

Long Term Financial Overview

2018 and Beyond

Presented to: Committee of the Whole

January 9, 2018

Presentation Agenda

- 2018 Budget Overview
- Questions & Answers
- Infrastructure and Infrastructure Deficit
- Debt and Reserve Funds
- Questions & Answers
- BMA Study 2017 - Taxation and Affordability
- Economic Environment
- Financial Projections 2019-2023
- Questions & Answers

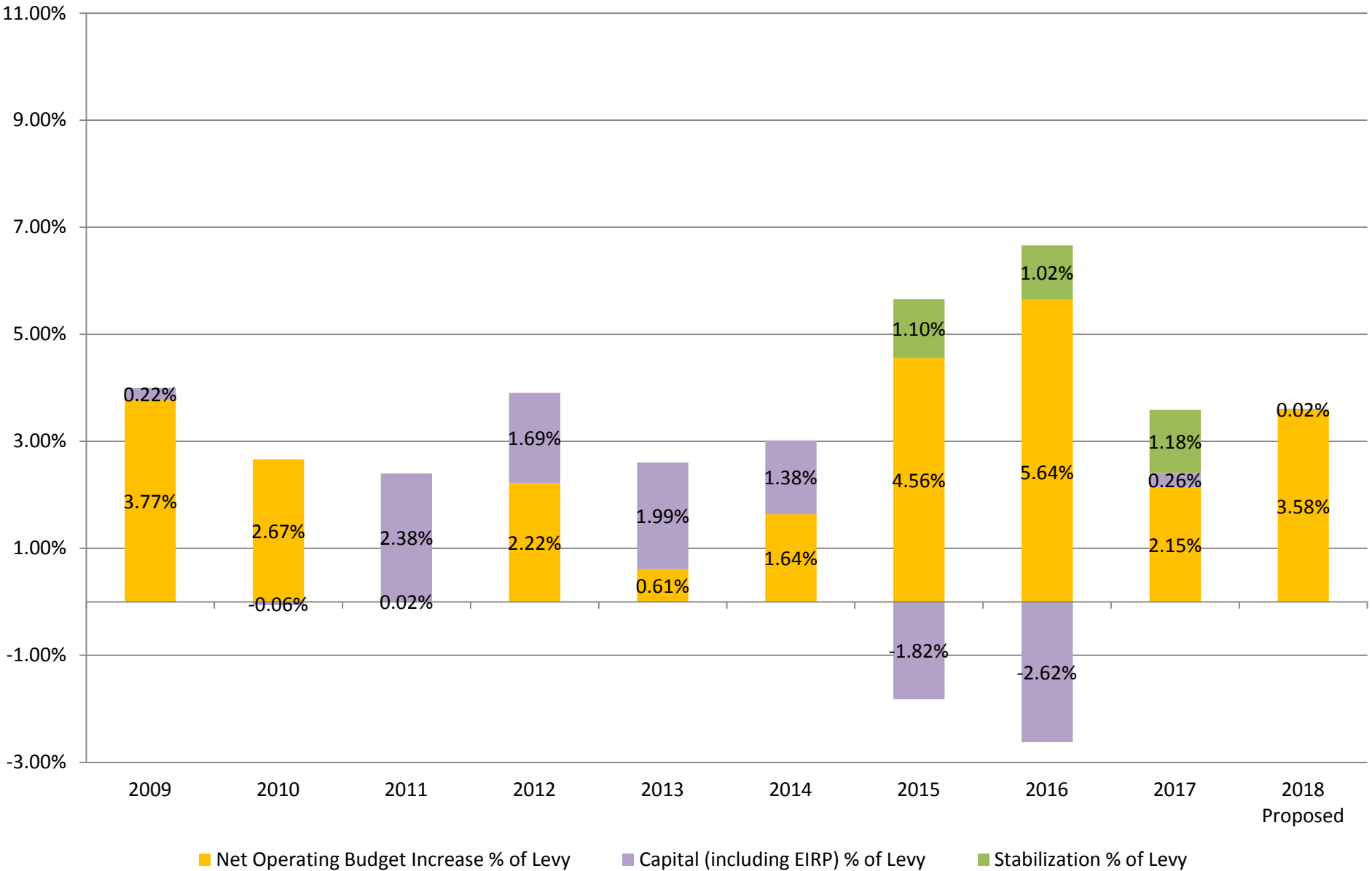
2018 BUDGET OVERVIEW

2018 Proposed Budget Approved Council Direction

- 2018 departmental budgets to come in at 0% increase over 2017 level (not including wage increases)
- Identify efficiencies and opportunities for cost containment without service level reductions
- Expansions reviewed and minimized
- Review all corporate accounts for reductions
- Savings target from budget directions of \$1.6 million
- Maintain current level of capital out of revenue

2018 Budget Key Drivers	\$ Municipal Tax Levy Increase (\$000s)	% Change in Total Municipal Tax Levy	Comments
Base Increase	\$ 4,583.6	2.48%	Mainly wages and changes to outside boards
Decreased Provincial Grant	\$1,780.7	0.97%	Ontario Municipal Partnership Fund
Impact of Ontario's Bill 148	\$1,077.1	0.59%	Fair Workplaces, Better Jobs Act, 2017
Solid Waste Diversion to Tax	\$550.0	0.30%	Year 2 of transition from rate supported
EMS Service Expansion	\$506.6	0.28%	
Other Significant Expansions	\$632.6	0.34%	
Total Before Reductions	\$9,130.6	4.96%	
Provincial Uploads	(\$743.7)	(0.40%)	DSSAB & Police
Increased Other Revenue	(\$407.4)	(0.22%)	Interest income, Mckellar Mall
Significant Expenditure Reductions	(\$1,342.0)	(0.73%)	
Municipal Tax Levy Increase Before Growth	\$ 6,637.5	3.61%	
Taxable Growth	(\$ 1,300.0)	(0.71%)	
Total Municipal Tax Levy Increase Net of Growth	\$ 5,337.5	2.90%	

City of Thunder Bay Municipal Tax Levy % Change How Spent



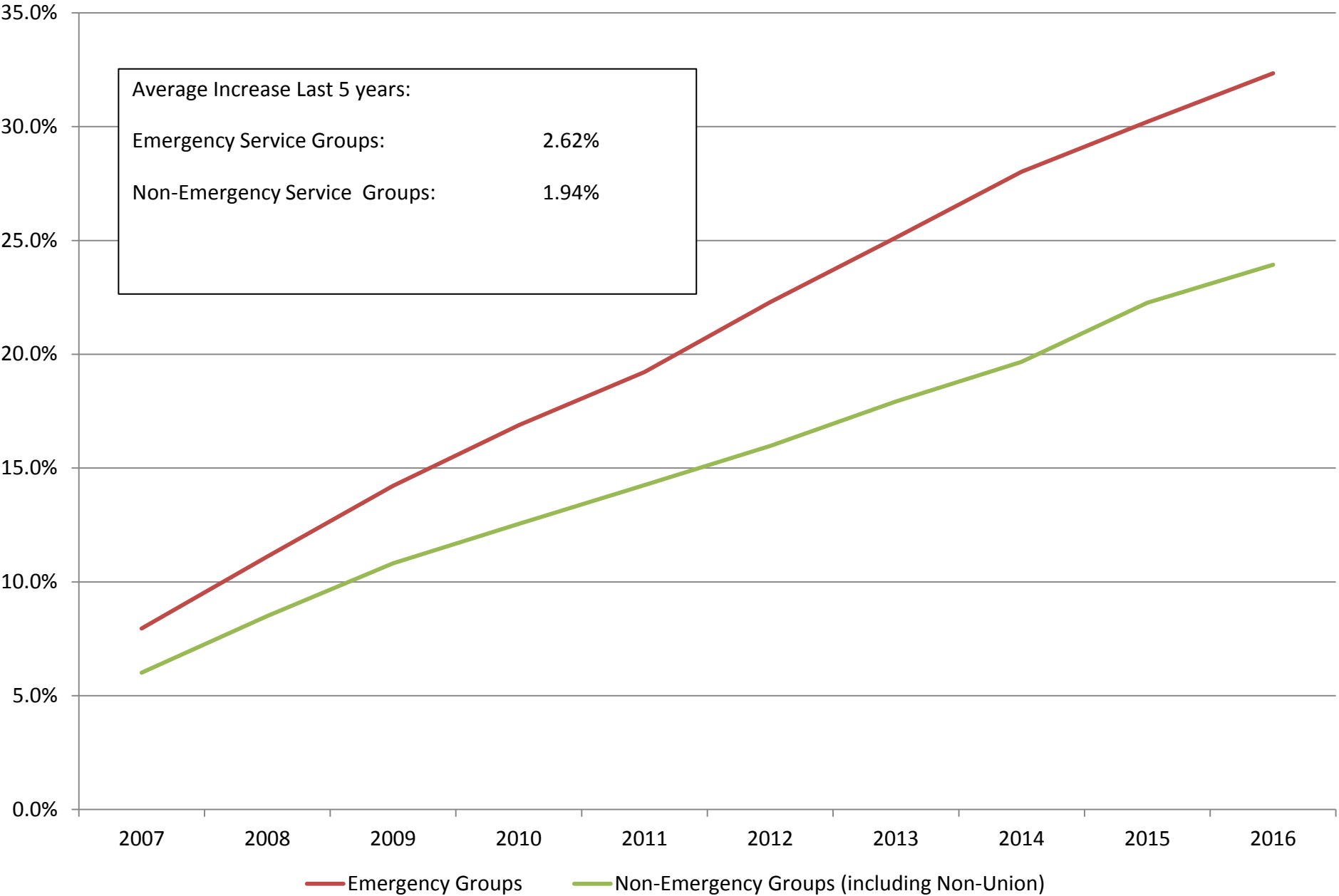
Tax Supported Surplus (Deficit) History

- 2012 (\$1.3M) Unfavourable Variance
- 2013 (\$6.8M) Unfavourable Variance
- 2014 (\$3.6M) Unfavourable Variance
- 2015 \$1.0M Favourable
- 2016 \$2.7M Favourable
- 2017 \$2.8M Favourable (Projected)

Cost Containment/Deficit Management Reduction (Tax Supported)

- 2012 - \$1.3 million (Report No. 2012.111)
- 2013 - \$1.4 million (Report No. 2013.101)
- 2014 - \$1.7 million (Report No. 2014.079)
- 2015 - \$0.5 million (Report No. R138/2015)
- 2016 - \$3.0 million (Report No. R136/2016)
- 2017 - \$2.8 million (Included in Budget)
- 2018 - \$1.7 million (Included in Proposed Budget)
- Total \$12.4 million from 2012 to 2018

Cumulative Wage Increases Emergency vs Non Emergency Services



City of Thunder Bay

Municipal Tax Levy % Change

YEAR	% CHANGE	% Net Growth	% CHANGE
	Before Growth		Net of Growth
2009	4.00%	0.07%	3.93%
2010	2.60%	0.68%	1.92%
2011	2.40%	0.41%	1.99%
2012	3.91%	0.70%	3.21%
2013	2.60%	0.72%	1.88%
2014	3.02%	1.33%	1.69%
2015	3.83%	0.65%	3.18%
2016	4.04%	1.94%	2.10%
2017	3.59%	0.46%	3.13%
2018*	3.61%	0.71%	2.90%
10 Year Average	3.36%	0.77%	2.59%

* Proposed 2018 Municipal Tax Levy Increase

2018 Proposed Budget

What do my municipal taxes pay for?

