Strategic Financial Plan 2018-2022

Town of Montreal-West

9/18/2017

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On behalf of Montreal West Town Council and Administration, we are pleased to present our Strategic Financial Plan for 2018–2022.

The Town had its rebirth after demerger in 2006. Over the past decade, it has changed immensely and is facing many challenges and opportunities that did not exist before the forced mergers in 2002. The purpose of the Strategic Financial Plan is to provide a set of guiding principles as Montreal West enters its second post-demerger decade. In the upcoming years, the Town must continue to rebuild its infrastructure and meet residents' needs for high quality services and recreational facilities while adeptly managing the substantial costs involved in their provision.

Accordingly, this Strategic Financial Plan contains six key objectives related to tax rate, tax base, infrastructure, debt, local and regional services, accompanied by actions and approaches to help achieve each of them. It is important to view this as a living document. It is intended to be revisited, refined and validated by future Town Councils to ensure the objectives remain relevant. New objectives may be added as new challenges arise.

This document is a result of the combined efforts of Town Council and Town Administration, with input from residents and staff. The result of this collaboration is a broad-based document that strives to protect, promote and enhance the financial position of Montreal West, with the overall goal of ensuring our little Town remains a vibrant and successful community.

We are particularly proud that Montreal West is one of the very few municipalities in the province to have undertaken the project of outlining a Strategic Financial Plan. While some other jurisdictions in Canada require long-term planning documents, this is not the case in Quebec, and we are pleased to be a forerunner in this venture.

We welcome your suggestions to make this a better document. We all share the goal of ensuring Montreal West remains a very special and flourishing town.

Beny Masella, Mayor

Colleen Feeney, Councillor, Finance

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Introduction

The Town of Montreal West provides services to 5,300 residents as well as 53 businesses and institutions within its boundaries. Changing environments due to economic factors, aging infrastructure and demographic shifts can put pressure on its program and service delivery. Taxpayers may look to the Town to do more with limited resources, but do not have an appetite for tax increases. Annual operating budgets respond to the short-term needs of the community, but they do not adequately address the long-term challenges a town may face in order to sustain or enhance those services in the future.

A Strategic Financial Plan (SFP) on the other hand looks at the financial situation of a municipality from a longer planning perspective, attempting to identify and manage risk in order to ensure its future financial sustainability. As such, an SFP helps guide the Town's overall budgetary strategy, and provides a framework for making financial decisions and allocating resources in the most efficient manner.

Taking into account the many challenges facing the Town of Montreal West, Town Council decided to embark upon its first SFP in collaboration with the management team. The process involved:

- a study of the strategic planning process and review of strategic plans from other municipalities
- a thorough analysis of the Town's strengths, weaknesses, opportunities and threats (SWOT)
- a review of the Town's financial data, trends and urban plan
- a determination of the six key objectives in the coming five years based on the SWOT analysis
- the drafting of the five-year financial projection for both operating and capital budgets based on these objectives
- reviews by Council, Administration, staff and a panel comprised of residents with expertise in the areas of finance, business and community affairs
- the approval by Council.

This first Montreal West Strategic Financial Plan is the culmination of that process, and Council is appreciative of all the time and effort given by Town personnel and the resident review panel in creating it. It was a rewarding partnership, and we are confident that the plan it produced is a better document because of their input. The SFP provides future Councils and town administrations with a common focus and set of priorities. It also serves as an opportunity to discuss and review the Town's future direction with the community. During the development stage of this plan, our current Council has already been guided by many of the principles contained in this document. We look forward to seeing the plan in use as a working tool for future Councils, but also to watching it grow and change with regular reviews and changing realities.

Objectives and strategies

In order to improve and strengthen the long-term financial health of Montreal West, Council and administration reviewed the Town's long-range financial challenges and needs, analyzed historical data and sought feedback from stakeholders.

This exercise resulted in the identification of the following six key objectives for the next five years:

- limit property tax increases
- continue to invest in infrastructure renewal
- manage debt levels
- increase the overall tax base
- commit to providing high-quality and cost-effective services
- improve preparedness for external agglomeration costs

For each of these objectives, the associated strategies and actions required to achieve them are outlined. They are significant steps towards achieving a strong, dynamic, fiscally responsible and sustainable future for the Town. This plan will be updated periodically to reflect new realities and/or priorities.

1. Limit property tax increases

The property tax rate is determined by the Town's annual operating budget. Provincial regulation dictates that municipalities must present a balanced budget[1]. Therefore, sufficient revenue must be raised to cover expenses. If there is an operating deficit at the end of the year, it must be reimbursed as the first order of business the following year.

In Montreal West, approximately 85% of revenues are derived from property tax. Due to its very small commercial and industrial sectors, almost all of this comes from residential property, primarily single-family homes. The remaining 15% of revenue comes from recreation programs, water tax, duties on transfer of properties, service fees, permits, tickets, interest, government transfers, etc. (Appendix C)

Town expenditures are split between two major components:

- local expenditures, which amount to approximately 66% of the operating budget, for services provided by the Town. This includes public works (snow clearance, garbage, recycling and green waste collection, local delivery of drinking water and sewage facilities, roads, lighting, etc.), recreation programs, public security, building inspection, debt servicing, etc. (Appendix E)
- Agglomeration Council expenditures, which account for approximately 34% of the operating budget. These are for shared services such as police, fire, transportation, water supply and sewage treatment, major roadways, property assessment, municipal court, social housing, etc. (Appendix D)

The Challenge:

The Town must respond to the demand for services, programs and the continual maintenance of our existing infrastructure, equipment and facilities in an affordable manner. In view of that, Town Council must strike a balance between the potentially conflicting goals of minimizing taxes and maintaining or enhancing existing programs, services and infrastructure. And all this occurs in an environment of increasing costs.

