Long-Range Capital Budget Plan – General Fund

Background Information – Guide for Annual Capital Budget Deliberations

September 2022

Contents

Additional Material for meeting

- Updated Ten-Year General Capital Plan Spreadsheets including projected Tax Rate and Debt Ratio levels

Introduction

Like all forward-thinking organizations, the Town, led by its Town Council, not only needs to establish a long-range capital budget plan but it must also review and update that plan on an annual basis. It is critical that each year the long-range plan is reviewed in advance of the annual budget process to determine whether modifications are required, or new priorities have been identified, and that Town Council re-evaluates the core elements of its long-range capital plan.

The ten-year capital plan does not replace the Town's annual budget process where the formal approval of the annual tax rate and capital budget priorities are made. Council will still have the ability to make adjustments during the annual process. The long-term plan provides the foundation on what Council's future financial and capital project priorities are to guide and focus the day-to-day planning and operations for the Town.

Council agreed to review the ten-year capital plan every year outside the annual budget process to ensure it reflects the long-term infrastructure plans of the Town; ~~as well as~~ to confirm that the core assumptions continue to be acceptable benchmarks, and to determine whether any of those factors have to change.

The objective of this process is to establish an updated long-term capital plan that can be used to help guide and prioritize the Town's operational activities as well as capital budget priorities during the annual budget process. This updated plan also provides some clarity on the anticipated revenue projections and the ceiling threshold on future tax rate discussions.

Background

Value of a Long-Range Capital Plan

Developing a long-range capital budget plan for municipalities can be a challenge for Municipal Councils due to a variety of factors. Challenges include:

- Difficult to predict what the capital budget priorities are going to be in the future;
- Changing community demands and interest for capital investments;
- Emergencies occur and funding opportunities arise that result in the need to amend capital budget plans;
- The need to maintain and invest in renewing existing infrastructure is not as exciting as building something new;
- *Previous Councils did not increase tax revenue enough in the past to ensure there was sufficient revenue available today to renew and update existing infrastructure;*
- Commitments to future revenue growth or tax rate increases can change year to year;
- Planning assumptions change therefore the long-range plan needs amending periodically; and
- Long-range capital budget priorities go well beyond the 4-year election cycle of municipalities.

However, the value and benefits of a long-range capital plan for municipalities far exceed the challenges. Municipalities, led by forward focused Councils across Canada are establishing, managing, and regularly reviewing long-range capital plans that can vary in length from 10 to 50 years.

Municipal Councils must not only be concerned about the interests and needs of the community today, but they also need to look to the future to ensure the municipal assets that exist today can continue to provide services to residents to the same standard into the future (this is the sustainability pillar of our strategic plan). They must also consider what the future municipal infrastructure investments required to grow and develop their community are. A one-year budget process cannot enable municipal leaders to carefully plan and move their community forward. The value that a long-range plan provides a Municipal Council include, but are not limited to:

- Establishes clear capital budget investment priorities;
- Ensures organizational alignment for today and into the future;
- Allows for the organization to execute the priorities established in the Town's strategic plan;
- Ensures the necessary time for proper planning and development of project plans, tenders, engineering designs, etc. for the projects on the horizon;
- Establishes clear investment criteria to help determine which projects move forward;
- Improves operational decision making within the organization and between departments; and
- Provide a clear plan to help manage external demands and expectations (residents, developers, businesses, etc.).

Asset Management Plan

An Asset Management Plan is a long-range planning document which is meant to improve the Town's ability to meet its strategic, sustainability and long-term goals and objectives in a way that best serves the community.

