



**Finance Department**

**TO: Budget and Corporate Services Committee**

**SUBJECT: City of Burlington's 2012 Long Term Financial Plan**

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Report Number: F-22-12

File Number(s):

Report Date: October 29, 2012

Ward(s) Affected: 1  2  3  4  5  6  All

Date to Committee: November 13, 2012

Date to Council: November 26, 2012

**Recommendation:** Approve the long term financial plan, including five strategic objectives, guiding principles and primary and secondary performance measures, as described in Report F-22-12, dated October 29, 2012; and

Approve Recommendations 1 to 4, described in the report; and

Approve the revised Debt Policy and new Stabilization Reserve and Reserve Fund Policy, attached to the report as Appendix B and C respectively.

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**Purpose:**

Address goal or action in strategic plan

Address other area of responsibility

To present the city's long term financial plan, aligned with the city's strategic plan, Burlington, Our Future.

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**Reference to Strategic Plan:**

Vibrant Neighbourhoods

Prosperity

Excellence in Government

N/A

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**Executive Summary:** We are pleased to present the City of Burlington's ten year strategic financial plan, which will serve as a financial blueprint for the City in the years to come. The plan identifies objectives, along with clear measures of success and high level strategies to achieve these targets.

The long term financial plan establishes five key strategic objectives for Burlington;

1. Competitive Property Taxes
  2. Responsible Debt Management
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3. Improved Reserves and Reserve Funds
  4. Predictable Infrastructure Investment
  5. Recognized Value for Services

Each of these objectives depicts the methods and measures we intend to accomplish, and are supported by the 'Excellence in Government' directions in the city's strategic plan – '*Burlington, our Future,*'

- Contributing to financial sustainability
- Clarity on financial goals, priorities and impacts
- Developing performance measures
- Demonstrating effective governance

Each strategic objective contains a **guiding principle** to guide the financial decision making for the city, to ensure a flexible and sustainable financial position, and to provide services to the community, together with associated infrastructure, in an affordable way. **Background** or the story behind the objective is provided to understand the past history and current status to aid the city in **moving forward** to accomplish the **recommendations** in the long term financial plan. Lastly, the plan defines two **performance measures** for each objective: a *primary measure* which is an efficiency measure to assess how the city is achieving the recommendations (How well did we do it?). A *secondary measure*, which is an effectiveness measure to assess the long term realization of the defined strategic objective (Is anyone better off?). These measures will be used to track performance and report annually on progress towards overall improved and strengthened financial health.

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## Background:

As part of the second quarter governance meeting held on June 18, 2012, Finance submitted a draft framework for the city's long term financial plan for council review and feedback. The draft framework presented results based accountability and measures that form the fundamentals of the long term financial plan presented herein.

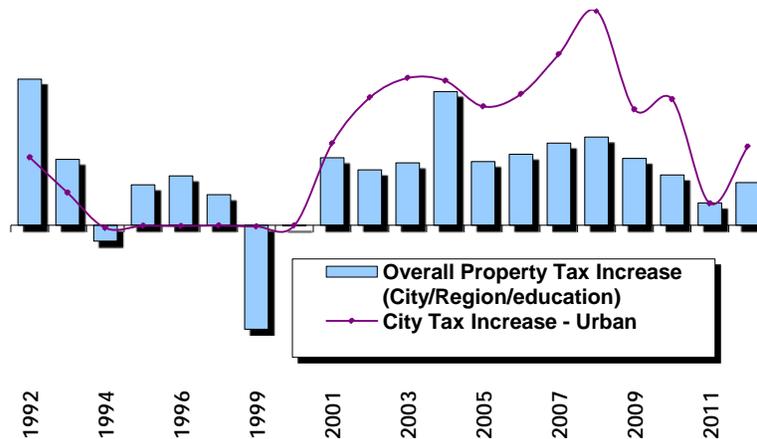
## Discussion:

### STRATEGIC OBJECTIVE 1: COMPETITIVE PROPERTY TAXES

**Guiding Principle:** The city must respond to the demand for programs, services, and the continued maintenance of our existing infrastructure in an affordable manner. As a result, the city must strike a balance between conflicting goals, such as minimizing tax

increases, while maintaining existing programs, services and infrastructure, and providing new services in a climate of increasing costs.