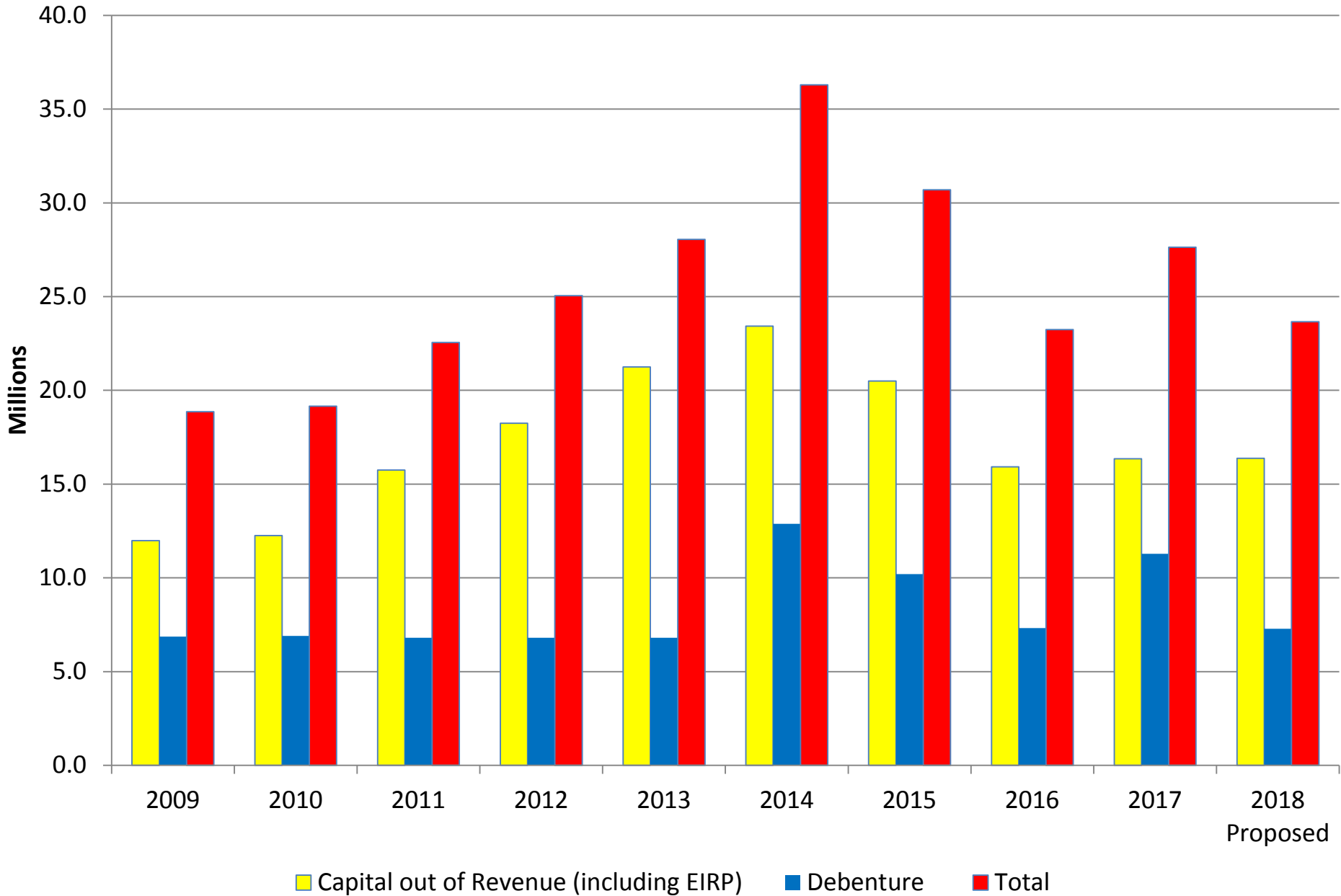
	\$ Annual	
Public Safety (Police, Fire, EMS)	339	Public Safety and Public Works is 53% of total
Public Works (ex. Roads, Transit, Waste Collection, Facilities, Fleet)	192	
Parks, Recreation, Tourism	92	
Administration (including City Council)	72	
Outside Boards & Agencies (excluding Police, DSSAB)	69	
Social Services (DSSAB)	69	
General Corporate	59	Per \$1,000 of municipal tax levy
Debenture payments (Capital Projects)	54	
Long Term Care and Senior Services	21	
Development Services (Planning and Building)	17	
Legislated / Tax Rebate Programs	16	
TOTAL CITY SERVICES	\$1,000	

Questions ?

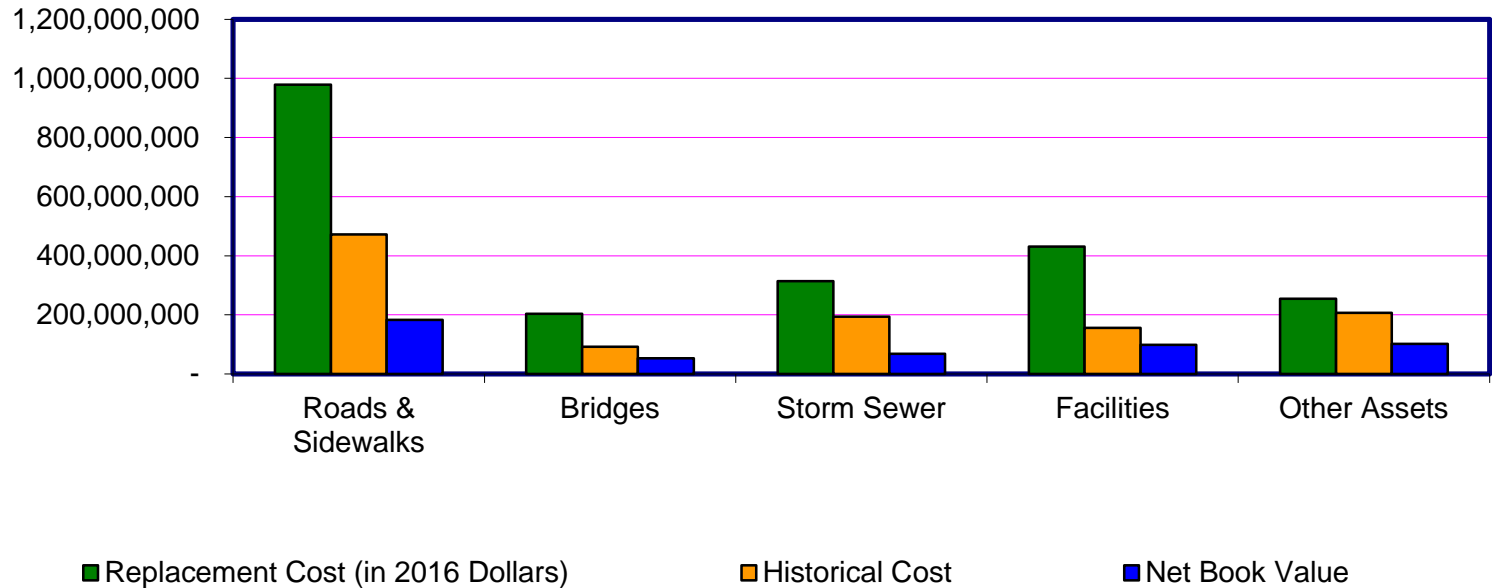
INFRASTRUCTURE AND INFRASTRUCTURE DEFICIT

Tax Supported Capital

Capital out of Revenue and Debenture Financing



Tax Supported Assets Replacement Cost, Historical Cost and Net Book Value December 31, 2016



Annual Infrastructure Deficit – 2017 Tax Supported (in millions)

Asset Category	Average Annual Investment Required	Total 2017 Funding (Tax, Gas Tax, OCIF, Reserves, Debt)	2017 Deficit
Roads	\$15.6	\$13.1	\$2.5
Sidewalks	4.6	1.3	3.3
Bridges & Culverts	3.7	0.1	3.6
Storm Sewers	6.3	1.6	4.7
Facilities	8.7	4.2	4.5
Fleet	7.8	5.4	2.4
Land Improvements	4.5	3.6	0.9
Machinery & Equipment	6.2	4.2	2.0
Total	\$57.4	\$33.5	\$23.9

- 2016 annual infrastructure deficit was \$27.5 million
- The infrastructure deficit currently only incorporates renewal of existing assets (ex. not planned road network improvements or new facilities)

Strategy to Eliminate Tax Supported Infrastructure Deficit

Projected to be eliminated in 12 years by:

- All Federal and Provincial Gas Tax and OCIF funding dedicated to tax supported capital renewal
- Maintain tax supported borrowing at current levels
- Reinvesting net savings in debt services costs related to maturity of debt
- Minimal tax supported capital increases in 2018 and 2019, and an increase of \$2.2 million in 2020 consistent with 3 year proposed capital budget submissions
- Beyond 2020: further increases in tax supported capital to the extent possible while maintaining a 3.0% municipal tax levy increase net of growth

Annual Infrastructure Deficit – 2017 Rate Supported (in millions)

Asset Category	Average Annual Investment Required	Total 2017 Funding (User Fees, Reserves, Debt)	2017 Deficit
Water Distribution	\$14.3	\$8.5	\$5.8
Sanitary Sewer	16.3	8.1	8.2
Total	\$30.6	\$16.6	\$14.0

- 2016 annual infrastructure deficit was \$10.4 million
- The infrastructure deficit currently only incorporates renewal of existing assets

The deficit is projected to be eliminated in 17 years for Water Distribution and 22 years for Sanitary Sewer by following the financial strategies laid out in the respective Financial Plans.