The principal policy statements included in the Town's Asset Management Policy are:

- *To ensure transparent Asset Management practices, we will have clearly defined levels of service that balance customer expectations and regulatory requirements with risk, affordability, and available resources. In implementing AM, we will:*
    - *maintain and manage assets at the defined levels of service, and*
    - *monitor standards and service levels to ensure that they meet/support community and Council expectations and objectives, and*
    - *follow regulatory requirements.*
- *To have a system wide approach to AM that considers the impacts of our decisions on internal business units and the community. To ensure effective AM for all aspects of the asset life cycle we will:*
    - *make informed decisions using formal, consistent, and repeatable methods;*
    - *be informed by community priorities as determined by Council;*
    - *consult with stakeholders where appropriate, and*

- *regularly report on the status and performance of the Town's AM program.*

- *To make appropriate long-term decisions, enabling our assets to meet the challenges of customer expectations, legislative requirements, and climate change impacts. When making these decisions current and future generations shall be considered.*
- *Assess the full impact of managing assets through their life cycle from acquisition to renewal or disposal, we will evaluate new and existing asset investment decisions based on whole-of-life costs.*
- *Continually measure the effectiveness of our asset management processes and adjust our processes based on the feedback that is received.*

An asset management plan allows a community to have a better understanding of the state of its existing infrastructure, creating a linkage between the infrastructure in place and the expected service levels in a community, and linking the financial strategy of the community to ensure a municipality is managing and maintaining its existing assets to deliver on the resident's expectations for service. One of the greatest values of an asset management plan is that it allows an organization to recognize the significant financial investment needed to manage and maintain existing assets to deliver today's services before a municipality considers new and additional assets that expand services.

Risk Factor with Current General Capital Asset Management Plan

There remains one notable infrastructure category that has not been properly factored into the Town Asset Management plan and that is the Town's older recreational buildings and notable structures. The Parks and Recreation Department has been asked to complete a more detailed forecasting plan for its programs and services, at which point, the Town would be in a better position to understand what is needed to upgrade, upkeep, or replace those existing facilities. The key assets still under further analysis include the Small Hall and Skate Park, Coverdale Recreation Centre, and the Parks & Recreation Office building.

Therefore, estimated costs to repair and improve those existing facilities are not factored into any of the scenarios noted below at this time.

Utility Capital Budget Ten Year Plan – Not Included Today

The Ten-Tear Utility Capital Budget Plan is not included in this material today. We will need to have another session to discuss the Ten-Year Utility Capital Budget Plan in the future. There are financial challenges for the utility capital budget plan because the recently approved Water Master Plan Study identified an additional $12 million that could be allocated to improve and enhance the Town's water system over the next ten years. The analysis on what impact that level of capital spending would have on the utility fund's debt ratio and utility rates will need to be completed and presented to Council in the future.

Assumptions – Foundation of Budget Projections

For the Town to be able to develop a long-range capital plan, it is necessary to establish assumptions for a number of items so that future projections can be made. The assumptions include tax base assessment growth; operating budget growth; general revenue changes; external capital funding opportunities; interest rate; level of investment in capital budget from the General Operating Fund; stability of Provincial equalization funding; and more. These assumptions must be reviewed and modified each year based on changes to the economy; government policies; other budget decisions of Council; etc. External factors have an impact on these core assumptions.

2021 Assumptions for the Ten-Year Capital Plan

To provide Council with a good overview, the list below summarizes the core assumptions in the previous ten-year plan **approved by Council in 2020**:

- Town's assessment growth was projected to be 2.5% in 2023 and 2.0% for the remaining years;
- The tax rate was going to increase by a total of 5 to 6 cents by the end of the ten years;
- The equalization grant was reduced to $1.45 million (Down from previous years of $2.5 million);
- Operating Expenses were projected to grow by 2.0% per year;
- The debt ratio was going to increase from a low of 8.0% in 2022 to 17.8% at the end of the ten years; and
- Limited capital reserves to remain after 10 years.
- **The capital plan approved in 2021 endorsed the redirection of $6.7 million of Gas Tax Funding to the General Capital Budget from the Utility Capital budget.**[1]

2022 Assumption Updates for Ten-Year Capital Plan

There are a number of factors that require the Town to update and adjust its core assumptions in the Ten-Year Capital plan at this time. Those factors include:

Negative factors for the model:

- The inflationary results with our capital projects in 2022 require us to revisit our projections, particularly with our street projects. Certain street projects are now estimated to be over 60% higher compared to previous projections.
- Inflation is a significant factor, which requires the projected growth rate for the operating budget to be adjusted upward; and
- The model assumes that the equalization grant for the Town will see further reductions based on the Government's local government reform process.

