



The Corporation of the District of Central Saanich

COMMITTEE OF THE WHOLE REPORT

For the Committee of the Whole meeting on December 12, 2016

To: Patrick Robins
Chief Administrative Officer

File:

From: Paul Murray
Director of Financial Services

Priority: <input checked="" type="checkbox"/> Strategic <input checked="" type="checkbox"/> Operational

Date: December 06, 2016

Re: Long Term Financial Plan

RECOMMENDATIONS:

That Council approve the 2016 Long Term Financial Plan as proposed.

BACKGROUND:

Council has made the introduction of a Long Term Financial Plan a strategic priority for 2016.

For some households, financial sustainability is thought of as being able to maintain our current day to day lifestyle. Can we afford our rent, food, entertainment, clothing, travel and medical etc. For those who own homes or businesses, the thinking can be more long term, and the planning more when mortgages are paid off or businesses sold to finance retirements.

Local governments need to think long term as well, as the investments in infrastructure are significant and longer term in nature. While individuals come and go, local governments need to continue in perpetuity to acquire and manage a stock of financial and physical assets that are critical for the provision of services to current and future generations. Municipal Councils provide a legal means by which the community acts as a collective body to own operate and finance services, infrastructure and assets.

Financial sustainability is about being mindful of the financial well-being of future generations.

To be financially sustainable local governments need to be strategic thinkers and planners. Long-term financial planning is the process of aligning financial capacity with the community vision and long-term service objectives. This is achieved through development of a set of financial strategies and an effective linkage to the community vision (OCP) through a series of plans. These include the Corporate Strategic Plan, Organizational Capacity Assessment, Asset Management Plan and Twenty Five Year Capital Plan. Supplemental plans such as Water Master Plan, Sewer Master Plan, Integrated Stormwater Management Plan, Pavement Management Plan and Facilities (FLAMP) Plan also inform the process.

DISCUSSION:

To ensure all strategies and recommendations are aligned and consistent with a strategic goal of Financial Sustainability a framework is needed. The 2016 Long Term Financial Plan will establish five key objectives and guide the District towards a financially sustainable future:

1. Recognized value for services
2. Predictable infrastructure investment
3. Competitive property taxes
4. Responsible debt management
5. Improved reserves and reserve funds

Implementing a framework is a key mitigation factor in managing enterprise risk, meeting the challenges of infrastructure investment and reaching effective service levels for assets and operations.

The four pillars of an effective Long Term Financial Planning Framework are:

1. Community Vision and Priorities: (Our Vision)
 - Official Community Plan
 - Corporate Strategic Plan
 - Master Plans (Water, Sewer, Stormwater, Facilities, Pavement)
2. Strategies for Financial Strength and Stability (How we get there)
 - Recognized Value for Services
 - Predictable Infrastructure Investment
 - Competitive Property Taxes
 - Responsible Debt Management
 - Improved Reserves and Surplus
3. Financial Policies and Performance Measures (How we measure what we do)
 - Capacity Assessment, Service Standards, Service Performance
4. Budgeting and Planning (How we plan ahead)
 - Five Year Financial Plan
 - Twenty Five Year Capital Plan.

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Current Status:

Many of the components of the framework are already in place:

Community Vision and Priorities: The municipality has outlined a long term vision for the community through the Official Community Plan and this is supplemented by a series of Master Plans for Water and Sewer Utilities, Integrated Stormwater Management, Pavement Management and Facilities (FLAMP). A Parks Master Plan and Updated Pavement Management Plan are also expected to be prepared during 2017 to 2019.

The Corporate Strategic Plan is in place. It was originally completed in 2001. The Plan is based on themes and strategic directions, which include statements of ongoing priorities for each Strategic Direction, Goal and Action. The Plan directs and unifies all other corporate planning documents.

Strategies for Financial Strength and Stability: These strategies are in progress and will be added to the plan as they are approved:

- An Organization Capacity Assessment is under way and when completed in 2017, will provide a set of service standards and performance measures for all areas of operations.
- A User Fee and Charge policy is being developed and all fees and charges will be reviewed in the first few months of 2017 and annually thereafter.
- An Asset Management Plan is being prepared and will provide a set of long term infrastructure replacement approaches for all asset categories. This plan will be refined over time.
- A Development Financing Strategy will be developed in early 2017 to reflect the approach taken to use Development Cost Charges, Amenities and other contributions to help fund development.
- A Debt Service Approach and Reserves and Surplus Policy are in place.
- A Property Taxation Policy is in place (Five Year Financial Plan each year).

