



Long-Term Financial Planning Strategy

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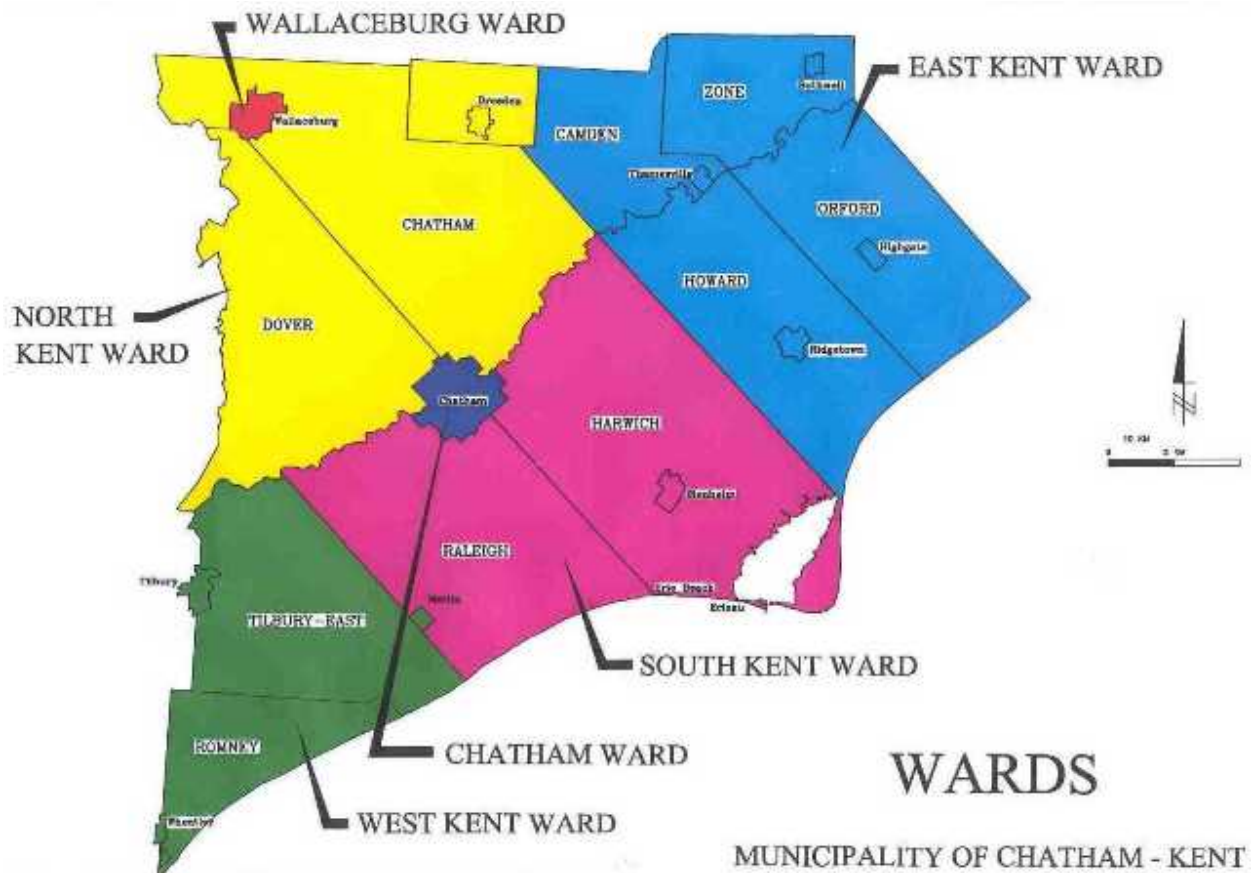
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1. Introduction

Chatham-Kent is a large, single-tier municipality comprised of unique rural and urban communities all near water, literally stretching from “shore to shore”. Our communities are rich in authentic history and culture. The community provides affordable homes, a safe place to live, and a quality of life second-to-none in Canada. It is a community that is ideal for both new families and active retirees to settle and enjoy life. We live on some of the most fertile land in Canada and can grow almost anything here. We have a progressive agricultural industry where the skills and knowledge of our farmers and agricultural technicians are respected globally.