---

[1] A number of years ago (2012) Town Council previously decided that all of the Federal Gas Tax Funds would be allocated to the Utility Capital Budget to go towards water renewal projects. In 2021 it was noted that funding remained available in the gas tax fund that could be available for reallocation to other priorities in the General Capital budget or those funds could remain and support additional projects in the Utility Capital Fund. Council decided to reallocate that $6.7 million to the General Capital Fund due to the level of demand on the General Capital Budget.

Positive factors for the model:

- The tax base grew by over 11% last year and there are early indications 2023 will be a positive year as well (not a strong as 2022), leading to a strong tax base in 2023. Following increasing the projected growth for 2023, the model projects that the growth will stabilize at a rate of 2.5% in subsequent years. Some may see this as a conservative estimate based on current trends, however, the significant spike we have recently experienced is not expected to continue each and every year.

Ten Year General Capital Plan Expenditures – needs to be revisited because of Inflation Projections

When revisiting the plan's proposed projects, staff simply increased the previously approved ten-year plan (*Council reviewed the 5 year model during 2022 budget process*) by the anticipated impact inflation would have on those existing capital projects. This simple adjustment on existing projects increases the overall capital budget by $20 million over ten years. The immediate impact of that one change, on the overall affordability of the model resulted in the debt ratio exceeding 20% and the tax rate increasing by over 10 cents. Two factors that were not acceptable to previous Councils and that staff anticipated would not be acceptable to the current Council.

After some preliminary planning discussions with Council this year, staff confirmed that the following financial parameters continue to guide the current Council's objectives for the Town's ten-year plan:

- Council is supportive of seeing the tax rate grow by a maximum of 6 cents over the ten-year plan to deliver on the capital budget priorities;
- Council would like to limit the debt ratio level to 16% or below; and
- Council's most significant capital budget priorities remain the RRC and local improvement projects.

Therefore, based on the current environmental factors that are impacting our core planning, staff have updated the core parameter in the model with the following:

- Tax base to grow by 6% in 2023 and 2.5% for all remaining years;
- The operational expense budget is projected to grow by 5% in 2023 due to the current significant spike in inflation and 2.5% each year after that.
- The equalization grant is projected to be reduced to $1.0 million per year. There is some anticipation Riverview may be a target for further reductions to our grant based on preliminary updates on the new Provincial model to be introduced this year.
- Previous capital project costs including the local improvement projects and the recreation complex were updated to reflect anticipated increases due to inflationary factors due to industry trends.
- The model assumes that the Town will receive the full funding it has submitted to the Federal and Provincial Government for the RRC project. Previously, the model only assumed $10 million

in revenue for that project which was based on a conservative planning estimate and the potential that both levels of government may approve less then requested per the programs.

- The model assumes that the Town will increase the amount invested from Capital from Operating over the ten-year period (an additional $4.6 million).
- The model assumes that the Town will be dip into its capital reserves in this ten-year period (an additional $2.5 million).

The last two bullets are additions that were necessary to try and bring the tax rate and debt levels into the range that Council directed staff to remain within.

