**Executive Summary:**

The City demonstrates real financial strength, flexibility in the future and financial policies and strategies aimed at tackling its key financial challenges:

- A 10-year projection for property tax increases that, controlling for the impact of COVID–19 and net of assessment growth approximates anticipated 10-year inflation (net of assessment growth averaging 2.5% per year),
- Low cost financing allowing for significant asset reinvestment and large transformative projects,
- A strategy to replenish reserves,
- Debt capacity and strong credit rating,
- Continued relatively low taxation rates in comparison to similar sized municipalities and as a percentage of household income.

The City is facing some significant environmental influences and has strategic plan aspirations that will place upward pressure on operating budgets over the course of the plan period. Chief among them are:

- Continued deterioration of assets and their effect on services and operating costs in the form of unanticipated repair and downtime,
- Lower than average levels of Reserve and Reserve Funds for unanticipated costs and use for emerging opportunities,
- In the short run, significant revenue impacts from decreased demand and service alterations in response to the COVID-19 virus,
- Increasing employment costs due to the addition of in-house staff to replace contracting arrangements, contractual obligations and significant increases in Long Term Disability and WSIB insurance premiums,
- Increasing capital and operating requirements to meet service commitments, strategic objectives and goals and continue to grow the City as a centre of excellence and opportunity.

**Background:**

Purpose and Outcome

The Long Term Financial Plan provides a consistent lens to help evaluate the long-term financial condition of the municipal corporation and serves as a guide for developing financial plans, budgets and service strategies that optimally balance target outcomes with fiscal prudence.

Purpose: The purpose of the plan is to ensure the long-term financial sustainability of municipal services.

Outcome: City services are financially sustainable at desired levels into the future.

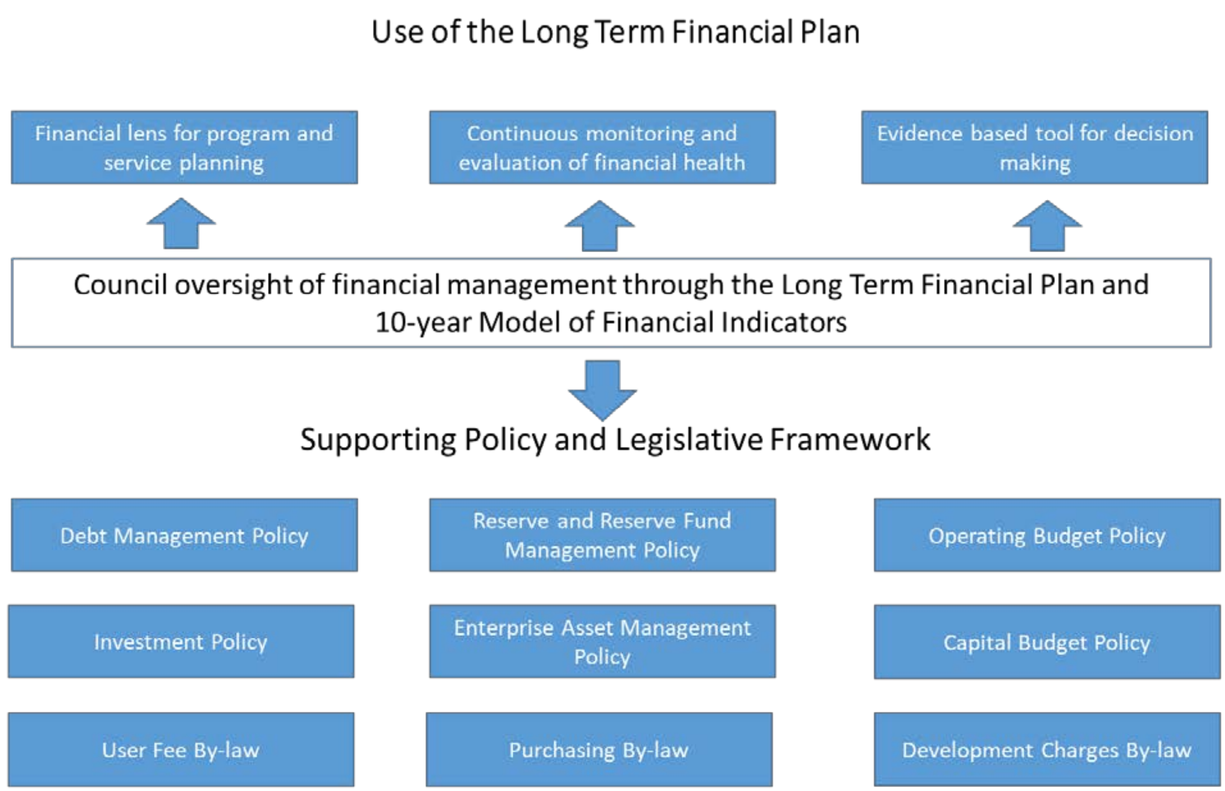
Introduction

Since 2017, the policy and annual budget choices have been made based on the financial principles set out in its Long Term Financial Plan.