**Background:** As depicted in the graph, over the last 20 years the city has gone through periods of fluctuating tax rate increases. Up to 2001, the city had experienced low city tax rate increases averaging 0%, followed by a period of higher tax rate increases



averaging 6% to 2010. As per the BMA 2010 Financial Health report, the city's property taxes are still the lowest among comparable municipalities. The long term financial plan will aim to achieve a stable environment of competitive property tax rate changes that are consistent and affordable for taxpayers.

**Moving Forward:** The long-term financial plan includes a ten year operating forecast to ensure the city's priorities are reflective of community needs, and aligned with the corporate strategic plan. The ten year model is developed to create awareness of the current scope and levels of service and factors influencing revenues and expenditures. It is consistent with other key policies, and includes projections of revenues and expenditures to build a better understanding of the city's financial challenges and to assess affordability of new and existing services and future capital investments.

Attached as appendix A to this report, is the 2012 ten year operating forecast, that outlines all known commitments at that point in time, such as the hospital, and infrastructure. The forecast provides a gauge of city tax rate changes over the next ten years that are affordable and continue to provide the existing quality and quantity of service for the city. From the forecast the average base budget city tax rate increase is forecasted at 2%, over the next five years.

**Recommendation 1:** As part of the city's ten year forecast which will be updated annually, the long term financial plan recommends;

- Base budget tax rate changes that are aligned closely with inflation.

*Base budget* is the on-going investment to maintain existing service levels, not including any special levies (ie. hospital contribution). The measure used for *inflation* will be a three year annual rolling average of the Consumer Price Index (Toronto). This measure most accurately represents the cost of living for Burlington residents.

The city will need to manage costs and grow revenues to maintain the above recommended target. Any changes above or below existing service levels that are significant must be supported by a business case. Each business case will be

evaluated based on the financial benefit to the city (value-added). This should avoid large tax rate changes seen in the previous graph. The base budget represents the city's day-to-day service operations and will not be a focus of discussion at committee budget reviews. Committee will focus on strategy and changes in service level. Any concerns with meeting base budget at the inflation target will be brought forward to council along with recommended remedies as necessary.

Municipality	2009 Taxes	2010 Taxes	2011 Taxes
Kitchener	\$2,737	\$2,810	\$2,879
Burlington	\$3,016	\$3,124	\$3,183
Oakville	\$3,133	\$3,200	\$3,298
St. Catharines	\$3,295	\$3,297	\$3,308
Whitby	\$3,537	\$3,582	\$3,627
Oshawa	\$3,850	\$3,848	\$3,857
Markham	\$4,232	\$4,311	\$4,433
<b>Group Average</b>	<b>\$3,400</b>	<b>\$3,453</b>	<b>\$3,512</b>

**Performance Measures:** To track our progress on this objective the city will report on the following key performance measures for 'competitive property taxes'.

Primary Measure:  
City's tax rate change measured against inflation target, CPI Toronto (3 yr. rolling average)

Secondary Measure:

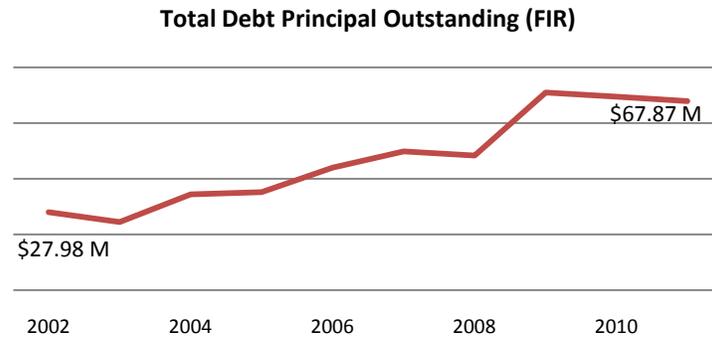
Total property taxes per average home relative to comparable municipalities (*BMA comparative study*)

*Note Appendix D has further tax related measures reported annually through the City's Financial Information Return*

## STRATEGIC OBJECTIVE 2: RESPONSIBLE DEBT MANAGEMENT

**Guiding Principle:** The city will make every effort to continue to minimize the impact of debt servicing costs on the taxpayer and manage existing and future debt levels.

**Background:** Over the last number of years the city has embarked on a number of significant capital projects such as, the Appleby Ice Expansion, Burlington Performing Arts Centre, Upper Middle Rd. grade separation and Transit Operations Centre Expansion to serve the needs of a growing community. A large portion of these projects were funded by debentures. As shown in the next graph, the city's principal debt outstanding has been steadily increasing over the last number of years from 2002 to 2011. In order to manage our debt levels effectively, the city has in place a strong debt policy and appropriate measures to manage financial risks.

