

**TOWN OF AJAX
REPORT**



REPORT TO: General Government Committee

SUBMITTED BY: Rob Ford, CMA, AMCT
Director of Finance/Treasurer

SUBJECT: Financial Sustainability Plan – Policy Approval

WARD(S): All

DATE OF MEETING: June 20, 2013

REFERENCE: July 5, 2012 GGC Report; Financial Sustainability Plan - Project Scope
January 17, 2013 Special Council Meeting; Community Action Plan - Mid
Term Update - Presentation
May 9, 2013 GGC Report; Financial Sustainability Plan - Draft
Recommendations
Corporate Action Plan Strategies

- Ensure tax rates remain reasonable and competitive
- Rebuild and further strengthen financial reserves

RECOMMENDATION:

1. That the Council approve the following policies:
 - #120 - Financial Sustainability Plan
 - #121 - Discretionary Reserve Administration
 - #122 - Discretionary Stabilization Reserves
 - #123 - Discretionary Capital Reserves
 - #124 - Long Term Debt Management
2. That the following By-laws be repealed effective January 1, 2014:
 - 108-2005 Vehicle/Equipment Replacement Reserve Fund
 - 109-2005 Post Build Out Capital Reserve
 - 110-2005 Capital Fund
 - 109-2007 Tax Rate Stabilization Reserve/Surplus Allocation
3. That Council delegate to the Director of Finance/Treasurer, the authority to complete the reserve transfers/reallocations required to establish the January 1, 2014 opening balances for the discretionary reserve balances.
4. That the Director of Finance/Treasurer provide a report to Council on the January 1, 2014 opening discretionary reserve balances.

BACKGROUND:

At the May 9, 2013 General Government Committee meeting, Council endorsed the draft recommendations for the development of the Financial Sustainability Plan (the “Plan”). At that meeting, an amendment to merge the Public Art Reserve with the Strategic Initiatives Reserve was approved.

The Plan consists of a number of policies, both new and existing, as well the various tools used by the Town for short and long term financial planning.

DISCUSSION:

The Financial Sustainability Plan is the most comprehensive update to strategic financial planning ever undertaken by the Town. The financial policies and practices adopted by current and past Councils, formed the foundation for the development of the new Plan. The Plan represents current municipal best practices, as well as “Made in Ajax” policies that reflect our specific and unique challenges/opportunities.

The Plan will serve Council and residents well into the future, with the Town’s short and long term financial strength and sustainability being the primary objectives. The Plan will be constantly monitored for effectiveness, in particular as the financial, economic, political and legislative environments change.

FINANCIAL IMPLICATIONS:

There are no direct financial implications resulting from the approval of the Financial Sustainability Plan policies. The policies will be utilized for the preparation of the 2014-2017 General Levy Forecast, 2014 Operating Budget and the 2014 Capital Budget/2015-2018 Long Range Capital Forecast. The changes to the discretionary reserves all take effect on January 1, 2014.

COMMUNICATION ISSUES:

Details have been posted on the Town’s website since the beginning of the Plan’s development and the information has been continually updated throughout the process. In addition, an article on the Plan was included in the Winter 2013 edition of Ajax Today.

Subsequent to Council’s review and endorsement of the draft recommendations, the May 9, 2013 GGC report was sent to the Ajax-Pickering Board of Trade and both Business Improvement Areas for their comments (ATT – 6). No comments were received from any of the three organizations.

As noted in the May 9, 2013 GGC report, staff will develop an online citizen tutorial of the FSP to educate the public on the Plan. The online tool will highlight key strategic areas and include graphics.

CONCLUSION:

Council's approval of the new Financial Sustainability Plan policies is a key step in ensuring Ajax's long term financial strength and sustainability.

ATTACHMENTS:

- ATT - 1: Policy #120 Financial Sustainability Plan
- ATT - 2: Policy #121 Discretionary Reserve Administration
- ATT - 3: Policy #122 Discretionary Stabilization Reserves
- ATT - 4: Policy #123 Discretionary Capital Reserves
- ATT - 5: Policy #124 Long Term Debt Management
- ATT – 6: Letter Sent to BIA's and Board of Trade

Rob Ford, CMA, AMCT
Director of Finance/Treasurer



SUBJECT: FINANCIAL SUSTAINABILITY PLAN

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1. BACKGROUND

This document outlines the goals and objectives of the Financial Sustainability Plan (the "Plan"), and summarizes the policies, financial planning tools and reporting that comprise the Plan.