Financial Policies and Performance: Service Standards and Service Performance Measures are being identified as part of the Organization Capacity Assessment. This is expected to be completed in 2017 and they will be incorporated in the Five Year Financial Plan, Strategic Plan and Annual Progress Report once approved.

Financial Planning:

- A Five Year Financial Plan is in place and will be renewed again in spring of 2017 and each year thereafter.
- A Twenty Five Year Capital Plan will be developed subsequent to completion of the Asset Management Plan in 2017. This will itemize the approach described in the Asset Management Plan in more specific project detail and be used to inform the Five Year Financial Plan review process each year.

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Next Steps:

The following steps will be undertaken to conclude the initial development of all components of the Financial Sustainability Framework. By the end of 2017 the work will be concluded and the information available to inform the next Five Year Planning cycle in 2018.

- Organizational Capacity Assessment Complete by Fall 2017
- Asset Management Plan Fall 2017 – Phase 2 in 2018
- User Fee and Charge Review Spring 2017 and then annually
- Twenty Five Year Capital Plan Fall 2017

CONCLUSION:

Effective Long Term Financial Planning should be expected to evolve over time and be updated regularly.

The District has developed the majority of the components of a solid long term financial plan. Four significant pieces of work remain to complete the framework: An Organizational Capacity Assessment which will inform the provision of service standards and service performance, an Asset Management Plan that will outline how assets are renewed, added and improved over time and a User fee and Charge Review. When all are concluded a Twenty Five Year Capital Plan will be developed to inform the 2018 Five Year Financial planning process and each year thereafter.

If approved by Council, work will continue to develop the remaining components of the plan and a new section will be added to the website outlining the long term approach with links to the other plan documents and Five year Financial Plan process.

Respectfully submitted,

Paul Murray
Director of Financial Services

<p><i>Administrator's Recommendation: I concur with the recommendation contained in this report. Patrick Robins Chief Administrative Officer</i></p>

Long Term Financial Plan District of Central Saanich 2016



1. Planning for our Financial Future

The District of Central Saanich is taking important steps toward managing the long term sustainability of the community's assets and services. Financial stability is fundamental to the health of the community – only with stable and sufficient revenues, and careful planning of expenditures, will the District be able to provide important services its residents need and enjoy.

Although the District is in reasonable financial shape, revenue opportunities, expense pressures, and service demands are always changing. The scope and level of service demanded by citizens from their local government is greater than ever as residents and businesses struggle in the changing and competitive world we live in. The District cannot be certain of the same level of financial support from senior levels of government enjoyed in the past as the provincial and federal governments have their own budget challenges.

Local governments need to think long term as well, as the investments in infrastructure are significant and longer term in nature. While individuals come and go, local governments need to continue in perpetuity to acquire and manage a stock of financial and physical assets that are critical for the provision of services to current and future generations. Municipal Councils provide a legal means by which the community acts as a collective body to own operate and finance services, infrastructure and assets.

This document suggests a framework of long term financial planning that will establish five key objectives and guide the District towards a financially sustainable future:

1. Recognized value for services
2. Predictable infrastructure investment
3. Competitive property taxes
4. Responsible debt management
5. Improved reserves and reserve funds

For some households, financial sustainability is thought of as being able to maintain our current day to day lifestyle. Can we afford our rent, food, entertainment, clothing, travel and medical etc. For those who own homes or businesses, the thinking can be more long term, and the planning more when mortgages are paid off or businesses sold to finance retirements.

Financial sustainability is about being mindful of the financial well-being of future generations.

To be financially sustainable local governments need to be strategic thinkers and planners. Long-term financial planning is the process of aligning financial capacity with the community vision and long-term service objectives. This is achieved through development of a set of financial principles and an effective linkage to the community vision.

2. Long Term Financial Plan Framework

To be financially sustainable, local governments need to be strategic thinkers and planners, and municipal councils need to provide direction in the form of approved long term strategic plans. To ensure all strategies and recommendations are aligned and consistent with a strategic goal of financial sustainability a framework is needed. Implementing a framework is a key mitigation factor in managing enterprise risk, meeting the challenges of infrastructure investment and reaching effective service levels for assets and operations.

