



Council Summary May 2018 long range plan final.docx

Background Information – Guide for Annual Capital Budget
Deliberations

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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 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 ensure if modifications are required, or new priorities have been identified, 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 always have the ability to make adjustments during the annual process. The long term plan provides the foundation on what are Council's future financial and capital project priorities to guide and focus the day-to-day planning and operations for the Town.

The need to revisit the Town's long range plan was a critical priority this year, due to a key assumption around assessment growth in the previous 10 year plan reviewed by Council not occurring at the original rate that had been anticipated. The Town's assessment growth over the past three years has been below the Town's historical average, which therefore has a corresponding impact on the amount of funds the Town has available to spend on capital projects. Two working sessions were scheduled with Council where they were able to discuss their shared priorities going forward with regards to the Town's ten year plan. Those sessions were designed to provide general direction to staff which would allow them to develop an updated long range capital plan for Council to formally review and debate at a future Council meeting. 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.

The utility capital budget is not part of this discussion at this time.

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:

- It's difficult to predict what the capital budget priorities are going to be in the future;
- There are always 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;

- Committing to future revenue growth or tax rate increases can change year to year;
- Planning assumptions change therefore the long range plan needs to be amended 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 interest and needs of the community today, they 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) and they must also consider what are the future municipal infrastructure investments required to grow and develop their community. A one year budget process cannot enable municipal leaders to properly 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;
- Ensure organizational alignment for today and into the future;
- Allow 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.).

History of the Town's 10 year Capital Plan

Town Council has established a number of important planning priorities and parameters that guide the budget planning process and the execution of the Town's operations. First and foremost Town Council has established a Strategic Plan for 2016 to 2020 that it uses to guide and measure the progress of the Town. Council has endorsed a Sustainability Plan that is a key input into prioritization and planning to ensure that as an organization we are focused on the long term sustainability of the community. Town Council had also approved an Asset Management Plan focused on ensuring the Town maintains, manages and renews its existing infrastructure to deliver the service levels desired by Town Council. Council also reviews and approves annual general and utility operating budgets each year.

It was not until the last few years that Council attempted to establish a more formal long term capital plan to help guide and focus the organization on what the Town's long term capital priorities were. While in the past, Town Council had approved 5 year capital plans per the Province of New Brunswick's legislative requirements, the individual capital budgets each year would be amended based on the priorities in those individual years. In March of 2015, at the direction of Council, staff presented Council

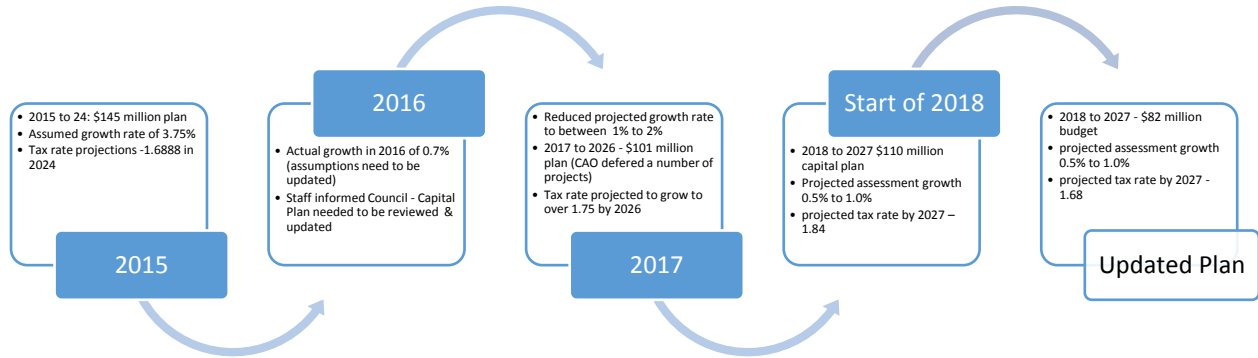
with the Town's first ever 10 year capital budget plan. It was an aggressive infrastructure master plan that established the Town's infrastructure priorities and it was a planning tool that Council was prepared to use to guide its future annual budget decisions. It included investments in: a long term local street improvement program; investing in key new transportation infrastructure; recreation facilities including a proposed Wellness Centre; and the development of Mill Creek Park. At that time, Council's financial parameters in its strategic plan were to maintain the lowest tax rate in the region and to maintain an average debt ratio of around 16%.