Chatham-Kent Council Directions (investment priorities) are Jobs, People, and Health, and Financial Sustainability being the critical success factor.

This document will concentrate on Chatham-Kent’s financial sustainability.



MUNICIPALITY OF CHATHAM - KENT	
Population	104,075
Size	2,458 Sq. KMs
Agricultural Hectares	208,000+ Ha
Roads	3,471 KMs
Bridges (3M or larger)	830
Culverts (3M or smaller)	19,000
Drains (4,200 Drains)	4,800 KMs

The Long-Term Financial Planning Strategy

The Long-Term Financial Planning Strategy applies a disciplined and integrated financial planning approach that identifies and manages risks to the Municipality of Chatham-Kent's long-term financial sustainability and credit rating. The Strategy also prioritizes the resources needed to achieve Council's Directions and supports the cost-efficient delivery of municipal services.

The Long-Term Financial Planning Strategy directly supports Council's Directions:

Jobs – Everyone in Chatham-Kent who wants to work is able to work in meaningful employment.

People – Chatham-Kent is a welcoming community where people choose to live, learn, work, and play.

Health – Chatham-Kent is a healthy, active, safe, accessible community within a healthy natural and built environment

Financial Sustainability – Strategy Overview

What is financial sustainability?

A financially sustainable system can adequately cover operating costs, maintain in good repair existing assets, replace assets where appropriate, fund future growth and service improvements, and anticipate inflation and changes in standards and technology, all financed over an appropriate period of time.

The Municipality's financial management has formally consisted of the preparation of annual operating and capital budgets and the completion of annual financial statements, but many additional existing practices and processes have also been good financial planning.

This Financial Plan provides an overview of guiding principles and will provide the groundwork for formalization of current, proposed, and future policy development.

Over the last number of years, significant financial pressures on municipal governments across Ontario have had major impacts on the financial resources of municipalities and the management of these resources. Some of these pressures affecting Chatham-Kent include:

- The downloading of responsibilities from senior levels of government
- Increases in operating costs (e.g. Arbitration awards in Emergency Services)
- Declines in sources and amounts of revenue (e.g. OMPF funding decreases)
- Cost pressures resulting from lifecycle maintenance requirements from an aging infrastructure
- Dealing with a declining population and with low family income levels
- Demands for new services or increases in service levels from Council and the community
- Changes in citizen expectations and values as they relate to the services and programs provided by their municipal governments
- Resident and business demands to limit property tax increases
- Social program pressures
- Declining non-residential assessment



Long-Term Financial Planning Strategy

Why is long-term financial planning important?

Like any other organization, a municipality's financial condition is a critical factor that must be understood in order for a municipality to operate in an effective and efficient manner and to address the financial pressures affecting the community. The financial condition of a municipality can be judged on the basis of the following criteria:

- The predictability and stability of the municipality's revenue sources to its operational needs and long-term obligations.
- The municipality's capacity to respond to financial uncertainty over the short, medium, and long term.
- The effectiveness of the municipality's financial policies and procedures.

A review of the financial condition of a municipality involves the following:

- Assessing the municipality's ability to provide for the range and quality of services expected by the community.
- Assessing the appropriate mix of revenues from a variety of sources.
- Assessing the state of repair and replacement cycles for the municipality's infrastructure and assets and ensuring adequate funding sources for the Asset Management Plan.
- Determining the appropriate level of reserves to deal with future opportunities and liabilities and assessing whether current levels are adequate.
- Being prepared for liabilities and other future risks, which might not be determinable at this point in time.
- Determining a tax policy that provides stability, promotes growth, and is equitable to all in the community.