2. GOALS & PRINCIPLES OF THE PLAN

- Align with the objectives and strategies contained within the Community Action Plan
- Enhance the Town's short and long term financial strength and sustainability
- Provide a comprehensive framework to guide and assist priority setting and decision making by Council
- Protect and maintain the Town's infrastructure and other capital assets
- Maintain programs and services at their desired levels
- Provide the financial flexibility necessary to leverage future opportunities
- Minimize financial vulnerability during economic downturns
- Maintain a reasonable sharing of the tax burden between current and future taxpayers

3. POLICIES

The following financial policies support the stated goals and objectives of the Plan.

- #121 Discretionary Reserve Administration
- #122 Discretionary Stabilization Reserves
- #123 Discretionary Capital Reserves
- #124 Long Term Debt Management
- #127 Capital Expenditure Control
- #128 Operating Budget Management
- #129 Annual Review of User Fees & Charges
- #130 Investments
- #131 Commodity Price Hedging
- #132 Leasing

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4. FINANCIAL PLANNING TOOLS

The Town utilizes the following short and long term financial planning tools:

Annual Operating and Capital Budgets

- Subject to the requirements of the *Municipal Act, 2001*

General Levy Forecast (GLF)

- A four year, high level summary of items impacting the general (tax) levy requirement
- Includes, but is not limited to:
 - Base Operating Budget, adjusted for growth and annualizations
 - New Items: Full and Part Time staff plus new and expanded programs/initiatives
 - Other Financial Inputs: Reserve Allocations, Debt Payments, Specific Council Identified Items
- GLF information/data is used by Council to set or confirm the target tax rate increase for the upcoming budget year

Long Range Capital Forecast (LRCF)

- A four year, fully funded forecast of the Town's future capital requirements, that complements the annual capital budget
- Is reviewed and revised each year as part of the annual budget process

Operating Budget Forecast

- A detailed in-year reforecast of all operating budget revenues and expenditures
- Results in a calculation of the forecast surplus or deficit for the current budget year
- Identifies issues that may need to be addressed in the following year's budget
- The forecast surplus/deficit and details on major variances are reported to Council through a General Government Committee (GGC) report

5. FINANCIAL REPORTING

The reporting to Council on the Town's financial activities, including the Plan, is accomplished through General Government Committee reports on:

- Financial Planning Tools identified in Section 4 of this policy
- Actual Operating Budget Surplus, including explanations of major variances from budget
- Capital Account Closing results
- Various activities in the areas of financial planning and management, budgets, forecasts

APPROVED: General Government Committee
(AUTHORITY)

13 / 06 / 20
(DATE)

(SIGNATURE)



**SUBJECT: DISCRETIONARY RESERVE
ADMINISTRATION**

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1. TYPES

Discretionary reserves are classified as:

- a) Capital
 - Provide full or partial funding for projects contained in the Capital Budget/Long Range Capital Forecast
 - May be used to fund unbudgeted capital projects that occur subsequent to the approval of the budget
- b) Stabilization
 - If required, may be utilized in the operating budget, or subsequent to approval of the operating budget, to minimize or offset short term, temporary, tax rate increases resulting from specific events (refer to Policy #122 Discretionary Stabilization Reserves for details)

2. ALLOCATION OF INTEREST INCOME

- All general levy interest income above \$781,100 (2013 budget amount) shall be allocated to Discretionary Capital Reserves
- The reserves that are allocated interest and the method of allocation, shall in accordance with Finance Department procedures

3. ANNUAL INCREASE IN GENERAL LEVY BUDGET ALLOCATIONS

- The total general levy budget allocations to Discretionary Reserves, shall increase by a minimum of 25% of the additional taxation revenue generated from Assessment Growth
- The Director of Finance/Treasurer may recommend additional increases for Council's consideration as part of the annual budget

