Statistics Canada for the month of October 2018 and is more than the inflation target of 2.0% as set by the Bank of Canada (BOC) 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 2018 was 5.2% for the greater Toronto area which is a more indicative measure of costs related to County infrastructure construction projects. This most recent 2018 Non-residential Building Construction Index at 5.2% (2.7% 2017) is substantially higher than the County's target rate in the long-term plan. The County will continue to need to monitor these inflationary pressures and revise levy assumptions within the long term model appropriately in order to deliver programs and services and simultaneously invest in infrastructure and contribute to reserves for the considerable future needs.

The Canadian economic outlook has less uncertainty underpinning it with the recent forward momentum of the North American Free Trade Agreement (NAFTA) renegotiations and the drafting of a new U.S. Mexico Canada Agreement (USMCA). U.S. national security tariffs on key Canadian exports in the auto and steel and aluminum industries currently remain in place. The USMCA validates and makes several accommodations on U.S. national security tariffs allowing for continued protectionism measures and the possibility for the imposition of more of these tariffs in the future. Trade uncertainty still remains relative to the likelihood for the lifting of the current tariffs and the ability or desire for the U.S. to expand protectionism with any further national security tariffs. The drafting of the USMCA does not remove trade uncertainty entirely, however, it does provide for a greater level of comfort and less apprehension for future Canadian economic performance. Recent record low pricing for Canadian crude poses risks to the oil industry and implies some downward pressures on economic growth. Canadian Gross Domestic Product (GDP) is anticipated by economists to expand within the range of 2.0% to 2.2% this year and next. The first year of legalization of cannabis will contribute to GDP within 2019 resulting in a one-time gain. The impact from legalization of cannabis is estimated at up to 20 basis points so absent this the GDP estimate would be in the range of 1.8% - 2.0% for 2019. Most recently, the Federal fall fiscal update announcing the roll out of corporate tax cuts should likely expand business investment further stimulating economic growth. These tax policy changes are being implemented to help offset the impact of U.S. tax cuts to ensure Canadian competitiveness with the U.S. The Ontario government has committed to matching the changes provincially. It is anticipated these measures will be effective to improve Canada's competitiveness but that it will also raise the cumulative deficit projections for both the Federal and Provincial governments. The recent announcement of the GM Plant closure in Oshawa is anticipated to impact Oshawa and surrounding areas but overall the economy is running close to capacity and the jobless rate is matching a four-decade low.

In light of the economy operating near capacity, unemployment at a multi-decade low and growing inflationary pressures it is anticipated that the BOC will continue to raise interest rates into 2019. Household debt has been identified as a key financial risk in the economy by the

BOC when considering interest rate hikes; however, the central bank noted earlier this year that the risk is lessening with the recent changes to mortgage regulations. The BOC has raised the trend setting overnight interest rate on 5 occasions since July of last year. In each instance, the rate was increased by 25bps and currently sits at 1.75%. It is anticipated by economists that the BOC will continue to raise rates in 2019 with 2 further 25bps increases. 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 2.4% year-over-year in October is well above the 2.0% that the BOC targets for in its monetary policy. The CPI peaked at an annual rate of 3.0% in July 2018. Economists are forecasting the inflation rate to move downwards towards the 2.0% target by the end of 2019 and for interest rate hikes to resume in the first quarter of 2019. The sustained period of lower inflation in prior years as well as the general economic conditions had benefitted the County in several ways:

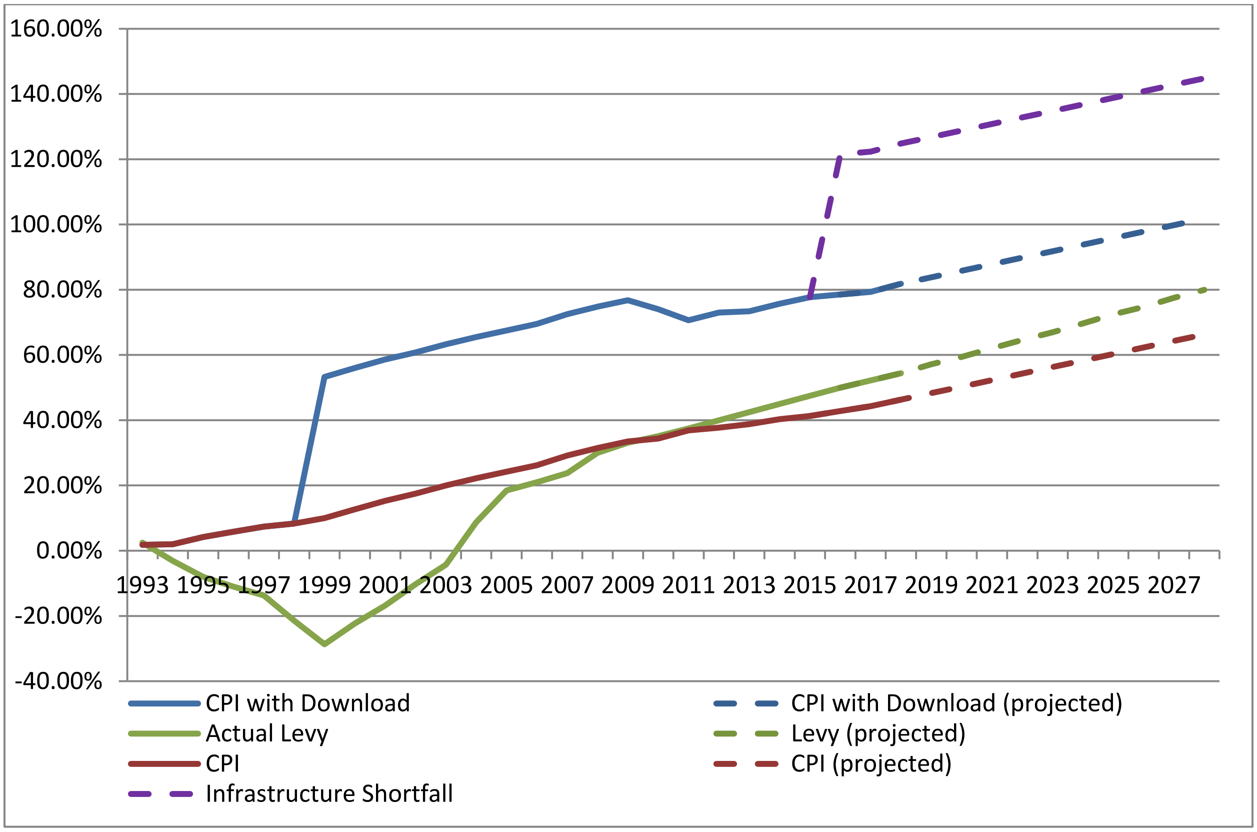
- Purchases of services had seen significant competition and favourable pricing
- Fuel prices have remained fairly stable
- Salary and benefit increases had levelled off and

As mentioned, many of the County's expenditures move independently of inflation as measured by the CPI. Additionally, the County has not fully re-established sustainable budgets for all departments such as transportation and waste. Heightened inflationary pressures now evident within the economy will make it increasingly difficult to continue to limit tax levy increases to 2.5% without impacting programs and services or seeing the infrastructure deficit worsen.

Applicable to Provincial legislation, much of the previously anticipated burden under the Fair Workplaces, Better Jobs Act (Bill 148) has recently been repealed by the new Provincial government. Primarily, for 2019, the largest impact would have been for new provisions under the legislation for on-call pay whereby a minimum of three hours' pay would be required if an employee is available to work regardless of whether they were called in or not. This would have impacted significantly on the County budget for workers not deemed as exempt for providing essential services if it had not been repealed.

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 2018, the County benefitted from:

- Competitive markets producing favourable pricing for most tenders and RFPs
- Continued reasonably stable fuel pricing
- Provincial subsidies for Paramedics, long term care and most Social Services programs met budget expectations, and
- Stable caseloads in Social Services and program savings

However, the County was financially challenged by:

- Waste leachate haulage and treatment costs
- Waste revenues for recyclable sales and landfill tipping fees
- Winter maintenance costs
- Asphalt cement prices, and
- Low Canadian dollar causing equipment purchases to escalate

All of these trends have been reflected in the 2019 draft budget in addition to other factors including:

- Impacts of the Waste Master Plan that was approved in 2014
- Increased interest revenue projections based on favourable 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 2019

The County continues to monitor program, legislative and funding decisions being made by the new Provincial government. The draft budget reflects decisions made up to November 2018. However, there are currently a number of programs under review and the financial impact to the County is not yet known.

