DISTRICT OF HIGHLANDS

Long Term Financial Plan

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1. INTRODUCTION TO LONG TERM FINANCIAL PLANNING

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

> *A Long-Term Financial Plan is an essential tool for financial decision making. It provides information to guide decisions about the mix and timing and outlays on operating activities, renewal and replacement of existing assets, future additional assets and the associated funding implications. It can be used to assess the expected future impact of financial decisions and to manage risks.* **Working for Local Government, Australia*

The District 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 revenues and careful planning of expenditures, will the District be able to consistently provide the important services its residents need and enjoy.

> *Council has made the introduction of a Long-Term Financial Plan a strategic priority for 2019, supported by a grant from the Federation of Canadian Municipalities.*

For some households, financial sustainability is thought of as being able to maintain a current day to day lifestyle. Being able to afford 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 for when mortgages are paid off or businesses sold to finance retirements.

Local governments need to think long term as well, as investments in infrastructure are significant and longer term in nature. While individuals come and go, local governments continue in perpetuity to acquire and manage a stock of financial and physical assets 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.

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 (Official Community Plan), Sustainable Highlands Plan and Asset Management Plan.

Developing a long-term financial plan takes the following into account:

- *A Long-Term Financial Plan needs to be underpinned by a clear and documented financial strategy, based around financial indicator targets.*
- *The Financial Strategy must consider each individual local government's unique circumstances and operating environment.*
- *A Long-Term Financial Plan must be based on realistic assumptions.*

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 significant as residents and businesses are challenged in a changing, competitive world.

A framework of long-term financial planning provides a consistent lens to evaluate the long-term financial impact of future changes to community services and service levels using three pillars (Sustainability, Flexibility and Exposure) and five key objectives (Recognized Value for Service, Predictable Infrastructure Investment, Comparable and Affordable Property Taxes, Responsible Debt Management and Sufficient Reserves).

Effective Long-Term Financial Planning should also be expected to evolve over time and be updated regularly. The District's Long-Term Financial Plan will be updated each year as part of the annual budget process, to bring a long-term lens to financial planning.

2. THE STRATEGIC FRAMEWORK

To be financially sustainable, local governments need to be strategic thinkers and planners, with municipal councils providing direction in the form of approved long-term strategic plans. To ensure all strategies are aligned and consistent with financial sustainability, a framework is needed. Implementing a framework helps manage enterprise risk and meet the challenges of infrastructure investment and maintaining effective service levels.

This framework together with policies, bylaws and financial tools will guide the District's ability to make decisions by providing the long-term financial impact of these decisions, emerging risks and trends and understanding how and when decisions or events may change the District's financial condition.

The District's framework builds on the vision outlined in the Official Community Plan and is comprised of five areas: a strategic linkage, three principles, five strategies, process and reporting:

A STRATEGIC LINK TO COMMUNITY VISION & PRIORITIES (OUR VISION)

Alignment with Official Community Plan, Sustainable Highlands Plan, Asset Management Strategy

FOUNDATIONAL FINANCIAL PRINCIPLES (WHAT WE LIVE BY)

Sustainability, Flexibility, and Exposure

FINANCIAL STRATEGIES (HOW WE GET THERE)

Recognized Value for Service (Organizational Capacity, Fees and Charges)
Predictable Infrastructure Investment (Asset Management Plan)
Responsible Debt Management (Debt Service Policy)
Comparable and Affordable Property Taxes (Property Taxation Policy)
Sufficient Reserves and Surplus (Reserves and Surplus Policy)

FINANCIAL PLANNING PROCESS (HOW WE PLAN AHEAD)

Strategic Plan, Five-Year Financial Plan and Long-Term Financial Plan.

