CITY OF SAINT JOHN | TEN YEAR FINANCIAL PLAN

SAINT JOHN

Approved by Common Council on December 16, 2019

Table of Contents

Introduction

The City of Saint John has the third largest population base in New Brunswick at 67,575 residents (2016 Census). It is however, New Brunswick's largest city, covering an area of 316 square kilometers. In fact, both Fredericton (133 km²) and Moncton (142 km²) would fit within the boundaries of the city. Saint John CMA's population stands at 126,202 (2016 Census). According to Statistics Canada, the Greater Saint John CMA posted positive population growth (+4.3 per thousand) for a third consecutive year after four years of population decline (Annual Demographic Estimates: Sub provincial Areas, July 1, 2018). The majority of the region's population growth is from international migration. The Uptown Saint John area has led the region's population growth with a rate of +15%, which stands in contrast to a 2.2% decline in the City as a whole and a 0.5% provincial decline. (Statistics Canada) Saint John's median age is 43.9 years which is higher than the Canadian average of 40.8.

Saint John CMA is a very cost effective place to live as its current average cost of a home is $188,973 (CREA) compared to the Canadian average of $498,943.

Employment rates historically for the City has been more favorable than New Brunswick in aggregate but has underperformed in comparison to Canada as a whole. The Greater Saint John region is strategically important for New Brunswick as it is home to Port Saint John and the industries that account for the bulk of international export revenue. Saint John's Port is Eastern Canada's largest port by volume and has a diverse cargo base, handling an average of 28 million metric tonnes of cargo annually, including dry and liquid bulks, break bulk, and containers. (www.sjport.com) The City of Saint John and surrounding area generates between 20 and 25% of provincial GDP. The city is home to New Brunswick's primary industrial base, including Canada's largest oil refinery, which was responsible for $7.6 billion in merchandise exports or nearly 60% of New Brunswick's total exports in 2017. Saint John is also New Brunswick's energy hub and is in close proximity to many of the province's top tourism assets. Saint John is also a major health care center within the Maritime Provinces.

There are many reasons why Saint John should be attracting additional population. For example, crime rates within the city have shown great improvement over the past 10 years. Instances of violent crimes have decreased by 24%, property crimes by 37% and impaired driving charges by 36%. Additionally, Saint John Energy has the lowest power rates in the region. The rate per kWh is $10.28, compared to the NB Power rate of $11.18 per kWh. Finally, the ease and affordability of travel from Saint John has been improving over the past few years and will continue to improve as the passenger numbers increase. The Saint John Airport has attained 282,217 passengers in 2018 which is 12.5% growth since 2016 and 19.6% since 2013. This growth has allowed large investments to be made in terminal improvements and a new airfield to accommodate further growth. Passenger travel is expected to increase to 500,000 by 2025. (www.saintjohnairport.com)

Following years of numerous financial challenges, the City is currently not on a sustainable financial path. The challenges that have led us to the current state can be summarized into the following key areas:

1. Stagnate tax base and population growth
2. The restrictions of the New Brunswick property tax system
3. The rising costs of labour and high debt service costs
4. The rising infrastructure deficit

In addition to challenges that are characteristic to our current environment, there are also a number of barriers that are preventing change. They are summarized as follows:

1. Restrictive Collective Agreements
2. Binding Arbitration
3. No Flexibility in operating expenses
4. Significant funding of temporary pension payments
5. Significant debt load
6. Infrastructure deficit
7. New Deal obligations
8. Geographic footprint
9. Cost of industry

These challenges and barriers to change have not suddenly appeared. Addressing these issues will require a long-term strategic approach. **This is the City of Saint John's first long-term financial plan.** This plan is rooted in financial best practices and anchored by strong corporate governance and best practice financial policies. The plan sets goals and targets, and measured and monitored through an annual scorecard. The long-term financial plan is a road map to sustainability and the foundation for an organizational culture shift in managing finances. The annual budget process is not enough to reach sustainability, as it does not take into consideration the future implications of current financial decisions. This report will provide a detailed discussion the financial strategies that will be undertaken in a ten year financial plan that is expected to lead the City to financial sustainability.

Financial Environment Discussion & Analysis

Financial Environment Discussion & Analysis

1. Stagnate Tax Base and Population Growth

Unlike New Brunswick's other two major cities, Saint John's population has been declining in the past decade. Moncton and Fredericton have experienced a steady population growth, while Saint John's population is less than it was in 1996, as shown in Figure 1.1. Specifically, the population of Saint John in 2016 is 24% less than it was in 1971. In addition to the population reduction, the city has grown substantially in size. In 1967, a major regional amalgamation occurred that increased the physical size of the city, in addition to its population. As a result, the population density has shown a significant decrease throughout the years, as shown in Figure 1.2. Since the amalgamation of Lancaster, Saint John & Simonds, the population has been steadily decreasing within city boundaries while the population of the greater Saint John area has been growing. Outlying communities such as Rothesay, Quispamsis & Grand-Bay Westfield have experienced steady growth.

The major reason for population erosion has been spillover; the urban sprawl to outlying communities such as Rothesay, Quispamsis, Grand-Bay Westfield and Hampton. Exchanging a short commute for lower property taxes and a non-industrialized environment, employees of the large employers within the city are choosing not to live within city limits. Within the region, the city is home to most businesses with over 100 employees. Neighbouring communities depend on Saint John for employment and access to recreation, leisure, and entertainment facilities. It is estimated that more than 15,000 residents from outlying communities commute to Saint John each weekday. Figure 1.3 depicts the shift in population density over the years. Figure 1.4 presents the population revolution of the greater Saint John area.

FIGURE 1.1 POPULATION BY CITY

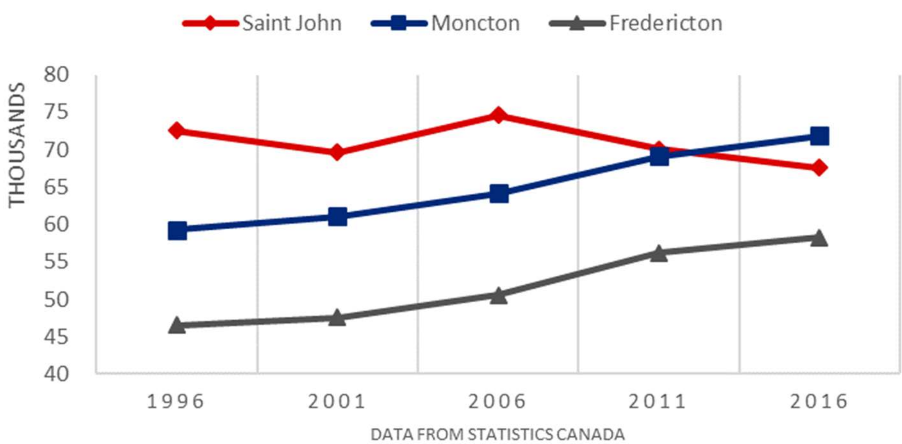


FIGURE 1.2 CITY OF SAINT JOHN POPULATION DENSITY

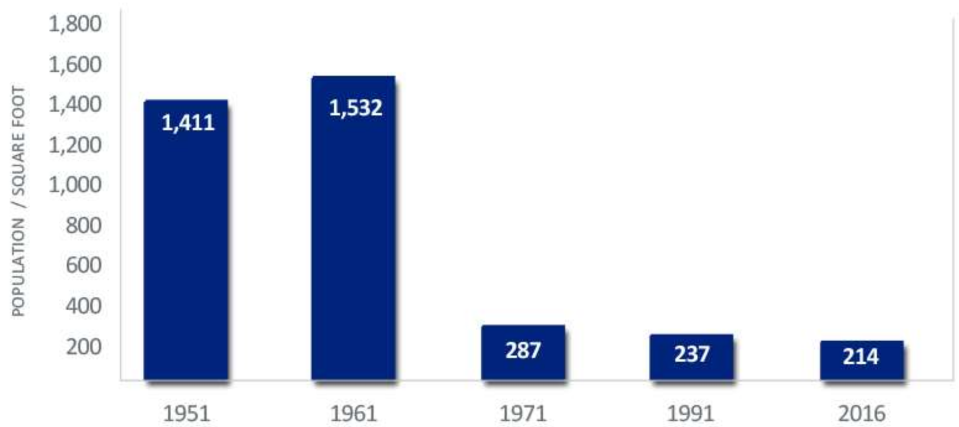


FIGURE 1.3 CITY OF SAINT JOHN NOW AND THEN

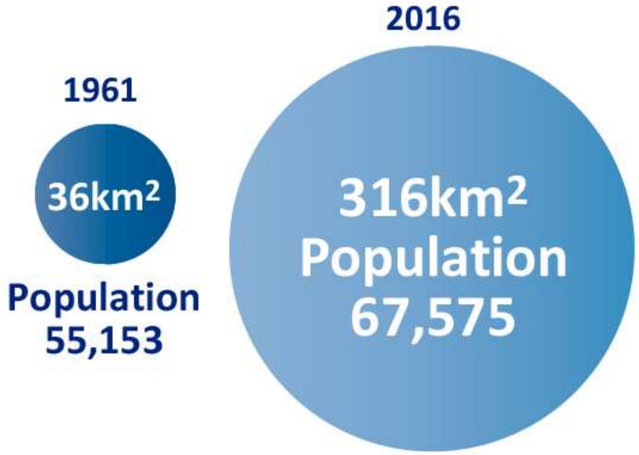
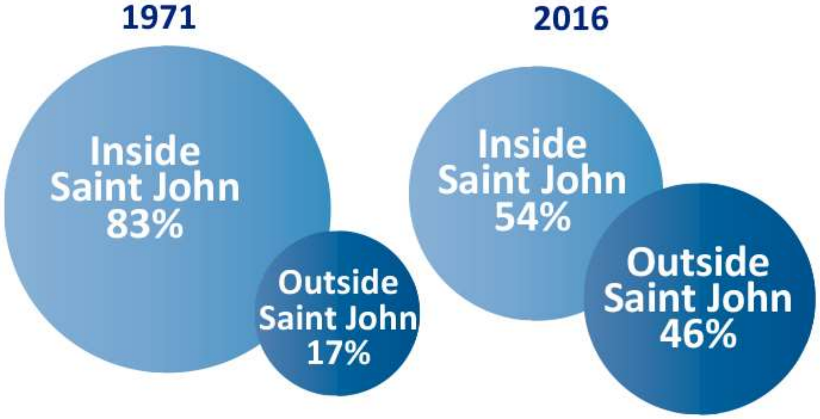


FIGURE 1.4 SAINT JOHN CMA WHERE THE POPULATION LIVES



2. The Restrictions of the New Brunswick Property Tax System

Property tax revenues account for 77% of total City revenues (2020 General Fund Operating Budget). In 2017, tax experts Harry Kitchen and Enid Slack were engaged to review and assess the fairness of the City's property tax rates and structure ("Tax Fairness Report" - Municipal Property Tax Issues in the City of Saint John, September 2017). This study revealed many barriers rendering the City of Saint John with the inability to provide fair taxation to its residents, commercial businesses, institutions and industry. Currently, the municipalities within New Brunswick virtually have no control over setting their own tax rates without Provincial restriction. This is unlike the vast majority of other Canadian provinces. The numerous challenges of the current property tax system has led to Saint John having the highest property tax rates in the Province at 1.785. This rate is 44% higher than Rothesay, 35% higher than Quispamsis, 24% higher than Fredericton and 8% higher than Moncton. Figure 2.1 presents the various tax rates of relevant communities.