The 2019 draft budget (**cash basis**) is as follows:

		2017 (M$) Budget	2018 (M$) Budget	2019 (M$) Draft
Revenue				
	Levy	52.3	54.1	56.5
	Grants & Subsidies	36.8	39.1	39.2
	Other Revenue	16.7	17.1	17.4
	Total Revenue	105.8	110.3	113.1
Borrowing				
	Debenture	2.2	7.3	1.6
	Internal Borrowing	0	0	0
	Total Borrowing	2.2	7.3	1.6
Total Revenue & Borrowing		108.0	117.6	114.7
Expenditures				
	Operating	90.2	94.6	97.2
	Capital	17.1	22.4	17.5
	Debt Principal Repayment	1.8	1.3	1.5
	Total Expenditure	109.1	118.3	116.2
Reserves				
	Transfer to Reserve	5.3	6.1	6.9
	Prior Year Project Carryover*	(2.0)	(3.7)	(3.2)
	Transfer from Reserve	(4.4)	(3.0)	(5.2)
	Net Change in Reserves	(1.1)	(0.7)	(1.5)
Total Expenditures & Reserves		108.0	117.6	114.7

* The prior year project carryover approved per by-law November 2018.

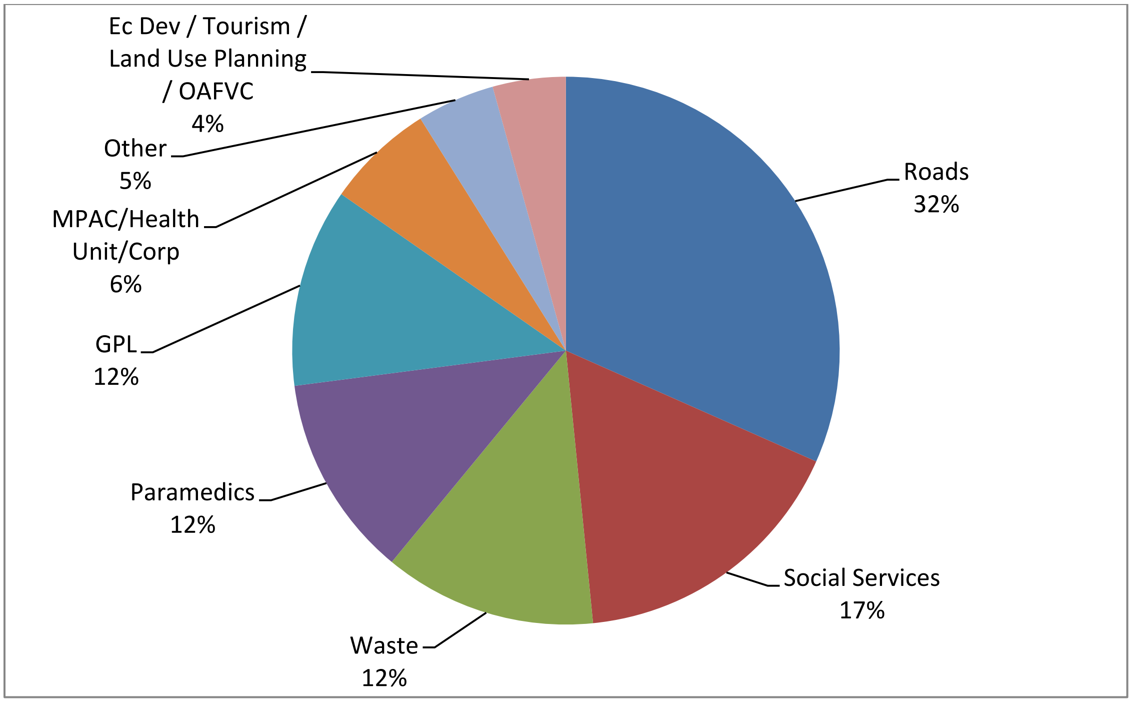
The 2019 draft budget (**accrual basis**) is as follows:

		2017 (M$) Budget	**2018 (M$) Budget**	**2019 (M$) Draft**
Cash Budget		108.0	117.6	114.7
Less:				
	Debt Principal Repayment	1.8	1.3	1.5
	Capital	17.1	22.4	17.5
	Internal Borrowing	0	0	0
	Debenture Financing	2.2	7.3	1.6
		(21.1)	(31.0)	(20.6)
Add:				
	Amortization	8.2	8.6	8.9
	Future Employee Benefits Liability	0.2	0.2	0.2
	Landfill Post Closure Liability	0.6	0.6	0.6
		9.0	9.4	9.7
Accrual Based Budget		95.9	96.0	103.8

Levy

Each County department is funded through multiple sources. The proposed $56.5M 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 17% of the levy goes to the Community and Social Services department. This is split fairly evenly between Social Housing and Social Services programs. 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 12% of the levy and continues to contribute to reserves towards the future redevelopment 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 12% 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 6% 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 2019 are generally consistent with the prior year.

2019 Levy by Department



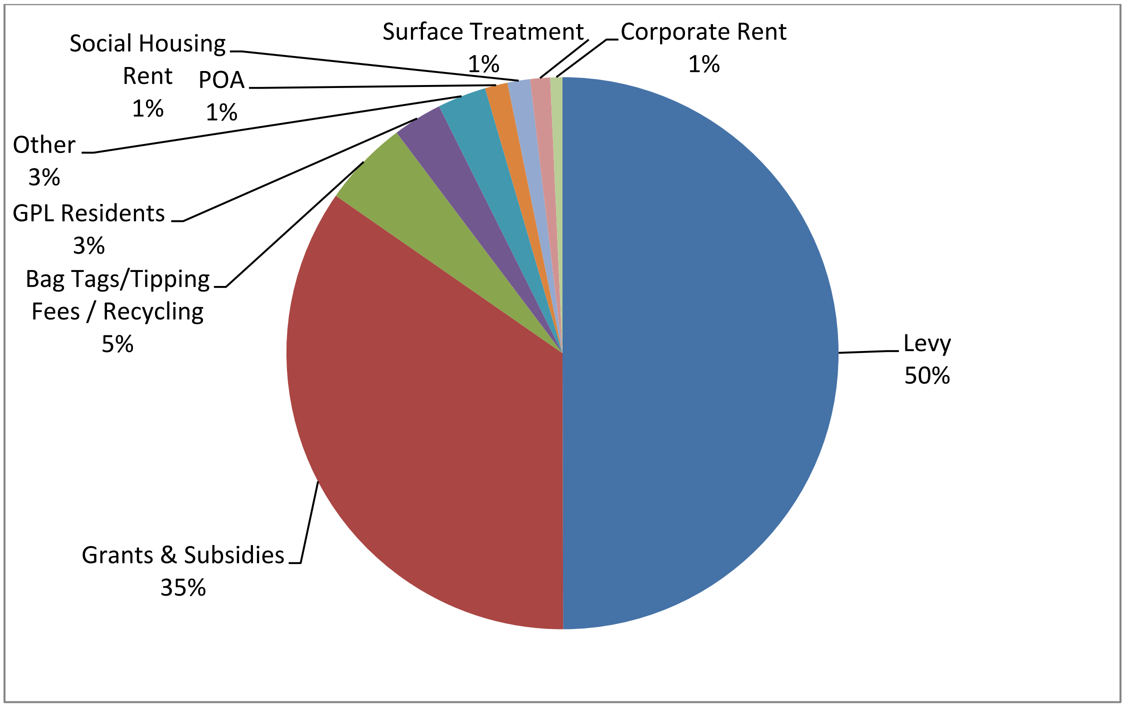
The support departments (Human Resources, Finance, Information Technology, Facilities, Corporate Management, Records Management, and Communications) are funded through internally allocated charges to each operating department. Each department is charged as follows:

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 50%. An additional 35% 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.