- Long-term Sustainability: a long-term perspective on the City's financial position, funding sources and resource allocations
- Respect for the Taxpayer: quality services at an affordable cost
- Appropriate Funding for Services: a fair allocation of costs based on service utilization and ability to pay
- Planning for Infrastructure: investments consider required asset levels of service in the long term and alternative means of procuring and financing

Financial Policy Framework

The Plan guides the development and maintenance of the City's financial by-laws and policies to ensure a holistic and integrated fiscal management approach. The table below provides an overview of the framework:




**Completed Policy Recommendations:**

The 2017 Long Term Financial Plan made a number of policy recommendations, which have been completed.

| Policy Recommendation | Status |
|---|---|
| Operating Budget Policy: consider multi-year budget recommendation, establish requirement for key performance indicators | Complete – 2019-2020 |
| Capital Budget Policy: consider capital levy, eliminate | Complete - 2017 for 2018 budget |

| | |
|---|---|
| "envelopes" in favour and in line with enterprise approach, improve reporting and capital reserve management | process |
| Reserve and Reserve Fund Management Policy: establish minimums for each reserve, develop funding strategy | Complete - 2020 |
| Development Charges By-law: complete update in accordance with legislation | Complete - 2019 |
| Debt Management Policy: consider raising debt limit to 10% of own source revenues and move away from "pay as you go" capital funding strategy and use long term debt for long term asset investment | Complete - 2018 |

**Status of Additional Strategies**

The following additional financial strategies were highlighted in the 2017 plan and the actions taken to date are noted below:

| Strategy Recommendation | Status |
|---|---|
| 1. Implementation of stormwater management fees. | Work continues with the stormwater sustainable funding study in 2020, a return to Council is expected in the first half of 2021 and with the implementation of fees targeted for 2023. |
| 2. Use of alternative tax classes and adjusting property tax ratios. | The commercial and industrial subclass discounts were eliminated in 2018. The commercial and industrial vacancy rebate program will continue to be phased out over 2019 and 2020. Property tax ratios are adjusted to ensure fairness to the residential taxpayer and encourage commercial or industrial development. |
| 3. Capital financing: using debt to fund infrastructure renewal/replacement. | The use of debt was approved in 2018 for reconstruction on Lorne Street, improvements to Municipal Road 35 and the replacement of the Sudbury Community Arena. In 2019, debt was approved for the financing plan for the development of The Junction, (Library/Art Gallery and the Greater Sudbury Convention/Performance Centre) to promote arts and culture in the community, invest in the downtown and improve quality of life for residents. Debt was also approved for bridge refurbishment. |
| 4. Introduction of a capital levy to fund the infrastructure renewal/replacement requirement. | In the 2020 budget Council approved a 1.5 per cent special capital levy and directed that it to be used on the infrastructure renewal requirements that had the biggest potential impact on the City's infrastructure deficit. |

| | |
|---|---|
| 5. Infrastructure and service rationalizations: analyzing current service levels of arenas, community centres, playgrounds, roads, municipal fleet and other. | The City has completed a core service level review and recommendations are still being reviewed by City Council. |

**Strategy Plan Guidance of Long-Term Financial Planning**

Although municipalities may differ in their approach to financial planning, effective municipalities rely on Council-approved strategies and a community vision to guide their plans. For example, some have a high growth strategy and will make policy and financing choices that emphasize an ability to be ready to respond to unplanned opportunities. They may rely more heavily on long-term and developer financing strategies than communities that are not pursuing a high growth strategy. Most cities want to maximize quality of life by making decisions to preserve services and make them sustainable over the long term.

The financial policy framework completed over the past three years is greatly supportive of our renewed strategic plan and its seven strategic priorities. The strategy envisions Greater Sudbury as a *"centre of excellence and opportunity – a vibrant community of communities living together."* The corporation's financial policies support Council's vision and strategic priorities. For example:

*Asset Management and Service Excellence:* policies such as the Enterprise Asset Management Policy, the Capital Budget Policy and changes to the Debt Policy underscore the relationship between services and service levels and the long-term costs of asset acquisition and maintenance. This means Council's decisions are informed by analysis and data that accounts for both current and long-term financial implications.