FIGURE 2.1 2019 PROPERTY TAX RATES

	Saint John		Rothesay		Quispamsis		Fredericton		Moncton	
	Res	Non-Res	Res	Non-Res	Res	Non-Res	Res	Non-Res	Res	Non-Res
NB Rate	1.123	2.185	1.123	2.185	1.123	2.185	1.123	2.185	1.123	2.185
Municipal	1.785	2.678	1.240	1.860	1.318	1.977	1.441	2.161	1.650	2.475
Total	2.908	4.863	2.363	4.045	2.442	4.162	2.564	4.346	2.773	4.660

*Owner-occupied residential properties do not pay the 1.123 provincial rate

While the city offers many other positive factors for businesses, their employees have little incentive to live in the City and therefore have migrated to smaller and less costly bedroom communities such as Rothesay and Quispamsis. Spillover has caused outlying towns to thrive while the City bears the brunt of stagnant revenues and increasing costs. There is very little room to increase property tax revenue if assessment does not increase because the provincial property tax rate "crowds out" any flexibility to increase the municipal tax rate. According to the Tax Fairness Report, the original rationale for provincial property taxes was to support equal opportunity in the Province of New Brunswick; however, property taxes have now become part of the provincial general revenues in addition to sales tax and income taxes. In return, the province provides municipalities with a Community Grant and Equalization Payment, formerly referred to the Unconditional Grant. Figure 2.2 illustrates the redistribution of the property taxes collected by the Province of New Brunswick. In other communities such as Fredericton and Moncton, the tax base has been increasing between 3-4% to offset expenditure increases. Saint John is not seeing the same trend. Figure 2.3 compares the Saint John Tax base growth with other communities from 2013 to 2019. In Saint John, industrial assessment base has decreased by 3.7% compared to higher industrial tax base growth in other communities. This is due to provincial reassessments of Industrial properties in Saint John. Finally, the current legislation exempts most machinery and equipment from property taxes. Given the prevalence of heavy industry in Saint John, an industry which has a large proportion of machinery and equipment, the exemption has a significant impact on City tax revenues.

FIGURE 2.2 PROVINCIAL PROPERTY TAX REDISTRIBUTION

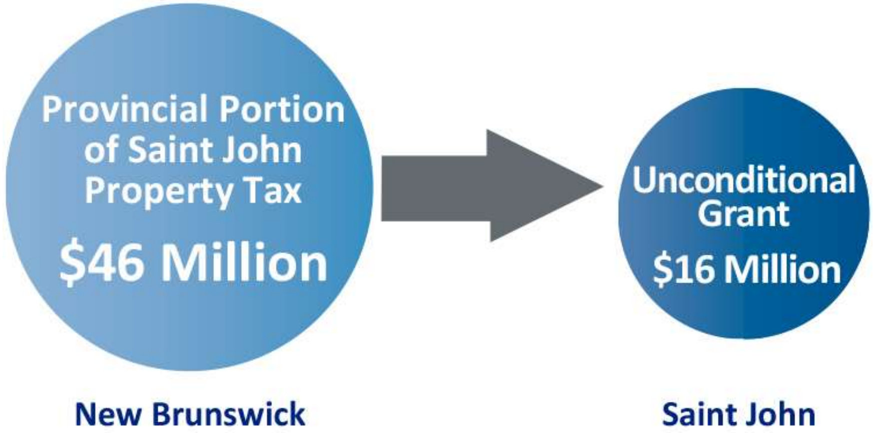
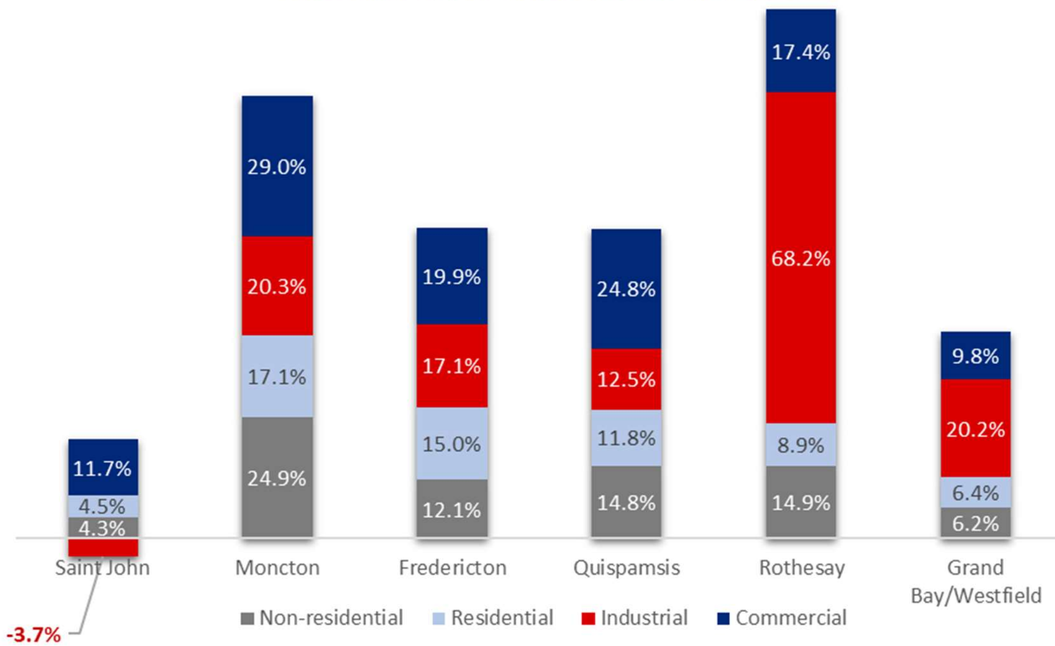


FIGURE 2.3 - ASSESSMENT BASE GROWTH BY TYPE BY MUNICIPALITY FROM 2013 TO 2019



Financial Environment Discussion & Analysis

3. Rising Costs of Labour and High Debt Service Costs

In 2018, total wages and benefits, including the annual pension fund top up, accounted for 57% of total expenses. From 2013 to 2018, property tax revenue grew at an average rate of 0.9% per year while at the same time wages and benefits have been growing at an average rate of 2.1% per year. From 2013 to 2018, total property tax revenue grew by $5.2 million in contrast to wage and benefit escalation by a total $7.9 million. It is estimated that by 2030, if all else remains the same, salaries & wages will have increased by an additional $7 million more than property taxes for a total of $14.9 million between 2013 and 2030. Figure 3.1 illustrates total value of these increases.

The City has very little leverage over wage escalation due to its heavily unionized workforce. As it is noted in Figure 3.2, only 14% of the total labour force accounts for non-unionized employees. With minimum numbers in the workforce, no contracting out or layoff clauses, binding arbitration and shift requirements, there is little control available to the City to manage these numbers. Over the past ten years or so, the city has minimized the staff establishment where possible. In fact, the number of staff has decreased by 83 (9.07%) since 2008.

FIGURE 3.1 FORECASTED $ INCREASE IN PROPERTY TAX REVENUE COMPARED TO $ INCREASE IN TOTAL WAGES BASED ON HISTORICAL RATES

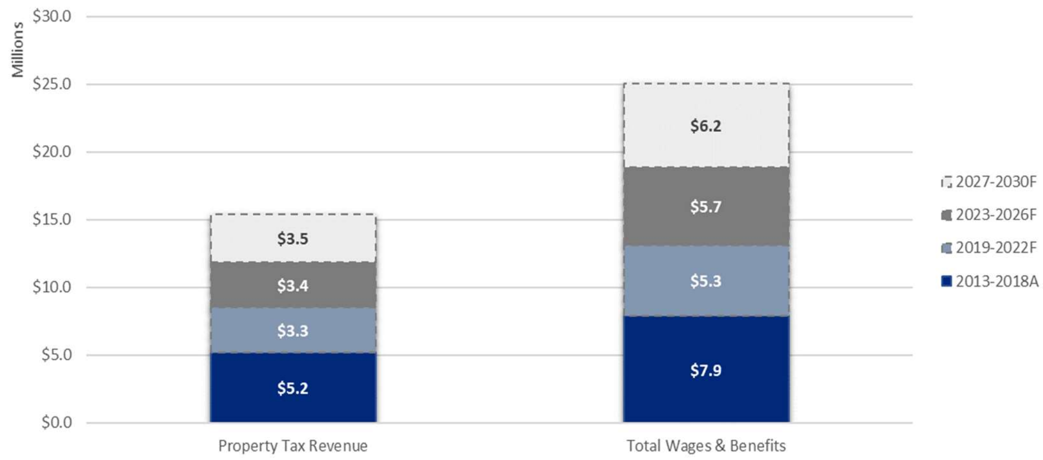
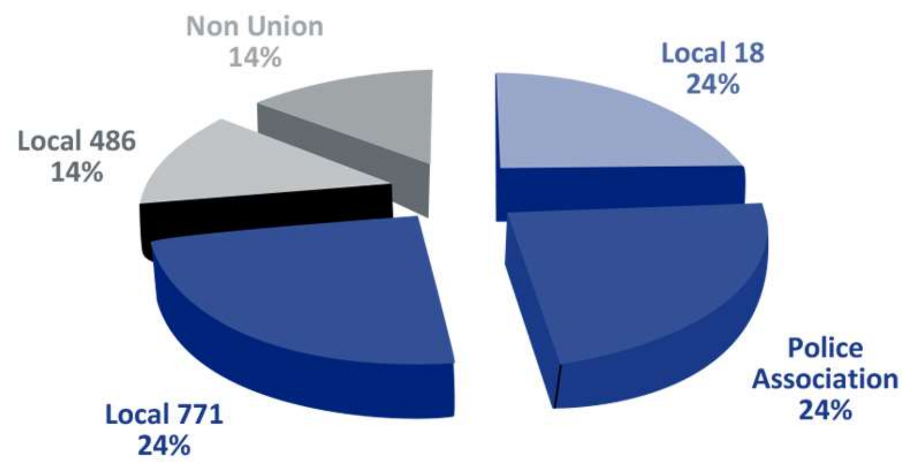