New Asset Management Plan Regulation

- Came into force Jan 1, 2018
- First province to regulate
- Phased implementation deadlines 2019 to 2024.
- Purpose:
 - Greater standardization and consistency
 - Improve comprehensiveness
 - Provincial tool for allocating grant funding
- Key components:
 - Policy & governance structure
 - Full lifecycle costing
 - Current & proposed levels of service tied to affordability and sustainability
 - Consider climate change, municipal plans, growth, risks

DEBT & RESERVE FUNDS

Debt Management Strategy

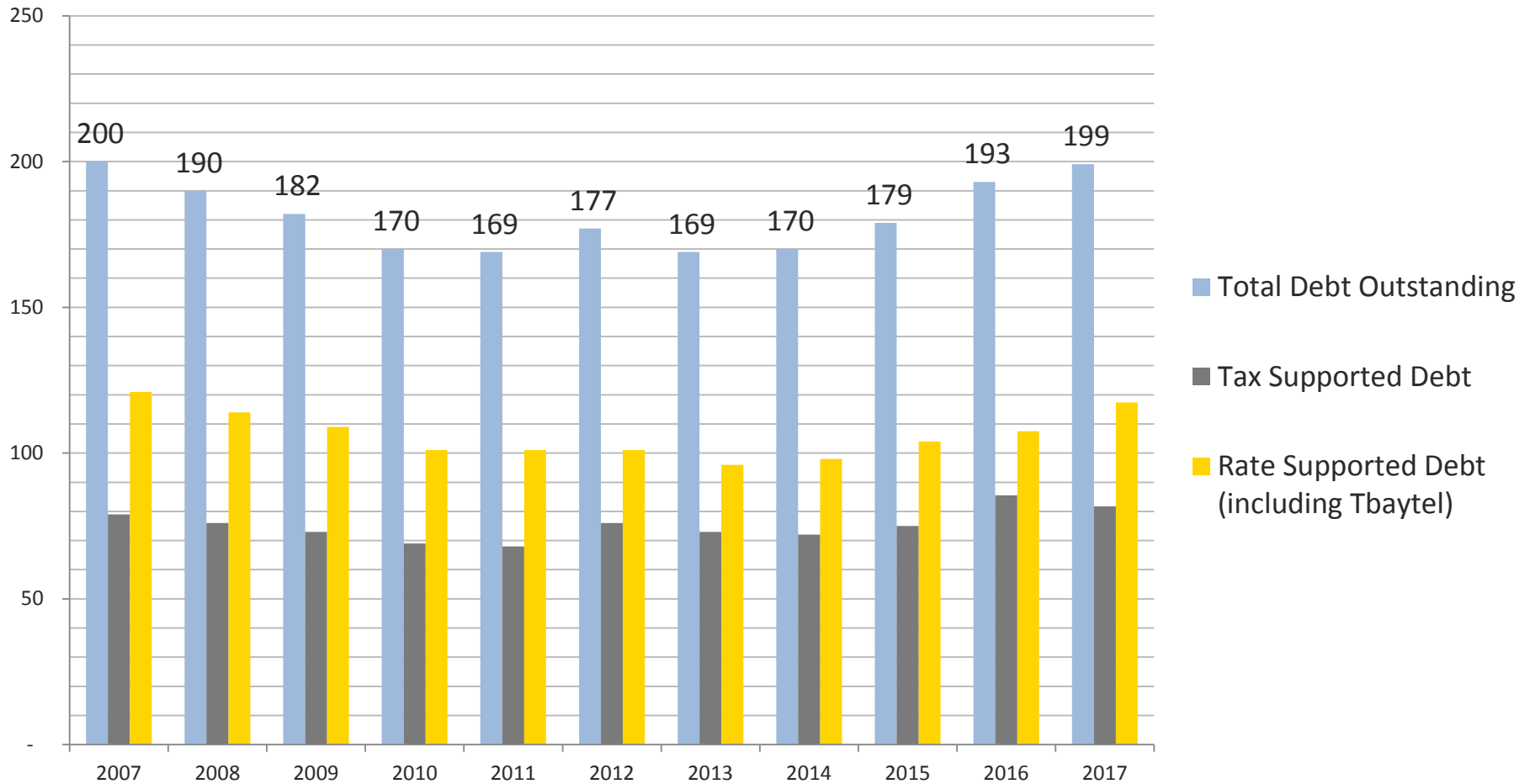
- Key components of Debt Management Strategy
 - Reinvest debt servicing savings into Capital
 - Borrowing level adjusted annually for inflation
 - Establish debt service target ratios
 - Long term financial plans for Wastewater and Solid Waste
 - Additional debenture financing for major capital (new non-recurring and significant, large legacy and special projects – multi-generational and/or generate significant long term economic growth)

Debt Service Ratios

<u>Debt Service Ratio</u>	<u>2015 Actual</u>	<u>2016 Actual</u>	<u>Maximum Limit (Note 1)</u>
	%	%	%
Overall	5.6	5.7	10.0
Tax	4.9	4.9	7.5
Water	22.6	23.9	26.0
Wastewater	21.6	21.3	30.0

Note 1: Maximum Limits per Debt Management Strategy

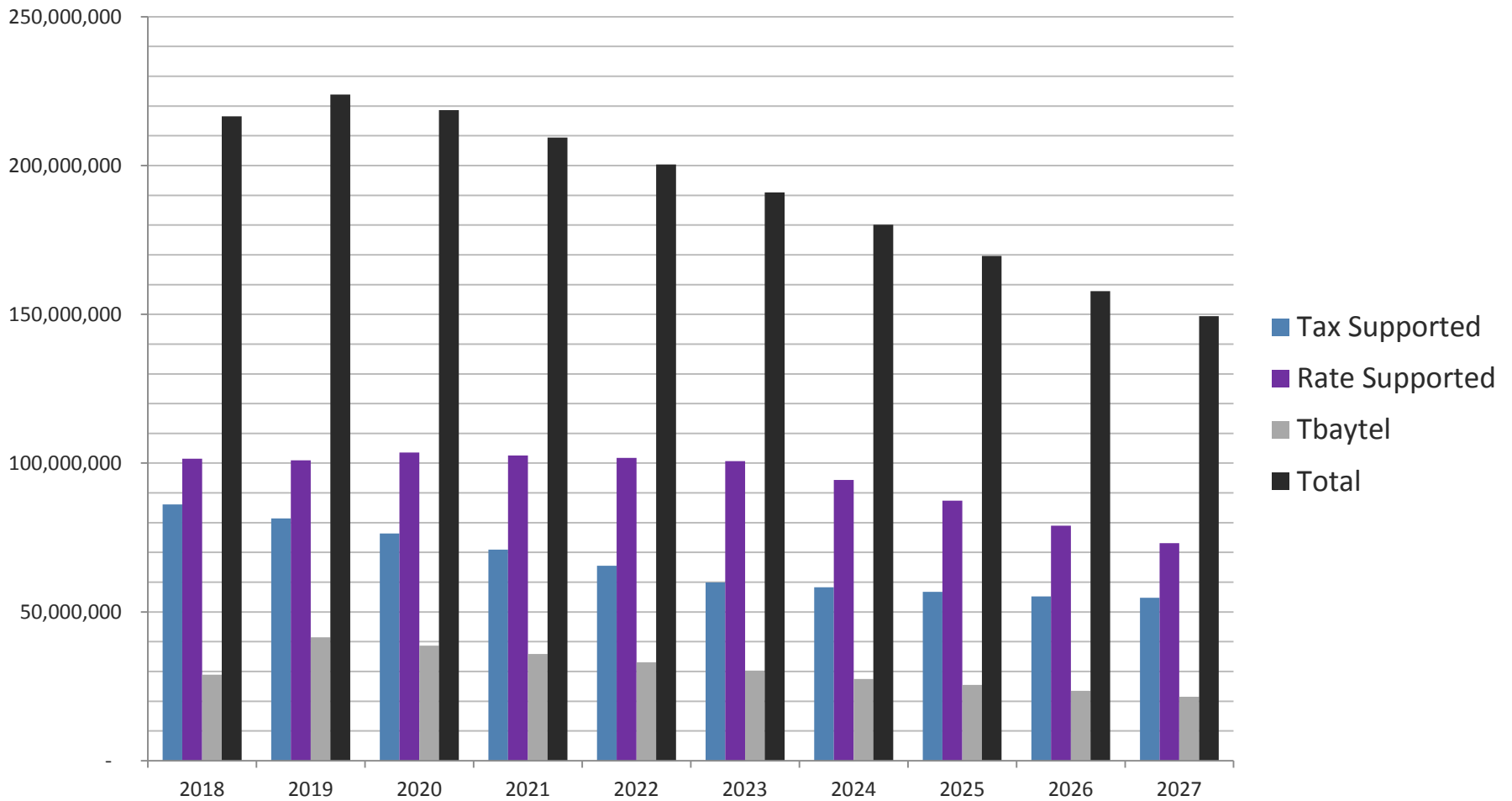
Total Debt Outstanding In \$millions



Debenture Balance

	Outstanding at December 31, 2016	Outstanding at December 31, 2017
Tax Supported	\$85,345,915	\$81,682,746
Wastewater	\$38,230,020	\$34,763,715
Water	\$62,745,774	\$66,997,755
Tbaytel	\$6,400,000	\$15,600,000
Total Outstanding Balance	\$192,721,709	\$199,044,216