When an entity embraces strategic planning it gives the community confidence that decisions are well thought out and sustainable over the long term. These plans should provide the community a clear understanding of the direction Council is moving in, and enough information to form and voice an opinion. Typically, the District’s framework builds upon the vision outlined in the Official Community Plan and includes the following:

Community Vision and Priorities: (Our Vision)

*Official Community Plan
Corporate Strategic Plan
Master Plans (Water, Sewer, Stormwater, Facilities, Pavement)*

Strategies for Financial Strength and Stability (How we get there)

*Recognized Value for Services
Predictable Infrastructure Investment
Responsible Debt Management
Competitive Property Taxes
Improved Reserves and Surplus*

Financial Policies & Performance (How we measure what we do)

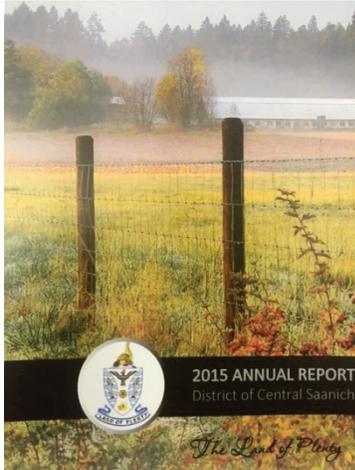
Capacity Assessment, Service Standards, Service Performance

Financial Planning (How we plan ahead)

*Twenty Five Year Capital Plan
Five Year Financial Plan*

3. Community Vision and Priorities

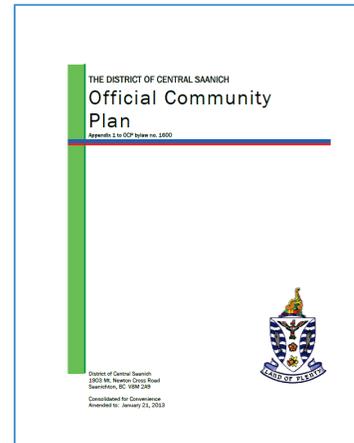
The municipality has outlined a long term vision for the community through the Official Community Plan and this is actioned through Corporate Strategic Plans from time to time.



A series of master plans have also been developed for Water and Sewer Utilities, FLAMP Facilities, Integrated Stormwater Management, and Pavement Management.

A Parks Master Plan and Updated Pavement Management Plan are expected to be prepared during 2017 to 2019.

Progress is reported out annually.



4. Strategies for Financial Strength & Stability

4.1 Recognized Value for Services

The District provides a wide range of services. Some are required for a growing community, while others are required as a core responsibility of any municipality to ensure the safety of its residents. It is important to provide the means to effectively deliver these services today, and into the future. The District must carefully plan and prioritize the use of its resources to ensure its service commitments are sustainable now and into the future.

Moving Forward

In order to focus on the efficiency and effectiveness of service delivery, the District is completing an Organizational Capacity Assessment and will be fully implementing service-based budgets effective for budget 2018. Service Review will become a regular ongoing process in future.

A User Fee and Charge Review will also be completed in 2017 and updated annually thereafter. The identification of individual services is required in order to value and cost services, ensure decisions are aligned and consider service adjustments when making decisions. Clearly defined services will increase public awareness of costs and values aligned with services.

Organization Capacity Assessment and Service Review

An Organization Capacity Assessment is well under way and when completed in 2017, will provide a set of service standards and performance measures for all areas of operations. These will help guide a long term approach to management of service expectations, performance and cost. It is intended to assist in ensuring that:

- The District's key business areas are aligned with future needs;
- Operational activities are demonstrably efficient and effective;
- Staffing levels are appropriate for the current and future level of service;
- Organizational structure provides efficient and effective service delivery;
- Strategic and financial plans are well informed;
- Employee culture contributes to the overall organization success.
- Service levels are quantified and Council can define desired service levels in the budget process.

In addition to this organizational capacity review, service review is expected to become a continual, ongoing process and be incorporated into strategic planning and annual budgeting cycles. In this respect, a view to service delivery efficiency and effectiveness will be incorporated on a go forward basis.