4. APPROVAL OF GENERAL LEVY RESERVE ALLOCATIONS

- The general levy budget allocations used to fund the Capital Budget/Long Range Capital Forecast, shall be approved at the same General Government Committee meeting where the Capital Budget/Long Range Capital Forecast is reviewed and recommended to Council for approval
- These allocations are integral to the funding of the entire Capital Budget/Long Range Capital Forecast and as a result, cannot be changed as part of the Annual Operating Budget review and approval process

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5. ALLOCATION OF OPERATING BUDGET SURPLUS

- The annual Operating Budget Surplus shall first be allocated to the Stabilization Reserve, in order to increase the reserve to its target balance (refer to Policy #122 Discretionary Stabilization Reserves)
- The remainder of the surplus will be allocated based on recommendations by the Director of Finance/Treasurer
- The recommendations are subject to review and approval by Council, through a General Government Committee report
- Changes to the recommended allocations, if any, will be recorded in the following fiscal year

6. SUPPLEMENTARY TAXES

- The annual budget for supplementary tax revenue shall not exceed \$500,000
- Where actual supplementary tax revenues exceed the budget, the surplus amount from supplementary taxes shall be allocated to the Post Growth Capital Reserve

APPROVED: General Government Committee
(AUTHORITY)

13 / 06 / 20
(DATE)

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**SUBJECT: DISCRETIONARY STABILIZATION
RESERVES**

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1. ELECTION RESERVE

- The purpose of the Election Reserve is to fund all costs related to the municipal election, including any annual costs leading up to the election and the full cost of the election itself
- The target reserve balance in the year of the election, shall be equal to the estimated total cost of the election

2. STABILIZATION RESERVE

a) Uses of the Reserve

- In Annual Budget
 - Shall only be used to offset a potential tax rate increase due to temporary economic conditions or other circumstances/events, that would require an excessive tax rate increase to continue the delivery of existing services
- In Year Post Budget Approval
 - To fully offset an overall annual operating deficit, which would otherwise require a tax rate increase in the subsequent budget year

b) Reserve Balance

- Target year-end balance of the reserve shall be 5% of the prior year's Net Revenues (as defined and calculated in the Financial Information Return)
- Changes to the reserve balance is subject to the following rules:
 - Increases to the balance shall be funded from the operating budget surplus
 - If the surplus is not sufficient to increase the reserve to its target balance, the shortfall will be made up from the following years' surpluses
 - Should the Net Revenues decrease on a year over year basis, the target balance in the reserve shall not be reduced below its current balance

APPROVED: General Government Committee
(AUTHORITY)

13 / 06 / 20
(DATE)

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**SUBJECT: DISCRETIONARY CAPITAL RESERVES**

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1. RESERVES

The eleven (11) capital reserves are listed below. Details on the revenue sources and the use of each reserve in the Capital Budget/Long Range Capital Forecast are outlined in ATT-1.

- Building Maintenance
- Capital Contingency
- CIP Development Improvement
- Debt Reduction (Slots)
- Debt Repayment
- Development
- General Infrastructure Maintenance
- Post Growth Capital
- Roads Maintenance
- Strategic Initiatives
- Vehicle/Equipment Replacement

2. SPENDING CAP GUIDELINE

- An annual spending cap guideline of 65% of a reserve's forecast total annual revenues, will be used by staff to guide the funding of the Capital Budget/Long Range Capital Forecast recommended to Council for approval
- The annual spending cap only applies to the following reserves:
 - Building Maintenance
 - Development
 - General Infrastructure Maintenance
 - Roads Maintenance
 - Strategic Initiatives
 - Vehicle/Equipment Replacement
- The annual spending cap is a guideline only. The actual expenditures in a given budget year may exceed or fall below the cap.

3. ALLOCATION OF SLOTS & VERIDIAN REVENUES

Background

- Slots Revenues - the Town's share of the slot and gaming revenue, as calculated according to the Municipality Contribution Agreement with Ontario Lottery and Gaming (OLG)
- Veridian Revenues – the promissory note interest and dividend income the Town receives from its 32.1% ownership share of Veridian Corporation.