Strategy:

Council understands the impact that a high tax bill has on citizens, and has made a commitment to:

- limit residential tax increases for the average single-family home to no higher than the Consumer Price Index (CPI) not including any special tax which may be levied under exceptional circumstances, or for new facilities after consultation with residents[2]
- maintain a minimum balance of $200,000 in the unappropriated surplus to offset unforeseen expenditures which could result in a deficit budget
- use the accumulated surplus to fund extraordinary expenses and special projects
- use the Working Fund for infrastructure and capital expenditures whenever possible
- continue to follow best practices when estimating revenues and expenses for the budget explore ways of increasing the tax base (See Objective #4 - Increase the Overall Tax Base)

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1 C-19: Cities and Towns Act: 474.

2 In accordance with C-19: Cities and Towns Act and F-2.1: Act Respecting Municipal Taxation

- look into innovative new ways to generate revenue

2. Continue to invest in infrastructure renewal

The Town's infrastructure consists of its public buildings, parks, roads, sidewalks, water, and wastewater systems. Good well-maintained infrastructure is necessary to provide services to current residents and attract new ones. Much of the infrastructure in Montreal West is aging and has not been renewed on a regular basis, so funds must be committed to ensure it is properly maintained and refurbished.

The estimated life of water and sewer systems is between 70 and 90 years. Much of the infrastructure in Montreal West is original, put in place in the early 1900s, and is nearing the end of its life. This has the potential to result in costly repairs and disruptions to service. Based on the usual life expectancy, a town would normally have to replace less than 1% to 1.5% of these structures annually. For road surface or paving, the estimated useful life is 25 years, meaning that the Town would normally have to replace 4% of the road surfaces per year.

In order to catch up with work that had not been done in the past, the Town has replaced approximately 21% of our water and sewer infrastructure in the past eight years (2009–2016), more than twice as much as expected in the normal maintenance schedule. In that same time frame 25% of our roads have been resurfaced, and almost all the parks have been updated. Nevertheless, there is still much urgent work that needs to be accomplished in the next five years and beyond. As mandated by the provincial government, Montreal West must regularly renew its *Plan d'intervention pour le renouvellement des conduites d'eau potable, d'égouts et des chaussées,* and the Town has just completed its plan for 2018–2023. This document prioritizes projects for the renewal of drinking water and sewer pipes, and is required when seeking financial assistance from the government. The government then allocates its funding based on the Town's grant application and the urgency of the repairs to the water and sewer system.

While the Town has actively sought and obtained $9.3 million in government grants in recent years to accomplish the recent work, it has had to borrow for the portion not covered by the grants. (See Appendix F)

Many of the Town buildings and recreation facilities are also in need of costly repairs, including the municipal arena which was built in the 1950s. Engineering consultants estimated the cost to refurbish the arena over the next 10 years at over $7 million.

The Challenge:

The Town must continue to invest in our infrastructure system in a controlled fashion in order to catch up and maintain it without overburdening citizens with debt servicing or large tax hikes.

Strategy:

- develop a capital asset management program which includes:
  - establishing adequate reserves for the regular investment into our infrastructure system
  - developing a regular maintenance and renewal schedule for infrastructure based on its estimated useful life
  - reviewing ways to increase the life of the infrastructure, e.g. more sidewalk repairs, sealing roads, sealing cracks, etc.
- apply for grants to fund infrastructure renewal
  - research new grants, continue to nurture alliances with government officials
- set a minimum level of the Working Fund for infrastructure investment
- when possible, use the operating budget to finance less costly capital expenditures
- continue to follow best practices for awarding contracts
- fundraise for major buildings, seeking both individual and corporate sponsors
- give preference to energy-efficient products, methods and programs
- compile and prioritize a list of non-grant infrastructure projects

3. Manage debt level

Debt financing is used to spread the cost of unusually high asset purchases over a number of years, thereby avoiding tax spikes, and spreading the cost among the taxpayers who will have the use of the asset over the course of many years. In accordance with provincial legislation, all municipal loans must be approved by MAMOT, the government ministry in charge of Municipal Affairs.[3] It should be noted that, in 2006, when Montreal West was reconstituted, the Town was required to enter into long-term financing to cover the $7 million debt from the City of Montréal for demerger and water costs.

In the past eight years the Town has embarked on several major infrastructure repair and capital projects, road, sewer and waterworks repairs, the refurbishment of several parks and upgrades to our Town Hall. A large portion of these was funded by government grants, but the remainder was funded by loans. Borrowing for necessary infrastructure work when funds are not available makes sound financial sense, particularly when interest rates are low. It has allowed the Town to take advantage of lucrative government grants to decrease the cost of the projects to taxpayers.

From 2009 to 2016, over $22.4 million was spent on various capital projects, including $19.8 million on roads, water, sewer and other infrastructure renewal. During this same period, as a result of $9.3 million in government grants, low interest rates and paying down prior debt, our net debt (total debt less government grants) only increased $1.9 million from $12.5 million to $14.4 million (Appendix G).

Despite this achievement, efforts should be made to ensure that there is a plan to manage our net debt over the next five years and into the future.

The Challenge:

The Town must continue to invest in its infrastructure while using debt responsibly and being prepared to respond to any increase in interest rates.

Strategy:

- incur debt only for long-term capital items
- determine acceptable net debt load
- limit debt servicing costs to 18% of local operating budget to maintain future financial flexibility (Appendix H)
- consider accelerated debt repayment at times of renewal
- provide for a contingency amount in the appropriated surplus to manage risk for potential interest rate hike
- establish adequate reserves to help fund major projects, limiting the need for debt in the future (see section on Infrastructure Renewal for more detail)

[3] C-27.1: Municipal Code of Quebec: 1061

4. Increase the overall tax base

Whenever there are new taxable properties in the Town, such as a new development, it has the effect of increasing the overall property assessment or tax base of the Town. This enables the Town to spread the cost of services over a larger tax base, thereby reducing the pressure on each individual taxpayer. This in turn improves the Town's general financial position, and provides the capacity to sustain services.

Assessed value is not the market value of a property. It is merely the taxable value as determined by the Service de l'Évaluation foncière of the city of Montréal (SÉFVM), the property assessment department. Residential and non-residential properties are assessed at different rates. In Montreal West the non-residential rate is approximately three times the residential rate.