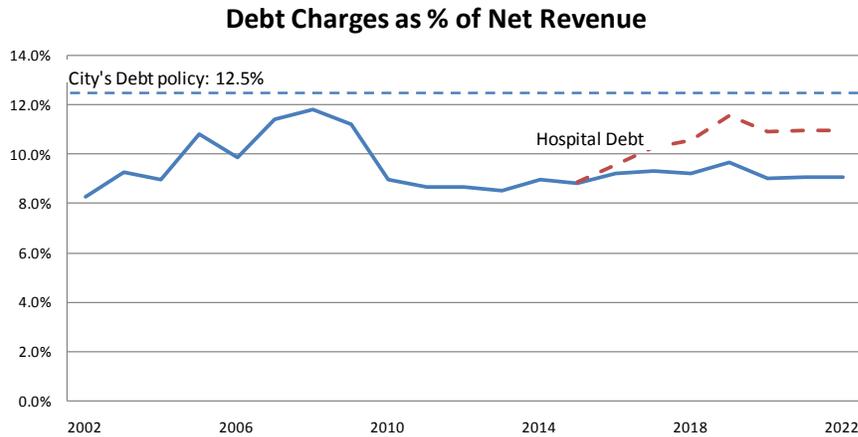


Currently, the city’s debt policy allows for total debt charges as a percentage of net revenues to be no greater than 12.5%, and the city’s tax supported debt policy is limited to 10% of net revenues. Staff recommends this policy continue as it is an integral part to responsible debt management, and the long term financial plan.

**Moving Forward:** With a full capital program (and the redevelopment of Joseph Brant Memorial Hospital), our debt capacity is still within acceptable limits. However, the city will be nearing capacity over the next ten years. The debt policy and measures will continue to be reviewed and updated to ensure every effort is taken to minimize the impact to the taxpayer and manage existing and future debt levels. At this time, in order to support quality investment decisions, and demonstrate a long term commitment to debt management, the key principles/ practices to be added to the city’s debt policy are noted below.

**Recommendation 2:** When considering use of debt as a funding source, the city should ensure that it is being used in a fiscally responsible manner, therefore adopting the following policies to specify the most strategic use of debt:

- 1) Debt financing should be considered for:
  - Increased/ new capital projects providing services to residents
  - Projects tied to third party matching funds
  - Project costs not recoverable from Development Charges
  - Projects where the cost of deferring expenditures exceeds debt servicing costs
  - Projects that have a useful life greater than ten years
  
- 2) The following items are to be considered to use debt efficiently;
  - As debt charges decline through the retirement of debt, the city will apply savings towards achievement of full lifecycle 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.



The amendments are included in the updated debt policy attached as appendix B, which staff recommends for approval. The current and proposed debt policies represent the city’s long term goals with respect to the capital program, and the city’s long term

operating plans. The city will continue to monitor debt annually and report to council as part of the quarterly financial status report.

**Performance Measures:** To track our progress on this objective, the city will report on the following key performance measures for ‘responsible debt management’:

Primary Measure

Debt Charges as a percentage of Net Revenue - target total debt capacity 12.5%

Secondary Measure

Debt to reserve ratio target will be 1:1 or better

*Note Appendix D has further debt related measures reported annually through the City’s Financial Information Return*

**STRATEGIC OBJECTIVE 3: IMPROVED RESERVES AND RESERVE FUNDS**

**Guiding Principle:** Reserves and reserve funds (R&RF) are a critical component of a municipality’s long term financial plan. Maintaining adequate reserves allows the city the financial flexibility to respond to uncontrollable factors (like economic cycles), short-term and one time needs and sustainability to plan for today and the future.

This section deals with discretionary reserve funds only, and excludes an analysis of obligatory reserve funds. Obligatory reserve funds are created as required by statute and are segregated from the general revenues of the municipality (ie. Development Charges reserve funds).

**Background:** As part of the 2010 BMA Financial Health report many of the city’s R&RF showed an improving trend, however many still warranted a ‘warning.’ The below table summarizes a few of the city’s R&RF positions.

Indicator	2010 Result	Comments	Examples
Consolidated Reserves & Reserve Funds	Warning	Upward trend, however a number of areas are not fully funded	All discretionary reserve & reserve funds
Stabilization Reserves & Reserve Funds	Positive	Within benchmark range (10-15%) but towards the lower end	Tax Rate stabilization, Severe Weather, Contingency
Capital Reserves & Reserve Funds	Warning	Improving	Capital Purposes, Burlington Hydro, Infrastructure renewal
Corporate Reserves & Reserve Funds	Warning	Underfunded, but improving	Employee accident, insurance

The city practices the following principles as part of our management of R&RF to ensure appropriate use and to foster long range planning of city funds.