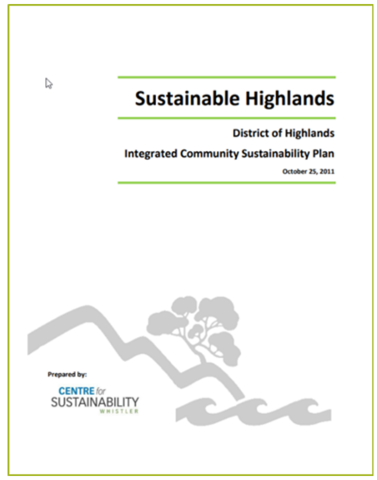
FINANCIAL PERFORMANCE (HOW WE MEASURE AND REPORT)

Indicators and Targets
Annual Reporting

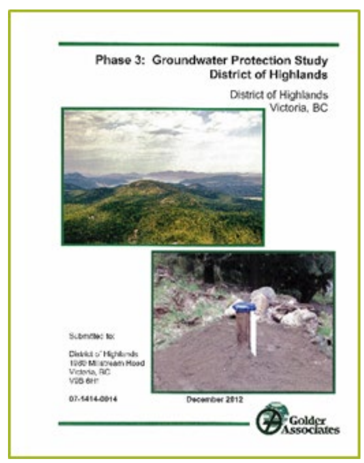
3. STRATEGIC LINKAGES

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

'Official Community Plan'



'Asset Management Strategy'



When a local government 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.

4. LONG TERM FINANCIAL PRINCIPLES

The following principles are based on leading practices in Canada and Australia and supported by the Government Finance Officers Association. They provide an effective overview of financial sustainability in context with other comparable local governments:

4.1. *FINANCIAL SUSTAINABILITY*

The District's ability to provide and maintain planned service levels and infrastructure assets without unplanned increases in rates or disruptive cuts to services:

- Respect the taxpayer – Achieve reasonable and responsible tax rates to ensure that Council's highest priority services are maintained. The District will strive to deliver its desired services without placing undue financial pressures on taxpayers.
- Ensure the Capital Plan is sustainable – Reserves are funded to levels to enable the Capital Plan. Capital expenditures should be continually reviewed in the context of affordability, and the operating impact of capital should be sustainable and affordable.
- Manage assets – Replace or maintain assets over their lifecycle in a timely manner to enable service delivery.
- Deliver value for money – Regularly assess capacity, service levels and fees.

Indicators: Tax Rate Increase, Infrastructure Funded, Asset Condition, Tax Affordability

4.2. *FINANCIAL FLEXIBILITY*

The District's ability to change either debt levels or taxes to meet financial obligations and ensure intergenerational equity:

- Mitigate significant fluctuations in property taxes – Implement ways to smooth and maintain taxes to provide financially stable and predictable environments for residents and businesses.
- Borrow when appropriate for capital infrastructure – Maintain an affordable level of debt required to achieve desired service levels while minimizing the impact of borrowing to the taxpayer and ensuring intergenerational equity.

Indicators: Debt Capacity, Reserves Adequacy, Liquidity

4.3. *FINANCIAL EXPOSURE*

The degree to which the District is dependent on external funding sources that it cannot control; it is the level of risk that could impact the ability to meet existing financial obligations and commitments:

- Users pay where appropriate – Ensure that the users of services pay for the services, and balance growth-related investments with revenue to achieve intergenerational equity where possible. Diversify as much as possible.
- Minimize reliance on operating grants – Ensure that the District does not overly rely on grant funding for ongoing operating services.
- Balanced Taxation – Ensure that the District is not overly reliant on business and industrial taxation to support operations – to minimize impact of economic cycles.

Indicators: Reliance on Operating Grants, Reliance on Capital Grants, Business Taxes

5. FINANCIAL STRATEGIES

5.1. RECOGNIZED VALUE FOR SERVICES

The District provides a wide range of community services. It is important to provide the means to effectively deliver these services today, and into the future. Careful planning and prioritizing the use of resources will ensure these service commitments are sustainable now and into the future. There are two components of this:

5.1.1. Organizational Capacity and Service Assessment – Review and Plan Annually

A simplified and regular organizational capacity assessment process will help guide the management of service expectations, workforce planning, performance and cost. It assists in ensuring that:

- 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;
- Employee culture contributes to the overall organization success; and
- Service levels are quantified, and Council can define desired service levels in the budget process.

5.1.2. User Fees and Charges - Review User Fees and Charges Annually

Municipalities generally rely on two major sources of revenue: property taxes and user fees. User fees are levied for services that are direct to a user or household (programs, utilities) and property taxes are levied to finance services that are provided broadly to the whole community (roads, parks and recreation, police, fire, storm drainage).

In setting taxes and user fees a balance is struck between reasonable access to services for all residents and ensuring users of the programs and services pay a reasonable share of the costs.

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

5.2. PREDICTABLE INFRASTRUCTURE INVESTMENT

Like all local governments, the District's infrastructure is aging, and funds are needed to ensure proper maintenance and renewal. The District 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.