Some organizations, such as churches (three in Montreal West) or certain not-for-profit institutions are exempt from paying property taxes. For other organizations, such as schools (three in Montreal West), the government gives the municipality a specific payment "in lieu of taxes" for those properties. This payment is generally 30% of the Town's applicable (non-residential) tax rate. In 2017, 6.8% of the valuation role of Montreal West was non-taxable, an increase from 6.4% the prior year.

The Challenge:

The Town must strive to increase the Town's tax base despite having very little undeveloped land available and with several large nontaxable properties in its territory (Appendix I).

Strategy:

- review particular zones for the possibility of increased density, for example Westminster, Milner
    - itemize current residential properties by type (rentals, condos, single homes, etc.)
    - review Town needs for housing and commerce
    - explore the possibility of rental suites in duplex basements
- identify areas for potential future development
- encourage business growth
    - move ahead with the Westminster revitalization plan
- review zoning of institutional sites to consider rezoning to residential upon transfer of property

5. Commit to providing high-quality and cost-effective services

The Town provides a wide range of services for residents and businesses. Some services are necessary to attract new residents and ensure competitiveness while others are required as a core responsibility of any municipality to ensure the health and safety of its residents. Examples of core services include snow removal, road maintenance, garbage collection, recreation programming, urban planning, public security, and park and tree maintenance.

One of the strengths of Montreal West is its ability to deliver high-quality services adapted to the community. To do so requires that our facilities and equipment be well maintained and up-to-date. It also entails the ability to identify and implement opportunities for improvement, or for adapting services to meet the evolving needs of residents or best practices.

The Challenge:

The Town must plan and prioritize the services it provides amid rising costs, and ensure that it has adequate resources to sustain them in the future.

Strategy:

- continue to review services to ascertain that they meet the needs of the community, and to ensure cost effectiveness
- support the Town employees in their search for best practices and efficiency in their field
- ensure the budget adequately provides for the maintenance or renewal of Town equipment, vehicles, parks and tree canopy
- consider adjusting or adding user fees in order to maintain delivery of affordable programs
- continue to seek out partnerships with other towns or institutions where possible
- enhance communications to ensure current and prospective residents and other key stakeholders are aware of the services and facilities provided

6. Improve preparedness for external agglomeration costs

Thirty-four percent of the total revenue of Montreal West is sent to the Agglomeration Council (Agglo) of Montréal to pay for shared services such as police, fire, transportation, water supply and sewage treatment, major roadways, property assessment, municipal court, social housing, etc.

While the Town is in agreement with supporting its fair share of these expenses, it has little control over the budget items and amounts that are part of these shared services. Though the Town is a member of the Association of Suburban Municipalities (ASM), all those members combined make up only of 16% of the total Agglo membership, thus have little voting power.

The Challenge:

The Town must do its best to protect taxpayers against major tax hikes caused by large unexpected increases in the external Agglo taxes over which it has little control.

Strategy:

- ensure that the ASM remains a strong viable organization whose voice will be heard by the Agglo
- develop and further strengthen political alliances to encourage better collaboration
- maintain a healthy surplus to offset unanticipated increases
- decrease the portion of the Agglo bill related to water:
  - encourage residents to use less water
  - decrease water wastage through continued infrastructure renewal
- maintain ownership of the Fire Station
  - continue to generate revenue from Montréal's reimbursement of maintenance costs
  - retain the property as an asset in the event the Fire Station were to close

CONCLUSION

Balancing the needs and desires of a town and its residents can be complicated task. It involves a range of stakeholders, budgets, priorities, and the need to be resilient to changes or emergencies.

One of the recent priorities for Montreal West has been a systematic and structured approach to its infrastructure renewal after very little investment for many decades. These projects have been funded in part by incurring new debt. Borrowing funds over the length of the asset's life so the cost can be paid by all who will use it is an equitable strategy. Nevertheless, it has an impact on the operating budget and thus taxes, so Council believes it is important to develop a long-term strategy to ensure that future work can be accomplished without overburdening the taxpayer, taking on excessive debt or compromising services.

The development of the first Strategic Financial Plan (SFP) for Montreal West set in motion a discussion of financial sustainability and how this can be achieved in light of the objectives and priorities defined by Council. The plan has highlighted that the objectives are all interconnected, yet achievable with good financial planning and monitoring. Setting a debt level and a commitment to the building of reserves will help manage risk and strengthen the long-term financial health of the Town.

Most importantly, however, the SFP provides a framework for future decisions, as projects will be reviewed in light of the SFP, to assess their impact on the Town's priorities. From a communications point of view, it informs residents and other stakeholders of Council's direction and priorities and allows them input on these vital issues.

The next step is to set up a detailed action plan and implementation schedule to move forward on the strategies outlined. Many of the objectives have already informed the decision-making of Council during its current mandate, such as the limiting of tax increases and the continuation of infrastructure renewal. This should be expanded to include any new strategies.

Although great effort has been made to present realistic goals and projections based on the data available at this time, the SFP is a dynamic document, a work in progress. Going forward, the SFP will be reviewed and monitored annually by the administration, who will alert Council to any issues and major changes which would impact the document. It will become an integral part of the annual budgeting process. And it is anticipated that review and update of the SFP will be carried out after each municipal election, taking into account the priorities of the new Council and the financial forecasts for the Town at that time.

DISCLAIMER

The figures projected in the following tables and graphs are meant for discussion purposes and as evidence that the plan is a viable one. They should not be interpreted as specific amounts for budgets or financial transactions in the future.