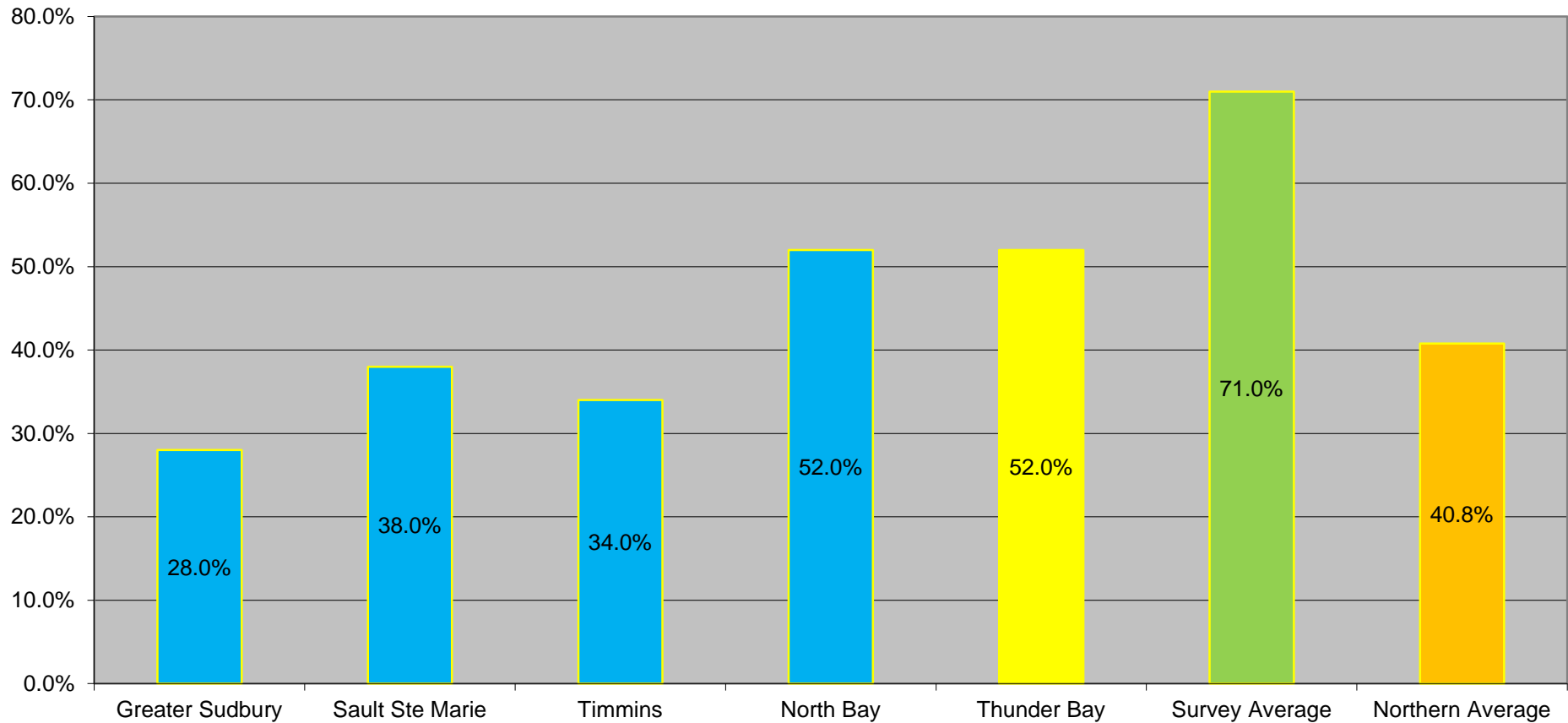
Total Projected Long Term Debt 2018 to 2027



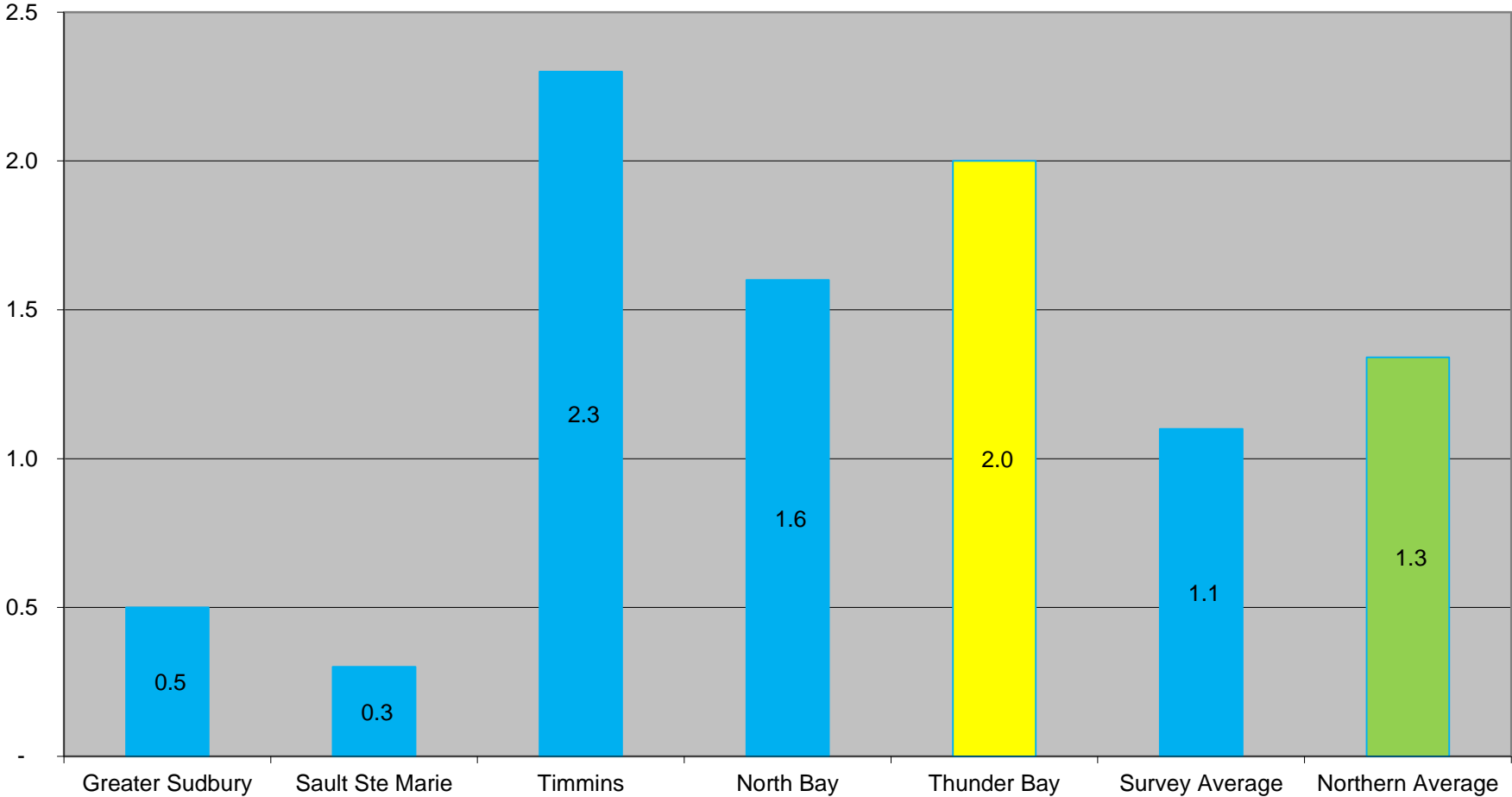
Purpose of Reserve Funds

- Fiscal challenges
- Financing for one-time or short-term requirements
- Leverage government funding
- Internal financing
- Acquisition of capital assets
- Future liabilities
- Ensure adequate cash flows

Tax Discretionary Reserves as a % of Taxation (BMA Municipal Study 2017)