*Business Attraction, Development and Retention:* the use of debt for strong growth oriented investments such as arterial road work and investments in public infrastructure in the downtown as well as assessment protection work are financial policy changes and strategies supportive of this strategic objective. This means limited financial resources can be applied to infrastructure that have the greatest potential to generate economic activity and growth.

*Climate Change:* the stormwater guidelines and the potential for fee generation will assist with this strategic objective. The City's Community Energy and Emissions Plan also has the potential to reduce operating cost and mitigate the increasing demand for City services to respond to climate and weather related events in the long run. It drives investments that may present increased costs for the corporation, but that also provide long-term community benefits for both residents and businesses.

*Economic Capacity and Investment Readiness:* core service review and other reports, like this one, about the City's long-term financial plan enable responsiveness to emerging issues and changes in the operating environment. This means Council has assurance its services and service levels provide competitive, effective services that allow Greater Sudbury to compare favourably with peer municipalities and will have financial flexibility to respond to unplanned economic opportunities.

*Housing:* in 2019, the corporation moved housing operations into the Community Development Department to support tenants and advance revitalizing and improving the existing housing stock. The City's asset management planning approach, changes to capital prioritization and debt policy allows these investments to be planned and executed in the context of the City's overall facility investment requirements. This means Council has consistent, comprehensive information about asset condition and service performance to confidently make financing decisions that directly address community needs.

*Create a Healthier Community:* since 2005, the City has pursued goals associated with well being, environmental sustainability, civic engagement and social capital. These are quality of life goals and they require a clear picture of how they can be sustained in an organization that also provides mandatory, regulated services such as roads and transportation and water/wastewater services. The Long Term Financial plan provides insights into the long-term affordability and sustainability of the services that promote healthy community. It also assists in planning for the sustainability of these services anticipating the balance of fees versus tax funding and long-term reinvestment into infrastructure like City facilities, leisure, parks and open space and related programming. This means Council has a "whole of government" picture of its services and service levels and can be assured the community's physical, social, economic and environmental needs are considered when making annual budget decisions.

*Strengthen Community Vibrancy*: the Capital Budget Policy and its Capital Prioritization tool can be tailored to favour investments that support and enhance vibrancy. Like investments in healthy community, the Long Term Financial Plan model offers insights into the future policy choices available to Council of various policy choices that can be sustained to support this strategic priority.

**Growth and the Economy:**

<u>Economic Condition</u>

Council's s strategic priorities were crafted in an environment indicating (at least) seven macro-economic trends:

- Slow to moderate growth in the medium to long term (the City's population is expected to grow by 6,900 – 15,000 persons, 6,000 – 8500 households and 6,400 – 11,000 jobs from 2016 – 2046)
- Aging infrastructure requiring significant capital investment (currently being further defined in the form of detailed asset management plans)
- Adverse effects of climate change and changing weather patterns
- Diversified, resilient labour market that has demonstrated and sustained employment growth
- Provincial debt and municipal funding uncertainty (and uncertain, as yet unstated objectives for the Provincially funded 2019 core service review exercise)
- A growing population of aging and vulnerable citizens with unique needs and service requirements
- Rapidly changing technology which impacts how the corporation connects with residents and delivers services.

These challenges are poised to place increased financial pressure on the corporation to continue delivering its targeted outcomes and maintain desired service levels.

Population Growth

Over the past three years, the City of Greater Sudbury has continued a steady, slow growth trajectory as the only city in northern Ontario with continued population and assessment growth.