APPENDIX A – Financial assumptions

In the determination of the five-year Strategic Financial Plan, the following assumptions were made:

Growth of taxable assessment roll

- Annual growth of 0.65% to 1.5% per year as a result of new constructions only
- New assessment roll coming into effect in 2020 with an estimated increase of 1.5%

Non-Tax Revenues

- Increase of 2% per year in recreation revenues
- Duties on transfers and building permits revenues adjusted based on the new developments only
- Interest portion on grants adjusted based on the payment schedule

Expenditures

- Annual increase of local expenses of 2% to 2.3% (excluding debt servicing, capital reimbursements on the long-term debt and capital expenditures)
- Salaries estimated based on collective agreements approved or in negotiation
- Employee benefits and pension plan deficit estimated at 26% of salaries
- Capital investment out of operating budget estimated at 0.85% to 1% of local operating budget
- Annual increase of Agglomeration expenses of 2%. For 2018 and 2019, $25,000 was added, based on the 2017 decree which adjusted the formula determining each municipality's contribution to the Agglomeration Council
- Maintain same level of road, water and sewer infrastructure investment as current trend based on continuing availability of government grants

Debt

- Borrowing only for long-term capital items
- Financing terms varying from 5 to 20 years, depending on the investment
- Interest rate estimated at 3.5% for new borrowing

Consumer Price Index

- Annual increase estimated at 2% per year

APPENDIX B – Glossary of Terms

Accumulated Surplus:
The total accumulation of operating surpluses over a number of years. The surpluses may either be **unappropriated** for general use, or **appropriated** by Council resolution for specific purposes.

Agglomeration Council (Agglo):
A council headed by the mayor of Montréal and consisting of 31 elected officials representing all the municipalities on the island of Montréal. Areas under the jurisdiction of the Agglomeration Council include: public transit, police, fire, water supply and sewage treatment, management of streets and major thoroughfares, property assessment, social housing, municipal court, etc. The Agglo Council invoices the municipalities for these services based on a formula related to property valuation.

Capital Budget:
A plan for investing in capital assets or improvements, such as buildings, equipment or infrastructure renewal, over a period greater than one year.

Consumer Price Index:
An indicator which measures the change in the cost of a fixed basket of products and services that are typically purchased by households. This includes housing, electricity, food and transportation. The CPI is published by Statistics Canada and is customized for different regions in the country.

Debt:
Money borrowed by municipalities to help pay for infrastructure or other major projects. Borrowing is typically for 20 plus years. Annual "debt servicing costs" include interest and a portion of the principal. The amount of debt a municipality can incur as well as how the debt can be financed is under the control of the provincial government. The term **Net Debt**, as defined by MAMOT, is long-term debt less government grants.

MAMOT :
Ministère des Affaires municipales et de l'Occupation du territoire, the provincial government department responsible for municipalities.

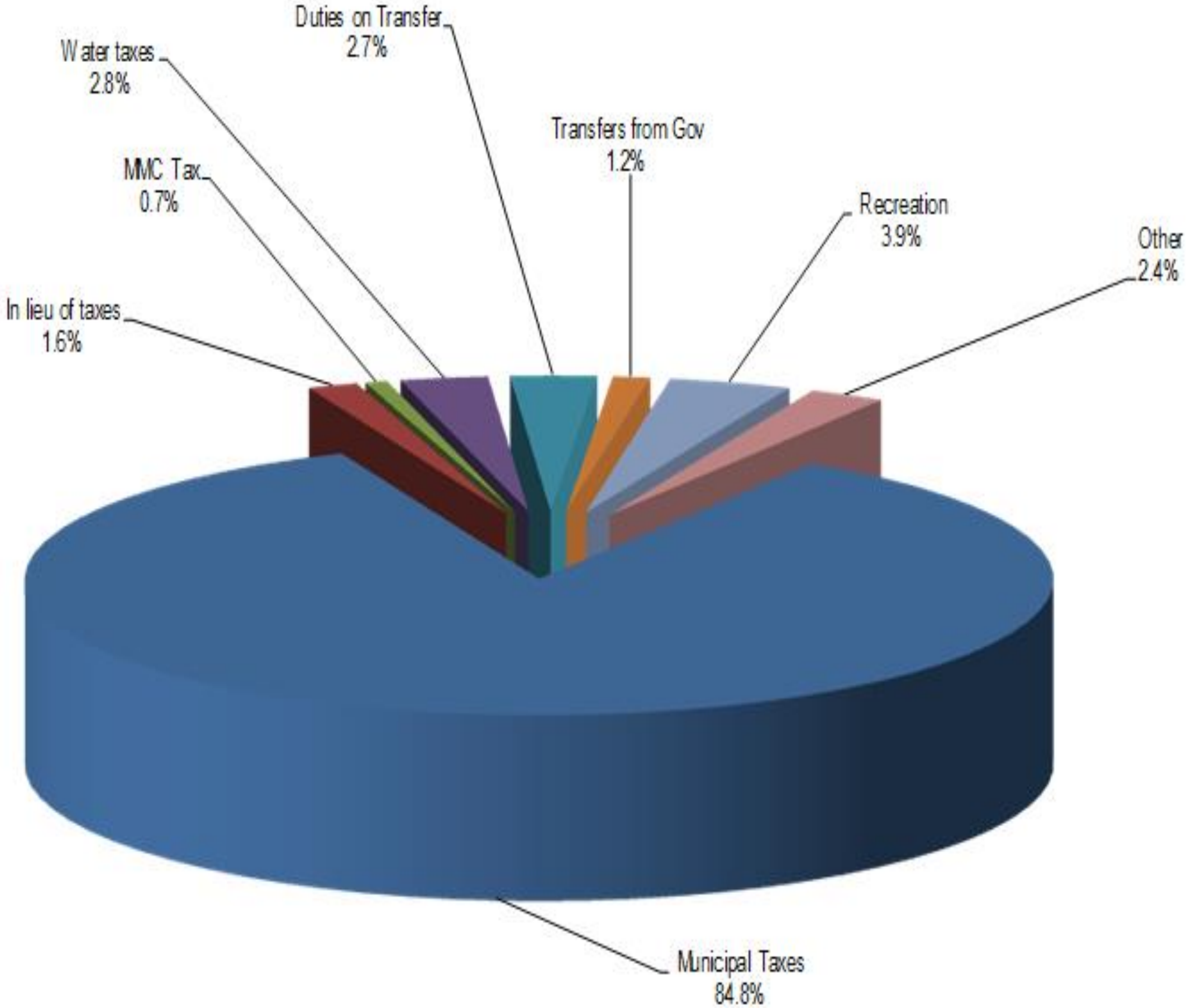
Operating Budget:
A projection of future revenues and expenses for a one-year period.