5.2.1. Asset Management – Update and Publish Regularly, Increase Funding

The District owns and operates $193 million in core infrastructure which services the needs of residents, businesses and visitors to the area. The District's established Sustainable Infrastructure Plan sets out a strategic approach for the replacement, addition and improvement of assets over the long term. This approach:

- Maintains 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 (Health Score) enables the annual assessment and reporting of infrastructure condition.

- Optimizes 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.
- Allocates Funding. Consistent with leading practice, the District has allocated revenues specifically for asset investment to a separate Asset Levy on the property tax notice. Using these specifically earmarked Asset Levy funds as well as other revenue sources. The proactive investment 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.

A report card is used to measure progress:

District of Highlands Infrastructure Report Card		
Asset Group	**Rating**	**Comments**
Land	**B**	Reasonable condition. No additional funding needed.
Groundwater Aquifer	**B**	Natural condition based on Golder and Associates Assessment. No additional funding needed.
Roads	**C**	Reasonable condition. Road profile assessment and PMP Completed. Funding needed.
Bridges	**B**	Good condition based on Herold Engineering Assessment. Modest funding needed.
Facilities	**B**	Reasonable condition. Modest funding needed.
Park Improvements	**B**	Reasonable and natural condition. Modest increase in funding will maintain rating
Vehicles and Equipment	**B**	Reasonable condition. Modest increase in funding will maintain rating.
Overall	**B**	***Good Rating.*** ***Funding needed.***

5.3. RESPONSIBLE DEBT MANAGEMENT

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

The impact of debt-servicing costs on the taxpayer will be minimized by managing existing and future debt levels and:

5.3.1. Consider debt financing only for:

- Increased or new capital projects providing services to residents
- Projects tied to third party matching funds
- Projects that have a useful life greater than ten years

5.3.2. 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 District'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 current and forecasted interest rate environment.

The District takes a careful and strategic approach to its use of debt, ensuring a balanced operating budget and keeping property tax and fees at an affordable level.

5.4. COMPARABLE AND AFFORDABLE PROPERTY TAXES

The District responds 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 property tax policy approach in this regard:

5.4.1. <u>Balanced Taxation</u>

- The practice of the District is to set tax rates 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 that are considered to be significant.

- This practice allows taxpayers in the District to be confident that in any year, their property tax bill will increase proportionately to the increase in tax revenue required year over year, considering assessment increases of their property to the assessment class average.

5.4.2. <u>Keep property tax and user fees affordable.</u>

- Property taxes in recent years have seen moderate increases. During this period, the District has invested in public safety, in core infrastructure, and upgraded transportation infrastructure. Looking ahead, the need to replace ageing infrastructure will continue to put increasing pressure on the budget.

- The District has established a property tax policy of a maximum 2% increase to the average homeowner per year for operations and 1% for infrastructure replacement.

- The District will also ensure that property taxes remain an affordable component of between 2 and 3% of average household income.

- User fees will be regularly reviewed and maintained in the range of comparable fees in other similar jurisdictions.

5.5.SUFFICIENT RESERVES AND SURPLUS

Maintaining adequate reserves allows the District the flexibility to respond to uncontrollable factors like economic cycles, short-term and one-time needs. The District strives to maintain relatively robust reserves.

The District's approved Reserves and Surplus Policy is based on:

- Healthy Reserves and Surplus levels are important in achieving community goals including financial health and stability;
- The District will strive to be proactive in terms of financial health and stability;
- Actual Reserves and Surplus balances will be benchmarked with other jurisdictions and with pre-determined targets on an ongoing basis to gauge financial health;
- Reserves Surplus goals will be consistent with and supportive of realistic longer-term financial plans;
- Reserves and Surplus appropriations will conform to the statutory/legal requirements of the *Local Government Act* and the *Community Charter*, generally accepted accounting principles (GAAP) and public sector accounting board (PSAB) recommendations.