User Fees and Charges Review

In order to be financially sustainable, the District works to diversify its revenues and reduce its reliance on any one source of revenue as much as possible. The District diversifies its revenue base between property tax, utility fees, development levies, program fees, permits & licence fees, investment income, and fines & penalties.

Municipalities generally rely on two major sources of revenue: property taxes and user fees (including utility fees). User fees are generally levied by local governments for services that are direct to a user or household (programs, utilities), whereas property taxes are levied to finance services that are provided broadly to the whole community (roads, police, fire, storm drainage). In setting taxes and user fees, the District must strike a balance between reasonable access to services for all residents, while ensuring users of the programs and services pay a reasonable share of the costs.

Fees are restricted to the actual cost of providing the service, and how the fee was determined must be made available to the public if requested under Section 194 of the Community Charter. For a user fee to be widely accepted there should be a clear link between the benefit received and the fee paid, fairness in that those who use the service pay for it and easily implemented and administered while also simple and easy to understand.

4.2 Predictable Infrastructure Investment

The Districts infrastructure is aging and funds must be committed to ensure it is properly maintained and renewed. The city has an obligation to protect its investment and strike a balance between new facilities and the proper maintenance of existing infrastructure. Effective asset management sets out a strategic approach for the replacement, addition and improvement of assets over the long term.

It is important to focus on existing assets and strategically choose between investing in what we have, building future expansions and/or revitalizations, and divest what may no longer be required.

Moving Forward

An Asset Management Plan is being prepared and will provide a set of long term infrastructure replacement approaches for all asset categories. This plan will be refined in 2017 to include new capital investments needed to provide growth capacity.

A Development Financing Strategy will be developed in 2017 to bring together current approaches – Development Cost Charges, contributions on subdivision and amenities.

Asset Management

The District owns and operates over \$163 million in core infrastructure which services the needs of residents, businesses and visitors to the area. An Asset Management Plan sets out a strategic approach for the replacement, addition and improvement of assets over the long term. Asset management is the process of gathering the most current and applicable information available to formulate the best possible informed decisions regarding the building, operating, maintenance, renewal, replacement, and disposal of infrastructure assets, over the long term.

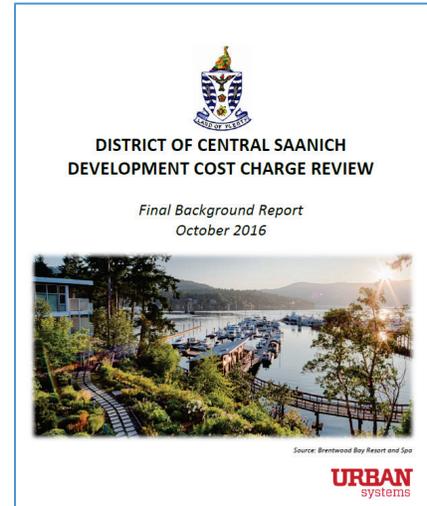
Maintain assets in an appropriate state of repair. Maintaining core infrastructure and amenities in an appropriate state of repair is critical to the long-term financial health and resilience of the community, and helps ensure asset management obligations are not deferred and infrastructure deficits do not accumulate to unacceptable levels. An Infrastructure Report Card enables the annual assessment and reporting of infrastructure condition.

Optimize New Capital Investments. Before adding new facilities, the municipality will consider repurposing and right-sizing existing facilities, and continue to advance the principles of colocation and functional integration of services to enhance operational efficiency and customer service. All new facilities will be designed with flexibility and adaptability in mind.

Consistent with leading practice, the District plans to reallocate and identify revenues specifically for asset investment to a separate Asset Levy on the property tax notice. Using specifically earmarked Asset Levy funds as well as other revenue sources to proactively invest in not only routine maintenance, but also the complete replacement of aging infrastructure, will help ensure that quality services continue to be provided well into the future. The Asset Levy will: (1) fund current year capital budgets, (2) fund transfers to reserves, and/or (3) fund debt retirement.

Development Financing

A Development Financing Strategy will be prepared in 2017 which will bring together the Districts current approach to the use of development cost charges, onsite services, excess or extended services, land dedication for park, roadways and amenity contributions as development financing tools..



4.3 Responsible Debt Management

Like other municipalities and senior levels of government, the District uses debt in its mix of payment methods to fund capital investments. This allows payment to be made over a longer timeframe to align with the useful life of the underlying capital assets, and ensures that more residents and businesses benefit from them.