- Ensure R&RF identify contribution sources and projected disbursements to be funded
- Ensure disbursements are for their intended purpose and have council approval
- Ensure planned annual contributions from the operating budget for maintenance of stabilization reserve funds at target levels and for future replacement of city assets

**Moving Forward:** The focus will be on the city's stabilization R&RF as they allow the city to manage cash flows and offset unforeseen expenditure requirements. To date we have employed several strategies to help build sustainable balances in our tax rate stabilization, building permit, planning fees, and severe weather reserve funds. Through these practices from 2006 to 2010, the overall balance of stabilization R&RF (prior to commitments) has trended positively.

In an effort to continue to build and maintain strong R&RF positions formalized targets need to be established as part of the R&RF management strategy for the overall balance in stabilization reserve funds, as these are a critical component to our financial flexibility. A target range of 10-15% of net revenues will allow sufficient liquidity and protection. As of 2011, the city's stabilization R&RF's as a percentage of net revenues was 8.5%.

**Recommendation 3:** In order to continue to build the balance of stabilization R&RF's to target levels, staff will follow policies already in place and will add the following policies to existing guiding principles identified above to present a formalized policy for stabilization reserve funds.

- Maintain a prudent level of stabilization R&RF (to protect against reducing service levels or raising taxes)

- The use of stabilization R&RF's will be restricted to unforeseen events (not to balance the operating budget)
- A target of 10-15% of own source revenues will be established to balance the need for future events

Refer to appendix C, for a complete policy on the city's stabilization reserve and reserve funds.

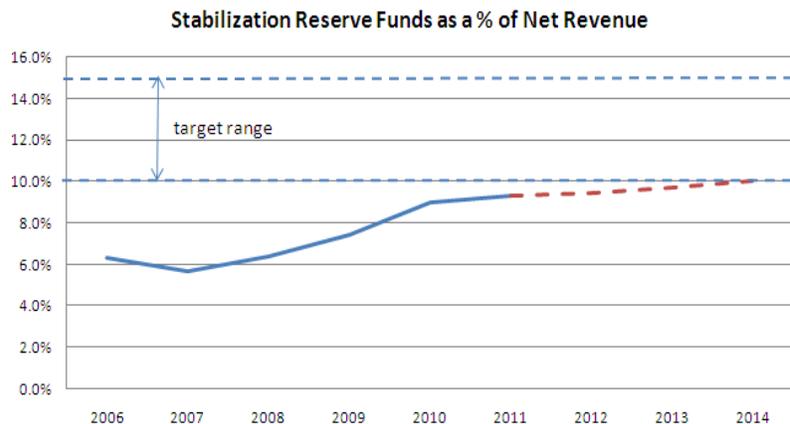
**Performance Measures:** To track our progress on this objective, the city will report on the following key performance measures for 'improved reserves and reserve funds;

Primary measure:

Stabilization reserve & reserve funds as a percentage of Net Revenues – target range 10-15%

Secondary measure:

Reserve and reserve funds as a percentage of Taxation relative to comparable municipalities (*BMA comparative study*)



*Note Appendix D has further R&RF related measures reported annually through the City's Financial Information Return*

#### **STRATEGIC OBJECTIVE 4: PREDICTABLE INFRASTRUCTURE INVESTMENT**

**Guiding Principle:** The city's infrastructure is aging, and funds must be committed to ensure it is properly maintained and renewed. Our infrastructure is subject to time-varying pressures such as aging, deterioration, increasing demand, and climate that affect the current state and overall long term performance. The city has an obligation to protect its investment and strike a balance between new/ enhanced facilities and the proper maintenance of existing infrastructure.

**Background:** As of 2011, the city has \$2.2 billion (including land) in assets, and 64% of the identified renewal needs are being met according to PSAB (Public Sector Accounting Board) replacement data. This is a gain of 1% over 2010 values.