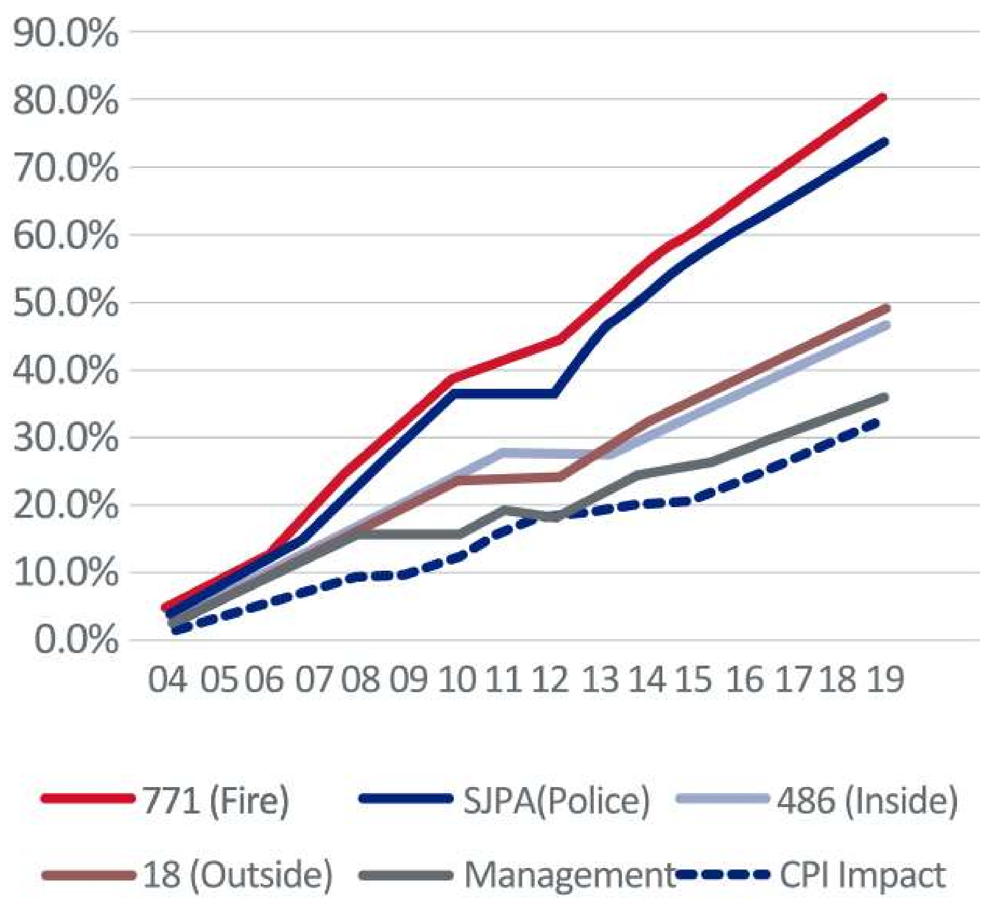
FIGURE 3.2 - 2018 WAGES



With less employees, the significance of the impact of the increases in salaries & wage expense is even greater. Wage rates for public safety employees have been increasing at a much faster pace than CPI and other employee groups within the City. Figure 3.3 presents the increase in wages by wage group between 2004 and 2019, as compared to CPI.

In addition to the challenge of rapidly rising wages and benefits expense, the City is faced with a high level of debt as well as the corresponding debt service costs. For years, the City has heavily relied on new debt to fund operations and renew infrastructure. For every dollar in revenue that is received, $0.11 is spent on debt service (2018 General Fund). On a consolidated level (including Water & Sewer Fund, agencies, boards & commissions), at the end of 2018, the City had a long-term debt balance of over $230 million which is the highest of any municipality in the Province. The General Fund alone accounts for $107 million of this total. Assuming no further debt is issued, the General Fund will be making almost $12.9 million in principal repayments in 2020, $12.4 million in 2021 and $11.7 million in 2021.

FIGURE 3.3 WAGES BY EMPLOYEE GROUP



Financial Environment Discussion & Analysis

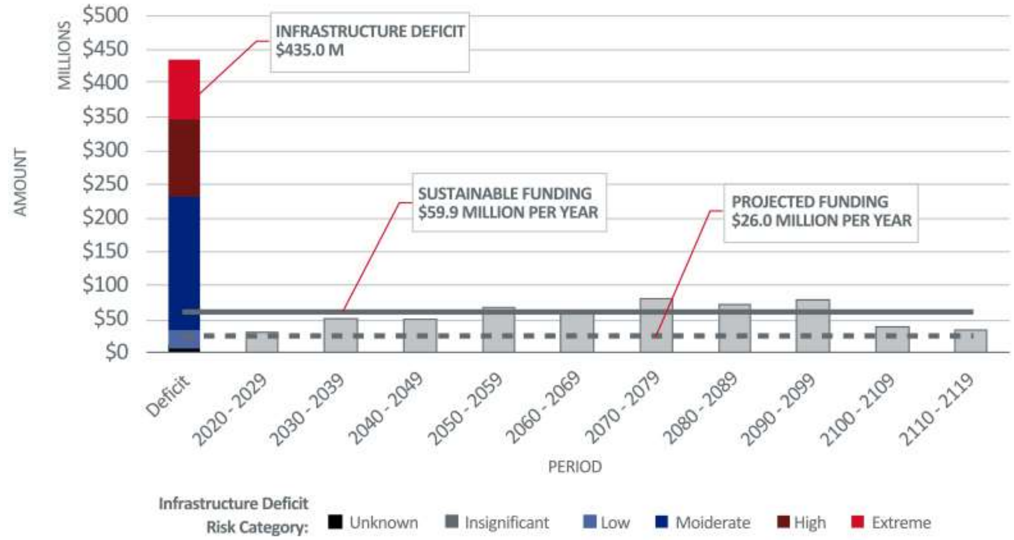
4. The Rising Infrastructure Deficit

The City is currently facing a $435 million infrastructure deficit. An infrastructure deficit is essentially the difference between the funding required for replacement, maintenance & repairs and the funding available. Following an extensive evaluation of the City's assets, a State of Infrastructure Report (SOTI) was prepared that evaluated all the assets and rated them based on their condition as well as the probability of failure and the consequence of failure.

It was determined that generally, assets are in Good to Fair condition however it is estimated that 19% of the City's assets are in poor or worse condition. Based on the current funding available of $26 million per year, the deficit will not improve. Approximately $60 million of funding per year is required to achieve sustainability. Compared to the current funding of $26 million per year, there is a $34 million gap in achieving sustainable funding.

In 2018, the General Fund's Infrastructure Deficit (excluding Saint John Water and Agencies, Boards and Commissions) was measured to be $121.4 Million. For the purposes of this long-term financial plan, we will be using this figure as the infrastructure deficit balance.

FIGURE 4.1 CONSOLIDATED SAINT JOHN INFRASTRUCTURE DEFICIT PROJECTION



Opportunities

Opportunities

While the financial environment may be challenging, there are opportunities available for the City. These prospects, if leveraged, will help address some of the financial challenges previously discussed.

1. The End of the Shared Risk Pension Top-up Contributions
On January 1st, 2013, the City converted its pension plan to a shared risk model. The objective of this new plan was to attain a minimum funded ratio of 150% (as calculated under Pension legislation). To achieve this ratio, the City is required to make additional contributions over and above its annual required contributions. As such, the city has been required to make an additional 17% of earnings for a period of 15 years. This additional contribution is typically approximately $9.5 million. These payments end in 2028.

2. Renegotiation of the Collective Agreements
At the end of 2019, three of the four union agreements are up for renegotiation. This will give the City the opportunity to work towards bringing total wages & benefits back into a range that is more affordable and to improve business flexibility. The following collective agreements expire on December 31, 2019:

- Local 18 – Outside workers
- Local 771 – Firefighters
- Police Union

3. Municipal Reform
Recently, the provincial government has presented a three-part plan to the City with the objective of achieving long-term sustainability. The three parts are as follows (Sustaining Saint John – A Three-Part Plan):

PART 1: Implement 20 Actions devised by a joint working committee of the Government of New Brunswick and City of Saint John officials.

PART 2: Establish a Regional Management Task Force to identify and agree on arrangements for shared service delivery and shared use of services within the region, and achieve equitable cost-sharing by March 31, 2020. The Task Force will be composed of Saint John region mayors and Local Service District representation.

PART 3: Re-assessment by the provincial government of the city's operational status in May 2020, to determine what, if any, further response is required.

This report presents many potential action items around municipal property tax reform, collective agreements, city boundaries and new revenue streams, to name a few. A few of these proposed initiatives will likely benefit the City in the short-term, such as the tax exemption for local government transit facilities and the monetization of Saint John Energy. Most significant action items such as municipal tax reform, the Province has commited to review by 2022. Of all action items presented in the Three Part Plan, four of these items would have the biggest impact on the City's road to sustainability:

- Regional Cost Sharing: There is a large quantity of residents who live in the adjacent communities and travel to the City to work and play. They pay taxes in their home communities but utilize the infrastructure, facilities and attractions that the City offers on a regular basis. There is also little doubt that without the City, these outside residents would not have jobs to buy homes and pay taxes to these outlying communities. The governments within these communities have shown little willingness to contribute to City infrastructure, thereby making it necessary for the Province to step in.

- Binding Arbitration Legislation: As previously mentioned, three of the four union contracts are up for renegotiation in 2020. The Firefighters and Police contracts are amongts the three up for renegotiation. The challenge that presents itself is that when the City and the public safety unions cannot agree on terms of a new contract, the case goes to binding arbitration. A third party arbitrator then decides on the terms of the contract, without consideration of the City's financial situation.

  This will not change without an amendment to the legislation.

- Municipal Tax Reform: Due to the current legislation in place, all municipalities in the province of New Brunswick have no control on property tax outside of the residental tax rate. As previously discussed, this is one of the largest barriers between the City and sustainability.

- Monetization of Saint John Energy: A change in legislation will enable the City to develop new revenue streams with Saint John Energy, including co-investing in new renewable energy generation opportunities and related utilty service growth opportunities. This will also allow for the formalized flow of dividends from the utility to the city. [1]

[1] Building a Sustainable Future for Saint John - A 2018 Provincial Election White Paper

Financial Principles

Financial Principles

The current financial state of the City of Saint John did not happen overnight. Infact, the road that has led to the present day is comprised of many factors and encompases numeous decisions. There is no magic fix available to the issues and the solutions will also not be realized overnight.

The only way to long-term financial security is to dilligently plan and then execute over the long-term. Four key financial principles have been identified: Sustainability, Flexibility, Vulnerability and Accountability.