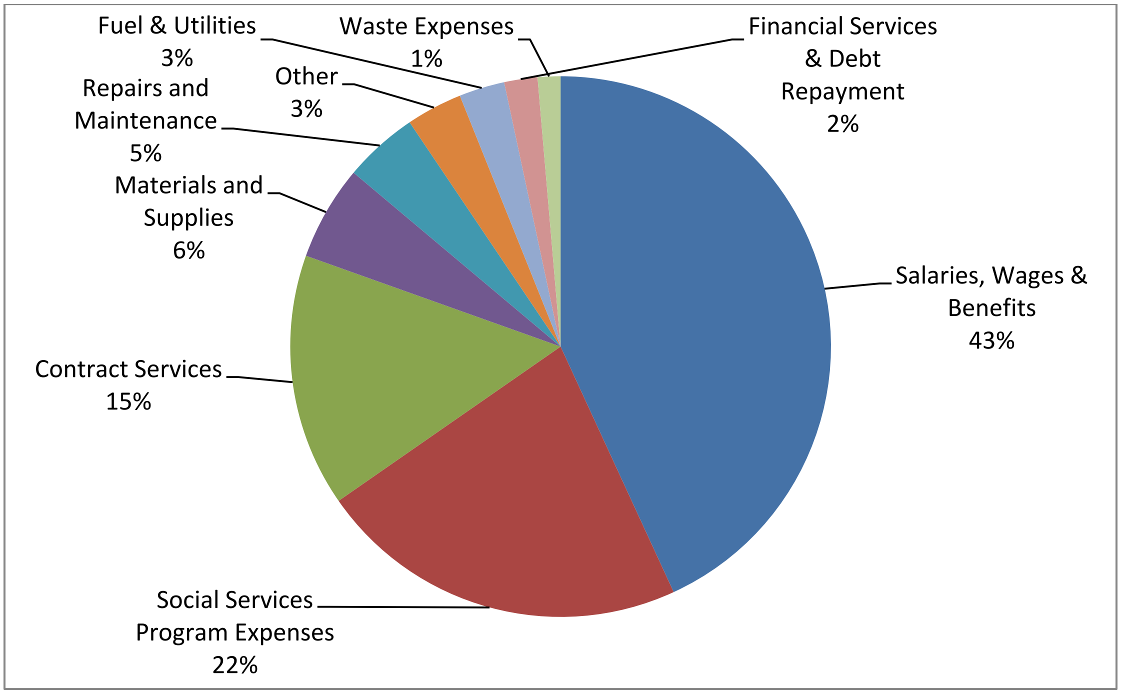
2019 Revenue Sources



Expenditures

In 2019, approximately 43% 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 22% 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 15% 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.

2019 Operating Expenditures

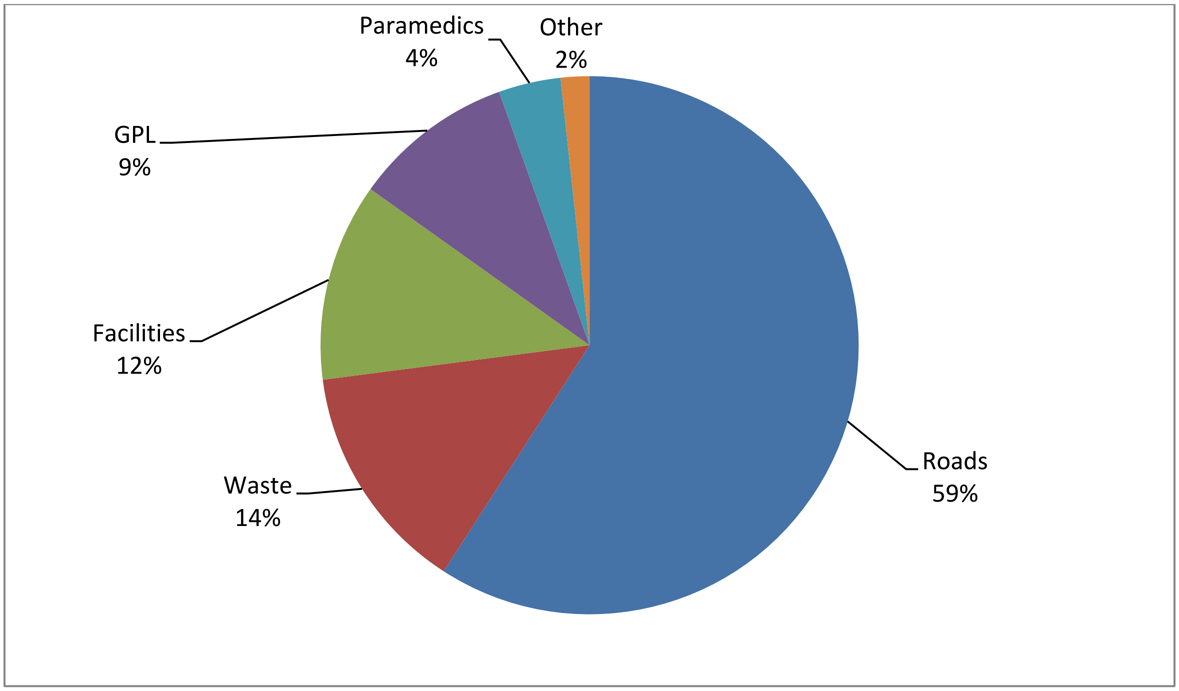


The majority of the capital expenditures will be directed to the Transportation (59%) and Waste (14%) departments. These departments manage the vast majority of the County's infrastructure. Social Housing and Facilities also manage a significant portion of the County assets. However, once again, most 2019 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 the continuation of design and architectural services for the redevelopment of the facility. The proportionate share of capital investment for the Golden Plough Lodge redevelopment has increased in 2019 and its share of the capital budget grows exponentially during the years 2020-2022 in the long term plan with the forecast for commencement of construction.

Key capital projects & purchases in 2019 include:

- Roads and bridge work
- Continuation of the GPL redevelopment project for design and architectural services
- Trent Hills Emergency Services Base
- Residual waste environmental assessment
- Organics transfer station
- Upgrades to Transfer Station Public Drop Off Areas
- Equipment replacement in Transportation, Waste & Paramedics (snow plows, trucks, ambulances)
- Social Housing and corporate building upgrades and equipment replacement
- Implementation of HRIS software systems

2019 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. The software is fully integrated with the County's existing GIS system. In addition to this, the implementation of the asset management software included customization to fully integrate financial data from the County's financial ERP system ensuring all relevant asset costing is available for analytics and linked to GIS mapping data. User acceptance training and end-user training were completed in 2018 and the software will go-live in 2019. Life cycle modeling functionality will be pursued in 2019 as the next phase in this project.

Tax Impact

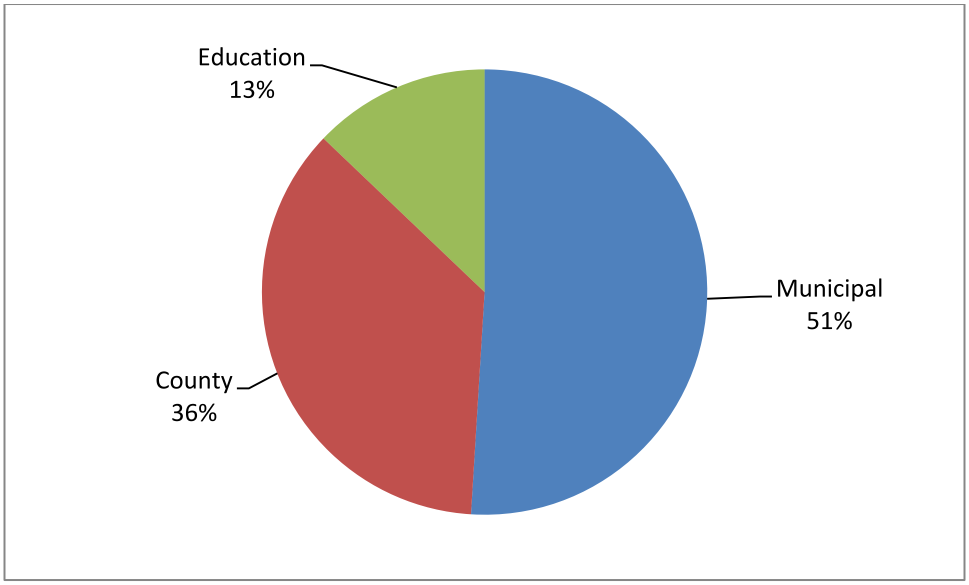
Each year it is difficult to balance the need to increase property taxes to ensure the continuation of service and maintenance of assets with the challenging economic circumstances of the County. The EOWC identified in a white paper some of the challenges faced by rural Eastern Ontario when setting tax 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 2019 is about $24 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 51.0% with the County and Education making up the balance at 36.1% and 12.9% 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?