Asset Class	Replacement Cost (2011)	10 Year Required Renewal	Renewal Adequacy
Land Improvements (Parks & Open Space)	107.3	32.4	70%
Buildings (includes parking garage)	326.5	120.5	54%
Vehicles	53.1	45.5	100%
Roadways & Storm Drainage	1,277.2	254.8	68%
Machinery & Equipment - Long Life Assets	13.8	13.7	39%
Machinery & Equipment - Computer & Technology	9.6	9.2	35%
Local Boards	63.2	23.5	23%
<b>TOTAL</b>	<b>1,850.7</b>	<b>499.5</b>	<b>64%</b>

*\*all values in millions, rounded*

Strategies and actions in place to date to address infrastructure are as follows;

- 0.5% infrastructure levy included in the capital budget annually from 2013 and beyond
- Reallocation of reduced future year Joseph Brant Memorial Hospital (JBMH) levy to infrastructure (projected for 2018)
- Additional \$1.2 million dedicated annual funding to the city's local road rehabilitation program (shave and pave) as per the 2012 approved budget.

As the city moves towards full asset management, it will provide the ability to facilitate a more consistent and strategic approach to decision making, investment and identification of replacement needs in a sustainable manner both long and short term. Our existing capital assets need to be supported by contributions to R&RF to address their eventual replacement, currently this is being done for our vehicles and related equipment through the vehicle and equipment depreciation reserve fund (VDRF).

**Moving Forward:** The city has other capital related RF's that assist in financing the capital program and provide the flexibility and liquidity to handle current infrastructure needs. The capital RF's need to be supplemented by on-going contributions in order to enhance their capacity to deal with both current and future capital needs. However, as the city is still defining the replacement need through asset management, it is difficult to assess the required contributions (base level of funding) for all asset classes to close the infrastructure gap.

It is important as we move forward that the focus be on our existing assets, and to strike a balance by strategically choosing between investing in what we have, building future expansions and/or revitalizations, and divesting what may no longer be required based on utilization or private sector competition. Expansion to our asset base will further affect our ability to keep pace with funding for existing renewal needs.

**Recommendation 4:** To assess the contributions required for an appropriate level of annual replacement, an asset management team is currently in place, with the expectation that full scale asset management based on life cycle costing will be developed by 2015. Understanding the renewal needs, will be followed by establishing appropriate targets, creating a financial plan to determine the right level of contributions required, and performance measurements to track progress. Staff will continue to provide Council with information on the city's asset management plan as it becomes available. In the meantime, there has been a base level of funding provided in the city's ten year capital program, any future large scale investments outside the capital program will require a business case to support the additional investment.

**Performance measures:** As the asset management plan is developed performance measures will be developed that define the appropriate renewal targets for our asset classes and for the city as a whole. However, until we approach that milestone we will continue to report annually on PSAB renewal adequacy as well as condition ratios such as the Facility Condition Index (FCI) and Pavement Quality index (PQI).

## **STRATEGIC OBJECTIVE 5: RECOGNIZED VALUE FOR SERVICES**

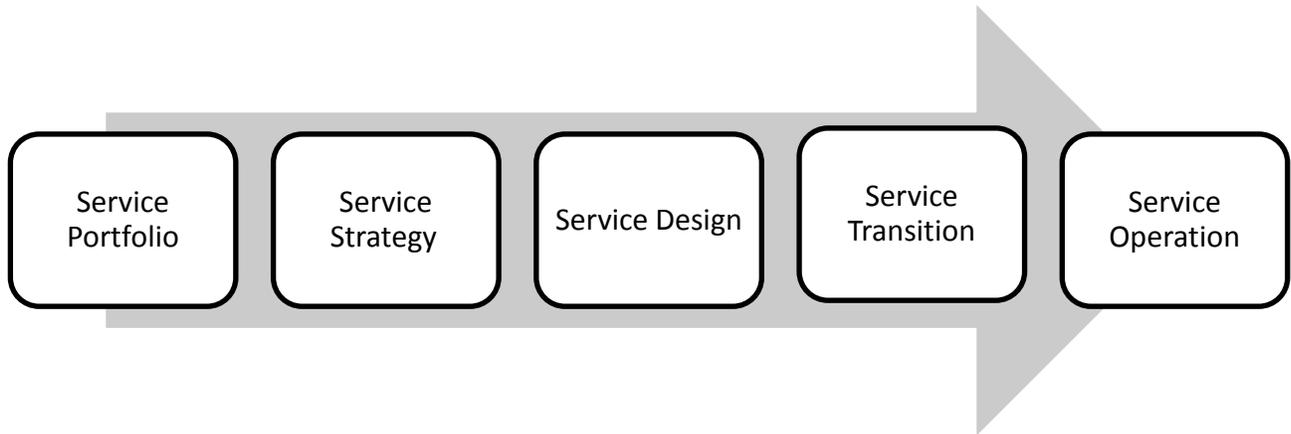
**Guiding Principle:** The city provides a wide range of services for both residents and businesses. Some services are required for a growing community, while others are required as a core responsibility of any municipality to ensure the safety of its residents. It is important to provide the means to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