Principle	Description & Importance	Implementation
Long-Term Sustainability	• “Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs.”[2] • A decision that may benefit the short-term may not necessarily be good for the long-term. This principle ensures that due care is taken to evaluate future considerations.	• Ensure goal congruence – operating & capital budgets, debt management & expenditures take into account the overall organizational long-term financial strategy. • Maintaining appropriate reserve fund balances • Evaluation of long-term impact of decisions. Dismissing options that are detrimental to long-term sustainability. • Exercising fiscal responsibility as it pertains to affordability and debt management.
Increased Flexibility	• Flexibility is the ability to cover expenditures while still having funds available for reserves, debt repayment, etc. • It is important to maintain a structurally sound operating budget where operating revenues naturally exceed operating expenditures to ensure the ability to meet future spending needs.	• Currently there is a structural deficit. Changes will be required to achieve a balanced structural budget. • Eventual elimination of infrastructure deficit will increase flexibility. • Reducing debt load will reduce principal and interest payments.
Reduced Vulnerability	• The city needs to reduce, if not eliminate it’s vulnerability to the need of provincial government assistance to meet its basic spending needs. • The ability to grow own source revenue to cover required expenditures	• To eliminate the reliance on provincial transfers to fund day-to-day operations • To be able to fund demands of tax base without the need for outside assistance
Accountability	• Accountability means that the City’s Senior Leadership and Council must be responsible to all stakeholders for the actions and results of this plan. • Accountability is important as it will ensure alignment of all departments and areas of the organization to ensure compliance to the plan.	• Establishment of clear financial indicators that evaluate actual results compared to planed results. • Monitoring of results on a regular basis • Making adjustments to goals, initiatives and actions when results are not consistent to desired outcome.

[2] https://www.investopedia.com/terms/s/sustainability.asp

Policies

Policies

The purpose of having a long-term financial plan is to have a road map to reach a defined set of goals. In the City's case, the number one goal is to be financially sustainable. Just like any other road trip, there are an unlimited number of routes that can be taken to reach the destination, in this case sustainability. Some routes are longer than others. Some itineraries will use more resources than others. The goal here is to find the path that will get the City to sustainability as quickly and efficiently as possible. A number of best practice policies have been adopted by council to help achieve this goal. These policies are meant to follow 6 key financial values:

1. Don't Spend More Money than you make

If every year a person uses credit cards to pay for things that they need, but can't afford, they will dig themselves a financial hole that will be very difficult to get out of. Every year, their debt levels will get higher and a larger portion of their money will go to funding their minimum payments. That is why it is important to only spend the money you have made, thereby living within your means. The Operating Budget Policy (FAS-004) was established to strengthen financial sustainability and reduce financial vulnerability. It is summarized as follows:

- Maintain a structurally balanced budget: Recurring operating expenses should be covered by recurring operating revenues
- The City needs to be able to function without having to rely on revenue sources outside of its control
- One time revenues should only be used for onetime expenses

2. Borrow Wisely

While it would be great to be able to pay cash for everything, the reality is that at some point or another debt will become a fact of life, especially when it comes to large ticket items such as houses or cars. The Debt Management Policy (FAS-006) sets out the acceptable conditions for the use of debt in addition to debt limits, targets and capacity. It stipulates that long-term debt will only be issued to finance projects approved in the Capital Budget and the Capital Investment Plan – never to fund operating or maintenance costs. The other key limits and targets are as follows:

Limits (From the New Brunswick Local Governance Act):

- Borrowings in any one year shall not exceed:
  - 4% of budget or $15k per year, whichever is greater
  - 2% of the assessed value of real property
  - Total amount borrowed shall not exceed 6% of the assessed value of real property

Key Performance Indicators of Debt Limits of the General Fund:

- Debt per Capita shall not exceed $1600
- The Debt Service Ratio shall not exceed 12%
- Total debt outstanding as a percentage of the Operating Budget shall not exceed 70%

Targets to be achieved by 2030:

- Debt per Capita of $1,175
- The Debt Service Ratio to be 9%
- Total debt outstanding as a percentage of the Operating Budget to be 50%

Policies

3. Save your Money for a Rainy Day

Everyone knows that surprises happen. There will always be unforeseen expenses that will come up and sometime the money to cover said expenses will not be available. So, in order to ensure the City remains in compliance with the Debt Management and Operating Budget policies, an Operating and Capital Reserves Policy (FAS-003) was created. This policy allows the City to set aside money to use for future operating expenses and capital expenditures. The stipulations are:

- Reserves are meant to provide for:
  - Major unanticipated events
  - Major Capital renewal
  - Future Liabilities
  - One time operating expenses which are greater than $100,000 that are not part of the operating budget
  - Infrastructure deficit
  - Investment growth opportunities

4. Take Good Care of your Property

When you own a car, you know that routine maintenance such as changing the oil and rotating the tires will help extend the life of your vehicle as well as minimize the operating expenses in the long run. Also, once the car gets old, there is an optimal time to replace it before the maintenance charges become too high. City assets are very similar and for that reason, an Asset Management Policy (FAS-001) was created. The specific objectives of the Asset Management Policy are to:

- Improve the reliability of customer service by maintaining clearly defined levels of service by maintain assets in good condition
- Improve the decisions related to the management of the City's assets
- Improve the transparency and accountability of community investments in the management of the City's assets.
- Improve the management of the City's exposure to risks of reduced service delivery
- Facilitate the leveraging of partnerships and infrastructure funding from external sources.

5. Take Control of Your Expenses before they take Control of You

For the majority of people who do not receive significant pay increases every year, the smallest of increase in basic expenses such as rent, mortgage payments and electricity have a major impact on their monthly spending. Think about how hard it would be to manage if your rent increased by 3% or so every single year, when your pay only increased by 1%. There will come a point where living in your apartment will simply not be affordable any longer. For the City, as described earlier in this report, total wage expenses have been increasing at a much faster rate than revenue. It is to this end that the Wage Escalation Policy (FAS-007) was created. This policy is meant to ensure that:

- The City spends within its means
- Wage escalation does not cause a tax rate increase in order to balance the General Operating Budget
- Wage escalation does not cause a reduction in service levels in order to balance the General Operating Budget
- Wage escalation does not exceed the City's assessment base growth
- All employee groups are treated equitably

Policies

6. Fix the roof before you buy new living room furniture

The Capital Budget Policy (FAS-005) of the City advises that the capital budget shall comprise of 90% capital renewal and 10% for new capital. It also prescribes the priority in which capital money is spent each year, specifying that capital projects will be completed in the following order:

1. Mandatory
2. Risk
3. Priority of Council
4. Positive Financial Impact
5. Discretionary

This means that given the limited available money to spend, the leaky roof will need to be replaced before pretty new living room furniture can be purchased. The Capital budget policy follows four key principles and strategies: affordability, ownership, fiscal responsibility and asset management.

Priorities and Public Consultation

Priorities

In addition to taking into account all the above items, the Ten Year Financial Plan will take into consideration Council's Priorities as defined in 2016. These priorities are divided into four categories:

- Growth & Prosperity
- Vibrant, Safe City
- Valued Service Delivery
- Fiscally Responsible

The full list of Council's Priorities can be found in Appendix A.

Public Consultation

In March of 2019, the City of Saint John completed a public consultation process to collect input into the development of this financial plan. The budget simulator sought feedback on 15 different services currently delivered by the City. Participants were asked to balance the City's budget by using a slider feature to decide whether they would increase or decrease a budget for a particular service. The total financial impact of the reductions or increases were shown in the tool to allow for the participants to see the impact of their choices. A summary of quantitative responses can be found in Appendix B. Please refer to the full report "*Saint John, What are your Plans for 2021: A report of the Long Term Financial Plan Public Consultation Results*" for further detail.

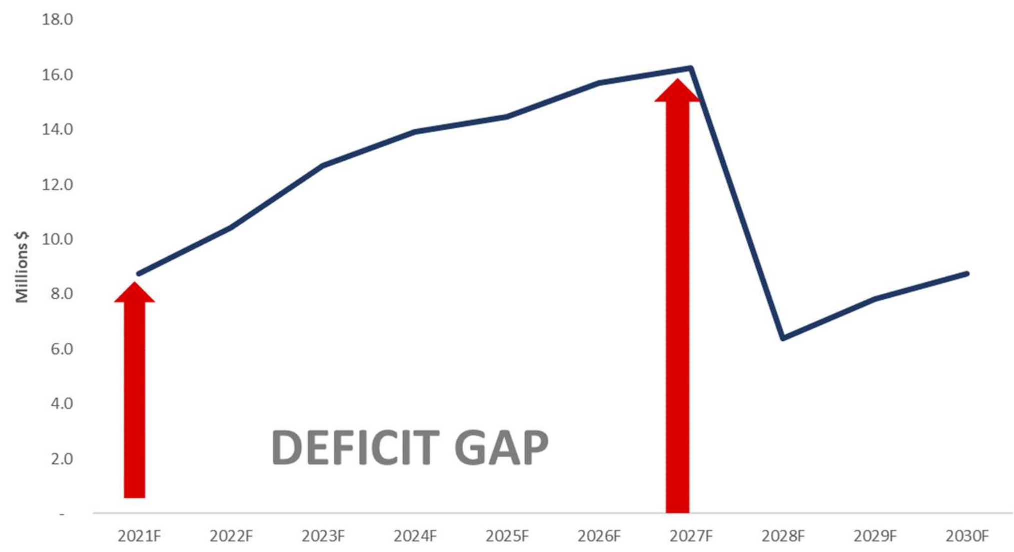
Baseline Financial Forecast – Identifying the Gap