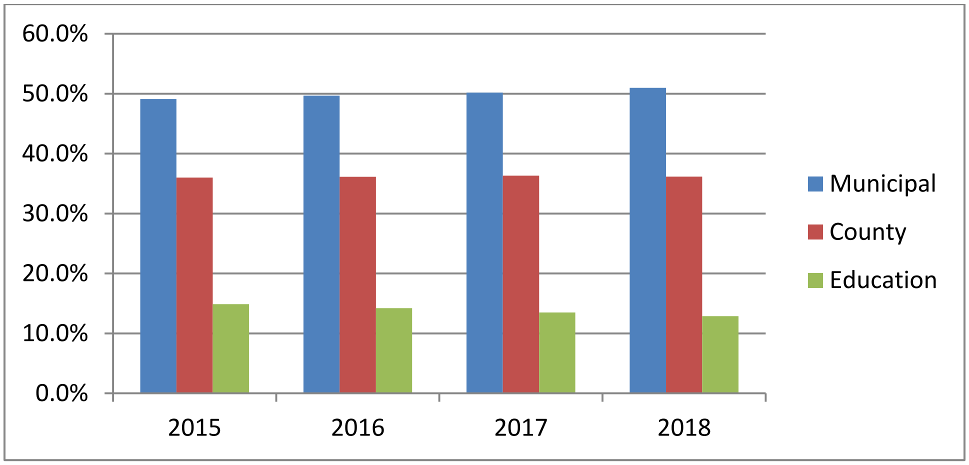


2018 Tax Rate Split

	Municipal	County	Education
Port Hope (Ward1)	59.5%	29.9%	10.6%
Cobourg	56.4%	32.1%	11.4%
Trent Hills	54.8%	33.4%	11.9%
Cramahe	53.3%	34.4%	12.3%
Port Hope (Ward 2)	47.2%	39.0%	13.9%
Brighton	47.0%	39.1%	13.9%
Alnwick/Haldimand	45.0%	40.5%	14.4%
Hamilton	44.6%	40.9%	14.6%
Average 2018	**51.0%**	**36.2%**	**12.9%**
Average 2017	50.2%	36.3%	13.5%
Average 2016	49.7%	36.1%	14.2%
Average 2015	49.1%	36.0%	14.9%

The allocation of the municipal tax dollar was fairly consistent between 2015 and 2018. The slightly lower education tax rate continued to create a small amount of tax room for the lower tier municipalities and the County. In 2018, overall the ongoing reduction in the education tax rate saw more of the proportionate share of each property tax dollar shift from education to the member municipalities.

Relative Share of Property Tax Dollars



The draft budget would see the actual residential tax rate decrease to an **estimated** 0.00474475 from .00477339 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 2019 are approved in the new-year subsequent to budget approval and once final education tax rates are provided**. The median assessed value for a single family dwelling is $249,000 for 2018. This is an increase of $6,500 over the median assessed property in 2017. Using these median values, a typical property owner would see their annual property tax for the County portion increase by approximately $23.90. 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	9.52%	5,380,142
Brighton	12.68%	7,165,151
Cobourg	24.37%	13,770,354
Cramahe	6.61%	3,732,135
Hamilton	13.16%	7,437,922
Port Hope	19.58%	11,062,355
Trent Hills	14.08%	7,957,580
County Total	**100%**	**56,505,639**

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 Councillors requesting changes to tax policy as it applies to an applicable tax class of interest to them.

Information provided within the tax policy review was considered in adoption of the property taxation policies for 2018 and will further be considered for the 2019 tax year. Modeling will be provided to Council based on the 2019 returned tax roll so that potential impacts to property owners in all tax classes as a result of any policy changes are fully understood subsequent to budget approval.

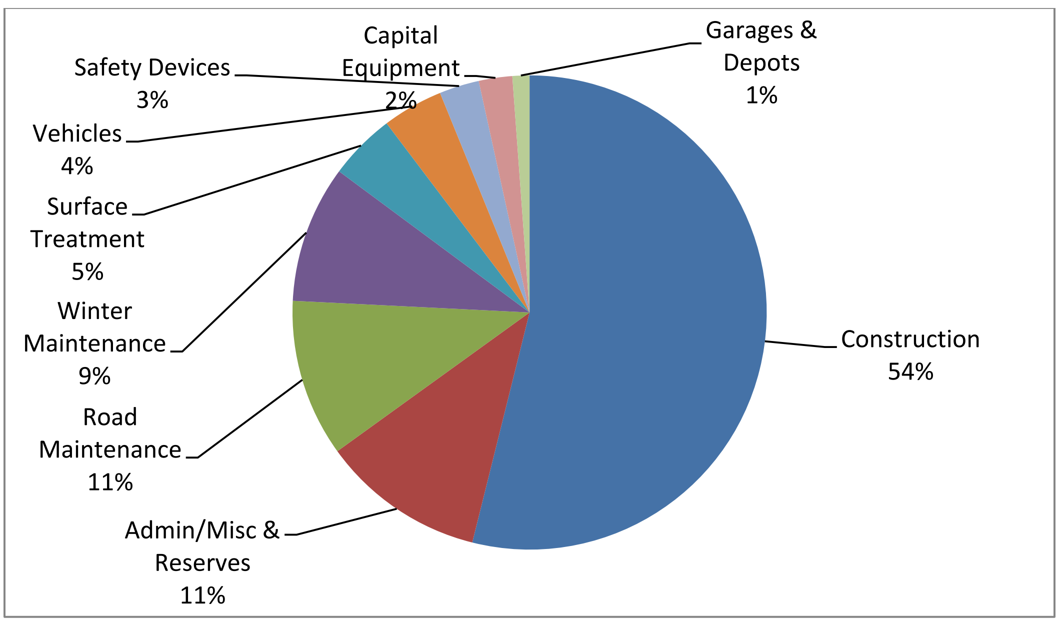
Departmental Summaries

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 $25.2M. This includes road maintenance for winter and summer, surface treatment and construction activities. This includes some funds carried over from prior year projects that were incomplete or deferred at the end of 2018 such as Trent River Bridge studies & design, Loomis Bridge works, the Emerald Ash Borer action plan and County Road 45 and Van Luven intersection improvements. 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



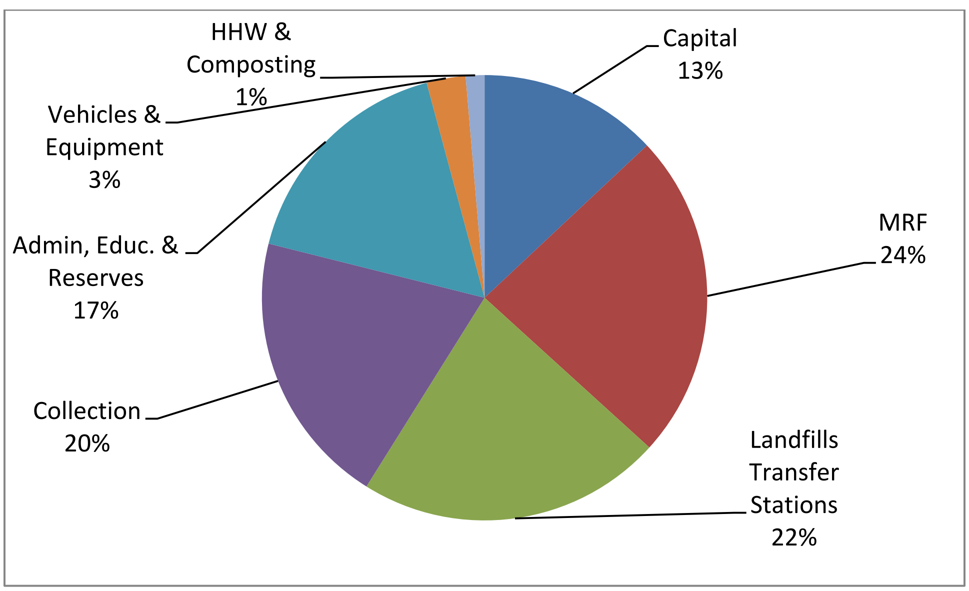
The Transportation department has included two issue papers related to re-occurring annual requests. It has been a priority to ramp-up the Roads and Bridges construction budget. The budget includes issue papers to continue with an annual increase to the roads construction base budget. There is also an issue paper to replace equipment which is at the end of life as had previously been identified in the ten year plan. The 2019 capital maintenance program for transportation facilities that had previously been allotted in the ten year plan have been redirected into Transportation reserves towards the financing of a possible consolidated operations facility. The long term plan has a placeholder for the facility in 2026 for future consideration.