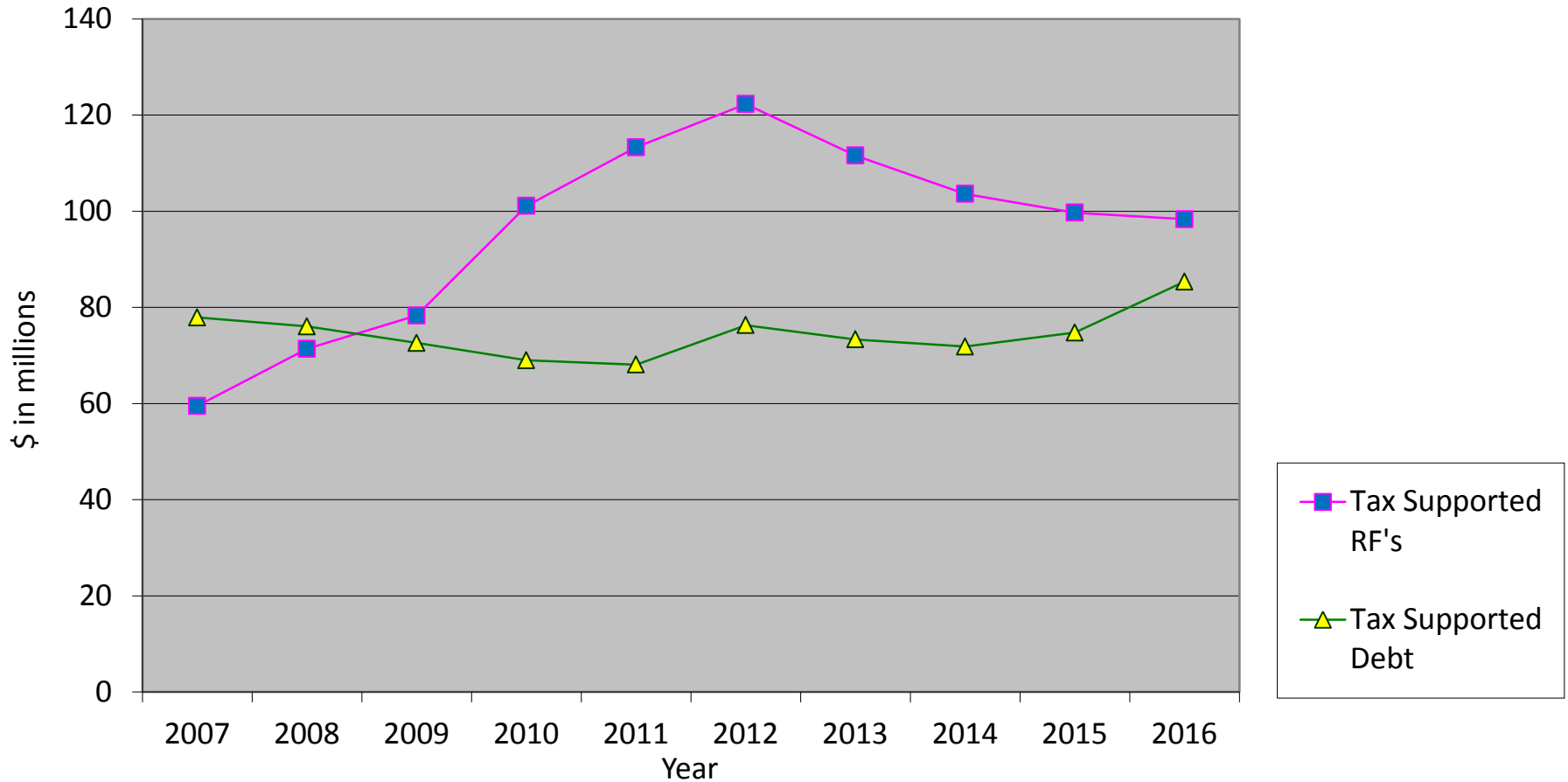


Ratio of Total Debt to Total Discretionary Reserves (BMA Municipal Study 2017)



Debt vs Reserve Funds

Tax-Supported



- For every dollar in Tax Supported Reserve Funds the City has \$0.87 in Tax Supported Debt
- Including commitments - \$1.10

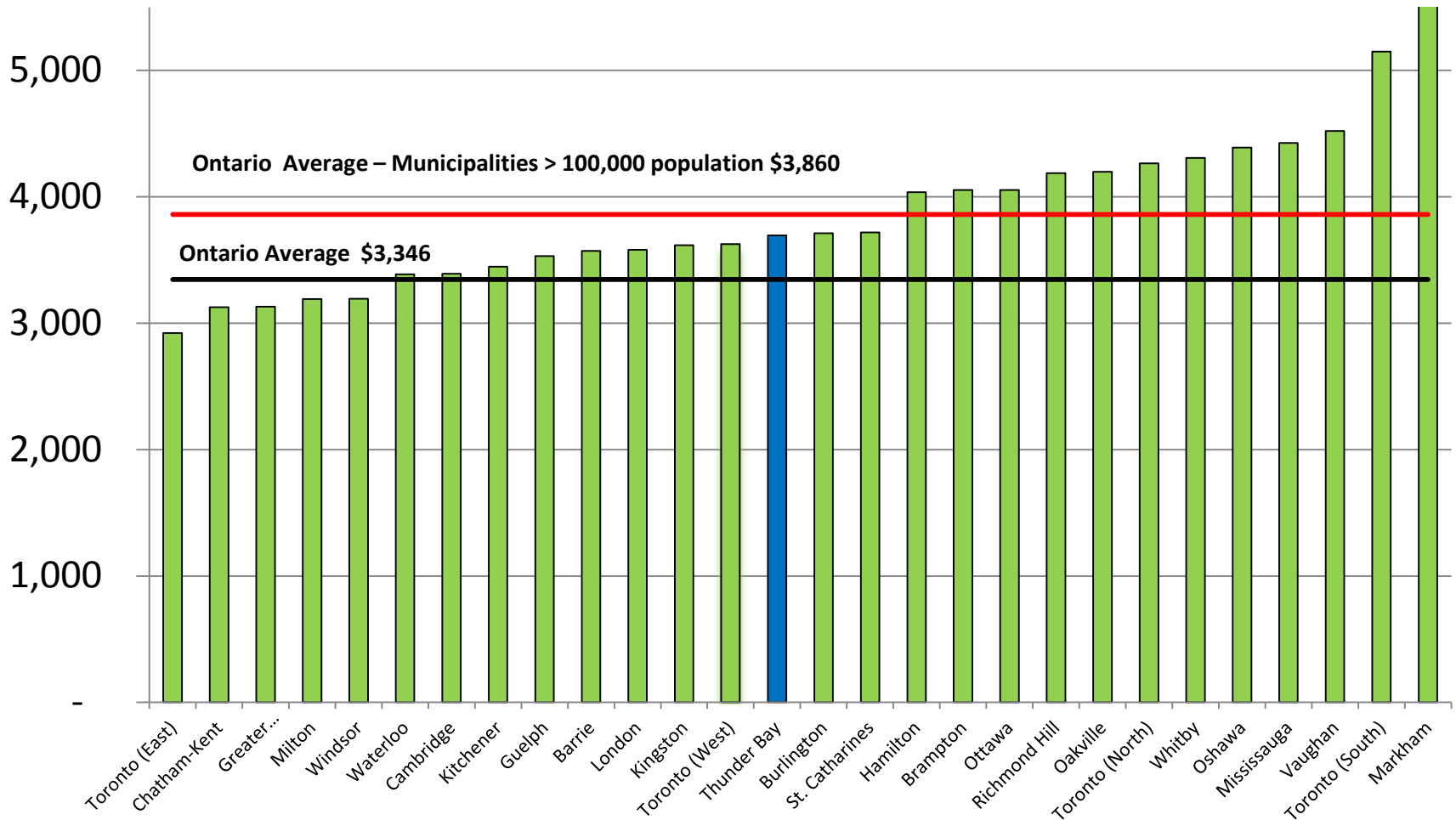
Questions ?