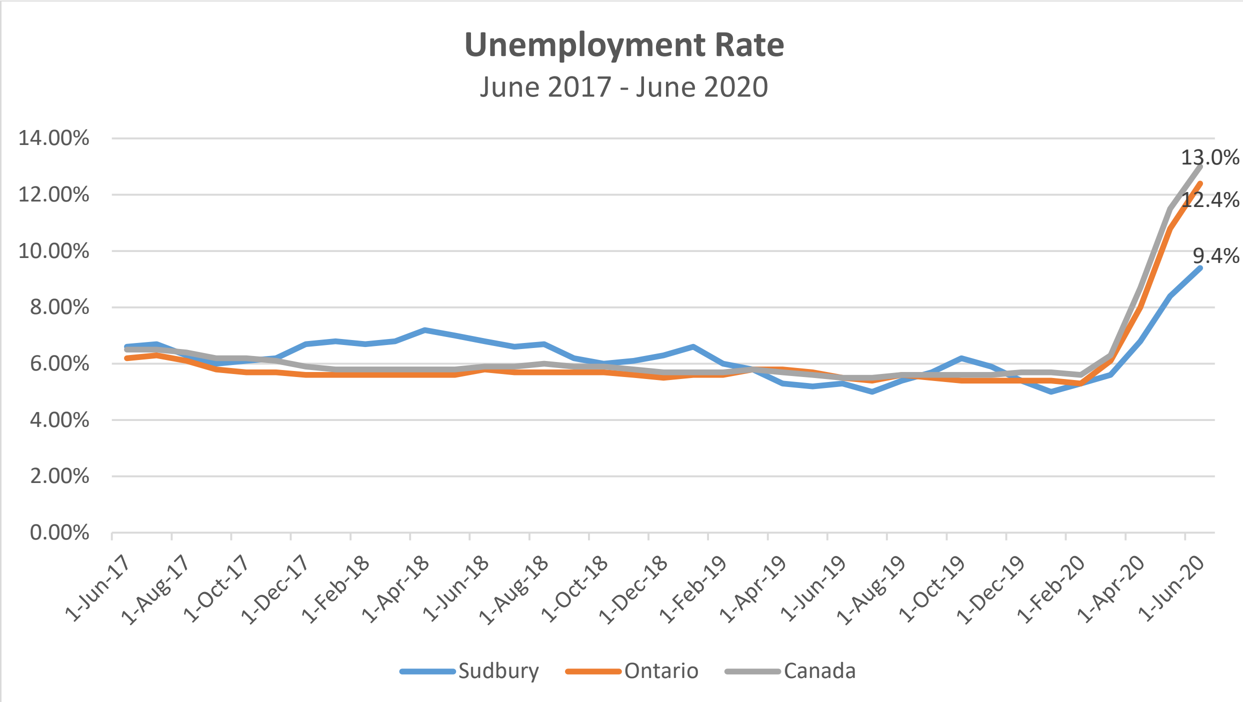
This slow to moderate growth trajectory means that population (using the most conservative assumptions) may not support business growth, labour force evolution and the quantity of increased assessment needed to sustain existing services and service levels. The higher growth assumption anticipates an increase of approximately 285 households per year approximately 0.4% per year to 2046. New infrastructure will be required alongside or in combination with spending on municipal assets that are already in need of investment in order to maintain service levels.

Gross Domestic Product

According to the Conference Board of Canada (Metropolitan Outlook, Winter 2020), growth in the local economy measured by Gross Domestic Product was 1.2% in 2019 and is projected at 1% for 2020, 0.8% for 2021 and 0.8% for 2022.

Employment

Unemployment dropped to a low of 5% in 2019 and lead both the provincial and national unemployment levels for most of the year. Since the beginning of the COVID-19 virus response, Greater Sudbury employment contraction has been less than provincial and national rates. Taking into account changes in labour force participation the net gain in jobs in 2019 was 4,000. It is anticipated that job losses, many in part-time and contract work will be regained in the second half of 2020 after reopening announcements by the Province in July. It is also expected that a deep v-shaped recovery with a quick rebound to historical employment levels is likely not a reasonable assumption and that unemployment above the three year averages from 2017 to 2020 will persist through 2020 and 2021.




Building Construction Activity

Building permit value for the first six months of 2020 is $127.1 million compared with a $124.4 million for the first six months of 2019, despite ongoing societal and economic pressures from pandemic response to the COVID-19 virus. Housing starts have also remained in a normal range for the first six months of the year. There were 37 new housing starts in the first six months of 2020, compared to41 for the same period last year.

Household Income

Incomes in Greater Sudbury continue to climb but remain below provincial averages. Average household total income was $90,179 in 2015 dollars at the time of the 2016 Canadian Census versus the Ontario average of $97,856. The assumption used for average household income for the present modelling purposes (2019) for Greater Sudbury is $101,733 in line with the BMA report.

**Financial Condition:**

Standard & Poors AA (Stable) Rating

In 2018 and 2019, the municipality received an AA credit rating from S&P Global Ratings (S&P) with a stable outlook. A debt rating is intended to represent an evaluation of the creditworthiness a debtor, anticipating ability to service and repay debt. The AA (stable) rating is an investment grade rating. That indicates the corporation has a very strong capacity to pay interest and repay principal loans. In reviewing the corporation's financial position and projected debt levels, S&P noted that:

- Greater Sudbury's institutional framework is very predictable and well-balanced
- Our economy, financial management, budgetary flexibility and performance is strong
- Our liquidity is exceptional,

- Our debt burden is very low,
- Our level of contingent liabilities is low.

This rating anticipates tax-supported debt burden will remain modest and that financial management practices will remain strong. It also anticipates plans and administration remain stable, political direction reflects current or consistent policies, and key staff positions do not experience turnover. In determining an appropriate rating, S&P took several factors into consideration, including the City's plan to issue debt to fund capital projects to reduce the infrastructure funding requirement, current economic conditions, such as significant exposure to the mining industry and the volatility in base metal prices and the City's relatively high population of seniors.