In addition to the issue papers, the consolidated budget identified building the bridge reserve as a priority. $11.1M will be spent on major capital projects to improve the County's 503km road system in 2019.

Waste Services

The Waste Services draft budget is $16.0M. This includes the Material Recovery Facility (MRF) operations, curbside collection, landfill operation, closed landfill monitoring, Household Hazardous Waste (HHW) disposal and planning and education activities as well as capital projects. The draft budget includes major impacts from the implementation of organics collection, two stream recycling and the continuation of the residual waste environmental assessment. The Waste department is unique in that it has many revenue sources to fund operations. Consequently as a result of financial pressures in 2018, the department is impacted significantly in the 2019 budget to reflect revenue trends resulting in increased levy requirements to finance a more significant proportion of its operations. Reduced MRF revenues reflective of recycling commodity pricing, tipping fees revenues and increased leachate treatment and haulage costs have all had measurable impacts on the 2019 budget. Pressures will continue well into the future as the County implements the commitments identified in the 2014 Waste Master Plan, experiences limited funding from the Province and continued risk of instability in non-tax revenues. Organics collection will have the benefit of increased diversion rates ultimately expanding the service life of the County's one remaining active landfill and two stream recycling will moderately enhance revenues with better pricing on more marketable recyclable materials.

Waste Expenditures

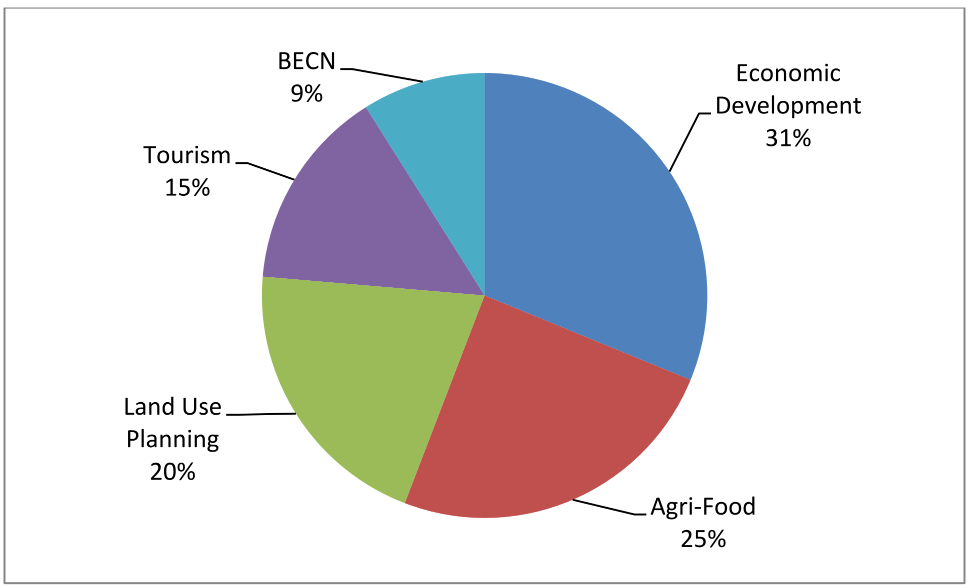


The Waste department issue papers include an annual request for the purchase of capital equipment which is included in the base budget. There is also an issue paper for changes to the Waste department organizational structure to facilitate waste diversion initiatives as outlined in the Waste Master Plan.

Economic Development, Land Use Planning & Tourism

The draft Economic Development budget for 2019 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 submitted one issue paper for phase 2 of a major employment area study.

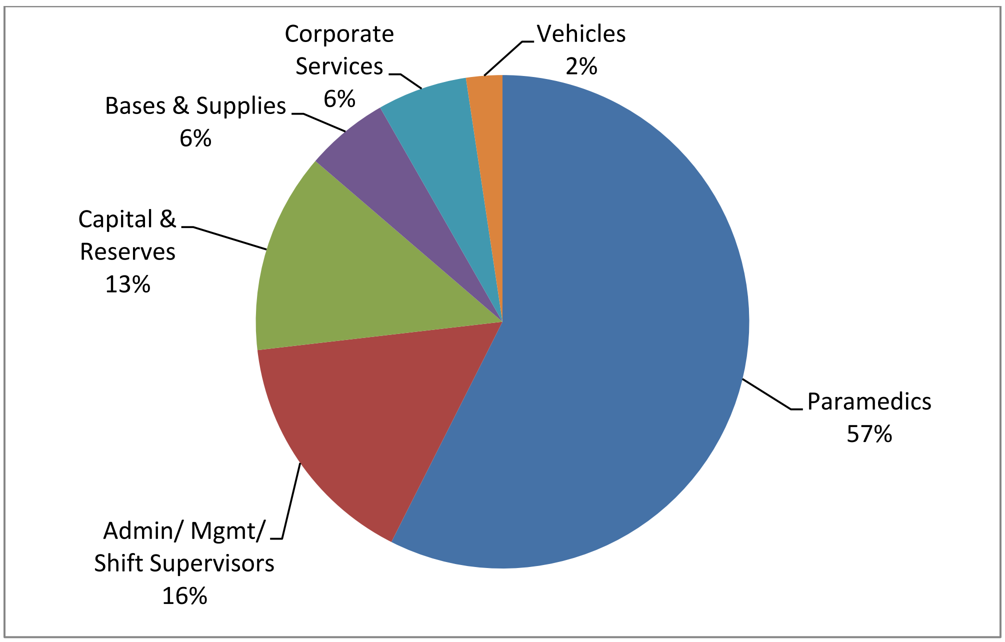
Economic Development, Land Use Planning & Tourism Expenditures



Northumberland Paramedics

The proposed 2019 budget for the Paramedics department is $14.0M. 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 five issue papers in the draft 2019 budget comprised of the acquisition of a back up generator for the Port Hope Base, a scissor lift for the Cobourg Base, a rural emergency response vehicle study and two staffing issue papers.