Baseline Financial Forecast – Identifying the Gap

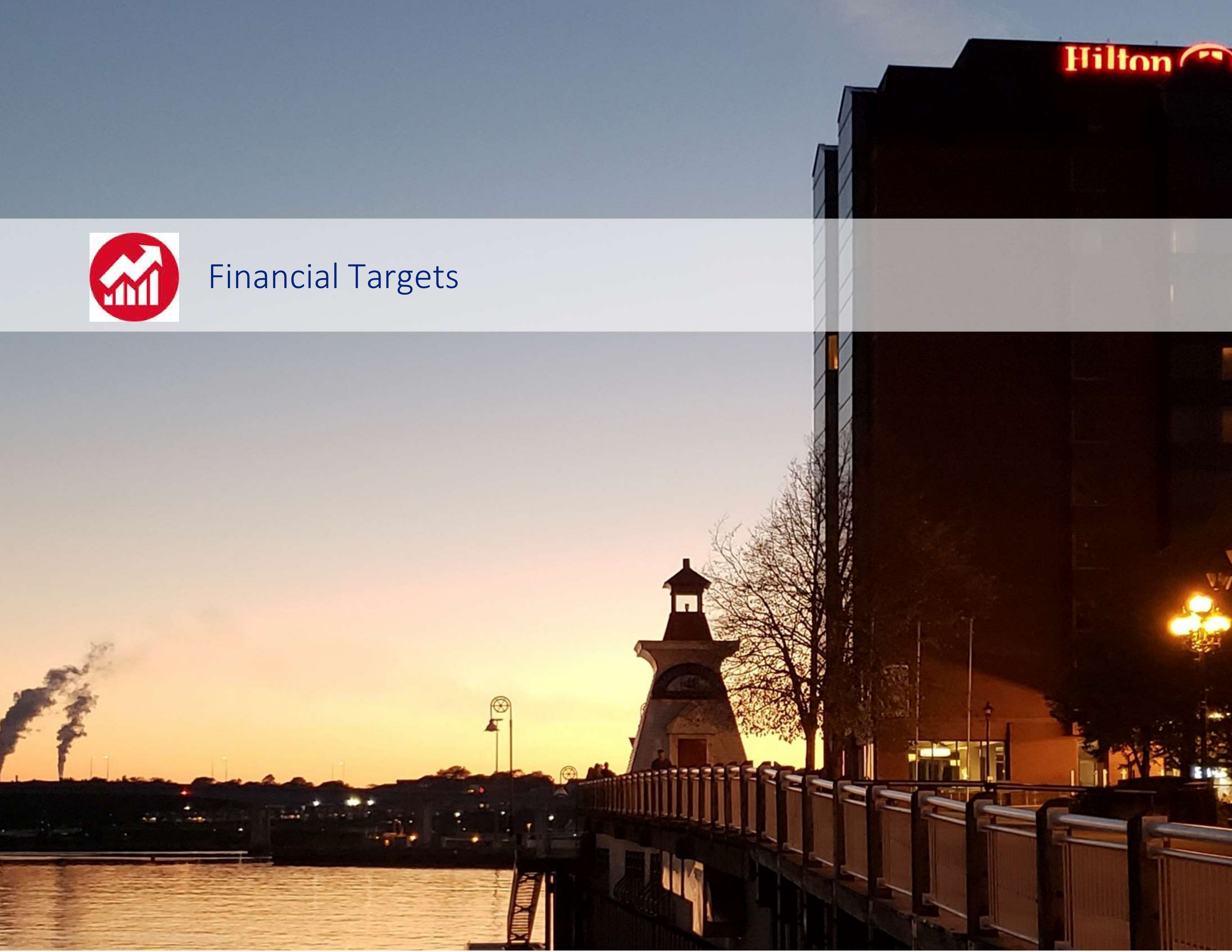
There is little doubt that the road to sustainability will not happen without significant change. If wages continue to escalate at historical rates, the City's financial future will be highly uncertain. While the extra pension payments will end in 2027, wages will have escalated to a point where large annual deficits will be the norm without further Provincial Government bailouts. Even with the $11 million annual pension savings, large operating deficits will still loom.

Once the Provincial temporary financial assistance ends in 2020, a $9 million dollar shortfall is projected. Thererticallly speaking, if expenses continue to oupace revenues this shortfall would continue to rise to $13 million by 2023 and exceed $16 million in 2027. Figure 5.1 illustrates the projected deficit over the next 10 years if no changes are made.

FIGURE 5.1 PROJECTED ANNUAL DEFICIT



Financial Targets



Financial Targets

Over the past few years, the Finance Committee has approved a number of key financial policies to guide decision making around long-term financial planning. Within these policies, the Finance Committee has set targets that serve as the foundation of this financial plan.

Financial sustainability will be achieved by following these policies to achieve the targets and by restructuring in 2020 to realign expenses to revenues. Based on the City's adopted Principles, Policies and Priorities, achieving the following financial targets have been identified as critical to sustainability:

Policy	Measure	Target	Due Date
Operating Budget Policy	Structural budget	Maintain a structurally balanced budget	Annual
Debt Management Policy	Debt per capita	Reduce to $1,175	December 31, 2030
Debt Management Policy	Debt Service Ratio	Reduce to 9%	December 31, 2030
Debt Management Policy	Debt Outstanding as a % of Operating Budget	Reduce to 50%	December 31, 2030
Operating and Capital Reserves Policy	Operating fund balance	Maintain a minimum of $2 million for unforeseen expenditures	On going
Asset Management Policy	Infrastructure Deficit	Reduce by 25%	December 31, 2030
Wage Escalation Policy	Annual Wage Escalation %	Less than property tax growth	Annual
Debt Management Policy	Debt Balance	Reduce by 25%	December 31, 2030
Various	Pay-as-you-Go	Increase to $12 million annually	December 31, 2030

Financial Strategy

Financial Strategy – Base Case

2020 Transition Budget – Addressing the Gap

The operating year of 2020 will be marked as one of transition for the City. Currently, there is no flexibility in our operating expenses. Therefore, operating expenses will be reduced by a minimum of $10 million dollars pursuant to the City Manager's restructuring plan. Following the direction of Council, more specifically, the City will:

- Reduce wages in 2020 by $5,000,000
- Reduce other goods and services in 2020 by $5,000,000

These reductions in 2020 will allow 2021 to begin on a path towards sustainability. Under the direction of the City Manager, a number of initiatives will be undertaken, including numerous Continuous Improvement initiatives and a planned workforce reduction.

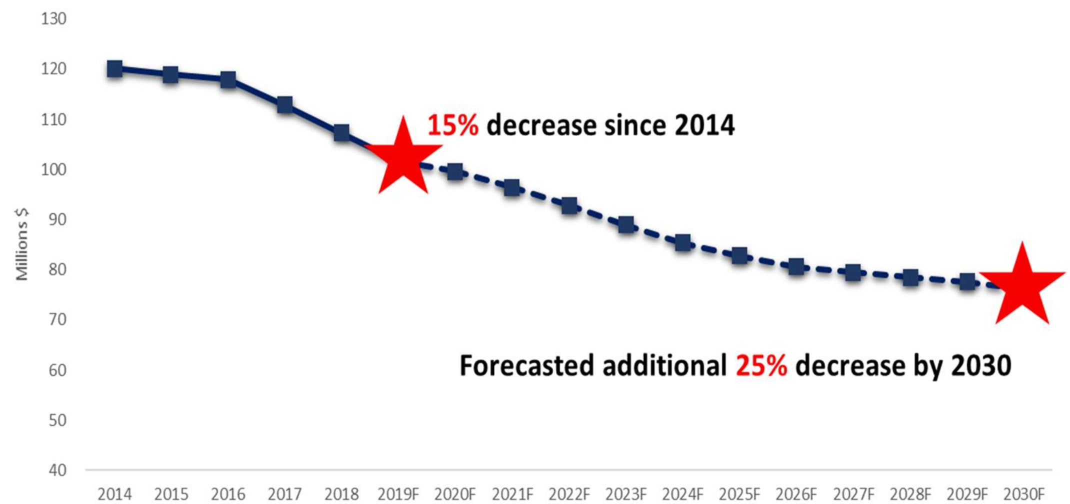
Base Case 10 Year Financial Plan

The Base Case financial plan scenario is founded on the possible. It focuses on the opportunities within the City's control and sets attainable goals.

The following has been assumed within the Base Case Financial Plan:

- Property tax assessment growth of 1.5% per year (2020 Actual is 1.83%)
- Pay-as-you-Go increase by an average of $1 million per year
- Inflation of goods and services of 1.5% per year
- Tax remains stable at $1.785
- Interest rate on new borrowing at 3.0% per annum
- Unconditional Grant from the Province of New Brunswick remains stable at 2020 level

FIGURE 6.1 GENERAL FUND LONG-TERM DEBT BALANCE



Appendix C summarizes the 10 year annual operating results of the Base Case financial model.

The 10 year baseline forecast in Appendix C meets all of the financial targets. Specifically, the budget is balanced, the total debt load has been reduced, and infrastructure deficit declines by 2030. Figure 6.1 displays the long-term debt balance from 2014 to 2030.

Financial Strategy – Base Case

Figure 6.2 presents the breakdown between existing (as of 2019) long-term debt and new long-term debt balances expected to be undertaken in the next 10 years.

In addition to meeting the long-term debt balance targets, the 10 year financial plan meets the 25% reduction of the infrastructure deficit. Figure 6.3 lays out the forecasted infrastructure deficit including projected invested capital and CIP requirements based on the SOTI report.

FIGURE 6.2
PROJECTED LONG-TERM DEBT BALANCE

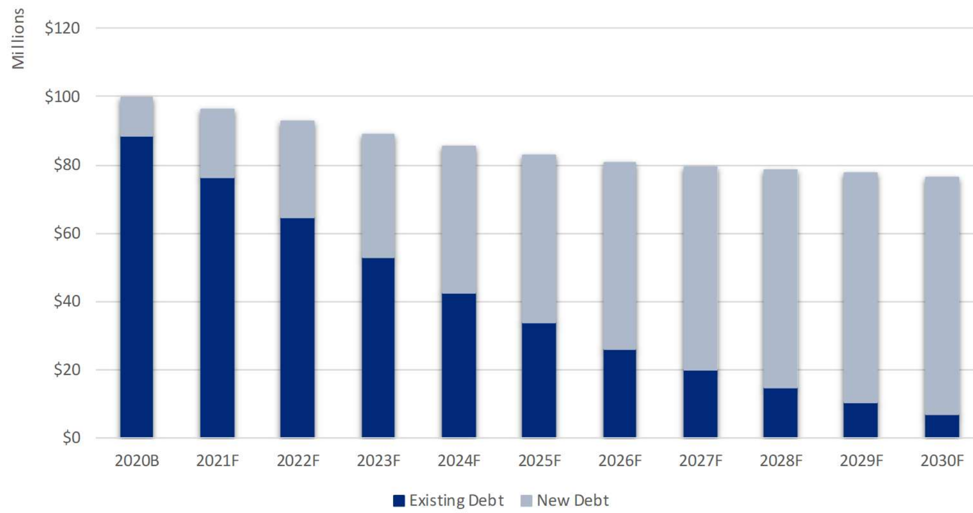
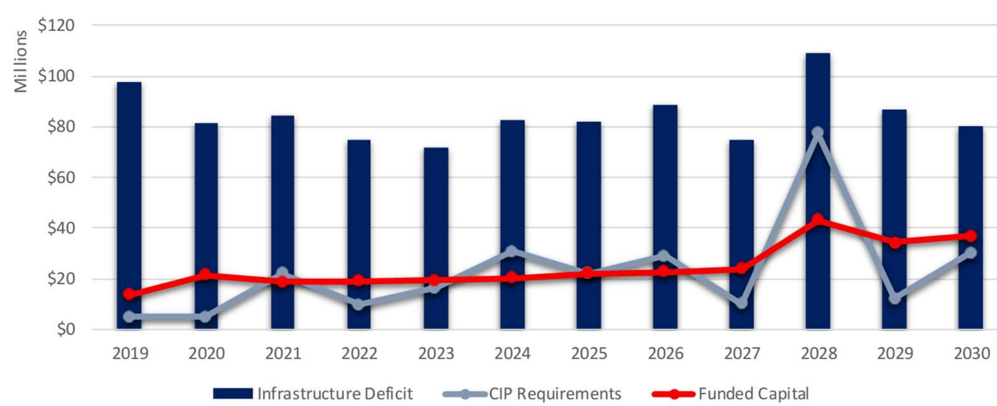