The current trends and forecasts included in the long-term financial plan are consistent with the data S&P used to develop its analysis and support its credit rating assessment. By following this plan, Council should expect similar future assessments from S&P.

Monitoring and Performance Reporting: Three Categories of Financial Condition Indicators

The Long Term Financial Plan is built on the four financial principles, measured by three groups of financial condition indicators. Each group of indicators, as defined by the Public Sector Accounting Board, provides insights into a specific aspect of financial condition. Collectively, they address how the corporation is managing its financial health. The principles and indicators also guide Council and staff when making decisions related to service and program planning. The three groups are:

- Sustainability – the ability of a municipality to maintain existing service levels and meet existing requirements without increasing its relative debt or property tax levels.
- Flexibility - the ability of a municipality to increase its financial resources to address additional commitments and changes to service levels. This is done by increasing property tax revenues, fees, reserve balances or by taking on additional debt.
- Vulnerability - the degree to which the City is susceptible to changes in funding sources outside of its control. There is a risk in relying too heavily on funding sources outside a municipality's direct control because they can be reduced or eliminated without notice.

The corporation compares its financial performance to a typical range of indicators in comparable municipalities. Since 2017, comparisons with the following municipalities provide further context for understanding the corporation's financial condition: Thunder Bay, Sault Ste. Marie, Timmins, North Bay, Barrie, Kingston, Brantford, Windsor and Chatham-Kent.

Sustainability

Key points about Greater Sudbury's sustainability include:

- The ratio of financial assets to liabilities at 1.66 is higher than the recommended range of 0.75 to 1.5, and much higher than our comparators. This indicates the corporation has the financial means to meet its commitments, the capacity to secure more debt and still remain within the recommended range of the Long-Term Financial Plan.
- The level of Reserves and Reserve Funds per Household is low compared to other municipalities, and continues to decrease. This highlights the corporation's practice of relying on reserve funding to support capital financing plans (which have been historically large in the period from

2017 to 2020), offset operating deficits and address unanticipated service requirements (such as emergency repairs). Low reserve levels indicate limited capacity to deal with cost increases or revenue losses, requiring the City to revert to taxation, user fee increases or the issuance of debt. Changes to the reserve and reserve fund policy and funding strategies presented to Council in early 2020 support efforts to reverse this trend.

- Greater Sudbury' operating expenses as a percentage of total assessment is very steady over time and compares favorably to our peer municipalities.
- Recent capital budgets and planned capital spending show the corporation has been reversing its historical under-investment in asset renewal. The ratio of annual capital asset additions to annual amortization expense (213.9% in 2019) indicates the corporation is investing more in new assets than the value it is consuming each year to provide its services.
- Taxes receivable as a percentage of taxes levied is an indication of taxpayer ability to pay and collections efforts. The ratio is low and stable and staff will monitor in light of the one-time changes to tax due dates and penalty reductions established in response to the Covid-19.

| Sustainability Indicators | Target | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Financial assets to financial liabilities | 0.75 to 1.50 | **1.66** | 1.66 | 1.66 | 1.67 | 1.62 |
| Total reserves and reserve funds per household | $2,000 to $3,500 | **$1,830** | $1,981 | $1,931 | $2,132 | $2,209 |
| Total operating expenses as a percentage of taxable assessment | 2.0% to 3.5% | **2.4%** | 2.3% | 2.3% | 2.2% | 2.2% |
| Capital additions as a percentage of amortization expense | 150% to 250% | **213.9%** | 111.4% | 133.2% | 95.2% | 225.0% |
| Taxes receivable as a percentage of taxes levied | n/a | **2.8%** | 2.7% | 3.0% | 2.4% | 2.3% |

Flexibility

Key point about Greater Sudbury's flexibility include:

- Compared to other municipalities, discretionary reserve funds are lower than the average, which indicates we do not have as much flexibility as the comparators to use reserve funds to immediately address unanticipated expenditure or stabilize large, unforeseen taxation impacts.
- The corporation historically had a much lower debt per capita and other debt ratios than comparator municipalities. The typical range for debt per household among our comparators is $2,000 - $3,500. As anticipated, the issuance of $200 million in debt early in 2020 has moved us up into that range. The 2019 result and 2020 budgeted amount are $927 per household and $3,365 per household respectively. This means the corporation is investing in asset renewal using debt financing more than in prior periods, but remains within typical levels for comparable cities.