2019 to 2023 Reserves Scorecard

	Policy Target Minimum	Policy Target Preferred	Balance 2018	Balance 2019	Balance 2020	Balance 2021	Balance 2022	Balance 2023	Status 2018	Status 2023
WORKING CAPITAL										
Accumulated Surplus	3 months Revenue $700,000	6 Months Revenues $1,400,000	1,412,155	1,440,398	1,419,206	1,422,590	1,401,042	1,404,063	Good	Good
GENERAL FUND (Reserve Accounts)										
Financial Stabilization Reserve	1 Months Revenue $235,000	2 Months Revenue $470,000	325,000	293,000	318,860	320,237	336,642	309,875	Good	Good
Snow Contingency Reserve	Min $75,000	$150,000	60,499	61,709	62,943	64,202	65,486	66,796	Low	Low
Westshore Recreation Reserve	Min $25,000	As Received	60,699	61,913	63,151	64,414	65,703	67,017	Good	Good
RESERVE FUND (Statutory Reserves)										
Community Works Gas Tax	No Minimum	As received	468,171	376,333	282,659	237,111	165,652	92,765	Good	Good
Fire Buildings, Vehicles and Equipment	Min $100,000	Per AMP	873,166	1,146,979	777,769	1,068,674	1,368,798	1,684,924	Good	Good
Municipal Buildings, Vehicles and Equipment Replacement	Min $100,000	Per AMP	60,110	61,312	62,538	63,789	65,065	66,366	Low	Low
Heritage Structures Replacement	No Minimum	Per AMP	10,000	17,200	25,544	37,055	49,796	63,792	Low	Low
Community Hall Replacement	Min $100,000	Per AMP	161,171	171,394	181,822	194,459	209,348	226,535	Low	Low
Park Facilities Replacement	Min $25,000	Per AMP	-	2,000	4,040	7,121	11,263	16,488	Low	Low
Road Replacement	Min $250,000	Per AMP	935,958	996,177	1,052,601	1,090,653	1,136,466	1,186,195	Good	Good
Bridge Replacement	Min $50,000	Per AMP	8,000	11,160	14,383	19,671	27,064	36,606	Low	Low
Groundwater and Drainage	No Minimum	Per AMP	-	10,200	10,404	10,612	10,824	11,041	Low	Low
General Capital Project	Min $100,000	$250,000	199,777	221,973	244,612	267,704	291,258	315,283	Good	Good
Parkland Acquisition	No Minimum	As received	14,784	17,080	19,421	22,810	27,266	32,811		
General Land Sale	No Minimum	As received	105	107	109	111	114	116		
OVERALL			3,177,440	3,448,538	3,120,858	3,468,624	3,830,745	4,176,609		

6. LONG TERM FINANCIAL PLAN PROCESS:

To incorporate long term financial planning in the everyday business of the District, maintenance of a Long Term (Ten Year) Financial Plan built on the principles, strategies and measures outlined in this framework is envisioned.

A Ten-Year Long-Term Financial Model has been developed and will be used for the first time during the 2020 budget process. This will provide a higher level, long term outlook and be used to inform the Five-Year Financial Plan review process each year.