**Background:** As part of the community service survey, the city attempts to gauge the importance residents and businesses place on a variety of city services, the extent to which they are using existing services, an assessment of satisfaction with existing services and understanding what improvements are desired. We use this to determine how results have changed from past surveys and develop benchmarks for future surveys. This information on survey results is reported through a separate report after the completion of each survey. The results will be an important component to understanding the value residents and businesses place on city services.

**Moving Forward:** In order to focus on efficiency through providing the highest level of service with the public funds available and effectiveness of our service delivery, the city will be implementing a service based budget effective for budget 2015.

A service based budget (SBB) approach will provide council and residents with information on services delivered to the public. The identification of public and internal services will inform SBB and financial reporting, providing Council with accurate costs, values and comparisons in order to make decisions on municipal services. The process will determine quality of service (customer satisfaction), timeliness of delivery, and quantity of service.

As the journey to a service based management process begins, a framework is being developed as shown in the diagram below that provides phases to continually improve on services. It begins with the service portfolio which contains a comprehensive description of each service. The portfolio is expected to be finalized by year end 2012.



The framework continues with the following steps;

Service Strategy - forms the business plan for each service, identifying the key processes, objectives and proposed service changes

***business plan***  
*an organization's blueprint summarizing its operational and financial objectives for the near future and showing how they will be achieved; details past, present, and future performance*

Service Design & Transition – provides service data, service levels, and capacity. Outlines business process maps and change in direction supported by business cases

Service Operation – managing service quality and overall customer satisfaction

As the city moves through the development of the above stages for each service area it will create a SBB process that achieves effective, economic, and efficient services delivered.

**Recommendation 5:** Implementation of service based budgeting is required in order to value and cost services, ensure decisions are aligned and consider service adjustments when making decisions. Further recommendations will follow, once SBB is fully integrated in the budget over the next 3 years. Staff will also continue to conduct the community survey to gather baseline information, establish trends, and to further support and measure customer satisfaction.

**Performance Measures:** Performance measures will be developed for each service offering which are consistent with results based accountability defining;

- How much service did we deliver (Effort)?
- How well did we deliver it (Efficiency)?
- Is anyone better off (Effectiveness)?

These measures will be reported annually as part of the budget process, and will be used to determine the level of current and future investment for a given service.

### **Financial Matters:**

As mentioned above, staff will present a base budget that is closely aligned with inflation. The base budget represents the cost of operations for delivering the city's existing service level. Staff recommends that the base budget is not the focus of discussion at committee budget reviews, and that the focus be on strategy and changes in service level.

Moving forward, staff will meet the annual base budget target while also keeping with the principles and recommendations brought forward for the other strategic objectives as discussed above, to achieve the goals of the long term financial plan.

### **Communication Matters:**

Staff is preparing a long term financial plan public document which provides a high level summary of the key strategic objectives that meet our mandate to achieve Excellence in Government. After Council approval, this document will be available to the public as a communications tool that outlines the key principles, and objectives to achieve financial sustainability.

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### **Conclusion:**

The above represents the five strategic objectives of the long term financial plan, the steps to achieve the desired results and performance tools to report on progress. The financial plan will be updated with each Council term to ensure it considers the current economic climate, as well as the city's redefined strategic plan. Staff will report on the objectives in the financial plan annually through the budget process.

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Respectfully submitted,

Joan Ford  
Director of Finance  
(905) 335-7600, ext. 7652

**Appendices:**

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| A. Ten Year Operating Plan<br>B. Revised Debt Policy<br>C. Stabilization Reserve & Reserve fund policy<br>D. 2011 FIR – Financial Indicators |
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**Notifications:**  
(after Council decision)

Name	Mailing or E-mail Address

**Approvals:**

\*required

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 \*Department      City Treasurer      General Manager      City Manager

To be completed by the Clerks Department	
Committee Disposition & Comments	
	01-Approved 02-Not Approved 03-Amended 04-Referred 06-Received & Filed 07-Withdrawn
Council Disposition & Comments	
	01-Approved 02-Not Approved 03-Amended 04-Referred 06-Received & Filed 07-Withdrawn