BMA STUDY 2017 – TAXATION AND AFFORDABILITY

Residential - Single Family Detached Bungalow

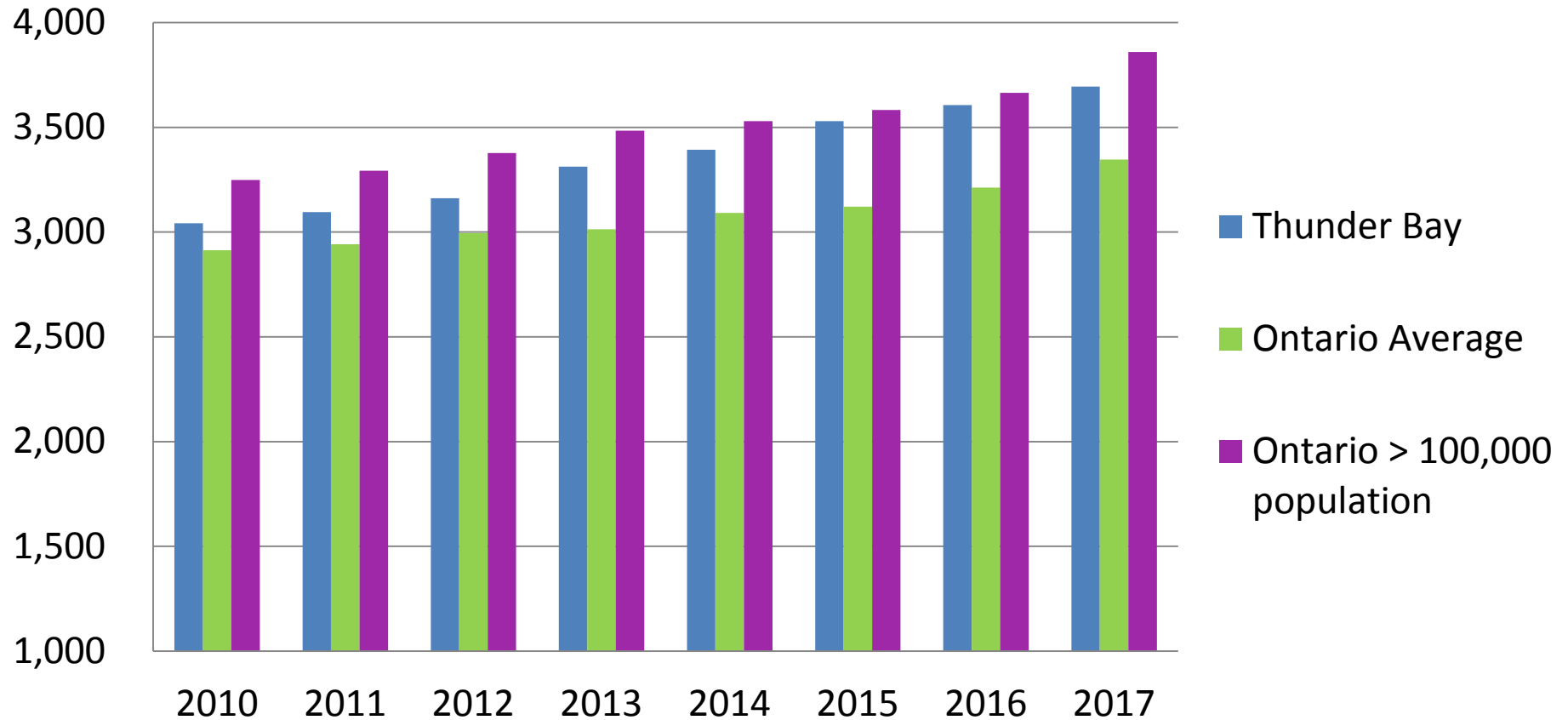
2017 Municipal Tax Per Household

Municipalities > 100,000 population



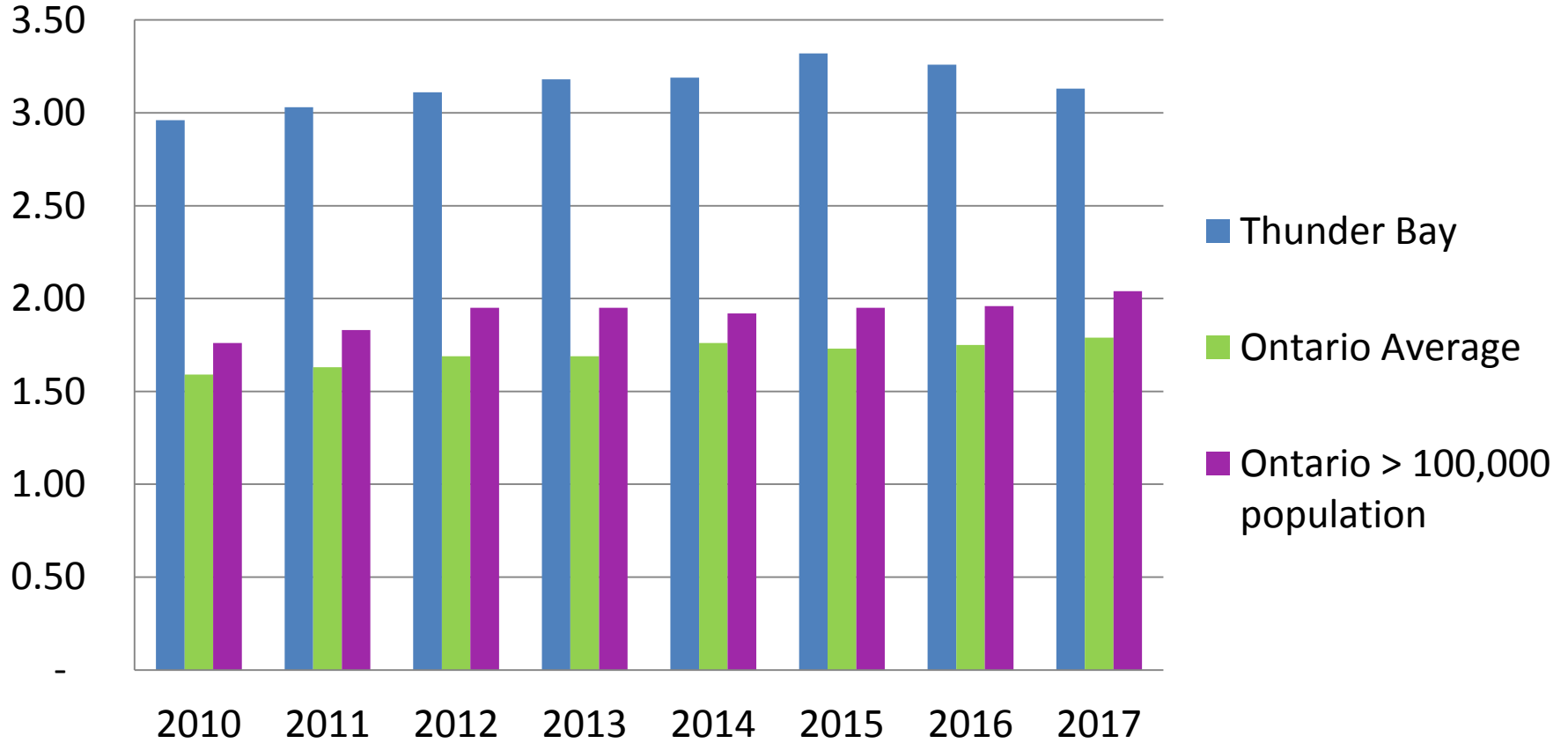
Source: BMA Municipal Study – 2017 (Thunder Bay 3,695)
 Ontario Average includes all Municipalities participating in 2017 BMA Study (102 municipalities)

Residential Single Family Detached Bungalow Municipal Tax Per Household (2010-2017) BMA Municipal Study



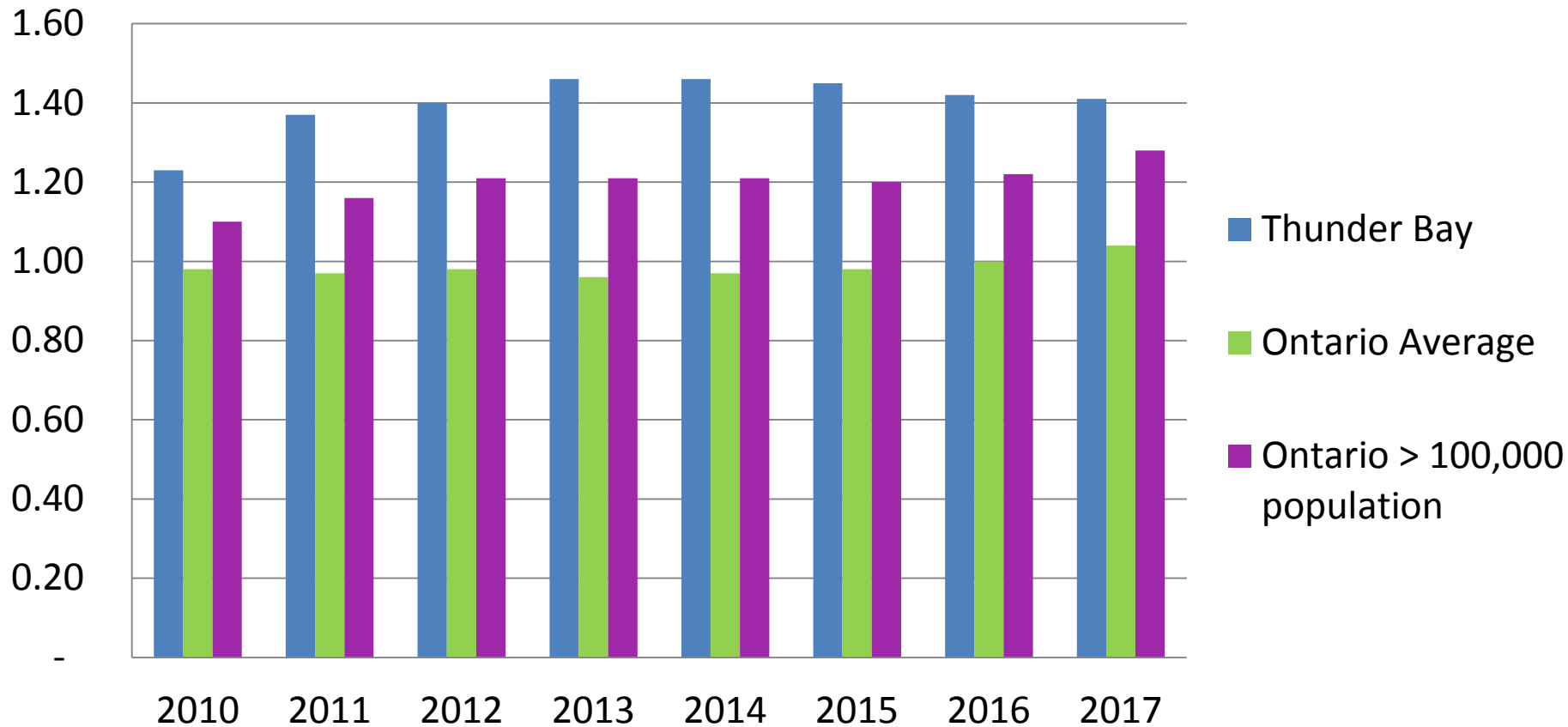
- Detached 3 bedroom single story house with 1.5 bathrooms and a one car garage
- Total area of house of approximately 1,200 sq. ft.
- Lot size of approximately 5,500 sq. ft.
- Weighted Median Value of a dwelling of \$196,457 in Thunder Bay for 2017

Commercial – Office Buildings Municipal Tax Per Square Foot (2010-2017) BMA Municipal Study



Source: BMA Municipal Study - 2017

Industrial-Standard Industrial Municipal Tax Per Square Foot (2010-2017) BMA Municipal Study