FIGURE 6.3
PROJECTED INFRASTRUCTURE DEFICIT



Financial Strategy – Stretch Goal

Stretch Goal 10 Year Financial Plan

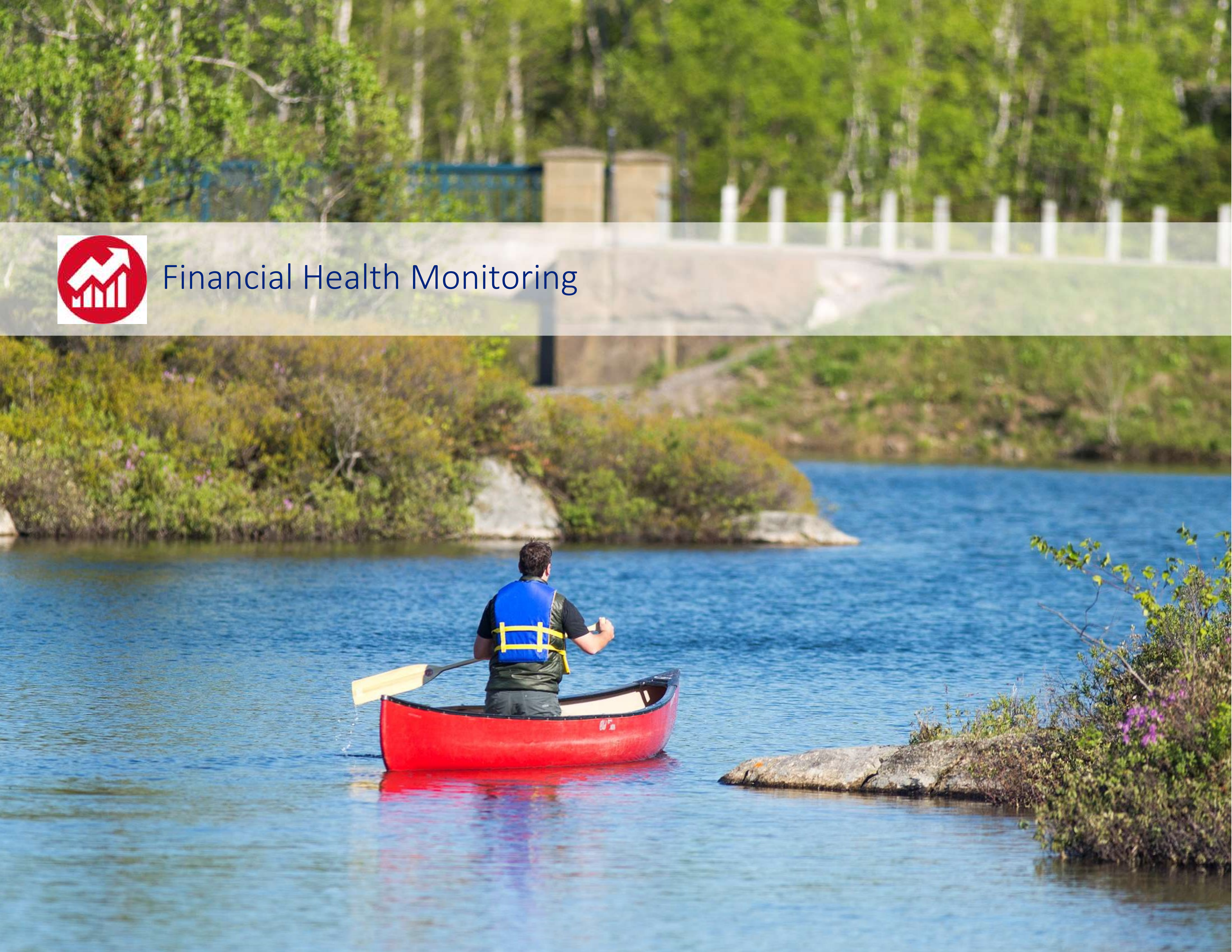
The baseline case financial plan provides a roadmap to sustainability based on conservative assumptions and financial targets. But what happens if some of the growth initiatives that have been underway start to affect population in a positive way? Or what happens if the Province of New Brunswick undertakes changing property tax legislation that makes property taxes the domain of municipalities or would allow municipalities the ability to implement a more "fair" taxation structure? Or what happens is Saint John Energy grows and the City benefits through a new dividend structure. It is highly possible that some of the opportunities that have been discussed could happen. It is possible that they could all happen to varying degrees, impacting the financial situation for the better. The Stretch Goal case takes into account the positive financial impact that these initiatives could have on the City's financial situation. The assumptions that have been made in this case are:

- 3% Property Tax Base growth (Municipal Tax Reform, Population Growth, Investment in Economic Development)
- Empowerment of municipalities to generate their own revenue
- Pay-as-you-Go increase by $1.250 million per yea
- Inflation of goods and services of 1.5% per year
- Cost of new borrowing 3.0% per annum
- Unconditional Grant for the Province of New Brunswick remains stable at 2020 level
- Saint John Energy Dividends: based on the modest case as provided by SJE
- Regional cost sharing
- Regionalization of services
- Binding arbitration reform

The tax rate is summarized in Figure 7.1. Appendix D summarizes the 10 year annual results of the Stretch Goal financial model.

FIGURE 7.1 – TAX RATE									
2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
$1.775	$1.775	$1.765	$1.765	$1.700	$1.700	$1.700	$1.570	$1.570	$1.570

Financial Health Monitoring



Financial Health Monitoring

Now that the path to sustainability has been defined and the targets set, the key will be to monitor actual results as they compare to the plan and make updates where necessary. Bi-annual monitoring will be done by the Finance Committee for annual update and presentation to Council. In order to achieve subjective monitoring, a Financial Health Scorecard will be used to track the progress compared to the plan. Exhibit 8.1 presents the financial health scorecard for 2021 based on the Long-Term Financial Plan base and stretch cases.

Additionally, it is recommended that an organization-wide Balanced Scorecard system be implemented to help monitor the progress of the plan. As defined on Investopedia, "a balanced scorecard is a strategic management performance metric used to identity and improve various internal business functions and their resulting external outcomes. Balanced scorecards are used to measure and provide feedback to organizations.

Data collection is crucial to providing quantitative results as managers and executives gather and interpret the information and use it to make better decisions for the organization." This tool has been widely accepted in the business world for many years and is proven to be very effective. It is recommended that a Scorecard be created at the city level and cascaded down to each service area in the first quarter of 2020. This initiative will create alignment across the City and allow each area to see how their decisions and strategic plans impact the big picture.

EXHIBIT 8.1 – FINANCIAL HEALTH SCORECARD 2021	PRINCIPLE	PLAN	STRETCH
Debt per Capita	Sustainability	$1,427	$1,427
Assessment Growth	Sustainability	1.5%	3.0%
Debt Service Ratio	Sustainability	10.5%	10.5%
Tax Rate	Flexibility	$1.785	$1.775
Total Debt as a % of Operating Budget	Sustainability	60%	59%
Cumulative Debt Reduction (Millions $) since ending 2019	Sustainability	$5.1	$5.1
Pay-as-you-Go Contribution	Flexibility	$3,000,000	$3,250,000
Infrastructure Deficit Reduction since 2018	Sustainability	2.5%	2.5%
Unconditional Grant (% of Total Revenue)	Vulnerability	10.1%	9.9%
Total People Cost (% of Total Revenue)	Flexibility	57%	56%

Conclusion

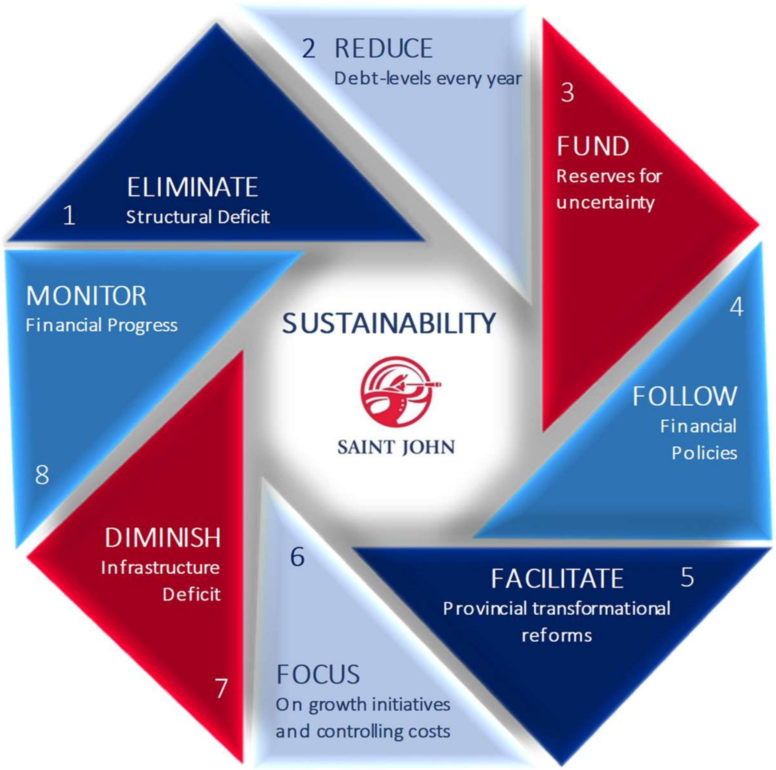
Conclusion

This is the City of Saint John's first Long-Term Financial Plan. It has been developed to ensure the City remains finanically strong and so that Council's today and tomorrow have the best possilbe financial advise and best financial practices in place to make informed decisions. Fortunately, the City has already on course to changing its financial state. The financial policies that Common Council have approved in conjunction with the strong collaboration with the Provincial Government on various municipal transformational reforms are placing the City on the right path.

The Long-Term Financial plan reaffirms to both Council and its taxpayers that the City is accountable and transparent and is committed to ensuring the City is sustainable and is in a financially healthy position into the future.

To summarize the road to sustainability and the financial plan in one graphic, Figure 9.1 outlines the steps that need to be taken in achieving a sustainable Saint John.

FIGURE 9.1 THE STEPS TO ACHIEVE SUSTAINABILITY



Appendices

Appendix A: Council's Priorities: 2016-2020

Through good governance and with the support of the community, our focus is on growing Saint John. By being fiscally responsible, the City delivers services that contribute to a vibrant, attractive and prosperous city.

Growth & Prosperity

Saint John is recognized by residents and businesses as a positive and supportive city. We grow in a smart way and attract talent, innovation and opportunities so all people can thrive.

GrowSJ

- Drive development in accordance with PlanSJ that *creates density* required for efficient infrastructure and services.
- Promote Saint John as a community to live, work and play to *grow the residential tax base*.
- Advocate for *equitable taxation* among residents, commercial businesses, institutions and industry.

Strong Economy

- Ensure Saint John has a *competitive business environment* for investment.
- Support the retention and attraction of businesses that *create job opportunities*.