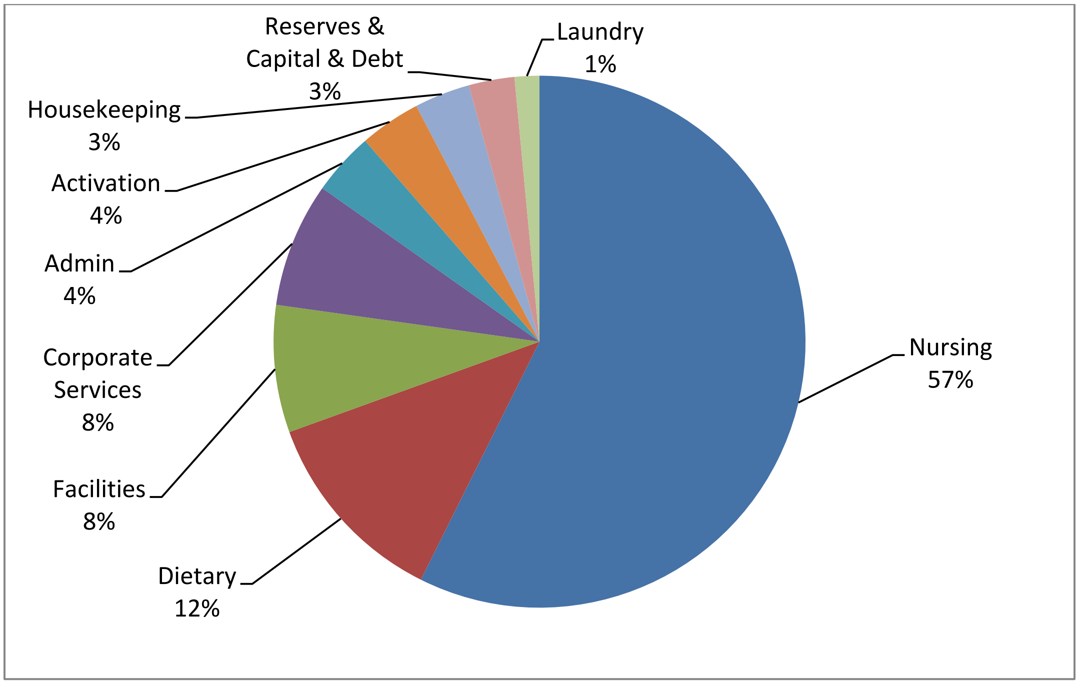
Northumberland Paramedic Expenditures



Golden Plough Lodge

The Golden Plough Lodge (GPL) draft 2019 budget is $15.8M, excluding the GPL redevelopment costs and associated reserve transfers. 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 Provincial funding is not projected to be adequate to fund the increasing patient acuity needs and levels of care. 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 2019 budget proposes the continuation of transfers to the GPL rebuild reserve totaling $1.7M within the year. The GPL will increase in size from a 151 bed facility to 180 beds based on commitments from the Ministry of Health and Long Term Care for the ongoing funding of the additional beds and this is reflected within the long-term plan. The GPL has three issue papers in their draft budget for staffing two of which are for meeting additional Registered Nursing staffing requirements and one for additional Evening Ward Clerk staffing hours.

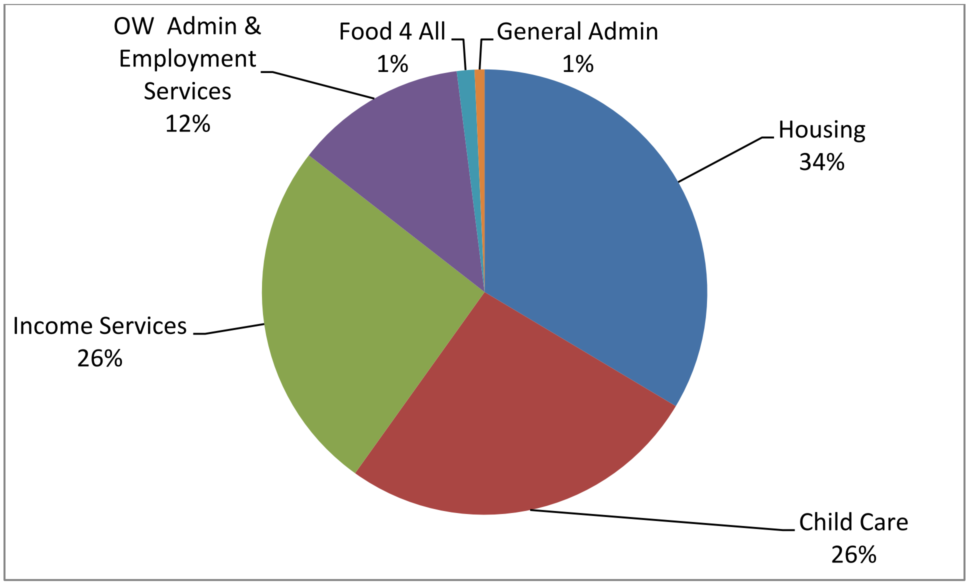
GPL Expenditures



Community & Social Services

The Community & Social Services draft 2019 budget is $31.8M. This includes Community Services, Customer Service, Early Years Services, Housing Services, the Food 4 All warehouse and administrative services. OW benefit costs were fully uploaded in 2018. 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 three issue papers in the 2019 budget. Within Early Years Services there is an issue paper for a Provincially funded Early Years Coordinator and Housing issue papers have been submitted for development of a social housing master plan and the creation of a non-profit and service level standard reserve.

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 2019 budget:

- Archival Collections Management Software
- Integrity Commissioner Review
- Recording and Streaming Council Minutes
- Archives Summer Student
- Summer Forestry Services Public Event
- Forest Seasonal Staffing
- Forest Winter Maintenance Reserve
- IT Infrastructure Upgrades and Reserve
- IT Network Capacity Redundancy
- IT Staffing Requests
- POA Municipal Prosecutor Staffing
- Complete repairs and maintenance projects for corporate buildings and Facilities fleet replacement identified in the 10 year plan

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 2.5% increase for continuing operations within the years 2020-2028 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 2019 budget calculates the dedicated infrastructure levy based on 2.5% of the 2018 capital budget with a 0.5% escalation factor in each year of the 2020-2028 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 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 BOC’s target range for inflation is 1 to 3 percent with the monetary policy aimed at the 2% target midpoint. Staff assumed 2.5% inflation for the purpose of the long term plan aligned with the base levy target 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 2.5% 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 redevelopment as mandated by the Ministry of Health and Long Term Care and expansion from 151 beds to 180
- Several major bridge projects including construction of the new Campbellford Bridge
- Implementation of the Waste Master Plan including residual waste environmental assessment, remediation transfer and landfill space
- Implementation of the Transportation Master Plan
- Implementation of the upcoming Housing Strategy to expand availability of affordable housing
- Social Housing repairs & maintenance needs
- Review of Transportation yards and facilities for possible construction of a consolidated operations facility

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 new regulations all municipalities are required to develop and adopt a strategic asset management policy by July 1, 2019. At least every five years from that date municipalities would be required to review and update the policy. Municipalities are also required to prepare an asset management plan in three phases:

1. Phase I to address core infrastructure assets, and is required to be completed by July 1, 2021.
2. Phase II would expand on Phase I by including all infrastructure assets in the plan by July 1, 2023.
3. Phase III would require asset management plans to include a discussion of proposed levels of service, the assumptions related to the proposed levels of service, what activities will be required to meet proposed levels of service, and a strategy to fund the activities.

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 $25.6M on average over the next 10 years. However, the long term plan includes $106.8M in extraordinary large non-recurring type capital initiatives such as the GPL redevelopment, Campbellford Bridge and a new consolidated operations facility. Excluding these extraordinary items, the annual investment is only $14.9M which equates to an annual infrastructure shortfall of approximately $12.5M. Initiatives such as ramping up the annual roads and bridges construction program budgets 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.

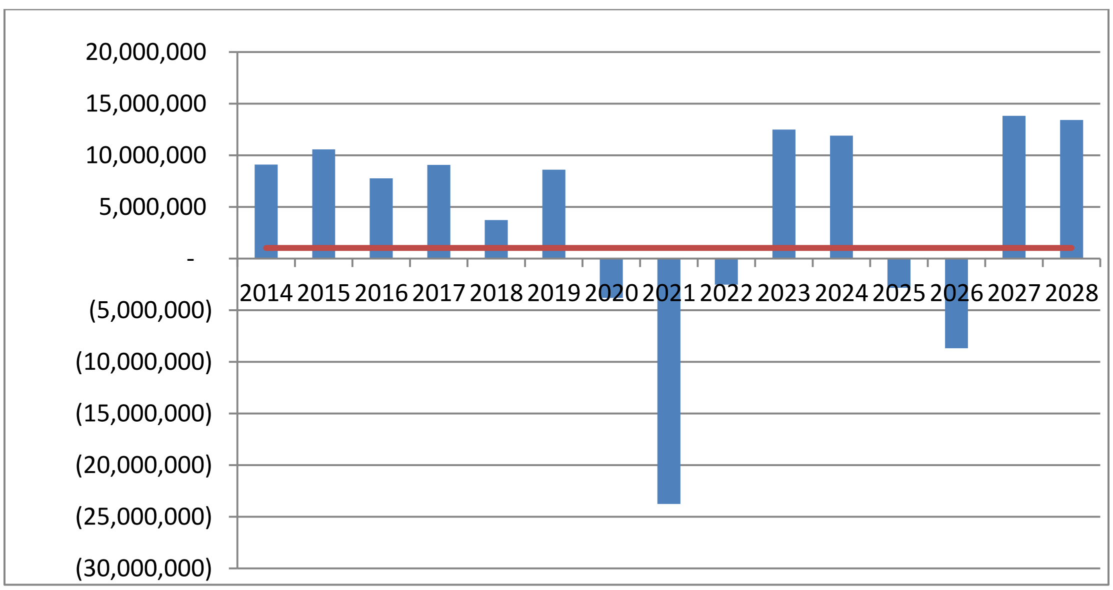
The Ministry of Municipal Affairs (MMA) provides a metric, Asset Consumption Ratio, to measure the percentage of the consumption of assets relative to original acquisition costs. This metric shows that Northumberland is performing just slightly better than the Provincial average. However, the total assets 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 7 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%
2017	46.2%	49.8%