Source: BMA Municipal Study - 2017

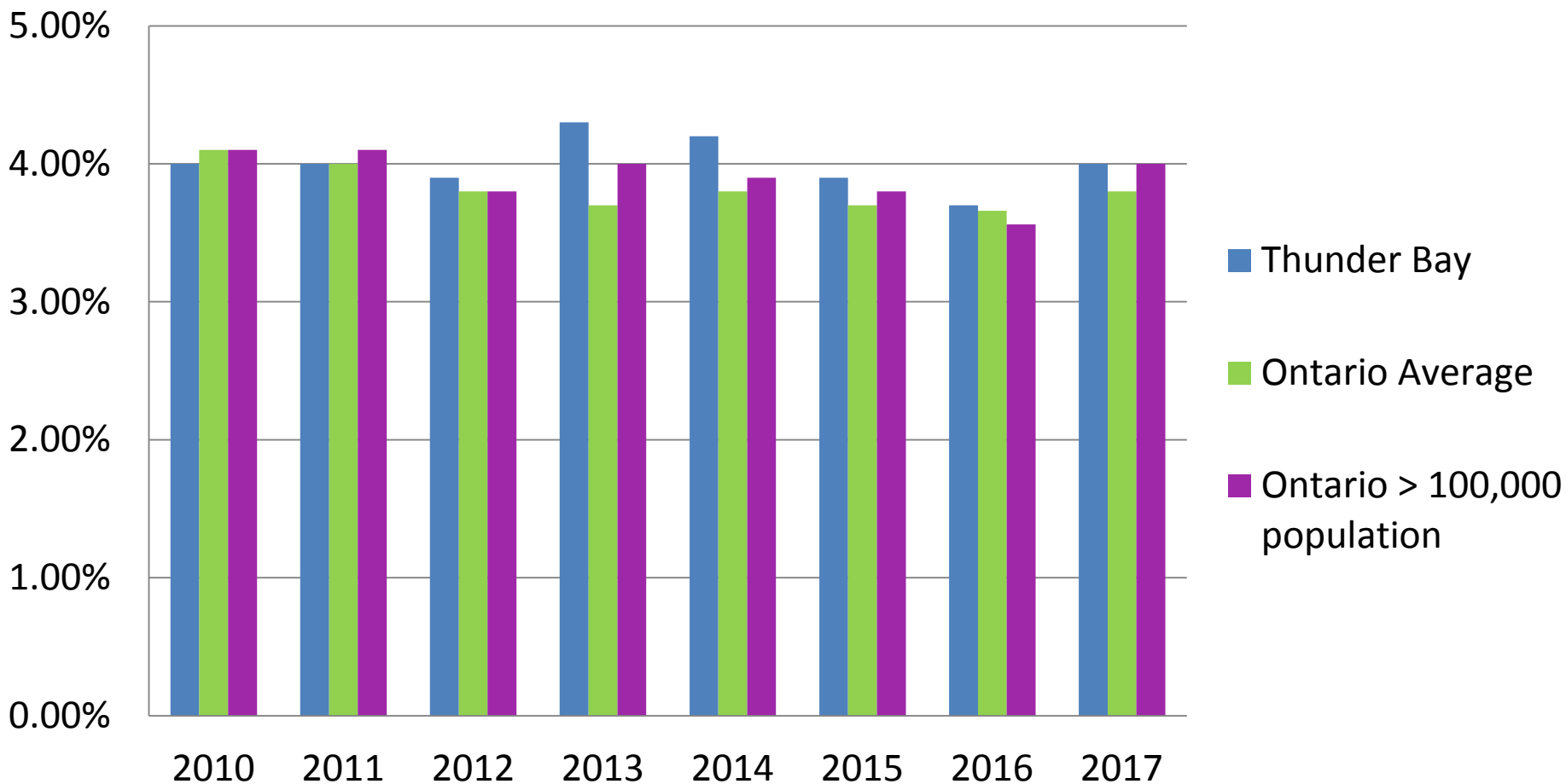
Affordability

	2017 Median Value of Dwelling	2017 Estimated Average Household Income	Median Value of Dwelling to Average Household Income
	\$	\$	
Thunder Bay	196,457	83,338	2.4
Ontario Average	334,505	101,143	3.3
Ontario Average > 100,000 population	388,564	102,718	3.8

Source: BMA Municipal Study 2017

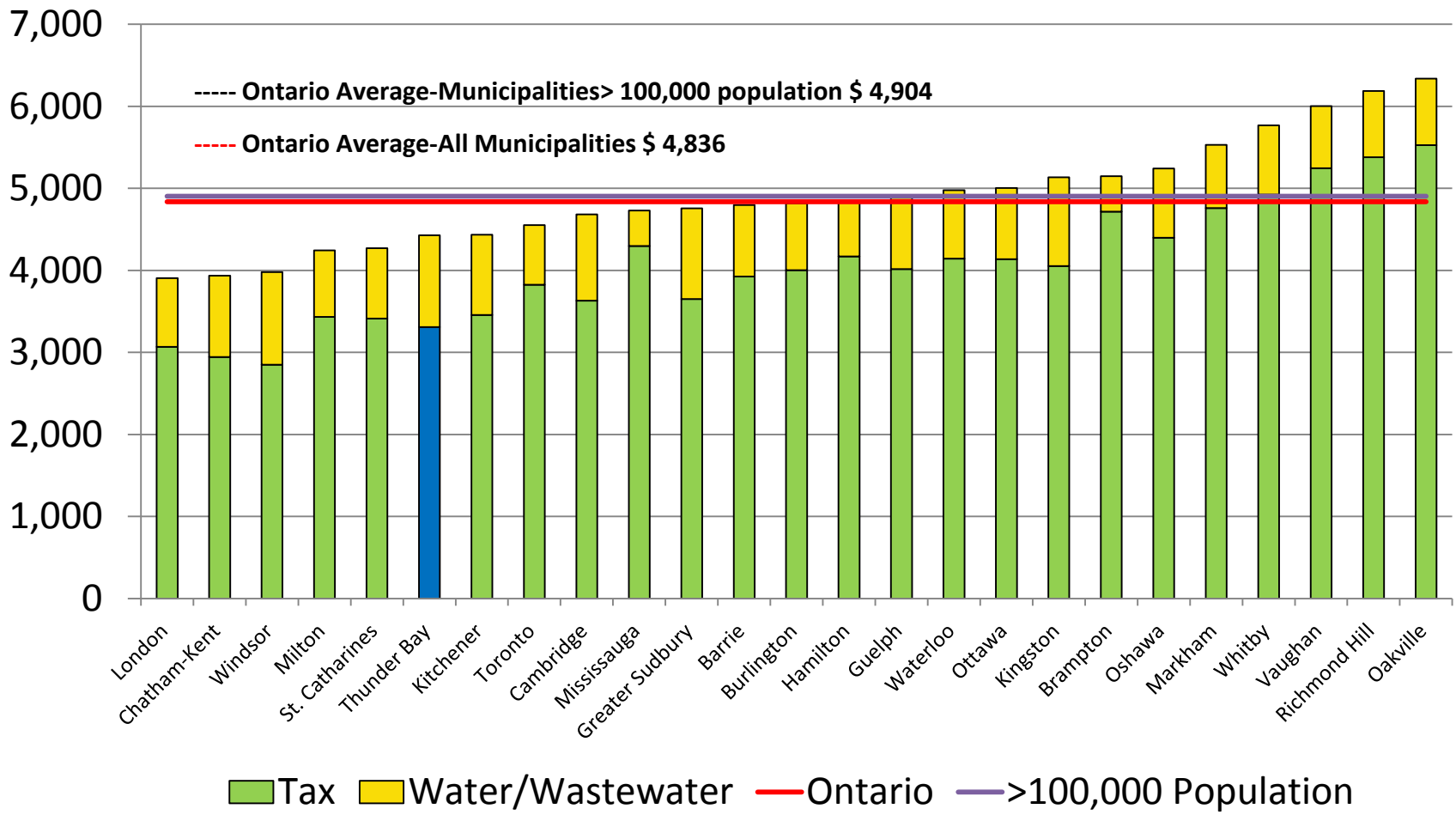
Property Taxes as % of Income (2010-2017)

BMA Municipal Study



- Thunder Bay is 43rd out of 102 Ontario municipalities in 2017
- Thunder Bay is 12th out of 25 Ontario municipalities in 2017 (>100,000 population)

Average Municipal Tax, Water/Wastewater Burden Per Average Household - 2017 BMA Municipal Study Municipalities > 100,000 population



*2017 BMA Study – Weighted Median Value of Dwelling-Thunder Bay \$196,457
& average annual water consumption of 200 m³*

ECONOMIC ENVIRONMENT

By the Numbers

- Unemployment Rate – 6.3% (Dec 2017) {Canada – 5.7%; Ontario 5.5%}
- Overall Vacancy Rate (apartments) – 3.2% (CMHC –Outlook Fall 2017)
- Major Employers:

Top Public Sector

Thunder Bay Regional Health Sciences Centre	Acute Care Hospital	2,824
Lakehead District School Board	Elementary & Secondary Education	2,200
St. Joseph's Care Group	Complex Care, Rehabilitation, Mental Health & Addiction Services, Long Term Care	2,200
Lakehead University	Education	2,100

Top Non-Retail/Industrial/Service Sector

Bombardier Transportation	Mass Transportation Equipment Manufacturing	1,100
Resolute	All Operations	642
Tbaytel	Telecommunications	400

International Students:

- Lakehead University over 1000 international students from more than 60 countries (2017)
- Confederation College over 600 international students from more than 30 countries (2017)

Projected Economic Impact Mining Sector in NWO (2016-2021)*

Possible economic impacts listed below, but metal prices will slow the development of these projects

- PRODUCING MINE
- MAJOR EXPLORATION PROJECT
- TOWN/CITY

MAP

#	PROJECT NAME
1	ALBANY GRAPHITE DEPOSIT
2	BLACK THOR
3	BROOKBANK
4	CAMERON
5	COCHENDOUR
6	EAGLES NEST
7	GEORGIA LAKE
8	GOLDLUND
9	GOLLAH
10	GRIFFITH
11	HAMMOND REEF
12	HAEDROCK
13	HASAGA
14	JINOR LAKE
15	BLACK HORSE
16	MADSEN
17	MARATHON PGM
18	MOSS LAKE
19	PAK LITHIUM
20	PRIDONX
21	PICKLE CROW
22	SAINY RIVER
23	RING OF FIRE
24	ROD LAKE
25	SEPARATION RAPIDS
26	SEYMOUR LAKE
27	SPRINGPOLE
28	SUGAR TONE
29	THERRY
30	THUNDER BAY NORTH
31	VICTOR EXTENSION
32	WESTERN LAKE ST. JOSEPH



- 4-7 new mines
- Estimated life 8-20 years
- 631 Kilometers road construction required
- 363 Kilometers transmission construction required
- 774.2 Megawatts power required
- 2,450 construction jobs created
- 2,018 operational jobs created
- 285 employees residing in Thunder Bay (42% of the 680 employee workforce) –Thunder Bay workers employed at Thunder Bay Office and at mine site for Goldcorp Musselwhite

*Industry statistics compiled as at December 1, 2017, for CEDC

*Current employment levels at the 4 existing mines (Red Lake, Musselwhite, Lac des Iles, Williams) is 3,142 employees

Major Economic Developments

- The East-West Tie transmission project
 - 450km, \$777 million line
 - Equity stake for 6 First Nations
- Thunder Bay Regional Health Sciences Centre - Cardiovascular Surgery Program
 - 70 new full-time jobs
- Noront Ferrochrome Processor
 - One of 4 Northern Ontario Cities bidding
 - Partnership with Fort William First Nation

Forecasted Additional Assessment (Growth)

- Delta Hotel
- Hotel – Conversion of Camelot Street Courthouse
- Winners/Home Sense (Thunder Centre)
- Kentucky Fried Chicken (across from Intercity Shopping Mall)
- Condo – Thunder Bay Country Club (101 units)
- Condo – Fountain Hill (24 units)
- Condo – former Hillcrest High School – Phase 2 (15 units)
- Office building – Balmoral Street
- Apartment building – 248 Algoma St. (12 units – Phase 3)
- Apartment building – 210 Algoma St. (24 units)
- Apartment building – John Street (28 units)
- Apartment building – Royston Court (24 units)
- Apartment buildings – Leslie Ave (63 and 54 units)

City of Thunder Bay Economic Environment

■ CMHC – Thunder Bay (Fall 2017 update)