Operating Surplus:
The difference between revenues and expenditures for a given year. When revenues exceed expenditures, the result is a surplus; when expenditures exceed revenues, the result is a deficit.

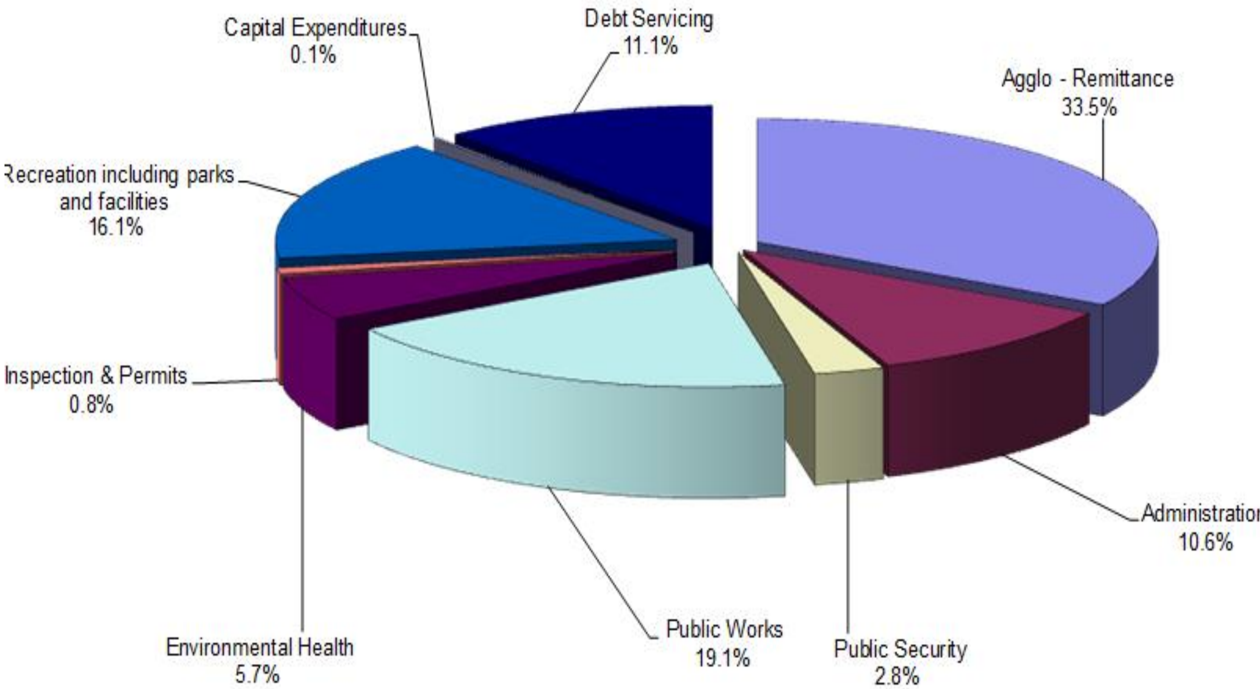
Tax Base:
The total value of all the taxable property in the boundaries of the municipality, also referred to as taxable assessment role.

Working Fund:
A fund used to finance capital projects or equipment renewal. As per municipal financial guidelines, amounts expended from the working fund must be repaid over a period of 10 years.