Long-term financial planning is a strategic process that provides municipal governments with the insights and information they need to make the choices necessary to establish financial sustainability into the future. A municipality's financial sustainability is its ability to maintain services and infrastructure, while at the same time maintaining a healthy "balance sheet".

What is a Strategic Financial Plan?

The initial step in the long-term financial planning process is the development of a Strategic Financial Plan. Such a plan contains a statement of principles and policies approved by Council to guide the financial decision-making of the Municipality. The goal of the plan is to ensure that the Municipality is in a sound financial position so that it can provide services, along with the associated infrastructure and assets, to the community in an affordable way by making decisions consistent with the Plan. A Strategic Financial Plan also facilitates the Municipality's ability to enter into beneficial partnerships with other municipalities and levels of government, as well as both the private and not-for-profit sectors, to achieve the desired outcomes of Council's Directions (investment priorities).

2. Purpose and Outcome

The following is a statement of the purpose and outcomes of the Municipality's proposed Strategic Financial Plan:

Purpose: The Strategic Financial Plan is a framework to guide Council and the Municipality's departments, boards, and committees in their decision-making processes to ensure that the Municipality:

- Maintains services and programs at their desired levels
- Remains competitive in the regional economy
- Protects and maintains its assets
- Accounts for and properly funds its liabilities
- Maintains the necessary cash flows
- Maximizes its financial flexibility
- Minimizes financial vulnerability during challenging times or situations
- Strives to establish a stable and equitable tax policy for the community
- Balance the mix of revenue sources, allowing for more "User Pays"

Outcome: An improved and strengthened long-term financial health for the Municipality and maintaining or improving our high quality credit rating.

Assumptions: Certain basic factors will affect how the Municipality makes decisions for the future. The following assumptions underpin the principles and policies of the Strategic Financial Plan:

- Future funding from other levels of government will be limited.
- Financial risk to the Municipality will be minimized.
- The Municipality will be a partner in the community's success.
- The Municipality will continue its continuous improvement to become more effective and efficient in the provision of its services to the community.
- The Municipality will become a growth community.
- The Municipality will have a stable and equitable tax policy.

Long-Term Financial Planning Strategy

3. Guiding Principles

Each financial principle addresses a specific financial aspect, such as debt, reserve management, and investments. These principles are not prioritized; they are to be used in an integrated fashion to achieve overall financial sustainability.

These principles will guide Council and staff when making decisions related to service and program planning over the upcoming years:

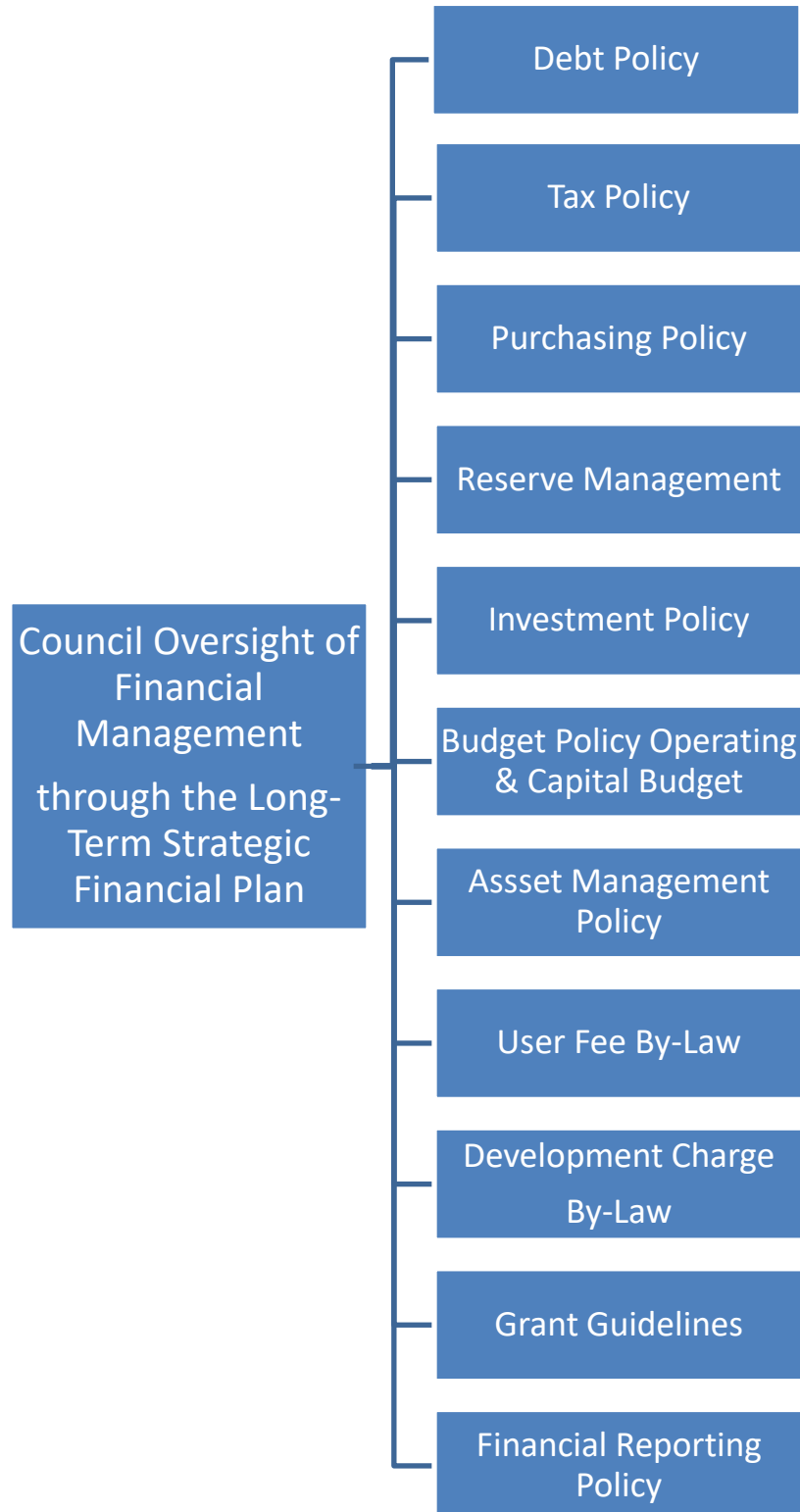
<p>1. Need to focus on cost-efficient and effective service and program delivery. Delivering value for money is a principle that will push the Municipality of Chatham-Kent to continuously find efficiency and quality improvement in the way it manages and delivers services, and to seek out innovative approaches to financing services, like the use of public-private partnerships and shared services, including outsourcing.</p>	<p>5. Need for competitive property tax rates and user fees. Respect the tax and utility rate payer, meaning the Municipality of Chatham-Kent will strive to achieve reasonable and responsible tax and utility rates and ensure Council’s strategic priorities are maintained.</p>
<p>2. Need to maximize revenues through a variety of sources. Work with senior levels of government for additional revenue sources. Examine all user fee opportunities for potential sources. Determine if third party partnerships provide revenue streams or reduce costs.</p>	<p>6. Need for long term financial planning as the basis of sound financial management. All principles are integrated and all have long-term effects; instituting the principles and policies that follow will lead to financial sustainability, opportunities, and flexibility for many years. These concepts should be viewed over a 20-plus year period.</p>
<p>3. Need for the responsible use of debt. Borrow only for substantial long-term new initiative/assets at affordable levels. This is related to how the Municipality of Chatham-Kent services its debt, what debt can be issued for, and ensuring actions that maintain or improve our credit rating.</p>	<p>7. Concept that growth must pay its appropriate share of growth-related infrastructure costs. User pays where appropriate. This principle is focused on how and when user fees and development charges are utilized and the principle of “growth pays for growth”.</p>
<p>4. Ensure the Asset Management Plan is sustainable Maintaining reserves at adequate levels and establishing pay-as-you-go funding for assets. Ensure asset replacement occurs when required and ongoing maintenance occurs, keeping an asset in good repair when maintenance costs are less expensive over the same period of time.</p>	<p>8. Make Prudent Investments The Municipality of Chatham-Kent shall invest public funds in a manner that maximizes investment returns and minimizes risk, while meeting daily cash requirements, and conforms to the legislation governing the investment of public funds.</p>