District of Highlands	Consolidated Five Year Financial Plan									Balance of Long Term Financial Plan				
	2019	2019	2020	Change		2021	2022	2023	2024	2025	2026	2027	2028	2029
	Budget	Actual	Budget	$$	%	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Operating Revenues														
Taxation	1,954,500	2,055,994	2,089,800	135,300	6.9%	2,087,900	2,154,600	2,230,100	2,295,300	2,397,100	2,466,200	2,490,600	2,563,600	2,598,600
Sales of Services	68,100	62,088	65,600	(2,500)	-3.7%	65,200	65,200	65,200	65,200	66,700	68,100	69,100	70,500	71,700
Other Revenue	57,200	32,111	82,200	25,000	43.7%	59,700	59,700	59,700	59,700	61,000	62,200	62,600	63,000	64,100
Grants and Contributions	730,700	663,768	623,300	(107,400)	-14.7%	624,300	625,300	626,300	627,300	603,400	605,200	607,100	609,000	610,900
Total Operating Revenues	2,810,500	2,813,961	2,860,900	50,400	1.8%	2,837,100	2,904,800	2,981,300	3,047,500	3,128,200	3,201,700	3,229,400	3,306,100	3,345,300
Operating Expenses														
General Government Services	889,800	546,201	830,900	(58,900)	-6.6%	847,000	862,100	872,900	889,100	909,300	940,300	943,400	964,000	978,600
Protective Services	477,300	234,144	485,900	8,600	1.8%	460,600	463,100	482,700	504,700	485,700	496,200	497,800	507,500	510,100
Transportation Services	298,000	158,532	306,200	8,200	2.8%	278,400	287,800	297,200	307,300	313,500	319,900	319,900	326,300	326,300
Planning Services	351,500	149,487	299,200	(52,300)	-14.9%	302,600	250,600	254,200	257,400	262,300	267,400	267,400	272,500	272,500
Recreation and Cultural Services	396,900	345,460	405,700	8,800	2.2%	415,000	422,300	433,400	440,600	439,000	451,500	451,500	464,400	464,400
Projects, Inititives and Service Changes														
Total Operating Expenses	2,413,500	1,433,824	2,327,900	(85,600)	-3.5%	2,303,600	2,285,900	2,340,400	2,399,100	2,409,800	2,475,300	2,480,000	2,534,700	2,551,900
Net from Operations	397,000	1,380,137	533,000	136,000		533,500	618,900	640,900	648,400	718,400	726,400	749,400	771,400	793,400
Add														
Surplus Used for Operating Projects	185,500	-	85,000	(100,500)		85,000	30,000	40,000	58,500	-	-	-	-	-
Equity for Amortization	875,900	-	875,800	(100)		875,800	875,800	875,800	875,800	875,800	875,800	875,800	875,800	875,800
Reserves Used for Capital	437,500	239,066	948,500	511,000		948,500	240,000	265,000	265,000	258,000	250,500	894,000	261,400	1,041,900
Proceeds of Debt	-	-	-	-		-	-	-	-					
Deduct														
Capital Expenses	437,500	239,066	948,500	511,000		948,500	240,000	265,000	265,000	258,000	250,500	894,000	261,400	1,041,900
Amortization Expense	875,900	-	875,800	(100)		875,800	875,800	875,800	875,800	875,800	875,800	875,800	875,800	875,800
Transfer to Reserves	521,600	-	557,100	35,500		557,600	588,000	620,000	646,000	674,800	682,800	705,800	727,800	749,800
Debt Servicing	60,900	60,884	60,900	-		60,900	60,900	60,900	60,900	43,600	43,600	43,600	43,600	43,600
Total Budget for the Year	-	1,319,253	-	-		-	-	-	-	-	-	-	-	-

7. MONITORING AND REPORTING

Monitoring and Reporting are critical to the execution of a strategy. Long term financial health is achieved when the financial pillars are balanced.

Performance indicators allow municipalities to track the extent to which these pillars are in balance. The following indicators will be incorporated into the District's long term financial and budget planning process and a dashboard with trend graphs will be built into the budget and annual report each year.

Financial Sustainability:

Principle:	Indicator	Description	Target
Respect the Taxpayer **Ensure the Capital Plan is sustainable** **Manage Assets** **Deliver Value for money**	Tax Rate Increase	Measures if the tax rate increase is reasonable for residents	3% or less to average homeowner
	Infrastructure replacement target funded	Measures how much of the capital plan is funded	100%
	Residential Taxation as a percentage of household income	Measures if tax is affordable. A higher ratio implies less affordable	3% or less
	Asset Health Score	Measures Asset Health to Councils Approved level of service	B - Good

Financial Flexibility:

Principle	Indicator	Description	Target
Mitigate significant fluctuations in taxes **Borrow when appropriate for capital infrastructure**	Debt Capacity	Measures the ratio of net debt charges to own source revenue. A lower ratio implies less risk for the District	Less than 10%
	Reserve Adequacy	Measures the number of months the District can meet its expenses through reserves. A higher ratio implies that the District can sustain operations for a longer period of time without extra revenues	6 months expenses
	Liquidity	Measures if the District has enough liquidity to pay off its debt obligations. A higher ratio implies that the District is better equipped to meet its liabilities	1.0 or better

Financial Exposure

Principle	Indicator	Description	Target
Users pay where appropriate **Minimize reliance on operating grants** **Balanced Taxation**	Reliance on external funding	Measures external operating grants as a percentage of total revenue. A lower percentage implies that the District is less reliant on external funds and more able to manage operations through its own sources.	Less than 20%
	Capital grants as a percentage of capital expenses	Measures external capital grants as a percentage of capital spending.	Five year average of less than 30%
	Tax Reliance.	Measures Commercial/Industrial tax as a percentage of total tax. A higher ratio implies higher risk.	Less than 25%