- Taxation levels remain among the lowest in Ontario for Cities with a population greater than 100,000. Both residential taxes per household and residential taxes as a percentage of household income have been, and remain, well below the typical range for municipalities in the BMA study. This indicates Council has discretion to raise taxes to support changes in services or service levels.
- The ratio of debt servicing costs to revenue is 1.98%, which is quite low compared to other municipalities. This means the relative share of annual revenue to support debt servicing costs is lower than other municipalities. The 2020 projection on this indicator (found in the 10-year model below) moves to 3.43% considering the issuance of $200 million debenture, slightly above the typical range of comparator municipalities.

| **Flexibility Indicators** | **Typical Range** | **2019** | **2018** | **2017** | **2016** | **2015** |
|---|---|---|---|---|---|---|
| Residential taxes per household | $3,000 to $5,000 | **$2,349** | $2,258 | $2,176 | $2,072 | $1,978 |
| Debt per household | $2,000 to $3,500 | **$927** | $1,012 | $1,027 | $1,096 | $1,178 |
| Residential taxes as a percentage of household income | 3.0 to 5.0% | **3.79%** | 3.83% | 3.85% | 3.63% | 3.76% |
| Total taxation as a percentage of total assessment | 1.0% to 2.5% | **1.27%** | 1.24% | 1.22% | 1.17% | 1.18% |
| Debt servicing costs (interest and principal) as a percentage of net revenues | 2.0% to 3.0% | **1.98%** | 2.32% | 2.19% | 2.28% | 1.90% |
| Net book value of tangible capital assets as a percentage of historical cost of tangible capital assets | 40% to 60% | **49.3%** | 48.8% | 49.7% | 50.3% | 51.4% |

<u>Vulnerability</u>

Key points about Greater Sudbury’s vulnerability include:

- The corporation’s vulnerability is within a typical range for comparator municipalities. Greater Sudbury relies to a lesser degree than other municipalities on senior government funding for operations.
- Reliance on operating grants from senior levels of government increases the corporation’s exposure to sudden changes in funding that it does not directly control. Examples include Ontario Municipal Partnership Fund allocations, provincial and federal gas taxes, and funding agreements with numerous ministries (health and long-term care, education, community and social services, etc.).

- While this exposure increases the corporation's overall risk of a sudden change in revenue, reliance on federal and provincial funding has remained consistent as shown by minor fluctuations in government transfers to total revenue.
- A higher ratio does not always indicate greater vulnerability. Where senior government funding is directed toward specific capital projects (for example, with grants for specific capital projects), the corporation's risk of sudden revenue loss is relatively low.
- Vulnerability indicator ratios remain within the typical range for the remainder of the plan period. The increase from historical norms indicates a more aggressive capital program, with greater levels of funding from senior levels of government.

| Vulnerability Indicators | Typical Range | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Ratio of government transfers to total revenue | n/a | **0.28** | 0.29 | 0.30 | 0.25 | 0.27 |
| Operating grants as a percentage of total revenues | 10% to 25% | **22.0%** | 23.2% | 22.6% | 22.9% | 22.8% |
| Capital grants as a percentage of total capital expenditures | 10% to 25% | **26.0%** | 40.2% | 45.3% | 14.1% | 14.8% |

**10-year Financial Model:**

Staff worked with KPMG to refresh the 10-year financial model from 2021 to 2030.

The following assumptions were used to generate the model:

- Projections for 2021 reflect the most up to date forecast information and match the direction recommendation published with this agenda for 2021 budget direction (3.9% net of assessment growth).
- Given forecasted revenue losses (most due to decreased demand for some City services due to COVID-19) and increases in costs in 2021, achieving this direction (3.9% net of assessment growth) will require a mix of service and capital program adjustments, fee changes or one time reserve contributions / funding from senior orders of government.
- Decrease in provincial social housing allocations of $550,000 over the next ten years.
- Water and Wastewater user fees increase by 4.8% per year per the W/WW Financial Plan.
- Investment earnings remain at their current level.
- Expenses increase by 2% per year on average, with contributions to capital increased by 2.5%.
- Salaries and Benefits increase by contractually committed amounts and consider increases in 2021 due to higher than anticipated long term disability and WSIB premiums.
- The Capital Levy continues at 1.5% (approved in 2020).
- Includes all major capital projects funded in 2021 and 2022 (Municipal Road 35, Bridge and Culvert Rehabilitation, McNaughton Terrace Treatment Facility, the Junction, Event Centre, and

Playground Revitalization) and the associated principal and interest payments on all outstanding debt (including the $200 million debenture issued in early 2020).