4. Policies

The policies, guidelines, and by-laws are the detailed components of the Financial Plan that provide the methodologies for Council and administration to follow. Appendix A shows which of the components have already been approved by Council and which policies are included with the Report to Council. The balance of the policies will be brought forward during 2015 and 2016, with the exception of the Development Charge (DC) By-Law, which will follow the existing timetable and be brought forward in 2019.

Long-Term Financial Planning Strategy

The figure below provides a visual of the Oversight of the Municipality of Chatham-Kent's Financial Policies and Strategies:



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<u>Policy, By-Law, or Guideline</u>	<u>Purpose</u>
Debt Policy	The debt management strategy should provide a long-term approach and carefully weigh the immediate infrastructure needs against the tax rate increases. It establishes a criterion for what projects debt will be issued and at what levels it will be targeted.
Tax Policy	To encourage policies that support economic development and provide adequate infrastructure support, while balancing the impact on the residential taxpayer.
Purchasing Policy/By-Law	A Purchasing By-Law regulates staff on how to purchase goods and services on behalf of the Municipality and how the purchase is approved. This is a key document that relates to the integrity and reputation of a municipality. The rules and processes are clearly stated and meticulously followed by all staff. The rules followed must be both legal and defensible in the courts.
Reserve Management	This policy will provide stability of tax and user rates, provide financing for one-time or short-term requirements, make provisions for replacements/acquisitions of assets/infrastructure, ensure adequate cash flows, and provide flexibility to manage debt levels and protect the Municipality's financial position.
Investment Policy	This policy will provide the Municipality with a clear guideline on how it shall invest public funds in a manner that maximizes investment return and minimizes investment risk while meeting the daily cash requirements of the Municipality and conforming to legislation governing the investment of public funds.

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<u>Policy, By-Law, or Guideline</u>	<u>Purpose</u>
Budget Policy Operating & Capital Budget	Budget policies provide the framework for overall fiscal planning and management. The policies set forth guidelines for both current and long-range planning activities. The policies are reviewed annually for adherence and relevance, and provide standards against which current budgetary performance can be measured and proposals for future programs or service reductions can be evaluated.
Asset Management Policy	To follow up on the Asset Management Plan and provide a financing plan for Council to follow to achieve appropriate levels of funding for our assets' lifecycle maintenance needs.
User Fee By-Law	A by-law to approve fees and charges to individuals and entities to collect funds for services and activities that are specifically related to the costs associated with those services or activities.
Development Charge (DC) By-Law	During the next DC study, Council should consider introducing new DC's for some additional hard services, such as roads, ensuring that growth is paying for growth and ensuring equitable treatment of all taxpayers.
Grant Guidelines	A guideline was established to contribute financial support, over multi years to not-for-profit organizations that have an ongoing presence in Chatham-Kent and a track record of providing quality programs and services to the community directly related to Chatham-Kent's priorities.
Financial Reporting Policy	The Municipality's financial reporting be maintained in compliance with the Public Sector Accounting Board (PSAB) and receive an unqualified audit opinion. Periodic reviews by a credit rating service provides external assurance on financial health.

5. Measures

The Province of Alberta established a number of measures that indicate the financial sustainability of municipalities. This is a good set of measures that we have used previously to illustrate our sustainability.