Key Performance Indicators

- Building permit values (Primary Development Area and city)
- Change in tax base assessment within the city
- Return on investment from development incentives
- Change in population
- Change in number of new businesses in the city

Vibrant, Safe City

Saint John is home to unique, livable neighbourhoods that offer a variety of housing options and appropriate transportation choices. Residents celebrate our history, enjoy a variety of cultural and recreation activities, and appreciate our greenspaces and waterways.

Great Neighbourhoods

- *Develop neighbourhoods* through planning that aligns with PlanSJ and includes:
  - Accessible, reliable and cost-effective *public and active transportation*
  - Streetscape *beautification*
  - Modernization of *heritage preservation* processes
  - *Park and greenspace* investment that aligns with PlaySJ
- Ensure that the delivery of efficient *public safety services* address the evolving needs of a growing community.

Vibrant City

- Invest in *arts, culture and recreation* experiences that create a sense of community pride.

Key Performance Indicators

- Percentage of fire incidents contained to the point of origin
- Crime incident trends
- Resolution rate for property issues related to by-laws
- Participation at arts, culture and recreational events
- Number of City-supported community-led programs and initiatives

Valued Service Delivery

Saint John invests in sustainable City services and municipal infrastructure. Our community is engaged and understands what they can expect from service delivery.

Asset Management

- Develop an integrated *asset management plan* that aligns with PlanSJ to prioritize investment.
- Invest in strategic *road improvements*.

Appendix A: Council's Priorities: 2016-2020

Customer-Focused Services

- Explore *service improvements* through innovation, technology and developing partnerships with other organizations.
- Define *service levels* for all City services.
- Implement *mandate letters* with the City's agencies, boards and commissions to define expectations.

Key Performance Indicators

- Pavement Condition Index (Ratio of lane-km in 'good' or 'satisfactory' condition)
- Reliability of water and wastewater systems
- Work request completion ratio (# requests completed to # requests entered)
- Infrastructure deficit

Fiscally Responsible

Saint John takes a strategic approach to financial management that is equitable, balanced and efficient. Decision-making is in line with our strategic plans to ensure our financial sustainability.

Financial Health

- Develop *long-term sustainable financial plans* and budgets that align capital investment and fiscal capacity with service objectives.
- Investigate options to *allocate water costs* among ratepayers.
- *Report on performance metrics* to show effective service delivery and good fiscal management.

Innovation and Improvement

- Advance a culture of *continuous improvement* to drive operational efficiencies.
- Leverage opportunities to *generate alternative revenue* sources.

Key Performance Indicators

- Total debt as a percentage of annual revenue
- Revenue from own sources as a percentage of total revenue
- Capital from operating as a percentage of operating budget
- Percentage of continuous improvement savings in relation to stated targets

Summary of Quantitative Responses

Addressing the Budget Shortfall

Based on the options provided to participants in the Budget Simulator tool to balance the budget, on average participants are willing to accept a decrease in current service levels. The amount of decrease varies based on the service area, with reductions ranging from 1.5% to 19% in respective budget allocations. In summary, budget reductions were identified across all service areas as outlined in Table 2. More specifically:

- Average percentage budget reductions were higher for Economic Development, Transit Services, Recreation Programming, Sports Facilities and One Stop Development Shop /Property Compliance Programs; and
- Average percentage budget reductions were lower for Road Maintenance and Snow Control Streets and Sidewalks.
- In terms of dollar allocations, the highest average budget reductions were in Police Services, Fire Rescue and Suppression Services and EMO, Economic Development, and Transit Services.

Participants in the budget simulator indicated that they would accept a slight increase in property tax rates; the average increase of property tax rates was close to a one-cent increase. The participant results on property taxes are described in Table 3. Summarized responses with renters and non-residents removed were as follows:

- 50% of participants either chose to maintain the tax rate or decrease the tax rate
  - 32% of participants did not change the tax rate
  - 18% of participants chose to reduce the tax rate
- 50% of participants chose to increase the tax rate

When including renters and non-residents, slightly more participant chose to increase the tax rate.

On average, participants were able to reduce the budget shortfall by $3.9 Million (43% of $9 million goal). These results are inclusive of both cost reductions and increases in revenue. Average service area results are shown in Table 2. The impact of a decrease in funding for each service is outlined in Appendix A as determined by the average change in funding submitted by participants.

Appendix B: Saint John, what are your plans for 2021?

Table 2: Average Change in Operating Costs and Revenue by Service

Service	Projected 2021 Budget	Average % Submitted Change	Average Increase/ Decrease in Budget
Public Safety Services			
Police Services	$27,804,299	-4.48%	-$1,245,633
Fire Rescue and Suppression Service and EMO	$26,550,521	-3.33%	-$884,132
Transportation Services			
Snow Control Streets and Sidewalks	$7,398,882	-2.73%	-$201,989
Roadway Maintenance	$7,052,442	-1.47%	-$103,671
Sidewalk Maintenance	$846,321	-3.41%	-$28,860
Pedestrian & Traffic Management Service	$2,505,962	-4.25%	-$106,503
Environmental Services			
Solid Waste Management	$4,007,889	-3.98%	-$159,514
Stormwater Management	$4,028,715	-3.16%	-$127,307
Parks & City Landscape	$3,523,599	-3.67%	-$129,316
Growth and Community Development			
Growth and Community Planning	$1,962,108	-4.36%	-$85,548
One Stop Development Shop / Property Compliance Programs	$3,032,453	-5.84%	-$177,095
Growth and Community Development- Economic Development			
Growth Outcomes (includes Economic Development Greater Saint John, Develop SJ, Discover Saint John, Growth Reserve Fund and Population Growth)	$2,943,504	-18.94%	-$557,500
Transit Services			
Transit Services	$5,976,781	-7.88%	-$470,970
Recreation Programming			
Recreation Programming, Support/Pro-Kids and Neighborhood/Community Hockey Grants	$2,485,336	-6.10%	-$151,605
Sports & Recreation Facilities	$3,712,575	-5.21%	-$193,425
Property Tax			
Property Tax	$124,995,178	0.53%	$662,474
Change in Budget			-$3,960,595
Projected 2021 Shortfall			$9,000,000
Remaining Deficit			$5,039,405

Appendix B: Saint John, what are your plans for 2021?

Table 3: Property tax responses

Change in Taxes	# Respondents	% Respondents	% Respondents (Renters and Non-Residents Removed)
+ 3 Cents	174	32%	28%
+ 2 Cents	60	11%	11%
+ 1 Cent	62	11%	10%
No Change	161	29%	32%
- 1 Cent	41	7%	8%
- 2 Cents	18	3%	4%
- 3 Cents	37	7%	7%

Appendix C: Base Case Model Output

CITY OF SAINT JOHN
BASE CASE GENERAL OPERATING FUND FORECAST
YEAR ENDED DECEMBER 31

	2020B	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
REVENUES											
Property Taxes	127,966,924	129,847,070	131,755,417	133,692,389	135,658,415	137,653,932	139,679,382	141,735,214	143,821,882	145,939,851	148,089,590
PILT Adjustment	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185
Equalization & Unconditional Grant	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081
Financial Assistance	8,242,960	-	-	-	-	-	-	-	-	-	-
All Other Revenues	14,366,274	14,383,880	14,446,800	14,510,034	14,573,584	14,637,452	14,701,639	14,766,147	14,830,978	14,896,133	14,961,614
TOTAL REVENUES	166,708,424	160,363,216	162,334,482	164,334,688	166,364,265	168,423,650	170,513,287	172,633,627	174,785,127	176,968,250	179,183,470
EXPENDITURES											
Salaries & Benefits	81,948,928	80,654,152	81,879,574	83,107,768	84,354,384	85,619,700	86,903,996	88,207,556	89,530,669	90,873,629	92,236,733
Other Goods and Services	52,862,736	47,875,927	48,346,310	48,874,255	49,410,118	49,954,020	50,506,080	51,066,421	51,635,168	52,212,445	52,798,382
Fiscal Charges											
Interest	3,725,523	3,613,658	3,382,868	3,243,372	3,092,920	2,956,059	2,852,796	2,775,524	2,716,126	2,673,620	2,504,223
Principal	12,924,752	13,188,323	13,125,396	13,378,310	13,088,407	12,097,000	11,725,333	10,591,667	10,458,000	10,397,333	9,930,667
	151,461,939	145,332,060	146,734,148	148,603,705	149,945,830	150,626,779	151,988,205	152,641,168	154,339,963	156,157,027	157,470,005
Previous Year's (Surplus) Deficit	119,915	-									
Other Charges											
Pension	9,575,000	9,222,331	9,362,521	9,502,959	9,645,504	9,790,186	9,937,039	10,086,094	-	-	-
LTD	661,570	661,570	661,570	-	-	-	-	-	-	-	-
Capital from Operating	2,000,000	3,050,000	4,300,000	5,550,000	6,500,000	7,750,000	8,250,000	9,500,000	10,750,000	12,000,000	13,600,000
Other Charges	2,340,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Transfer to Reserve	550,000	1,797,256	976,243	378,024	(27,068)	(43,315)	38,043	106,364	9,395,164	8,511,223	7,813,465
	15,126,570	15,031,157	15,600,334	15,730,983	16,418,436	17,796,871	18,525,082	19,992,458	20,445,164	20,811,223	21,713,465
TOTAL EXPENDITURES	166,708,424	160,363,216	162,334,482	164,334,688	166,364,265	168,423,650	170,513,287	172,633,627	174,785,127	176,968,250	179,183,470

