

<i>The Town of Fort Frances</i>	SECTION
	ADMINISTRATION AND FINANCE
Long-Term Capital Financial Plan <u>POLICY</u>	NEW: December 2009 REVISED:
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1. PURPOSE

A Long-Term Capital Financial Plan is a framework to guide the Town of Fort Frances in planning, decision-making, and measures the municipality's financial capacity to meet the overall strategic and capital works plans. A Long-Term Financial Plan creates a purposeful approach to long-term financial management and helps to align short-term actions with long-term financial strategies. The goal is to ensure that the Town is in a sound financial position to finance services to the public on a sustainable basis. The Long-Term Capital Works plan helps to identify and understand the implications that today's decisions have on future budgets.

2. CHALLENGES

The Town of Fort Frances continues to face significant fiscal challenges as a northern municipality. The Town, like other municipalities in Ontario, fund programs and services it provides within a limited funding framework with relatively flat revenue streams and limited ability to modify the services it provides. Our economy has been negatively impacted by a lack of population growth, an aging population (24% of our population is 60 years and over while the provincial stat is 18% according to 2006 Statistics Canada), the forestry crisis in Northwestern Ontario and the lack of assessment base growth. We continue to be significantly impacted through provincial downloading, new regulatory responsibilities, escalating operating costs as well as aging infrastructure and the ever-growing infrastructure deficit. It is a challenge to balance the needs of the community, maintain acceptable service levels, to repair and replace existing infrastructure, to address community health, safety, and environmental risks and implement strategic initiatives and community priorities.

3. IMPORTANCE OF A LONG-TERM CAPITAL FINANCIAL PLAN

A long-term financial plan is a framework to guide in the planning and decision making to help ensure that the Town:

- A. Has a plan to protect and maintain its assets,
- B. Has a reasonable degree of stability and predictability in the overall tax and rate burden,
- C. Has a fair sharing in the distribution of resources between current and future tax and ratepayers,
- D. Maximizes its financial flexibility,
- E. Minimizes financial vulnerability during economic downturns, and
- F. Maintains programs and services at their desired levels.

4. OBJECTIVES

A. Maximize Long-Term Community Benefit

To maintain the Town's required infrastructure in a 'state of good repair' by taking into consideration life cycle costing, wherever possible, to provide for the future rehabilitation/replacement of assets. Undertake regular reviews of remaining life and condition of assets and determine if the required annual reserve contributions are sufficient to meet the rehabilitation/replacement demands at the required time. Assets and facilities should be regularly reviewed and rationalized based on service demand and service level benchmarks such as revenue/cost targets. Dispose of capital assets that are not required for long-term community purposes or that have been identified as surplus items. Review and revise the 5-Year Capital Budget on an annual basis to address the Town's tangible capital asset replacement and infrastructure renewal requirements. The five-year Capital Budget is based on information at this time and should be considered as a work-in-progress as it is intended for use as a forecasting tool to help the Town meet its financial obligations and future challenges. It is anticipated that updates, as new information becomes available, will amend the assumptions, projections and strategies, as required, based on changes in the municipal environment, continue to build awareness of the 5-year capital projections and funding levels, and to guide future planning.

B. Ensure Operating Revenues are Sustainable (Taxes vs. User Fees)

To finance ongoing expenditure requirements from ongoing sustainable revenue sources such as taxation, user fees, federal and provincial grants. Establish target portions of programs costs to be raised through user fees or charges based on benefits received. Establish user fees or charges that will yield the target proportions. Strive to increase user fees or charges as a percentage of overall funding by identifying new areas where user fees can be implemented. Ensure that both operating and capital costs are considered when establishing user fees or charges.

C. Building Capital Reserves

Reserves and Reserves Funds are a critical component of the Town's long-term financial plan. They are used to provide one-time or short-term requirements, to provide for future replacement or acquisition of capital assets under \$150,000 if possible and to provide flexibility to manage debt. Building of Reserve and Reserve Funds shall primarily be accomplished through:

i) Allocation of Operating Surplus

- That any Operating (General Fund) surplus over \$25,000 at the end of the fiscal year be transferred to the Corporate Project Reserve Fund, Corporate Vehicles & Equipment Reserve Fund and the Corporate Building Reserve Fund for future capital expenditures. That any Operating (General Fund) deficits be funded from the Corporate Reserve Fund(s) as directed and approved by Council.
- That any Water Fund surplus at the end of the fiscal year be transferred to the Waterworks Project Reserve Fund for future capital expenditures. That any Water Fund deficits be funded from the Waterworks Project Reserve Fund.
- That any Sewer Fund surplus at the end of the fiscal year be transferred to the Sanitary Sewer Reserve Fund for future capital expenditures. That any Sewer Fund deficits be funded from the Sanitary Sewer Project Reserve Fund.

ii) Operating Budget Allocation to Reserve Funds

- That a contribution to the Corporate Project Reserve Fund, Corporate Vehicles & Equipment Reserve Fund and Corporate Building Reserve Fund allocation be

continued in each annual General Fund Operating Budget to sustain asset management strategies.

D. Operating Budget Taxation Requirement for Capital Financing

That financing from the current year's Operating Budget for capital projects and acquisitions long-term debt costs not exceed 20% of the previous year's budgeted long-term debt taxation requirement.