APPENDIX C - Budget 2017 – Revenues

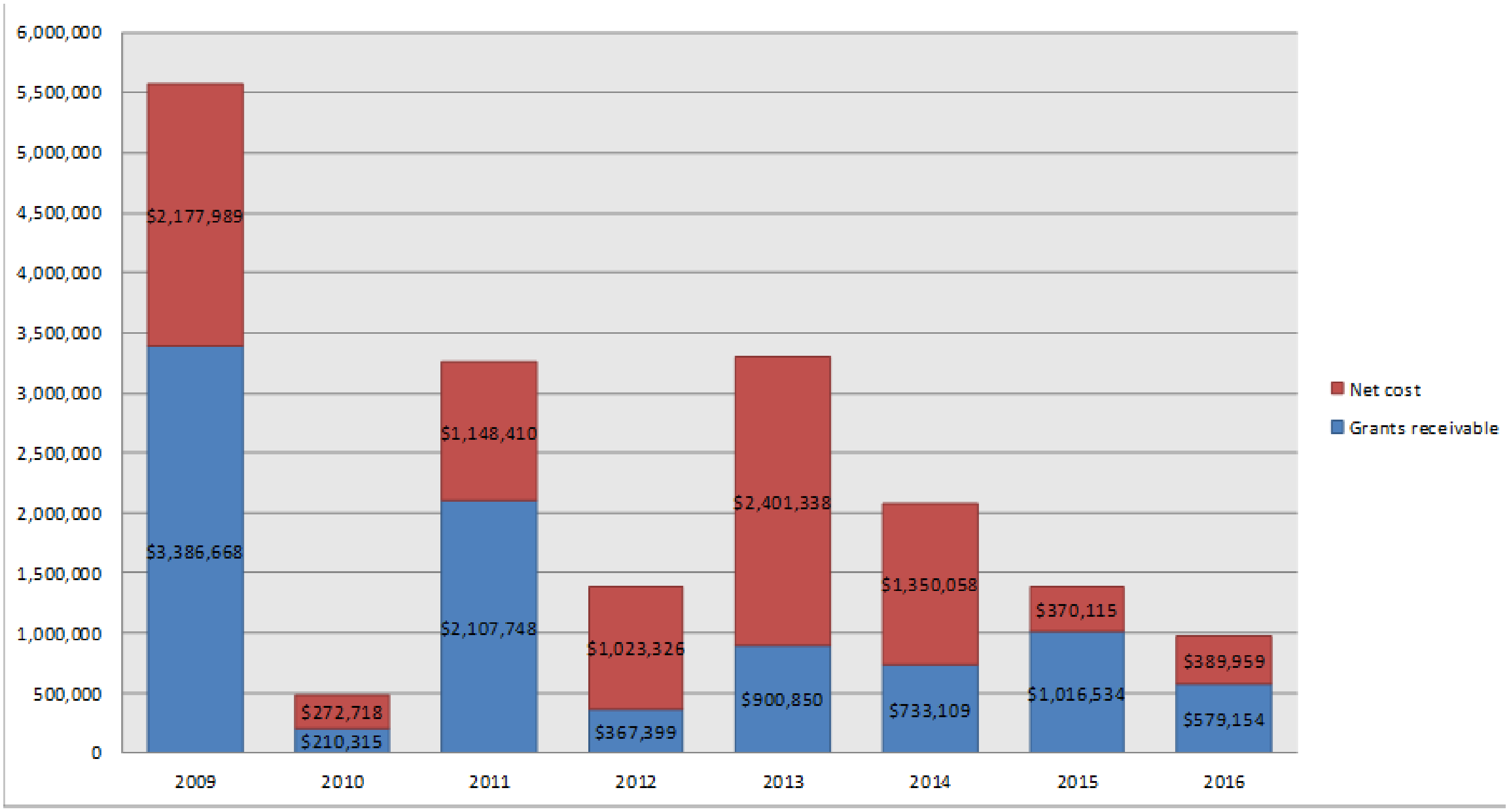


APPENDIX D - Budget 2017 – Total expenses



APPENDIX E - Budget 2017 – Local expenses

APPENDIX F – Infrastructure projects 2009- 2016

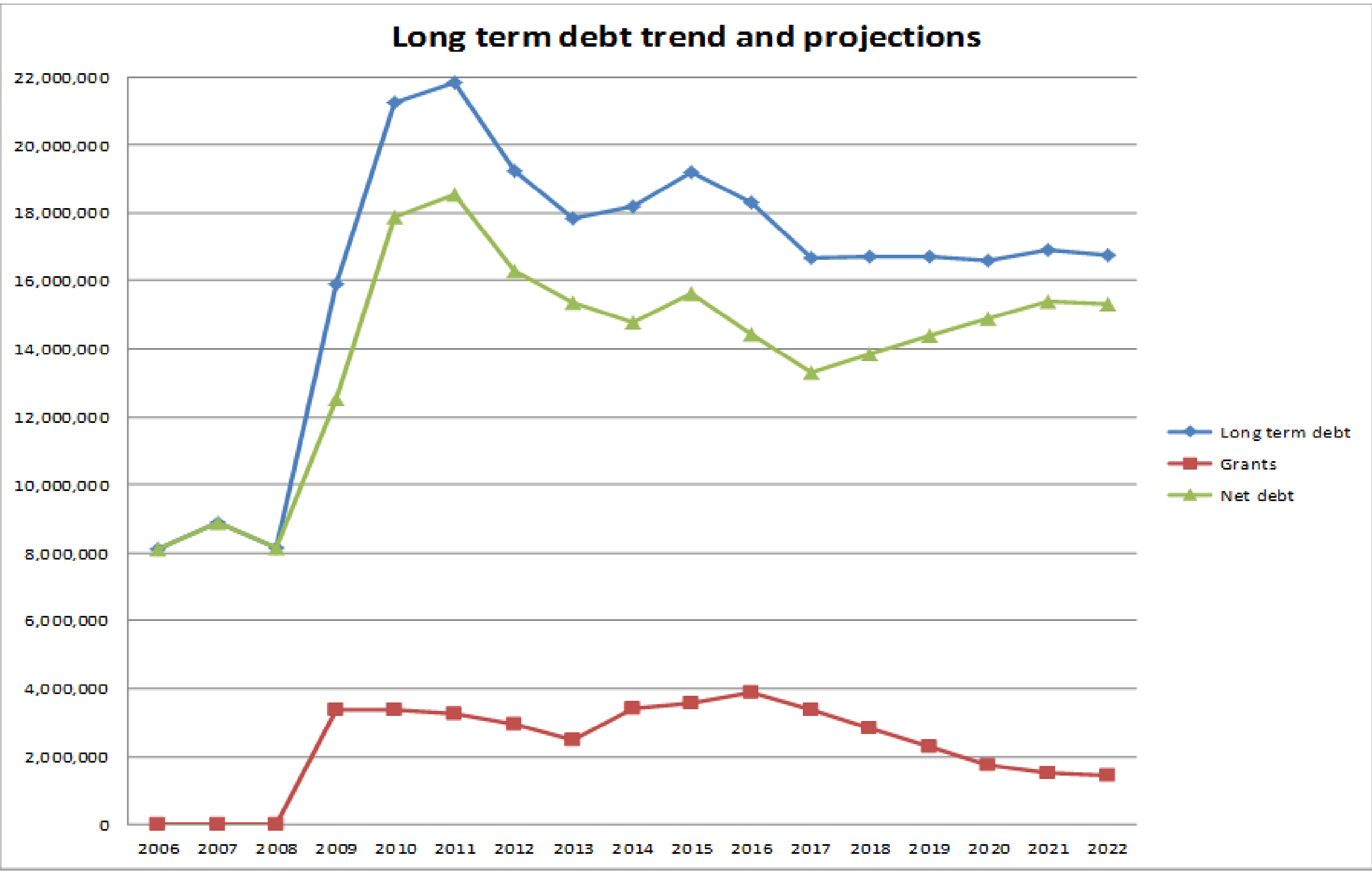


Note:

2009 Strathearn, Easton, Broughton, Curzon, Ballantyne and Courtney
2010 Banstead, Radcliffe, Ainslie, Campbell
2011 Banstead, Radcliffe, Ainslie, Campbell, Town Hall Masonry
2012 Brock Nord
2013 Sheraton, Radcliffe
2014 Town Hall windows, Brynmor, Brock Sud
2015 Rugby, Davies Park
2016 Strathearn

Please note that this graph includes only those projects for which grants were received, and serves to illustrate the amount granted for each project. The projects are grouped by the year the work was started and the grant was approved