Sustainability Measures	CK's Position	Flags? No	Flags? Yes
1) Reached 80% of Debt Capacity?	32% (2014)	No data	✓
2) Senior government grants account for greater than 50% of revenue?	37% (2014)	No data	✓
3) Unpaid property taxes greater than 10% of current year's levy?	8.5% (2013*)	No data	✓
4) Ratio of current assets to current liabilities less than 1:1?	1.6:1.0 (2013*)	No data	✓
5) Operating budget in a deficit position for previous 2 years or 5 of previous 10 years?	Has never happened	No data	✓
6) Decline in population over the previous 20 years?	109,000 (1996) 104,000 (2011)	X	
7) Proportion of non-residential assessment as a percentage of total municipal assessment has declined more than 50% over the previous 10 years?	38% (2004) 36% (2014) Equates to a 5% decline	No data	✓
8) Qualified Audit Report	Has never happened	No data	✓

*— From most recent audited Financial Statements at time of completion of document

We have provided recent information for this set of measures on Financial Sustainability. As is apparent, Chatham-Kent scores a passing grade in seven of the eight categories. The Ministry of Municipal Affairs in Alberta would initiate contact with any municipality that triggers three or more of the first seven measures (CK has triggered only one), or has a qualified audit report (CK has never had a qualification).

Other measures will also assist in determining our success and our compliance with our policies. Here are some samples that may be incorporated into our various policies:

- Debt to reserve ratio – 1:1 or lower
- 100% compliance with investment and debt policies
- Non-residential tax revenue – 35-45%

Many measures will be incorporated into the various policies to ensure that we are not only planning for our financial health, but measuring it to see our progress.

6. Benefits

The Long-Term Financial Planning Strategy supports financial policies and strategies and provides a financial lens in making effective long-term decisions by Council and staff on municipal programs and services.

As of 2013, the Municipality of Chatham-Kent's financial condition is healthy based upon its Standard & Poors A+ credit rating. The Long-Term Financial Planning Strategy has been developed to manage and mitigate the risks to the Municipality of Chatham-Kent's financial condition. Taking a proactive approach to financial management with a Long-Term Financial Planning Strategy can help to reduce any risk to the current credit rating and potentially increase the rating in the future.

The Long-Term Financial Planning Strategy will identify and prioritize the resources needed to achieve strategic objectives by managing the Municipality of Chatham-Kent's financial sustainability and financial vulnerability and ensuring financial flexibility, while also supporting efficient and effective delivery of programs and services.

The key benefit of the Long-Term Financial Planning Strategy is to integrate the financial plan with the Council's strategic objectives to ensure financial sustainability to municipal programs, services, and projects. The Long-Term Financial Planning Strategy will enhance trust and confidence in the Municipality of Chatham-Kent's financial management; integrate and keep current the relevant existing and new financial management policies, by-laws, and strategies; and provide guidance to inform Council and staff. The strategy will ensure financial outcomes related to Chatham-Kent's financial condition are defined, measured, monitored, and managed.

Appendix A: Current Status

Policies	2015	2016	Comments
Debt	Amber	Green	Draft to be presented to Council for approval
Property Tax	Green	Amber	2015 approved, 2016-2017 concepts for Council consideration during future policy reports (approved annually)
Purchasing	Green	Green	Approved in 2015
Reserve Management	Red	Amber	Detailed reserve report to Council in 2015, draft policy to Council in 2016
Investment	Amber	Green	Draft to be presented to Council for approval
Budget	Amber	Green	Draft to be presented to Council for approval
Asset Management	Amber	Amber	Pay-as-you-go funding plan underway, additional asset categories required for end of 2016
User Fee (by-law)	Green	Red	2016 brought forward during budget (approved annually)
Development Charges (by-law)	Amber	Amber	By-law approved in 2014, concepts for 2019 study and by-law for Council consideration
Grants	Green	Green	Community Partnership Grant guidelines and terms and conditions approved and on website (2000)
Financial Reporting	Red	Amber	Financial Statements to Council in 2015, draft policy to Council in 2016



Red (R) – There is no current or draft policy in place or underway

Amber (A) – There will be a draft policy or work completed on future direction presented to Council

Green (G) – There is an approved policy in place, either for that year or ongoing