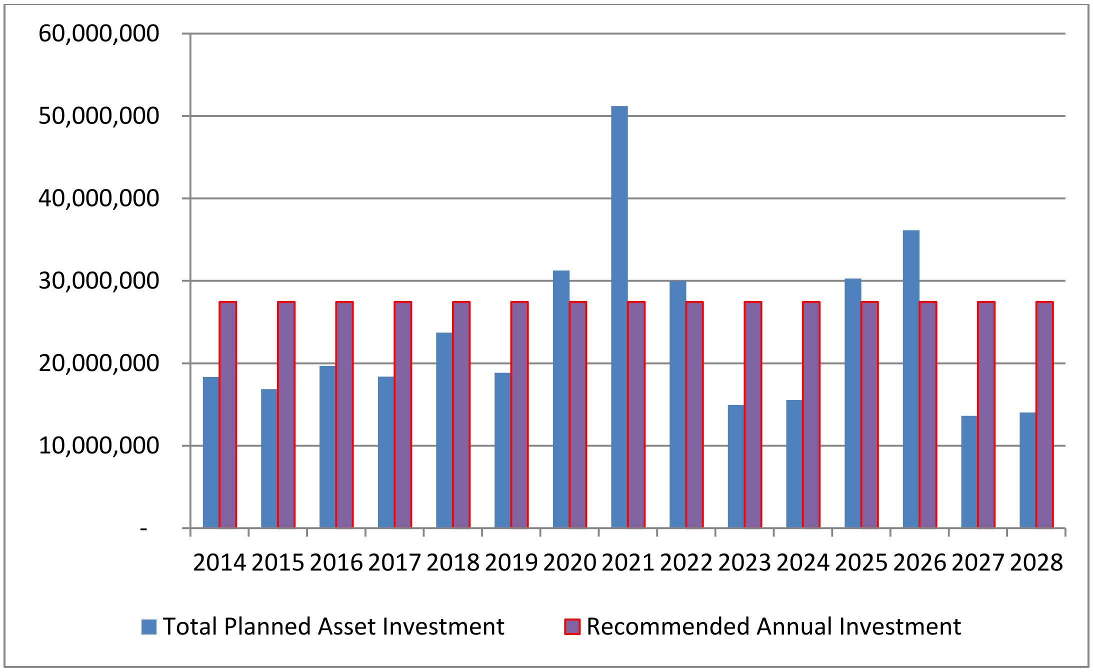
The chart below shows the projected asset funding shortfall on an annual basis over the next 10 years. The GPL redevelopment design and architectural works are anticipated to be completed in 2019. Construction costs are forecast to commence in 2020 and carry on through to 2022; therefore, these years 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 as is a new consolidated operations facility in the year 2026.

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 utilizing current and robust asset data and modeling from recently implemented asset management software.

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 2019 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 2019 budget is $536,248 as calculated based on the target set by Council (2.5% of the 2018 capital budget costs). Council further authorized that staff target for the dedicated

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

infrastructure levy index 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 that the GPL redevelopment, the Campbellford Bridge and the placeholder for a possible consolidated operations facility 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 peak with an annual contribution amount of approximately $952K within the year 2027 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. Funding opportunities, expanded county-wide development charges, 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 2017/18. 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 redevelopment, the consolidated operations facility 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 2017. While this metric is important, it should be noted that MMA uses all reserves for its evaluation. In 2017, this included $3.9M in reserve contributions for 2017 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%
2017	50.7%	37.8%

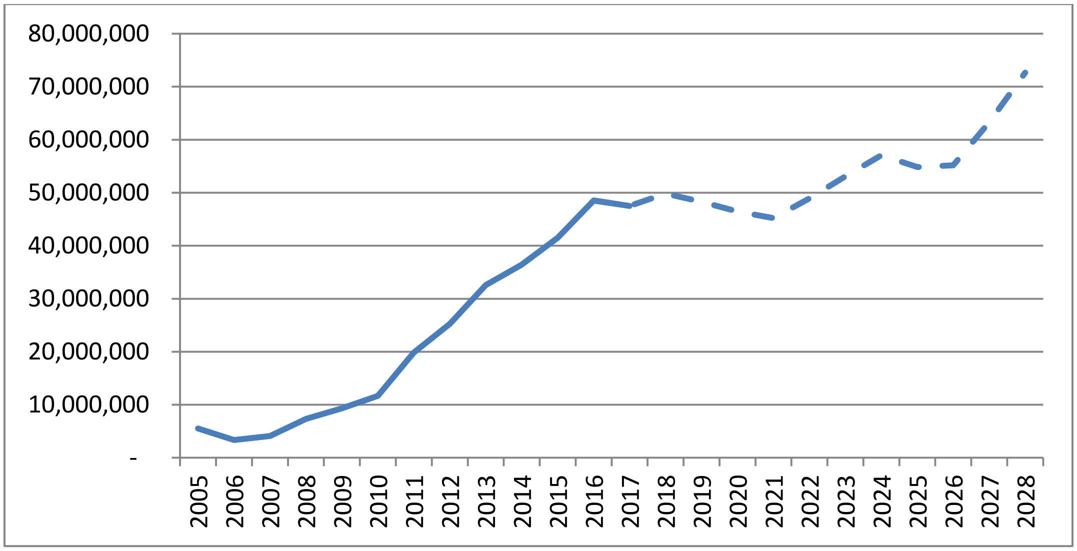
The County's reserves as a percentage of operating expenses have increased substantially between 2007 and 2017. There was a reduction in the County's reserve position in 2017 primarily as a result of utilizing corporate reserves to pay off maturing debt in the amount of $5.8M. The maturing debt was for an unsecured loan for the County Headquarters building. Over the past several years the County has been able to increase funds allocated to the Corporate Reserve enhancing flexibilities for the maximization of financing efficiencies as they arise. The County was not able to refinance with Infrastructure Ontario for the Headquarters Building as an existing asset. Given that Infrastructure Ontario generally offers preferential rates, the maturing principle on the outstanding loan was paid-out utilizing the Corporate Reserve as opposed to taking on higher interest debt. Future year's savings in debt servicing costs as a result of paying off this debt are being allocated back into the reserves similar to internal financing within the long-term model.

At the end of 2018, the County's reserve balance is expected to be approximately $49.8M. 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 $3.2M placed in reserves at the end of 2018 to carryover funds for projects into 2019 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	2018 (est)	2019 Additions	2019 Reductions	2019 (est)
Working Funds/General Reserve	11,724,215	1,585,099	86,000	13,223,314
Social Housing Reserve	10,810,487	190,190	280,024	10,720,653
Transportation Capital Reserve	5,453,038	986,248	1,664,000	4,775,286
GPL Rebuild Reserve	5,442,923	1,705,898	2,391,558	4,757,263
WSIB Reserve	3,824,647	-	-	3,824,647
Waste Services Capital Reserve	4,200,327	1,083,226	1,785,000	3,498,553
Paramedics Capital Reserve	1,566,959	827,000	807,944	1,586,015
Facilities Capital Reserve	1,568,639	50,000	173,200	1,445,439
Transportation Operating Reserve	1,364,082	-	-	1,364,082
Social Services Reserve	726,903	34,000	192,903	568,000
Technological Reserve	1,048,057	150,000	719,000	479,057
Land Use Planning	348,818	72,436	59,250	362,004
Emergency Planning Reserve	290,050	5,000	-	295,050
Insurance Claims Reserve	208,970	100,000	50,000	258,970
Ec Dev and Tourism Operating Reserve	222,678	-	-	222,678
Forest Reserve	178,961	59,416	25,200	213,177
Human Resources Reserve	300,000	-	122,000	178,000
Corporate Service Dept. Operating Reserve	138,699	-	-	138,699
GPL Capital Reserve	125,458	-	-	125,458
Paramedics Operating Reserve	135,900	-	19,300	116,600
Workplace Safety Program Reserve	64,468	-	-	64,468
IT/Phone System Replacement Reserve	71,500	-	20,500	51,000
GPL Donations Reserve	23,617	-	-	23,617
Other Operating Reserves	6,038	-	-	6,038
	49,845,434	**6,848,513**	**8,395,879**	**48,298,068**