- Includes an additional amount equal to 1% of the total 2022 levy in 2023 in contributions to reserves and capital (which shows in the indicators as an increase to reserves) but could be used for the array of strategic initiative work in the strategic plan, additional asset investment or to enhance services or the way services are delivered (in line with actions in the Community Energy and Emissions Plan, Customer Service Strategy or enhanced digitization of citizen services).
- Updates average household income ($101,733 for 2019, increased by 2% per year) in line with up to date numbers from the BMA study.
- Net assessment increases by 0.5% in 2021 and 1% per year for the balance of the period.

**10-year Projections:**

<u>Operating Budget Projections</u>

The 10-year operating budget (revenues and expense) projection is summarized in the table below.

10-year Long Term Financial Plan Operating Model

| | Budgeted | Forecasted | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | Ten Year Total |
| **Revenues:** | | | | | | | | | | | | |
| | 322,581 | 326,872 | 333,936 | 340,601 | 347,533 | 354,745 | 362,249 | 370,059 | 378,186 | 386,646 | 395,452 | 3,596,279 |
| **Expenses:** | | | | | | | | | | | | |
| | 594,620 | 609,129 | 630,885 | 648,598 | 666,831 | 685,601 | 704,922 | 724,816 | 745,301 | 766,395 | 788,113 | 6,970,590 |
| **Municipal levy** | $ 289,445 | 302,181 | 316,873 | 327,087 | 337,697 | 348,524 | 359,915 | 371,999 | 384,357 | 396,980 | 409,730 | 3,555,342 |
| | | **Average annual increase in tax levy before assessment growth** | | | | | | | | | **3.5%** | |
| **Annual increases in tax levy before assessment growth** | | 4.40% | 4.86% | 3.22% | 3.24% | 3.21% | 3.27% | 3.36% | 3.32% | 3.28% | 3.21% | |

The 10-year operating model is consistent with prior year estimates of a net tax levy increase which averages 3.5% over the plan period. Net of predicted assessment growth at 0.5 – 1.0%, the results approximate anticipated inflation over the balance of the 10-year period.

<u>Projected Financial Indicators over 10-year Plan</u>

The model also provides 10-year summary projections for the capital budget and the resulting levels of debt, debt payments and reserve and reserve funds which are reflected in updated, projected financial indicators below.

| FINANCIAL INDICATORS | Budgeted 2020 | Forecasted 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Reserve and reserve funds per household | $ 1,384 | $ 1,043 | $ 831 | $ 703 | $ 820 | $ 984 | $ 1,197 | $ 1,461 | $1,779 | $ 2,152 | $2,584 |
| Operating expenses as a percentage of taxable assessment | 2.66% | 2.72% | 2.79% | 2.83% | 2.88% | 2.92% | 2.97% | 3.02% | 3.08% | 3.13% | 3.18% |
| Capital additions as a percentage of amortization expense | 204% | 167% | 142% | 131% | 114% | 113% | 113% | 112% | 112% | 112% | 111% |
| Debt to Reserve Ratio | 2.43 | 3.65 | 4.38 | 4.97 | 4.10 | 3.28 | 2.60 | 2.05 | 1.61 | 1.27 | 1.01 |
| Residential taxes per household | $ 2,714 | $ 2,823 | $2,950 | $ 3,033 | $3,120 | $ 3,208 | $ 3,301 | $ 3,399 | $3,500 | $ 3,601 | $3,704 |
| Total debt per household | $ 3,365 | $ 3,808 | $3,643 | $ 3,498 | $3,360 | $ 3,230 | $ 3,118 | $ 2,992 | $2,865 | $ 2,738 | $2,611 |
| Residential taxation as a percentage of household income | 2.62% | 2.67% | 2.73% | 2.75% | 2.78% | 2.80% | 2.82% | 2.85% | 2.88% | 2.90% | 2.93% |
| Debt servicing costs as a percentage of total revenues | 3.43% | 4.04% | 3.91% | 3.54% | 3.28% | 3.04% | 2.73% | 2.65% | 2.58% | 2.51% | 2.42% |
| Operating grants as a percentage of total revenues | 22.2% | 21.9% | 21.3% | 20.8% | 20.2% | 19.7% | 19.2% | 18.7% | 18.2% | 17.7% | 17.2% |
| Capital grants as a percentage of total capital expenditures | 17.8% | 27.7% | 29.8% | 27.0% | 16.8% | 16.5% | 16.2% | 15.8% | 15.5% | 15.2% | 14.9% |

## Reserve and Reserve Funds

The 10-year summary projections show that our reserve and reserve funds per household continue to decline and then rise slightly at the end of the period (2025 – 2030) as some long term debt is retired and creates capacity in the reserves for capital. Also, staff has anticipated that Council will want to take steps to increase reserves closer to their minimum levels and have placed an amount equaled to 1% of the 2022 levy into contributions to reserves and capital in the 2023 projection. Of course, Council retains full discretion to apply these funds for other purposes, or to exclude them from the annual budget.