E. Ensure Long-Term Financial Sustainability

Preparation and annual review of a 5-year Capital Budget to identify asset replacements and infrastructure capital work plans, to identify revenues and to identify the long-term funding gap.

Recognize the relationship between the operating and capital budgets. Annually identify and provide for capital from current funding, annual debt servicing costs, and for changes to operating costs arising from new or replaced infrastructure.

Plan for the capital replacement of vehicles and equipments, under the threshold of \$150,000, through continued contributions to Reserve Funds with Long-term debt issued for capital projects and tangible capital assets exceeding \$150,000. The term of the capital financing shall not exceed the useful life of the asset.

F. Recognize Senior Government Funding as a Crucial Element of Financial Sustainability

Actively seek additional sustainable revenues from the provincial and federal governments sufficient to bridge the infrastructure funding for capital renewal and/or replacement projects that would otherwise be unaffordable.

G. Using Debt Financing

Long-term debt is an appropriate way of financing large projects with long useful lives. Debt financing should only be considered for new, non-recurring infrastructure rehabilitation/replacement requirements, for tangible capital assets exceeding \$150,000 and for projects where the cost of deferring expenditures exceeds debt-servicing costs.

H. Debt Management

The primary Capital Financing and Debt objectives shall be to:

- Adhere to statutory requirements;
- Ensure long-term financial flexibility;
- Limit financial risk exposure;
- Minimize long-term cost of financing; and
- Match the term of capital financing to the useful life of the related assets

i) Adhere to Statutory Requirements

Capital financing may only be undertaken when in compliance with the relevant sections of the applicable legislation including the Municipal Act, 2001, the Drainage Act, the Planning Act, the Ontario Municipal Board Act and related regulations. Requirements include but are not limited to the following:

- a) The term of temporary or short-term debt for operating purposes not to exceed the current fiscal year;

- b) The term of the capital financing shall not exceed the lesser of 30 years or the useful life of the underlying asset;
 - c) Long-term debt will only be issued for capital projects; and
 - d) The total financing charges after issuance of the proposed debt will not exceed the Debt and Financial Obligation Limit for the municipality unless otherwise approved by the Ontario Municipal Board.
- ii) Ensure Long-Term Financial Flexibility
 - a) Prior to implementation of any new capital financing, consideration will be given to its impact on future ratepayers as a means to achieve an appropriate balance between capital financing and other forms of funding.
 - b) To the extent practicable, replacement assets as well as regular and/or ongoing capital expenditures will be recovered on a “pay as you go” basis through rates, tax levy, and/or reserve funds. Where long-term financing is required, due consideration will be given to all forms loans/debentures.
- iii) Limit financial risk exposure
 - a) The capital financing program will be managed in a manner to limit, where practicable, financial risk exposure.
 - b) It will be the general practice that debt is issued in Canadian dollars and where the interest rates are fixed over the term.
- iv) Minimize Long-Term Cost of Financing
 - a) For each project or purpose for which long-term financing is required, the timing, type and term of financing will be determined with a view to minimizing long-term costs
 - b) Factors to be considered will include current versus future interest rates, the availability of related reserve fund monies, the pattern of anticipated revenues or cost savings attributable to the project or the purpose, and all costs related to the financing of the project.
- v) Match Term of the Capital Financing to the Useful Life of the Related Asset
 - a) The maximum term over which a capital asset may be financed is 10 years unless otherwise specifically approved by Council. In no case may the term of financing exceed the anticipated useful life of the related asset.
- vi) Long-Term Debt Targets
 - a) That long-term debt principal and interest not to exceed 20% of the previous year’s budgeted long-term debt taxation requirements
 - b) That 2/3 of all outstanding long-term debt to be retired within 10 years in any single reporting period.

5. CONCLUSION

The Long-Term Capital Management Plan, being the development of a long-term capital works plan for tangible capital asset sustainability and a long-term financial plan to provide the foundation for fiscal management and establish the framework to guide municipal financial decisions, was identified as an important component of the Town of Fort Frances Strategic Plan, October 2008. The Strategic Plan encompasses Economic Development, Essential Services, Quality of Life and Corporate Initiatives as its four broad categories of goals along with its Community Vision Statement and Corporate Mission Statement and Values.

The Town will endeavour to complete a Sustainable Community Plan that would address environmental, social and economic sustainability for Fort Frances. The plan would include a full energy audit of municipal buildings, issues of economic sustainability, community environment issues and recommend strategies to ensure long-term community sustainability.

The Town of Fort Frances has undertaken a number of studies in recent years that recognize the changing role of the Town towards economic development and the need to facilitate a broader and more diverse range of uses throughout the community. More recently, the Community Incentive Plan was established and implemented, which encompasses the Economic Development Financial Incentive Programs, and is a strategic action plan for economic development, a means of attracting development in the community and the opportunity to attract and broaden prospective developers to the Town of Fort Frances through innovative methods.

The Town of Fort Frances Official Plan and corresponding Zoning by-laws are currently under review. The Official Plan is the primary guide for the development of the Town for the next 20 years, with reviews and/or Official Plan amendments to reflect economic and social changes that occur over time.

All of these initiatives help to provide a complete Capital Investment Plan for the Town of Fort Frances providing overall strategic planning direction, to address community health, safety, environmental risks and implement strategic initiatives and community priorities.