Slots and Veridian revenues shall not be included in the operating budget as revenue to reduce the general levy, but shall be allocated to specified Capital Reserves as summarized below:

Reserve Name	Slots**	Veridian
Debt Reduction	25%	N/A
Building Maintenance	10%	20%
Development	25%	20%
General Infrastructure Maintenance	10%	15%
Roads Maintenance	10%	15%
Strategic Initiatives	5%	5%
Vehicle/Equipment Replacement	15%	25%

** Net of grandfathered grants program and social infrastructure funding

ATT-1 Revenue Sources and Use in Capital Budget/Long Range Capital Forecast

APPROVED: General Government Committee
(AUTHORITY)

13 / 06 / 20
(DATE)

(SIGNATURE)

**ATT-1 POLICY #123 DISCRETIONARY CAPITAL RESERVES
REVENUE SOURCES AND USE IN CAPITAL BUDGET/LONG RANGE CAPITAL FORECAST**

Reserve Name	Capital Budget/LRCF Funding	Revenue Source
Building Maintenance	1) Maintenance/repair/rehabilitation of existing buildings and related facilities, including: <ul style="list-style-type: none"> ▪ the building itself and all components ▪ surrounding campus (e.g. parking lot, front entrance, grounds, etc.) 2) Renovations to existing buildings	1) General Levy budget allocation 2) 10% of Slots revenue 3) 20% of Veridian revenue 4) Portion of the tax room from the annual debt payments on retired (paid off) long term debt
Capital Contingency	1) Town's portion of cost shared Federal/Provincial capital grant programs 2) Unbudgeted capital expenditures not fundable from any other source	<ul style="list-style-type: none"> • If required, portion of Operating Budget Surplus to "top up" to \$2.5M target balance
CIP Development Improvement	<ul style="list-style-type: none"> • Capital projects within Downtown CIP area 	1) Disposal/sale of land 2) 20% of building permit fees for projects in Downtown CIP area (0% from priority sites)
Debt Reduction (Slots)	1) Reduce the amount of long term debt issued 2) Offset the operating budget impact of existing debt payment	<ul style="list-style-type: none"> • 25% of Slots revenue
Debt Repayment Reserve	<ul style="list-style-type: none"> • Reduce the amount of long term debt issued 	<ul style="list-style-type: none"> • Portion of the tax room from the annual debt payments on retired (paid off) long term debt
Development	1) Town's share (Ineligible & Benefit to Existing) of Development Charge projects 2) New Infrastructure not eligible for Development Charge funding 3) Waterfront and Shoreline Improvements	1) General Levy budget allocation 2) 25% of Slots revenue 3) 20% of Veridian revenue
General Infrastructure	<ul style="list-style-type: none"> • Maintenance/repair/rehabilitation of all other infrastructure not fundable from Building Maintenance Reserve or Roads Maintenance Reserve 	1) General Levy budget allocation 2) 10% of Slots revenue 3) 15% of Veridian revenue

**ATT-1 POLICY #123 DISCRETIONARY CAPITAL RESERVES
REVENUE SOURCES AND USE IN CAPITAL BUDGET/LONG RANGE CAPITAL FORECAST**

Reserve Name	Capital Budget/LRCF Funding	Revenue Source
Post Growth Capital	<ul style="list-style-type: none"> Not an active/current funding source 	<ol style="list-style-type: none"> 15% of assessment growth Annual Surplus from Supplementary Tax revenue
Roads Maintenance	<ul style="list-style-type: none"> Repair/Maintenance/Rehabilitation of roads and related infrastructure, including but not limited to bridges, streetlights, sidewalks, curbs & gutters, traffic signals, multi-use trails within the road allowance and storm water infrastructure 	<ol style="list-style-type: none"> General Levy budget allocation 10% of Slots revenue 15% of Veridian revenue
Strategic Initiatives	<ol style="list-style-type: none"> Master Plan, Studies, Strategies, EA's not fundable from another source Traffic Calming Capital projects resulting from Community Action Plan (e.g. Customer Polling) New Software Acquisition and installation of art in public spaces 	<ol style="list-style-type: none"> General Levy Budget Allocation 5% of Slots revenue 5% of Veridian revenue
Vehicle/Equipment Replacement	<ol style="list-style-type: none"> Operations - Vehicles and Equipment Fire - SCBA, Bunker Gear, Hose, Auto Extrication, AED Recreation - Fitness, Floor Care Machines Information Technology – Workstations, Hardware, Servers, Software 	<ol style="list-style-type: none"> General Levy budget allocation Sale of used and surplus vehicles/equipment 15% of Slots revenue 25% of Veridian revenue