## Future Capital Programs

With historically large capital programs in 2017 – 2020 and anticipated multi-year projects carrying over into 2021 and 2022, contributions to capital and reserves will be somewhat constrained in the early years of the plan period for new capital. Staff will continue to work with Mayor and Council though to make sure the City maximizes funding opportunities from senior orders of government and will report clearly the timing of debt retirements and funding available that could be used at Council's discretion to reduce the tax levy, reinvest in capital or secure additional debt to perform capital works.

Debt

The 10-year projection of the City's debt per household stabilizes in 2022 after the full phase in of debt payments on the $200 million debenture has occurred. The model does include additional borrowing beyond 2022 to support capital programs. Staff will continue to analyze and make recommendation on the use of debt financing based on the types of investments required, the availability of low interest debt and make recommendations to Council in line with the Debt Management Policy. Our debt to reserve ratio continues to climb until 2024, in line with assumptions above about the declining levels of reserves.

**Financial Modelling Risk:**

There are a number of risks that, if realized, could affect the City's ability to sustain current service levels.

Asset Condition

Although a high level Asset Management Plan has been presented, there is still an absence of thorough asset condition information on the majority of the City's assets. There is a risk that one or more assets could deteriorate or even fail, resulting in a reduction of service to residents. The development of strong asset condition information, and plans to address asset weaknesses, is a priority in the coming years. Securing low interest debt in early 2020 provides a solid basis for capital financing needs and as the financial model demonstrates and reduces interest rate risk in the long term.

Base Metal Prices

Base metal prices, overall, fell in the first three quarters of 2019 and are anticipated to rebound in 2020 amid increasing demand from electrification of vehicles and the potential for infrastructure funding from governments around the world as the global economy recovers from impact of the COVID-19 virus.

Assessment Growth and Economic Development

The cost to provide services to residents continues to increase. With low assessment growth, economic development activities take on greater importance as new taxable assessment helps spread the cost of municipal services over a broader tax base. Economic growth through new private sector investments is needed to help sustain the City's taxation levels.

Provincial Funding

Staff continue to monitor the forecasted provincial deficit, especially in light of the negative economic consequences of the COVID–19 virus. In the last five years, the City has seen a reduction in its Ontario Municipal Partnership Fund annual funding of $7.1 million from $28.4 million to $21.3 million. This should be the last reduction to this fund, however, in 2019, the Province provided funding for large municipalities to perform core service reviews.

Project Delivery

The scale of the capital plan is significant and continues to fluctuate. The available staffing resources to deliver the capital plan has seen minimal change year over year. Additional costs may be incurred if projects are not completed based on the timelines estimated in the capital plan.

Interest Rates

The City has approved several significant projects to be funded through the use of debt. Interest rate fluctuations and potential increases create uncertainty. All debt included in the model though has been obtained on a long-term basis at very competitive rates. After the major issue of $200 million in early 2020, there is certainly about debt servicing costs into the future for the majority of any debt the City could take on within its 10% debt threshold.

The City's current public debt rating of AA stable and the rates it has been able to obtain on outstanding debt make this risk easier to manage moving forward.

**COVID-19 Virus Response and Economic Effect:**

The effect of COVID-19 on user fee revenues is a highly uncertain variable in our planning and at the time of publishing this report it is virtually unknown whether a second wave of infection will occur in the City in late 2020, if virus response will persist beyond 2021 or if some type of vaccine or immunity will develop sufficient to moderate the future effects of the virus on the local economy. The effect of the COVID-19 virus is certain to have lasting, as yet unknown, macro-economic impacts globally and this will affect the City's projections. While we have maintained our assessment growth forecast at 1% per year from 2022 to 2030 it is possible that actuals could be lower if the spread of the virus persists.

**Conclusion:**

The corporation's financial condition is strong and will be further strengthened with concerted efforts to improve its level of reserve and reserve funds. It has sufficient flexibility to finance its service efforts and make investments that fulfill Council's strategic priorities.

The corporation will need to consider alternate service and service level choices to address the economic and social reality of continued pandemic response and recovery. Equally the City will be expected to lead recovery activities in the broader sense; facilitating development opportunities, supporting local businesses and advancing infrastructure projects. Economic development, assessment protection and growth are critical to balancing anticipated increases in expenses and lost revenues.

In addition to a formal annual review of the plan, staff will continue to include long-term financial plan impacts and financial indicator performance at key decision points and when analyzing service and service level decisions for Council.