One of the key risk factors that Council was presented with when it reviewed the original plan in March 2015 was that if the core assumptions in the plan changed, the details of the 10 year Capital Plan would need to be revisited. One of the core assumptions at that time was the plan was built on an assumed 3.75% assessment tax base growth, which at the time was considered a conservative estimate based on the Town's historical average assessment growth of around 5% a year.

In 2016, the Town saw an assessment growth of 0.7% which only represented 20% of the level of growth projected and was a surprise to Council, staff and residents. With those results, Town staff presented Council an update on the 10 year capital plan in March of 2016, indicating to Council that decisions had to be made to reduce the amount of spending planned over the next ten years as that level of investment was not sustainable when one considered the sizable projected impact on the tax rate. Staff made a number of recommended changes to the long range plan by removing over \$40 million in projects in the ten year window, but also recommended reducing the projected assessment growth levels as it was anticipated the recent lower assessment growth results were projected to continue. While those changes were made to the long range plan, there was a need to further reduce the overall spending in the ten year plan, however at the time there were no formal discussions on what other projects would be considered for removal or deferral from the ten year capital plan.

The trend of lower overall assessment growth continued over the past two years. The key drivers in the reduce assessment growth levels has been that 1) the assessed values of existing properties have remained flat or has declined because the residential properties' assessed values and market values (i.e. what house are actual are selling for) are at par; and 2) the Province also introduced a freeze on property tax assessments.

The graph below shows the evolution of this ten year plan:



Asset Management Plan

An Asset Management Plan, is a long range planning document which is intended 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.*

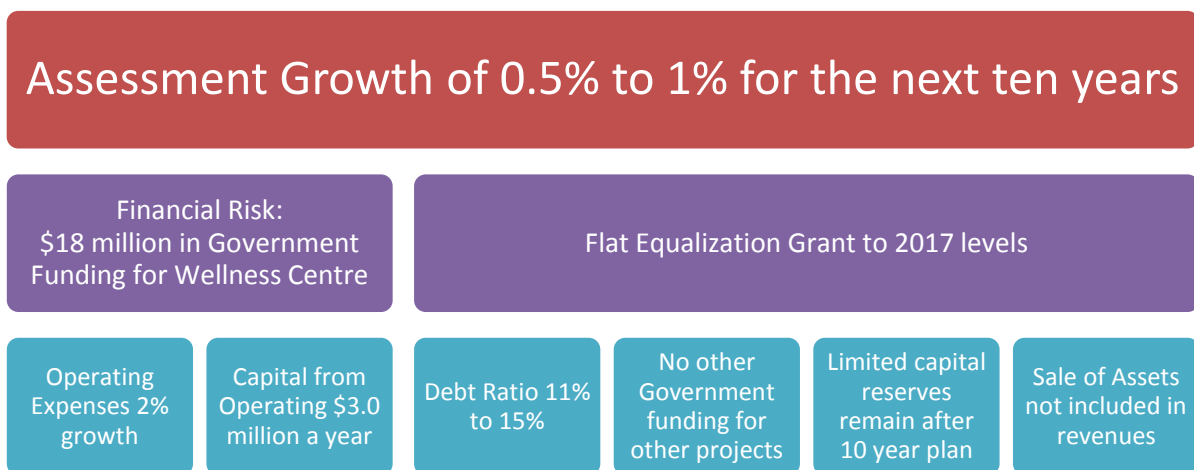
- *Assess the full impact of managing assets through their life cycle from acquisition to renewal or disposal, we will evaluate new and existing asset investment decisions based on whole-of-life costs.*
- *Continually measure the effectiveness of our asset management processes and adjust our processes 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 residents expectations for service. One of the greatest values of an Asset Management Plan is 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.

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 government funding; and more.