- Total housing starts were expected to increase in 2017 and decline in each of 2018 and 2019
- Driving the increase in 2017 are multi-unit housing starts
- Existing home market expects price growth that is slightly above the rate of inflation
- Weaker Cdn \$ good for export segment of Northwestern Ontario and should deter out-shopping
- Economic benefits arising from mining remain weak due commodity markets

■ S & P Global

- rating for City upgraded to AA stable

FINANCIAL PROJECTIONS 2019 - 2023

Nature of Projections

- Assist in future planning
- Future economic climate a factor
- Actual results will vary from projection – examples from past years
 - Legislative changes
 - Fluctuations in commodity prices
 - Arbitration & wage settlements
 - Funding from Canada and Ontario
 - Growth

Projected Municipal Tax Levy Increase

	Total	Net of Growth
2019	5.03%	4.50% [1]
2020	4.75%	4.15% [2]
2021	3.57%	3.00% [2]
2022	3.55%	3.00% [2]
2023	3.53%	3.00% [2]

[1] – Based on estimated annual growth of \$1.0 million

[2] – Based on estimated annual growth of \$1.2 million

Assumptions – Operating

- No changes in service levels or complement
- Removal of 2018 proposed one time items
- Inflationary increases from 0% to 2.5%, excluding insurance premiums
- OMPF grant expected to decline in 2019 and then become stable
- No changes in service levels related to Boards
- Debenture payments increase based on previous approved borrowing and projections for future borrowing

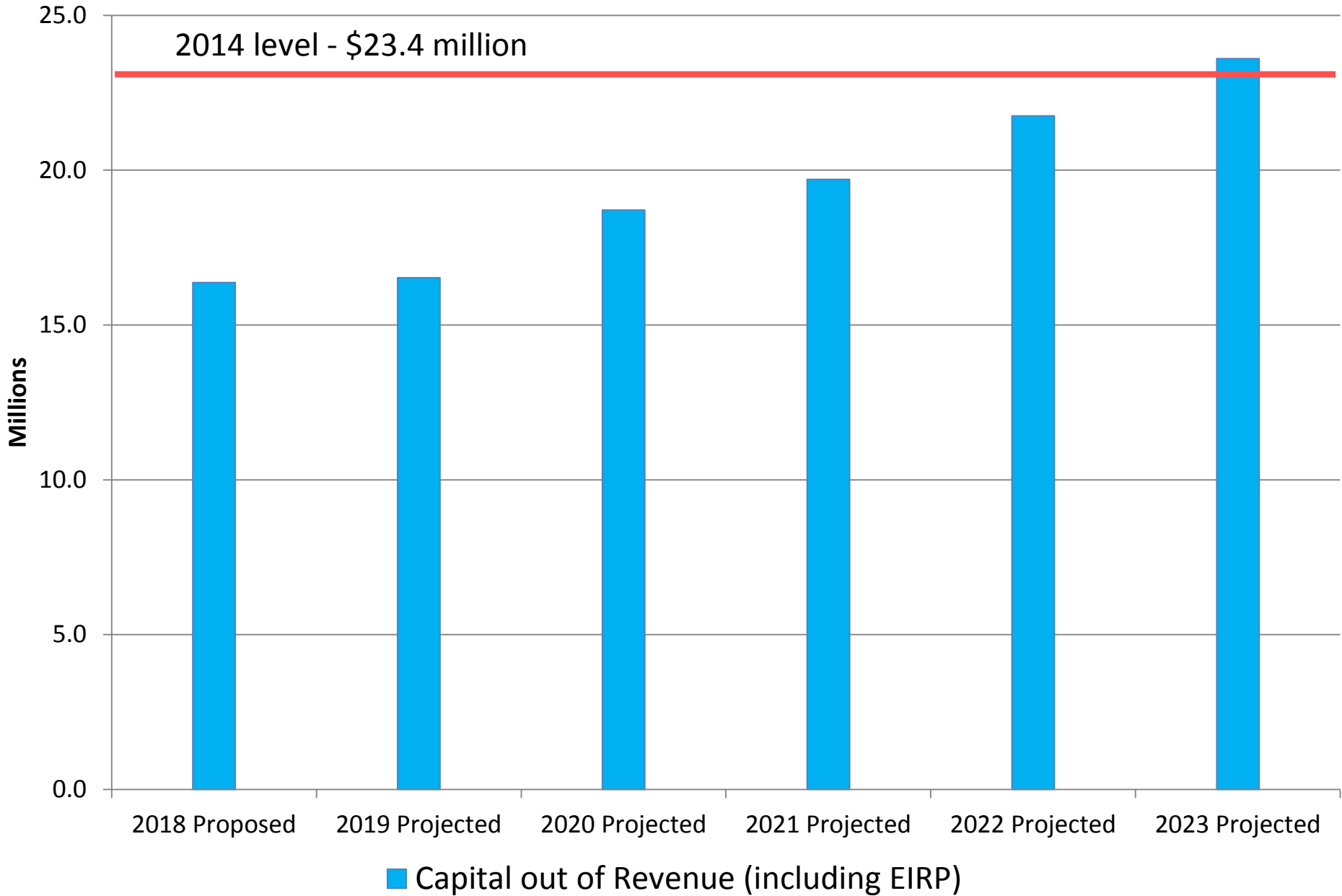
Assumptions – Operating (Cont'd)

- CPP Reform Introduced
- Bill 148 Additional impacts
- Solid Waste (Waste Diversion into Tax)
- Reserve Fund contributions increased modestly
- Implementation of Watercourse/River Safety Audit recommendations

Assumptions – Capital

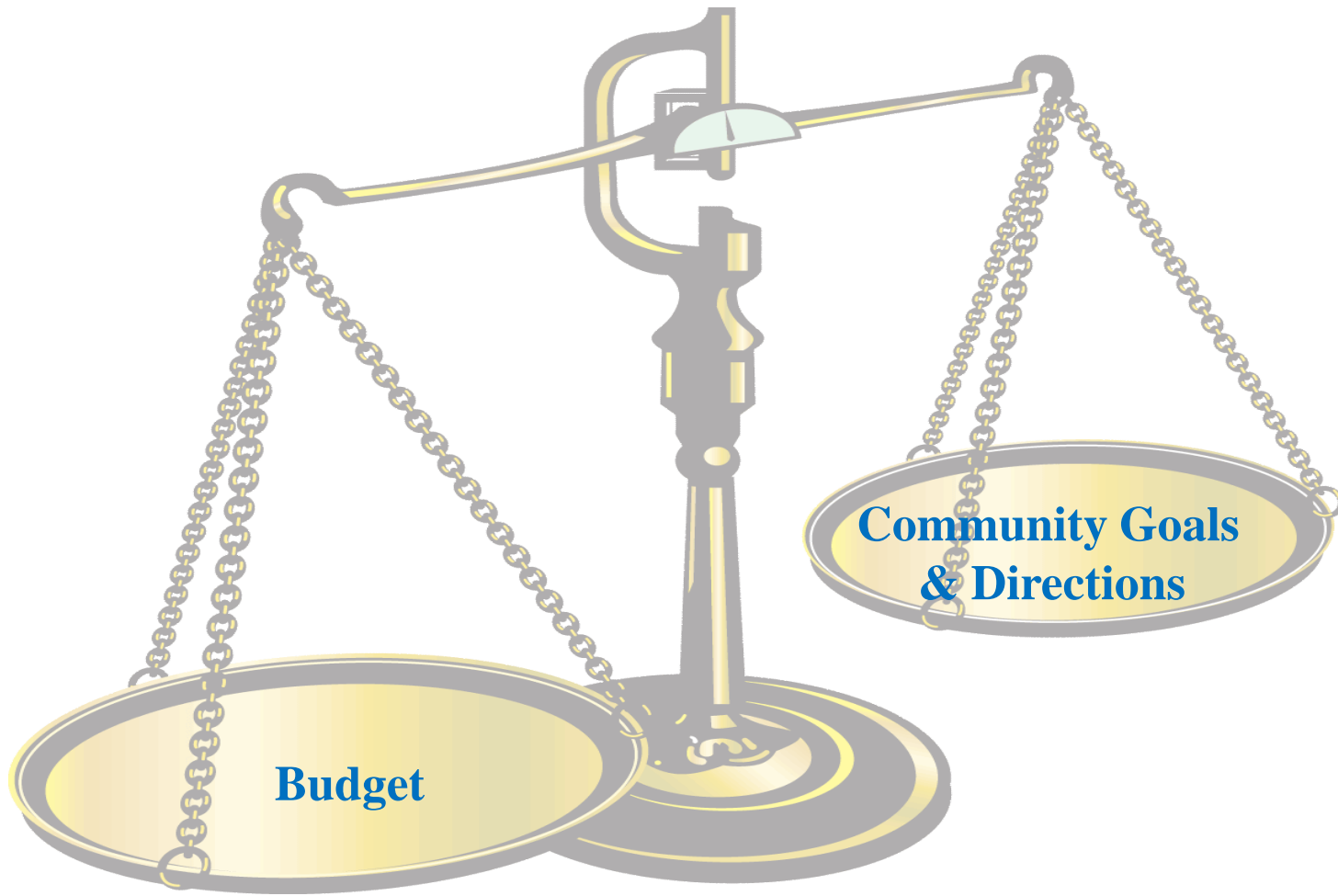
- Capital out of revenue increases returning to 2014 levels by 2023
- Annual debenture borrowing consistent with 2018 proposed level for 2019 and 2020 of \$7.3 million and thereafter increased annually by 2.5%
- No new special one time tax supported borrowing
- Future debt repayment over 10 years @ 4.0%
- Reinvesting net savings in debt services costs related to maturity of debt into capital

Tax Supported Capital out of Revenue Projected 2018 - 2023



2019 – 2023 Future Directions

- Continue to pursue senior government funding
- Support political efforts to reduce municipal costs (e.g. AMO)
- Advocate for tax policy flexibility with Province
- Promote and aggressively pursue assessment growth through economic development
- Explore new budget revenue sources (e.g. User fees, destination marking tax)
- Work closely with Boards and Agencies re: multi year budgeting and restraint
- Ongoing review and assessment of programs and services provided



Questions ?