The District will make every effort to minimize the impact of debt-servicing costs on the taxpayer by managing existing and future debt levels.

Consider debt financing for:

- Increased or new capital projects providing services to residents
- Projects tied to third party matching funds
- Project costs not recoverable from development charges
- Projects that have a useful life greater than ten years

Consider actions to use debt efficiently:

- As debt charges decline through the retirement of debt, the District will apply savings towards full life cycle costing of the city's infrastructure
- The term of debt will be structured for the shortest period to reduce overall financing costs while considering current and future taxpayer benefit. The preferred term is 10 or 15 years to the extent possible.
- The current and forecasted interest rate environment

Moving Forward

A more detailed Debt Management Plan will be prepared as part of the Twenty Five Year Capital Plan in 2017.

Debt Servicing

The municipality takes a very careful and strategic approach to its use of debt, ensuring a balanced operating budget and keeping property tax and fees at an affordable level. As part of this strategy, the water utility continues to finance its infrastructure replacement programs from a balance of debt financing and current revenues. This will help maintain modest overall debt and minimize interest costs over the long term.

Looking ahead, the general capital program and the sewer utility will also focus on maintaining the same approach to maintain a positive long term debt profile. Fire Hall debt is planned to be retired on an accelerated basis.

4.4 Competitive Property Taxes

The District must respond to the demand for programs, services and infrastructure maintenance in an affordable manner. As a result, a balance is struck between the conflicting goals of minimizing tax increases, maintaining existing programs, services and infrastructure and providing new services in a climate of increasing costs.

The District has an established approach in this regard:

1. **Balanced Taxation** The practice of the municipality has been to set tax rates in order to maintain tax stability. This is consistent with many municipalities across the province and is accomplished by maintaining the proportionate relationship provided between the property classes, while taking into account for new construction values, deletions from the tax roll and changes in property classes, and assessment changes that are considered to be significant. This practice allows taxpayers in the municipality to be confident that in any year, their property tax bill will increase proportionately to the increase in tax revenue required year over year, taking into account assessment increases of their property to the assessment class average. This is particularly important in a rural agricultural municipality with a significant proportion of ALR farmland that is both assessed and taxed at proportionally low levels of taxation.
2. **Keep property tax and user fees affordable.** Property taxes in recent years have seen moderate increases, ranging from 2.84% to 5.22 %, for a five year average of 3.88%. During this period, the municipality has invested in public safety such as Fire Station 1; has invested in core infrastructure, such as sewer and water supply system upgrades; and upgraded transportation infrastructure for pedestrians, bikes and vehicles. Looking ahead, the need to replace ageing infrastructure will continue to put increasing pressure on the budget. Understanding the long-term impacts on tax and user fees arising from capital investment decisions, including debt servicing, ongoing operating costs and asset lifecycle costs, will be a key consideration in development of a Long Term Financial Plan with affordability in mind.

Moving Forward

Continue to review the approach during the Five Year Financial Planning process each year.

5. Financial Policies and Performance Measures

Demand for service must be balanced with the ability to pay, and between the conflicting goals of minimizing tax increases, maintaining existing services and infrastructure, and the cost of adding new services. As pressures on operating budgets rise, the District will need to work to identify financially sustainable service levels.

It is best practice to not only define appropriate levels of service, but to also consider all forms of service delivery in order to ensure District resources are being used efficiently. The District must be able to demonstrate to the community value for services provided. Services need to be delivered in an effective and efficient manner, and shared with neighbouring municipalities or other agencies where possible. The most efficient and effective delivery of service must be considered, including in house delivery, privately contracted services, and partnerships.

Moving Forward

Service Standards and Service Performance Measures are being identified as part of the Organization Capacity Assessment. This work is expected to be completed in 2017 and the data will be used to develop a service based Five Year Financial Plan for 2018 and built into Strategic Plans and Annual Progress Reports once approved.

6. Financial Planning

The last component of the framework is the preparation of a Twenty Five Year Capital Plan and a Five Year Financial Plan each year

Moving Forward

When the Asset Management Plan is completed work will begin on detailing out a Twenty Five Year Capital Plan in more specific asset detail. In turn this will inform the preparation of future Five Year Financial Plans each year.