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 and has recently started utilizing the ONE Fund High Interest Savings Account as well as 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 investments 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%
2017	126.0%	283.0%

Debt

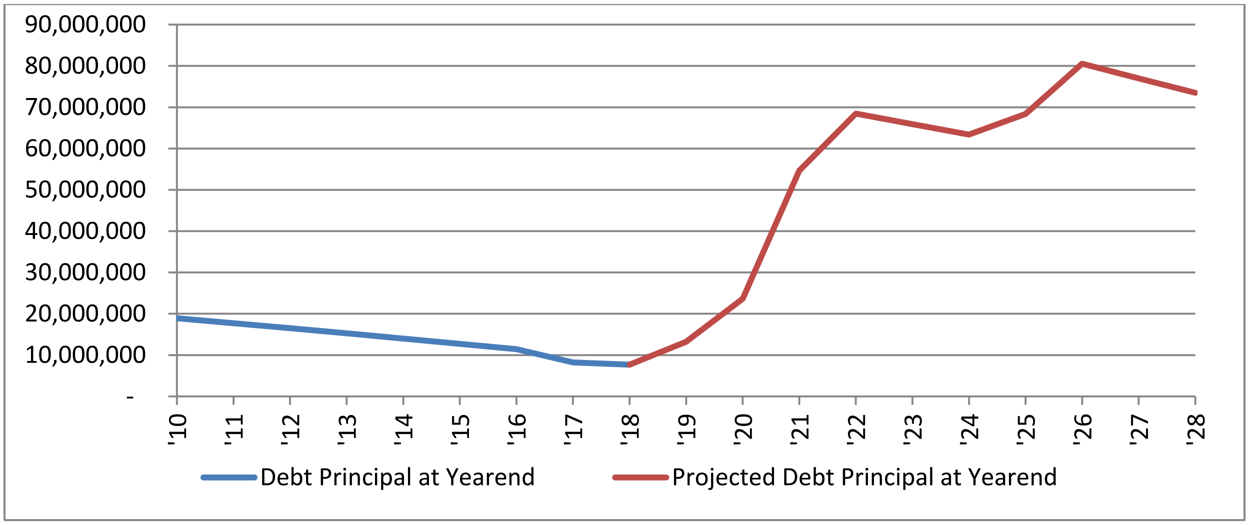
The County's outstanding debt continues to be at a very manageable level. It is well below the annual repayment limit set by MMA. The County did acquire debt in 2018 as was anticipated within the long-term financial plan. A debenture in the amount of $650K was issued by Infrastructure Ontario for the new Paramedic power lift stretchers. The debentures identified in the 2018 budget for the Roseneath Emergency Services Base Station and the Brighton Landfill expansion works will be issued in early 2019 upon finalization of the costs estimated at $1.5M and $4.1M, respectively. 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 anticipated in the 2019 budget to be financed by debt are comprised solely of the Trent Hills Shared Emergency Services Base in the amount of $1.6M. Municipalities are only permitted to assume debt for capital projects. The debt level projected for 2019 is $13.2M which is approximately $327 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 redevelopment, the construction/replacement of the Trent River crossing in Campbellford, a placeholder for a new Paramedic base in Brighton and a possible consolidated operations facility. 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 reasonably low interest rates the difference between options has been marginal. Given the anticipated growth in reserves within the long-term plan there will likely be a greater proportion of reserves utilized for financing identified projects versus what is currently contemplated in the model; thereby, lowering the amount of debt. Other sources of financing such as Federal or Provincial funding may advance the timing of projects if opportunities become available. The County currently has the financial capacity to utilize reserves in order to optimize any funding opportunities with the advancement of projects ultimately minimizing debt levels. 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 moderately 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.

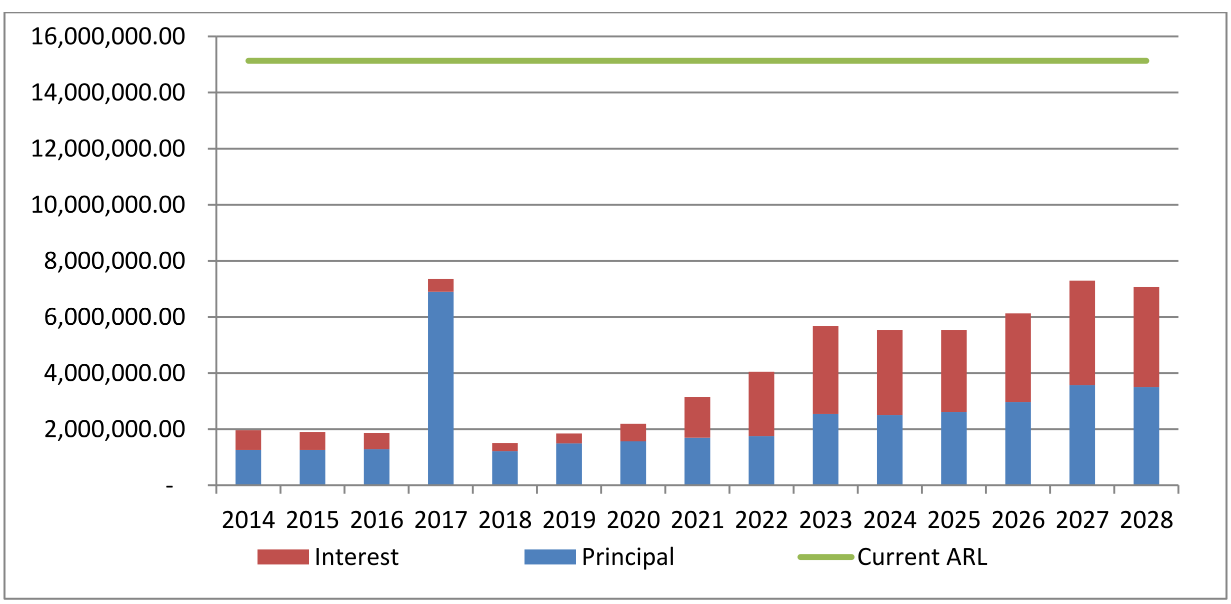
The chart below shows the current debt being paid down and the addition of new debt based on the estimated costs for the projects as noted above. The GPL redevelopment commences in 2019 with the initial design and architectural services financed by reserves. It is anticipated that construction financing 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 81% by debt and 19% by a reserve specifically earmarked for this. Further, there is a placeholder for the Trent River crossing in Campbellford in 2025 financed 54% by the bridge reserve (primarily funded by the dedicated infrastructure levy) and 46% by debt as well as a placeholder for a consolidated operations facility in 2026 financed 24% by the Transportation reserve and 76% by debt. Both projects are placeholders within the long-term plan and other sources of financing such as upper-levels of government funding will be pursued as opportunities become available.

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 redevelopment 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 $15,128,443. 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 reasonably 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 improved in 2017 for the first metric below assessing Net Financial Assets or Net Debt as a % of Own Purpose Taxation and User Fees but weakened for the second metric below Debt Servicing Cost as a % of Total Operating Revenue. This can be attributed to paying off the maturing debt on the County Headquarters in 2017 resulting in a reduction to the overall debt improving the first metric but negatively skewing the second metric for debt servicing costs from this one time debt payout.

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%
2017	22.6%	28.1%

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. Eliminating the extraordinary one-time payout of the County Headquarters in 2017 the County remains aligned with the provincial averages for debt servicing costs.

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%
2017	6.9%	2.0%

Conclusions/Outcomes

The 2019 draft budget and long term financial plan provided a challenge meeting the Council approved target increase within the model at 2.5% recognizing the established long-term needs. Staff were able to find efficiencies in light of additional expenditures and unfavourable revenues resulting in an increase aligned with the target at 2.5%. 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 2019 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 2019 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 2019 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.