History of the Ten-Year Plan

2015

- 2015 to 2024 - $145 million plan
- Assumed growth rate of 3.75%
- Tax rate projections - 1.6888 in 2024

2016

- Actual growth in 2016 of 0.7% (assumptions need to be updated)
- Staff informed Council - Capital Plan needed to be reviewed & updated

2017

- Reduced projected growth rate to between 1% to 2%
- 2017 to 2026 - $101 million plan (CAO deferred a number of projects)
- Tax rate projected to grow to over 1.75 by 2026

Start of 2018

- 2018 to 2027 - $110 million capital plan
- Projected assessment growth 0.5% to 1.0%
- projected tax rate by 2027 – 1.84

2018 to 2027 Plan

- 2018 to 2027 - $82 million budget
- projected assessment growth 0.5% to 1.0%
- projected tax rate by 2027 - 1.68

Updated Plan - 2019

- 2019 to 2028 - $92 million
- projected assessment growth 2% to 1.25%
- projected tax rate in 2028 - 1.65

Updated Plan 2020

- 2020 to 2029 - $102 million
- projected assessment of 2.0% in 2021 and 1.5% for next 2 years and then increase to 2% a year
- projected tax rate by 2029 - 1.645

Updated Plan in 2021

- $103 million
- projected assessment 2.5% in 2023 and 2.0% remaining years
- projected tax rate by 2030 - 1.60
- Debt ratio by 2030- 17.8%

Projected current base scenario model in 2022 with inflation on exisiting projects

-with modifications outlined below

$124 million

- **Debt Ratio - 16.36%**
- **Tax rate by 2031 - 1.61**

Staff has developed an updated ten-year model that delivers on the parameters of Council's general direction. To stay within these parameters (which still have risks associated with them) there are tough choices that need to be made and risks that need to be accepted. Below is a summary of the key factors in this updated ten-year plan along with the potential consequences of that plan.

Updated Model

<table>
<tr><th>Overall updates to the model</th><th>Impact to Model on Key Factors:</th></tr>
<tr><td>Tax base projected to increase by 6% in 2023 and 2.5% in remaining years.
Operating budget projected to increase by 5% in 2023 and 2.5% in remaining years.
Equalization grant reduced to $1.0 million.
Overall capital spends projected to increase to $124 million.
Model assumes receiving a higher dollar amount from the Federal Government for the RRC than previous models. Previous models were built on the</td><td>Tax rate increases by 6.29 cents over ten years.
Debt ratio below 20% threshold at 16.36%.
Will require the Town to use an additional $2.5 million from Capital reserves during this ten-year window (very limited amount remaining in reserves).
Capital from Operating budget allocation to capital projects increase over ten-year plan.</td></tr>
</table>

<table>
<tr>
<td>minimum amount Council would accept for this project at $10 million (both feds and province). Federal contribution has been increased by $3.0 million to better align with submitted request (the conservatism in our model is being removed).
Total borrowing over 10 years would be $45 million.</td>
<td>Budget for local improvement projects over ten-year period will need to be reduced by $3.1 million (overall spending from $34 million to $31 million).</td>
</tr>
<tr>
<td>Pros of this proposed plan:

This scenario appears to allow Council to continue with all of the projects it has identified so far and to keep the tax rate, growth, and debt levels in line with the previous forecast that they had supported. (Debt ratio does end of higher than 16% - is that acceptable at 16.36%)
This scenario includes an allocation of $5.0 million that has not been allocated to projects with which Council can identify new priorities.
</td>
<td>Cons of proposed plan:

This scenario may be riskier than the previous models because we are still trying to do it all, and it assumes we are prepared to fund more of the capital plan from the operating budget, which may impact other budget priorities.
Model still requires us to delay local improvements which is not popular with some.
Debt level at over 16% is still on the high end and much higher than the average debt level for most NB municipalities.
While some funding was added for unallocated projects, there are limited opportunities for future Councils to add to this plan since this model maxes out tax rate increases and debt levels. To alleviate future limitations, some projects would need to be removed from the plan.
</td>
</tr>
<tr>
<td colspan="2">Analysis
This projected model allows Council to achieve all of its capital budget priorities, while within reach the level of tax rate growth and debt ratio level that Council has in the past appeared ready to accept. The key factor Council will need to consider since it is accepting more risk with this model, is if assumptions or variables do not work, a future Council is going to have to be prepared to make notable changes to address any of those challenges in the future.</td>
</tr>
</table>