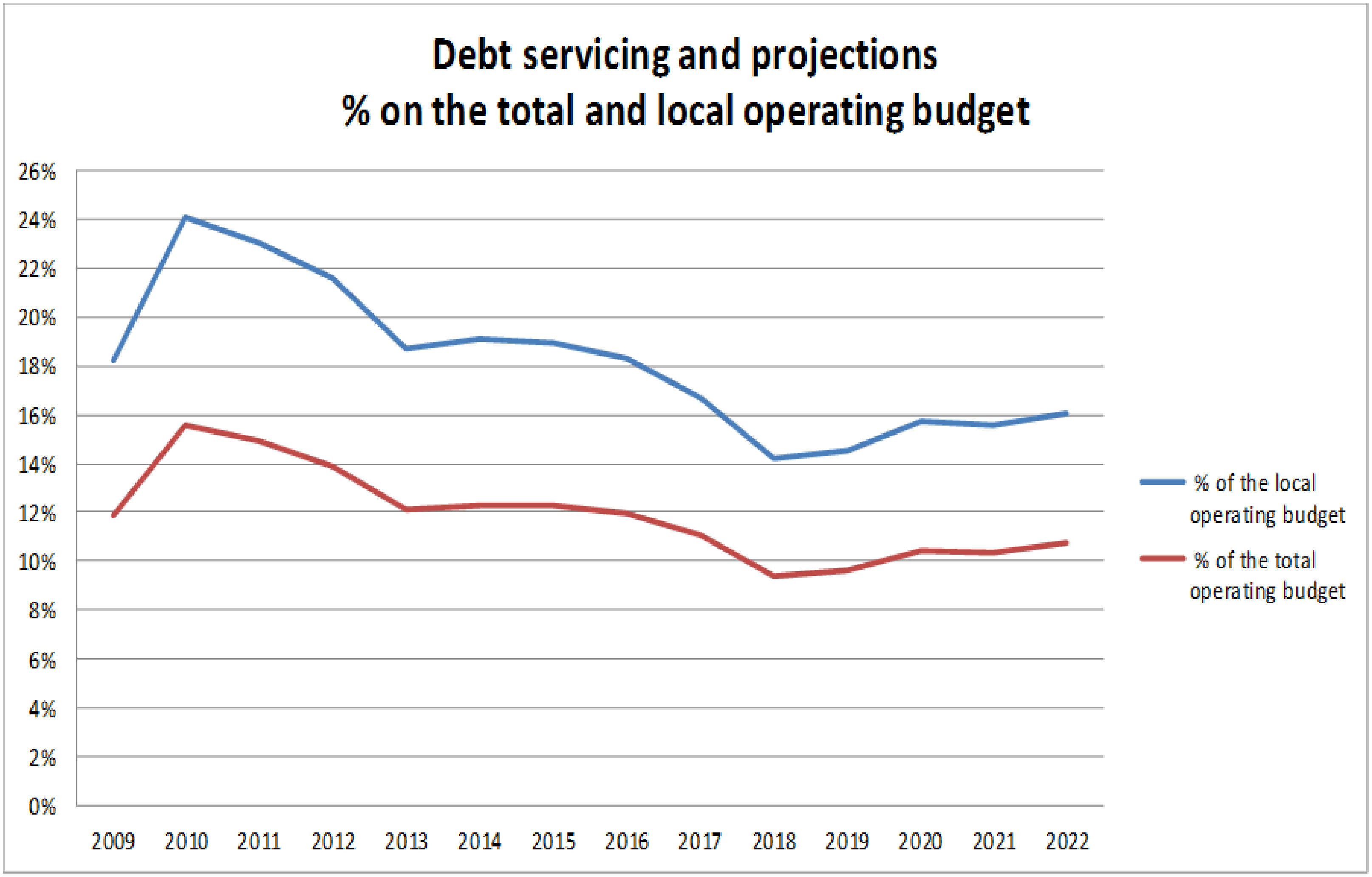
APPENDIX G – Long term debt trend and projections



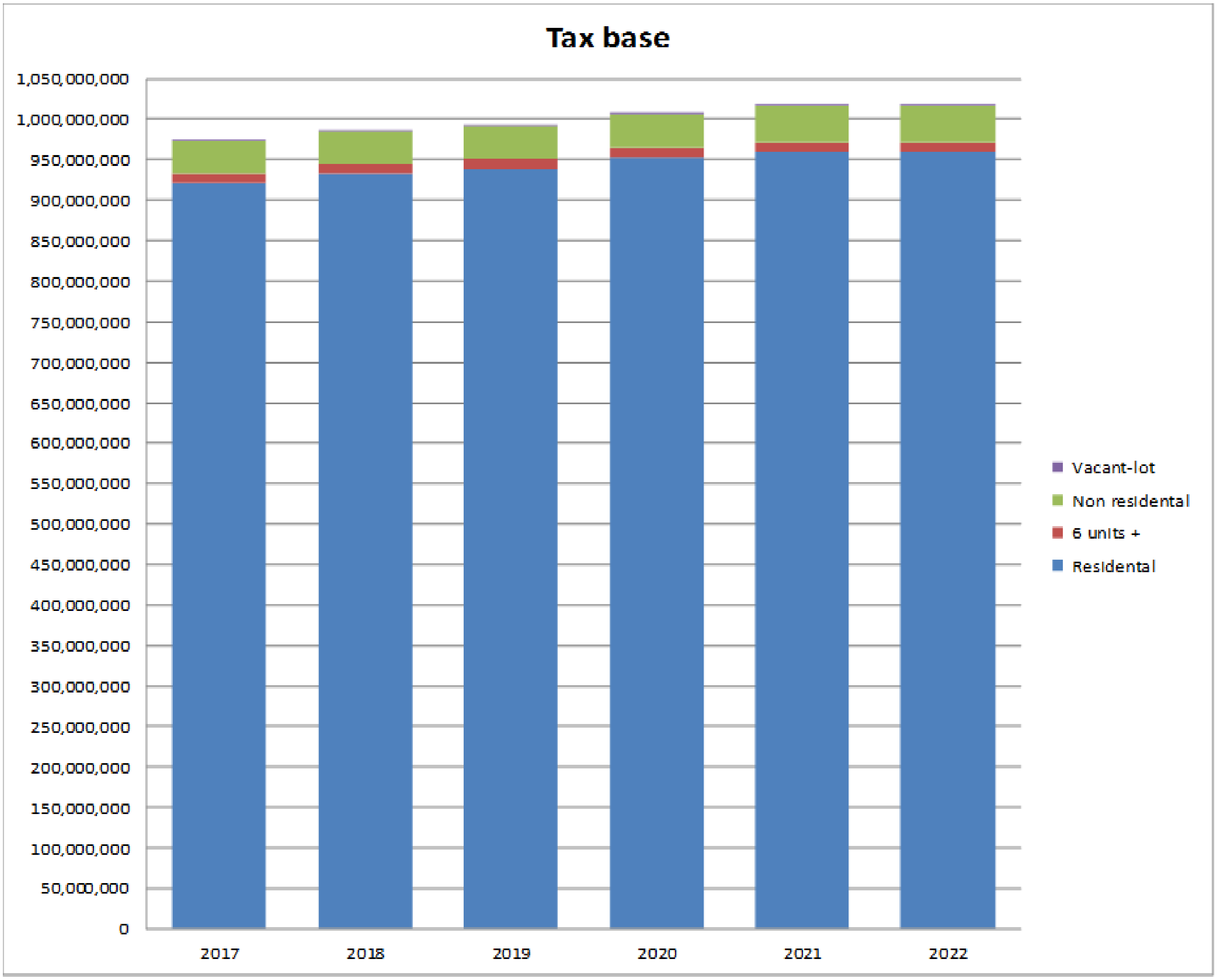
Note:

1. On January 1, 2006 the Town starts with a debt to be paid of $6.9M (demerger loan 5.9M + Montreal water loan 1M).
2. In addition to this in 2006, the Town took on additional loans of $1.2M to cover infrastructure repairs and vehicles.

APPENDIX H – Debt servicing and projections 2009-2022

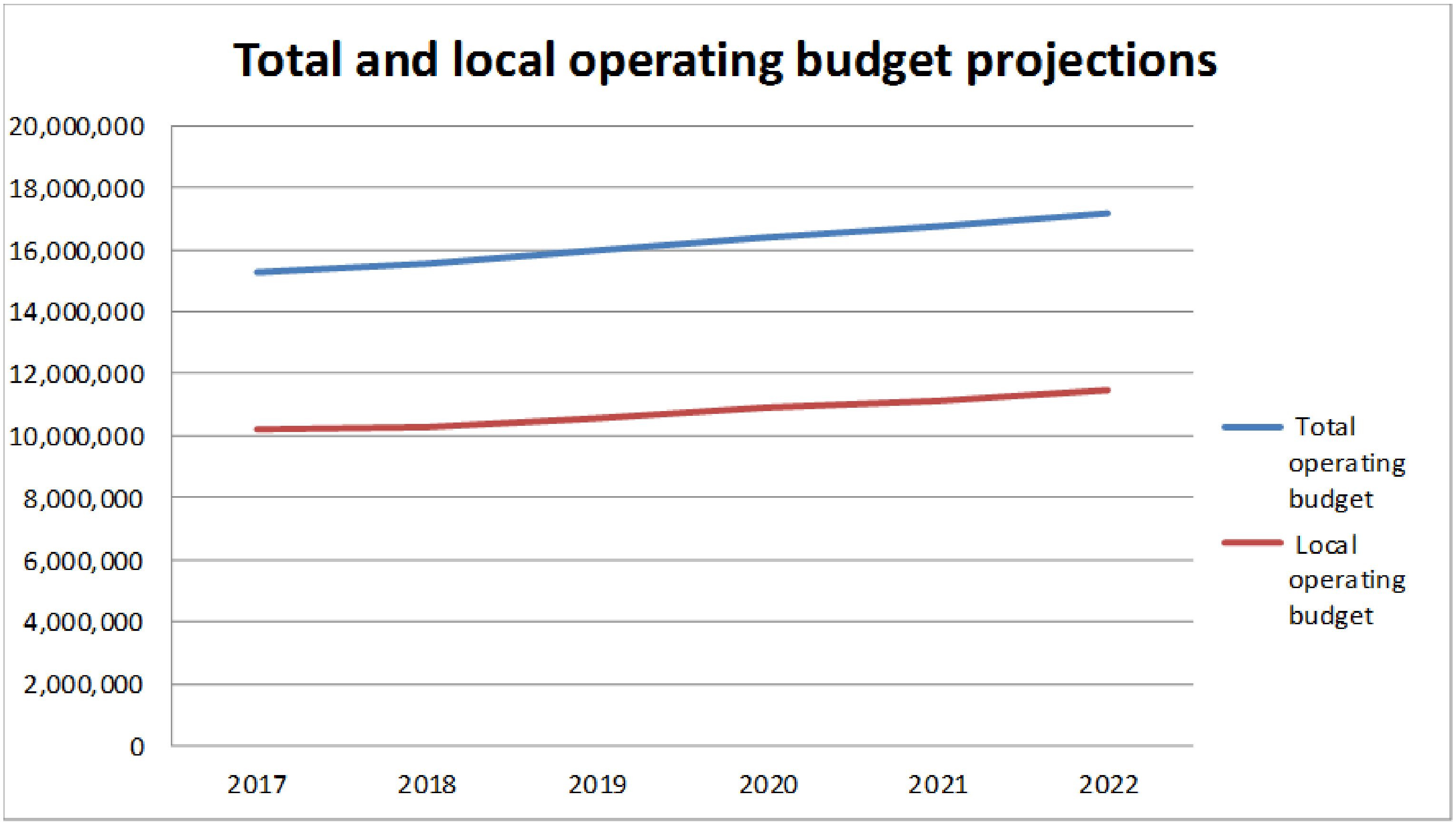


APPENDIX I – Tax base 2017-2022



Tax Base: the total value of all the taxable property in the boundaries of the municipality, also referred to as taxable assessment role

APPENDIX J – Total and local operating budget projections



Note:

1. The figures projected above are meant for discussion purposes and to illustrate a possible iteration of the Strategic Financial Plan. They should not be interpreted as actual budget amounts.
2. Based on the above projections, the average annual tax increase for the average single family home from2018-2022 would be just below the projected CPI of 2% per annum.