SUBJECT: LONG TERM DEBT MANAGEMENT

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1. PURPOSES

- Long term debt shall only be issued as partial funding for the following capital projects:
 - a) Construction of new buildings
 - b) Expansion or major repurposing of existing buildings

2. TERM

- Goal will be to issue for a fifteen (15) year term
- Director of Finance/Treasurer may recommend for Council's approval, a ten (10) or twenty (20) year term, that takes into account factors such as:
 - current and forecasted interest rates
 - amount of the debt required
 - future debt retirements and requirements

3. MAXIMUM DEBT PER PROJECT

- Amount of debt issued shall not exceed 30% of the total cost of construction
- Cost of construction includes contract administration, but excludes design fees and land acquisition costs

4. EXTERNAL AND INTERNAL BORROWING

- Debt may be issued in two ways:
 - i. External - a debenture issued by the Region of Durham
 - ii. Internal - borrowing from the Town's discretionary reserves; requires approval by the Region of Durham
- Allocation Between External and Internal Debt
 - Will vary for each long term debt issuance
 - Director of Finance/Treasurer will recommend allocation for Council approval

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5. USE OF TAX ROOM FROM RETIRED DEBT

- Tax room created from the elimination of the annual principal and interest payments on retired (paid off) debt, shall be converted to General Levy Reserve Allocations to the:
 - a) Debt Repayment Reserve and/or
 - b) Building Maintenance Reserve
- The split between the two reserves will be approved by Council as part of the annual budget

6. INTERIM BORROWING DEBT ISSUANCE

- Council must authorize the issuance of interim borrowing through a Council resolution
- The Director of Finance/Treasurer and Mayor can execute the documentation required for interim borrowing arrangements
- Methods
 - a) Internal from the Revenue Fund
 - Terms and conditions to be determined by the Director of Finance
 - Evidenced by a signed and sealed promissory note
 - b) External from a Financial Institution
 - Formal agreement with the financial institution

7. THIRD PARTY DEBT & EXTERNAL REVENUES

- The Town shall not:
 - a) Issue debt on behalf of any external agency or organization
 - b) Guarantee or otherwise secure debt issued directly by an external agency or organization
 - c) Issue debt where all or a portion of the principal/interest payments are reliant on the receipt of future revenues from external third parties

8. LIMIT ON TOTAL DEBT

- The Annual Debt Repayment Limit (ARL) established by the Province, requires that a municipality's total annual debt payments (excluding internal debt), cannot exceed 25% of its annual Net Revenues
- Notwithstanding the ARL, the Town's Debt Limit shall be 7.5% of Net Revenues, as determined in the ARL calculation, including both external and internal debt

APPROVED: General Government Committee
(AUTHORITY)

13 / 06 / 20
(DATE)

(SIGNATURE)



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May 13, 2013

Sent via E-mail

**Request for Comments on Draft Recommendations
Town's New Financial Sustainability Plan**

Building upon the strengths of the Town's existing strategic financial planning, Council recently endorsed the draft recommendations to guide the development of the Town's new Financial Sustainability Plan (FSP).

There are four main reasons that are driving the development of the FSP. Specifically:

- 1) Alignment with the financial strategies identified in the 2011-2014 Community Action Plan:
 - a) Ensure tax rates remain reasonable and competitive
 - b) Rebuild and further strengthen financial reserves
- 2) Recommend solutions to known gaps/issues, as well as introduce new policies based on best practices within the municipal sector
- 3) A formal, approved financial plan to guide the priority setting and decision making of current and future Councils
- 4) To ensure long term financial sustainability, as the Town approaches greenfield and intensification build out

Attached is the presentation and report and that went to General Government Committee on May 9, 2013. Prior to developing the final policies for Council approval on June 20, 2013, staff are requesting comments directly from the business community, as well as the general public.

If you wish to provide comments, please forward them to my attention no later Friday, May 31, 2013.

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