To provide Council a good overview, this table below summarizes the core assumptions in the previous version of the ten year plan:

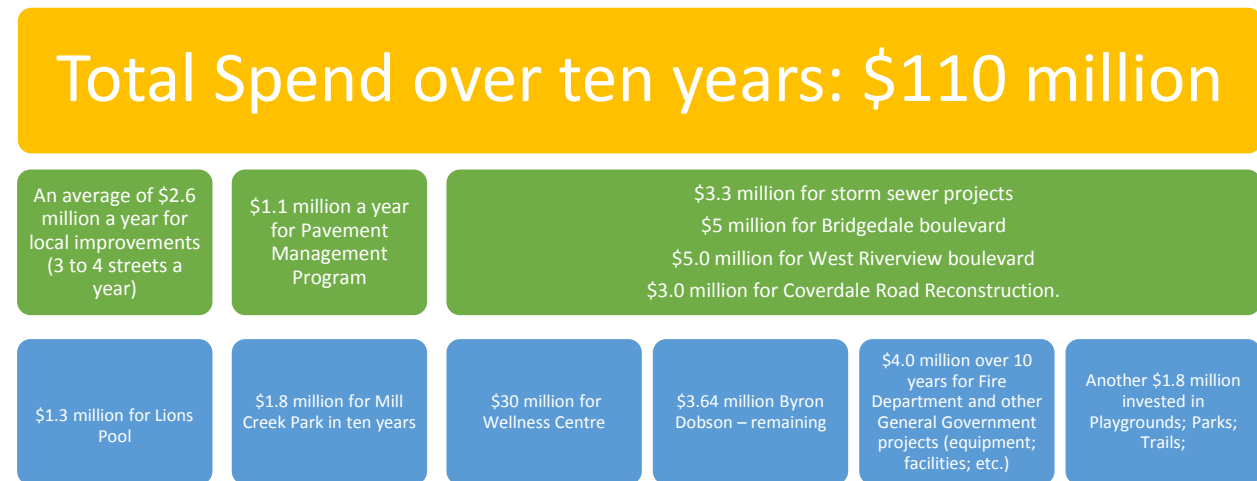


Staff have reviewed the core assumptions included in the long range plan and were confident that the assumptions that were used to establish this forecast were realistic and reasonable assumptions that the Town could use at this time in developing this plan. When relying on assumptions future planning is not perfect, but it helps provide value for an organization's long range planning. In the past there has been some concerns/arguments by some members of Council (and the public) that maybe we are being

too pessimistic with the assumptions in particular with regards to the projected tax assessment base. Others have argued we are too optimistic. And one could conclude that the last three years of tax base assessment growth has concurred with that latter perspective.

Previous Ten Year General Capital Plan

The previous 10 year general capital plan that was reviewed by Council during the 2018 budget process included all the proposed investments in existing and new infrastructure assets that Council has discussed in the past.¹ The table below includes the highlights of the plan:



The level of spending projected in this plan with the associated impact on the Town's projected tax rate levels and debt ratio was not sustainable, therefore Council committed to reviewing the 10 year plan in detail in 2018.

Capital Budget Prioritization

Council's discussions regarding capital budget prioritization involves attempting to establish shared investment priorities, while also making tough choices on what capital budget projects are more important than others for the future direction of the Town. Ultimately Council's planning and budget prioritization reflects the position that is supported by the majority of Council. There will always be underlying difference of opinion on the priorities but in the end a general consensus has to be established.

During Council's planning sessions there was significant discussion of what members of Council felt the capital budget priorities were for residents; businesses; projects needed for our future; what projects best align to the strategic plan; what projects are needed to address current infrastructure deficiencies;

¹ For this version there were a few differences between it and the ten year capital plan Council would have seen as part of the 2018 budget process. The results of the new storm water study were considered in this plan as well as the remaining detailed findings in the Byron Dobson Facilities Assessment, which were not previously forecasted in the plan.

etc. And all of these different factors are not always aligned; in a lot of cases these factors can be competing requirements. Decisions are always challenging when a Council must consider - what is a necessary capital investment versus what is a “want”.

