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**Date:** May 18, 2017

**To:** Mayor and Council

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**RE:** Long Term Financial Planning and Capital Budgeting

**Report No.:** FS-2017-009

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## **AIM**

To provide council with a framework for moving the town's financial planning and budgeting process to a longer term focus.

## **BACKGROUND**

The provincial and federal governments have placed an increasing importance on longer term planning at the local level. The requirement to establish asset management plans and integrate them into capital and operating budgets continues to be a key communication to local municipalities. Focusing on a single budget year at a time is no longer considered to be the best method of managing a healthy municipality.

Long term budgeting and financial planning can be quite challenging for a number of reasons. Staff turnover, a four year election cycle, a lack of clear strategic direction and changing demands of the public all work against a long term focus.

The largest deterrent to implementing a long term financial plan is the potential financial impact. All municipalities across the province are experiencing an infrastructure funding gap. Unfortunately, while the costs can be daunting, ignoring the need to establish a long term plan only increases the cost and resulting impact on taxpayers.

It is important to distinguish between long term financial planning and the budget. A long term financial plan provides the framework for spending forecasts and in turn, the budget whether it be an annual budget or a multi-year budget, works to put that financial plan into action.

The Municipal Act allows for both single year budgeting and multi-year budgeting (section 291.1 and 291.4). The distinction is that while a multi-year budget can be passed by a council in any given year (except for an election year), council must review the multi-year budget **annually** to approve the budget for the **current** year. A multi-year budget is

therefore a guiding tool to the achievement of a long term financial plan that still allows the council of the day to make changes in the current budget year if necessary.

## **DISCUSSION**

Administration was pleased with council's approval of the 2017 Budget that included, for the first time, additional tax dollars dedicated to lifecycle/asset management reserves. As highlighted in the presentation of the 2016 financial statements in May, approximately \$600,000 was included in the 2017 Budget to contribute to infrastructure reserves.

The asset management plan (AMP) prepared in 2013 included storm sewer, sanitary sewer, waterworks, bridges, culverts and roads. Based on 2012 replacement values, the total replacement value of these assets amounted to \$276.9 million. Since 2013, administration has been working towards adding the balance of the town's assets to the plan. These items include assets such as facilities, information technology and furniture and fixtures.

In 2013, the average cost on a per household basis to replace our assets was \$34,239. Over the last four years the cost to replace our assets has increased as has the number of assets we maintain. We've been fortunate during that time to also experience growth on a per household basis so it is reasonable to assume the average cost today remains at approximately \$35,000 per household despite these changes in asset replacement values and volumes.

The 2013 AMP proposed a number of funding options to address the infrastructure deficit. The following table was taken from page 68 of the AMP:

<b>Table 3. Revenue Options for Full Funding</b>				
	Tax Revenues			
	5 Years	10 Years	15 Years	20 Years
Annual tax increases required	11.5%	5.7%	3.8%	2.9%

The average home in Kingsville pays municipal property tax of \$1,320 (2017 tax rate). If a 20 year full funding plan was adopted, an average home would pay an additional \$35 a year in municipal taxes for the next 20 years in order to achieve full funding of asset management and replacement.

Administration recommends council adopt a financial plan that supports a dedicated annual tax rate increase to address asset management. As noted previously, this plan would establish the framework for the preparation of more detailed long term capital forecasts. These forecasts would then be incorporated into the annual budget and subsequently into a multi-year budget plan.

Administration is pleased to report that since the filing of the Asset Management Plan in 2013, the tax dollars directed to capital replacement and acquisition has increased. As a result, a 2.9% increase in the tax levy beginning in 2018 will actually result in a fully funded asset management strategy within 10 years instead of 20. This fact is especially important to note given the cautions expressed in our AMP that identify the increased volatility of replacement costs beyond a 10 year period. We're more likely to reach our fully funded target by adopting a financing plan that achieves our funding goals within 10 years than in 20.

## **LINK TO STRATEGIC PLAN**

To promote the general betterment, positive self-image and attitude of our community using the identified strengths that exist in our community.

To be recognized as a progressive, proactive environmental leader who promotes environmentally friendly practices and healthy natural lifestyle.

To develop an economic vision based on our strengths and opportunities that will retain existing and attract new businesses.

To maintain and improve the health, safety and well-being of our residents.

To encourage leadership and management that will provide the direction to achieve our goals and maximize the effectiveness of our strategies.

## **FINANCIAL CONSIDERATIONS**

If approved, the 2.9% 10 Year Fully Funded rate plan would be incorporated into the annual draft budget and/or multi-year budget for the next 10 years for council's annual consideration and approval.

## **CONSULTATIONS**

Senior Management Team

## **RECOMMENDATION**

That council approves in principle a 10 year plan to fully fund the infrastructure deficit in Kingsville which amounts to a 2.9% annual tax increase dedicated to lifecycle reserve contributions.

*Sandra Zwiers*

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