In the planning sessions, the majority of Council came to a consensus that helped give staff direction to develop an updated 10 year general capital budget. That direction on priorities included:

- Continuing to invest in local improvement projects at very similar levels;
- Investing in the Town’s pavement management program;
- Addressing aging infrastructure issues that have been identified including the result of the storm sewer study; the renewing of the Byron Dobson arena; etc.
- Replacing the Lion’s Pool and building;
- Continuing to make annual investment in the development of Mill Creek was important;
- Investing in components of a Wellness Centre facility was a priority, with the need to address that facility in phases is required;
- A small investment in the initial phase of development of Bridgedale Boulevard to provide access to a future Wellness Centre;
- A projected increase to the Town’s tax rate that would be limited to 10 cents over the 10 year period and the annual decisions on the actual tax rate change would occur during the annual budget process; and
- An increase to the Town’s borrowing to fund this level of investment is necessary increasing the Town’s debt level.

This direction provided staff with some preliminary information to develop an updated 10 year plan for Council’s review and consideration.

Revised 10 Year Capital Plan – General Fund

The graphic below provides a high level summary of an updated ten year plan that staff is presenting to Council for consideration. The details of this plan are in attached files.

Total Spend over ten years: \$82 million

Average \$2.3million a year for local improvements (2 to 4 streets a year)

\$1.1 million a year for Pavement Management Program

\$3.3 million for storm sewer projects
\$3 million for Bridgedale stub street

\$1.3 million for Lions Pool

\$1.8 million for Mill Creek Park in ten years

\$16 million for Phase 1 - Wellness Centre Project

\$3.64 million Byron Dobson – remaining

\$4.0 million over 10 years for Fire Department and other General Government projects (equipment; facilities; etc)

This proposed plan reduces the total spend contemplated in the 10 year capital plan by over \$25 million and it also reduces the financial risk exposure in the plan as the projected revenue from provincial and federal infrastructure programs was reduced due to the risks and uncertainty associated with securing that level of funding.

Projects that have to be deferred, eliminated or delayed included:

- \$5.0 million for West Riverview Boulevard
- \$3.0 million for reconstruction of Coverdale Road
- \$7 million of the proposed investment in Bridgedale Boulevard
- The Wellness Centre project was reduced by \$14 million as the project plan will be modified and phased in.
- The investment in Local improvement projects reduced by \$300,000 a year over the 10 year period compared to the previous version of the ten year plan (annual spend reduced from \$2.6 million to \$2.3 million).
- Remaining proposed investment in Winter Wonderland eliminated.
- Proposed investment in live fire training facility eliminated.

The resulting impact of these changes is that some of the core assumptions in the 10 year capital plan had to be adjusted:

- The previous 10 year general capital plan was forecasting a 24 cent increase to the tax rate over the 10 year period with that level of spend. This amended plan forecasts a 10 cent increase over the 10 year period. During the annual budget process, Council will make the decision on the adjustment to the tax rate each year.
- The previous 10 year general capital plan forecasted an annual contribution of \$3.0 million from the General Fund to cover Capital Projects (i.e. funding capital projects with existing revenue versus borrowing.) The proposed plan requires that the average annual contribution be reduced to \$2.2 million a year (\$8.2 million reduction over the 10 year period)

- The reduction in capital from operating budget and the limitation on the tax rate increase results in the overall debt ratio to increase to 16.68% by year 2027. While still under the debt ratio level cap established by the Province of 20%, it increases the level of the Town's borrowing and is higher than the average of most municipalities in NB.

Factors not included in 10 year plan

The following are a summary of external factors not factored into the current 10 year plan's assumptions that could have an impact on project priorities and the level of investment:

- The 10 year plan only assumes a small amount of federal and provincial infrastructure funding for a proposed Wellness Centre. The rest of the capital projects do not assume the Town receives any funding. Over the 10 year period we are confident the Town will receive at least some federal and provincial contributions for projects. So that could be a positive influence on the plan.
- The plan does not factor in any revenue from the sale of Town assets including land or facilities. That revenue could be allocated to capital projects.
- If assessment growth changes increased over the projected percentage increases in the plan that could have an impact on the level of capital spending; the debt ratio or the tax rate based on the decisions of Council at each annual budget.