Appendix D: Stretch Case Model Output

CITY OF SAINT JOHN
STRETCH CASE GENERAL OPERATING FUND FORECAST
YEAR ENDED DECEMBER 31

	2020B	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
REVENUES											
Property Taxes	127,966,924	131,727,215	135,600,313	139,589,603	143,698,573	140,886,487	145,038,112	149,314,285	141,963,781	146,153,458	150,468,824
PILT Adjustment	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185
Equalization & Unconditional Grant	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081
Financial Assistance	8,242,960	-	-	-	-	-	-	-	-	-	-
Saint John Energy Dividends	-	500,000	500,000	2,000,000	2,200,000	2,400,000	2,600,000	2,800,000	3,000,000	3,000,000	3,000,000
All Other Revenues	14,366,274	14,383,880	14,446,800	14,510,034	14,573,584	14,637,452	14,701,639	14,766,147	14,830,978	14,896,133	14,961,614
TOTAL REVENUES	166,708,424	162,743,361	166,679,378	172,231,903	176,604,423	174,056,205	178,472,017	183,012,699	175,927,025	180,181,856	184,562,704
EXPENDITURES											
Salaries & Benefits	81,948,928	81,408,175	83,239,171	85,111,857	86,761,951	88,445,341	90,162,723	91,914,811	93,702,332	95,526,029	97,386,662
Other Goods and Services	52,862,736	47,875,898	48,366,686	48,915,955	49,474,094	50,041,255	50,617,594	51,203,268	51,798,437	52,403,267	53,017,922
Fiscal Charges											
Interest	3,725,523	3,613,658	3,382,868	3,243,372	3,092,920	2,956,059	2,852,796	2,775,524	2,716,126	2,673,620	2,504,223
Principal	12,924,752	13,188,323	13,125,396	13,378,310	13,088,407	12,097,000	11,725,333	10,591,667	10,458,000	10,397,333	9,930,667
	151,461,939	146,086,054	148,114,121	150,649,494	152,417,372	153,539,655	155,358,446	156,485,270	158,674,895	161,000,248	162,839,473
Previous Year's (Surplus) Deficit	119,915	-	-	-	-	-	-	-	-	-	-
Other Charges											
Pension	9,575,000	9,308,219	9,516,646	9,729,799	9,916,251	10,106,418	10,300,378	10,498,208	-	-	-
LTD	661,570	661,576	661,576	-	-	-	-	-	-	-	-
Capital from Operating	2,000,000	3,250,000	4,500,000	5,750,000	7,000,000	8,250,000	9,500,000	10,750,000	12,000,000	13,250,000	14,500,000
Other	2,340,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Transfer to Operating Reserve	- -	362,488	87,035	802,610	670,800	1,860,132	2,413,193	2,979,221	2,652,130	2,538,867	2,923,231
Transfer to Capital Reserve	550,000	3,500,000	3,500,000	5,000,000	6,300,000	-	600,000	2,000,000	2,300,000	3,092,741	4,000,000
	15,126,570	16,657,307	18,565,257	21,582,409	24,187,051	20,516,550	23,113,571	26,527,429	17,252,130	19,181,608	21,723,231
TOTAL EXPENDITURES	166,708,424	162,743,361	166,679,378	172,231,903	176,604,423	174,056,205	178,472,017	183,012,699	175,927,025	180,181,856	184,562,704

Table of Contents

Introduction

The City of Saint John has the third largest population base in New Brunswick at 67,575 residents (2016 Census). It is however, New Brunswick's largest city, covering an area of 316 square kilometers. In fact, both Fredericton (133 km²) and Moncton (142 km²) would fit within the boundaries of the city. Saint John CMA's population stands at 126,202 (2016 Census). According to Statistics Canada, the Greater Saint John CMA posted positive population growth (+4.3 per thousand) for a third consecutive year after four years of population decline (Annual Demographic Estimates: Sub provincial Areas, July 1, 2018). The majority of the region's population growth is from international migration. The Uptown Saint John area has led the region's population growth with a rate of +15%, which stands in contrast to a 2.2% decline in the City as a whole and a 0.5% provincial decline. (Statistics Canada) Saint John's median age is 43.9 years which is higher than the Canadian average of 40.8.

Saint John CMA is a very cost effective place to live as its current average cost of a home is $188,973 (CREA) compared to the Canadian average of $498,943.

Employment rates historically for the City has been more favorable than New Brunswick in aggregate but has underperformed in comparison to Canada as a whole. The Greater Saint John region is strategically important for New Brunswick as it is home to Port Saint John and the industries that account for the bulk of international export revenue. Saint John's Port is Eastern Canada's largest port by volume and has a diverse cargo base, handling an average of 28 million metric tonnes of cargo annually, including dry and liquid bulks, break bulk, and containers. (www.sjport.com) The City of Saint John and surrounding area generates between 20 and 25% of provincial GDP. The city is home to New Brunswick's primary industrial base, including Canada's largest oil refinery, which was responsible for $7.6 billion in merchandise exports or nearly 60% of New Brunswick's total exports in 2017. Saint John is also New Brunswick's energy hub and is in close proximity to many of the province's top tourism assets. Saint John is also a major health care center within the Maritime Provinces.

There are many reasons why Saint John should be attracting additional population. For example, crime rates within the city have shown great improvement over the past 10 years. Instances of violent crimes have decreased by 24%, property crimes by 37% and impaired driving charges by 36%. Additionally, Saint John Energy has the lowest power rates in the region. The rate per kWh is $10.28, compared to the NB Power rate of $11.18 per kWh. Finally, the ease and affordability of travel from Saint John has been improving over the past few years and will continue to improve as the passenger numbers increase. The Saint John Airport has attained 282,217 passengers in 2018 which is 12.5% growth since 2016 and 19.6% since 2013. This growth has allowed large investments to be made in terminal improvements and a new airfield to accommodate further growth. Passenger travel is expected to increase to 500,000 by 2025. (www.saintjohnairport.com)

Following years of numerous financial challenges, the City is currently not on a sustainable financial path. The challenges that have led us to the current state can be summarized into the following key areas:

1. Stagnate tax base and population growth
2. The restrictions of the New Brunswick property tax system
3. The rising costs of labour and high debt service costs
4. The rising infrastructure deficit

In addition to challenges that are characteristic to our current environment, there are also a number of barriers that are preventing change. They are summarized as follows:

1. Restrictive Collective Agreements
2. Binding Arbitration
3. No Flexibility in operating expenses
4. Significant funding of temporary pension payments
5. Significant debt load
6. Infrastructure deficit
7. New Deal obligations
8. Geographic footprint
9. Cost of industry

These challenges and barriers to change have not suddenly appeared. Addressing these issues will require a long-term strategic approach. **This is the City of Saint John's first long-term financial plan.** This plan is rooted in financial best practices and anchored by strong corporate governance and best practice financial policies. The plan sets goals and targets, and measured and monitored through an annual scorecard. The long-term financial plan is a road map to sustainability and the foundation for an organizational culture shift in managing finances. The annual budget process is not enough to reach sustainability, as it does not take into consideration the future implications of current financial decisions. This report will provide a detailed discussion the financial strategies that will be undertaken in a ten year financial plan that is expected to lead the City to financial sustainability.

Financial Environment Discussion & Analysis

Financial Environment Discussion & Analysis

1. Stagnate Tax Base and Population Growth

Unlike New Brunswick's other two major cities, Saint John's population has been declining in the past decade. Moncton and Fredericton have experienced a steady population growth, while Saint John's population is less than it was in 1996, as shown in Figure 1.1. Specifically, the population of Saint John in 2016 is 24% less than it was in 1971. In addition to the population reduction, the city has grown substantially in size. In 1967, a major regional amalgamation occurred that increased the physical size of the city, in addition to its population. As a result, the population density has shown a significant decrease throughout the years, as shown in Figure 1.2. Since the amalgamation of Lancaster, Saint John & Simonds, the population has been steadily decreasing within city boundaries while the population of the greater Saint John area has been growing. Outlying communities such as Rothesay, Quispamsis & Grand-Bay Westfield have experienced steady growth.

The major reason for population erosion has been spillover; the urban sprawl to outlying communities such as Rothesay, Quispamsis, Grand-Bay Westfield and Hampton. Exchanging a short commute for lower property taxes and a non-industrialized environment, employees of the large employers within the city are choosing not to live within city limits. Within the region, the city is home to most businesses with over 100 employees. Neighbouring communities depend on Saint John for employment and access to recreation, leisure, and entertainment facilities. It is estimated that more than 15,000 residents from outlying communities commute to Saint John each weekday. Figure 1.3 depicts the shift in population density over the years. Figure 1.4 presents the population revolution of the greater Saint John area.

FIGURE 1.1 POPULATION BY CITY

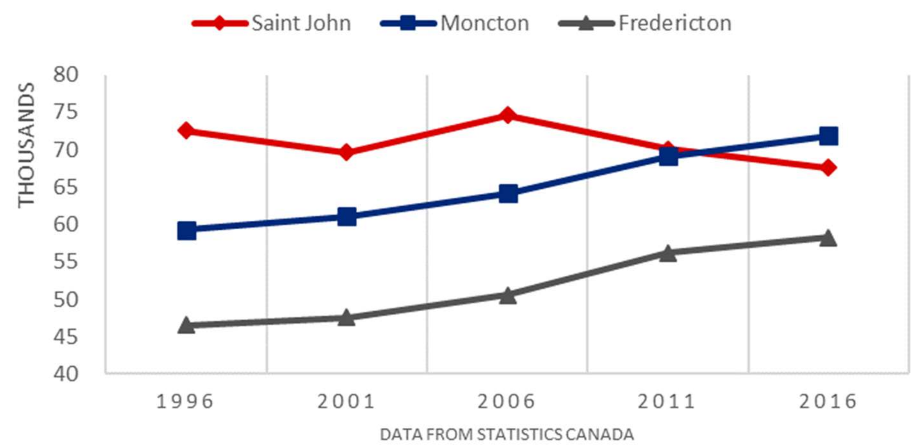


FIGURE 1.2 CITY OF SAINT JOHN POPULATION DENSITY

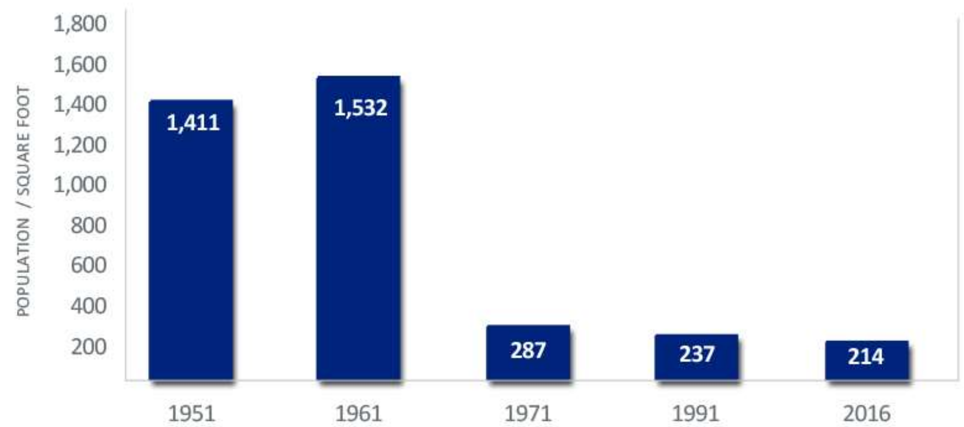


FIGURE 1.3 CITY OF SAINT JOHN NOW AND THEN

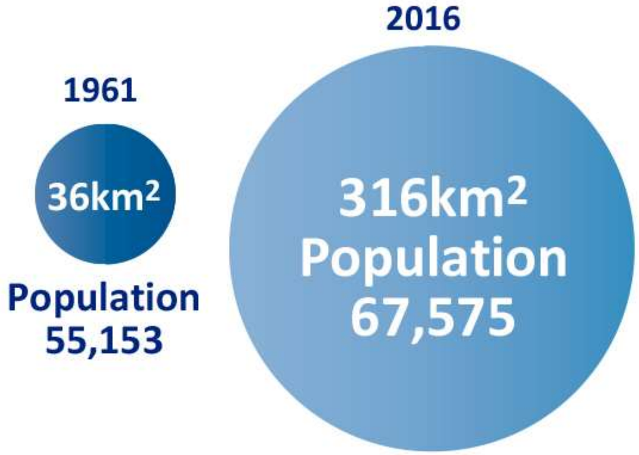
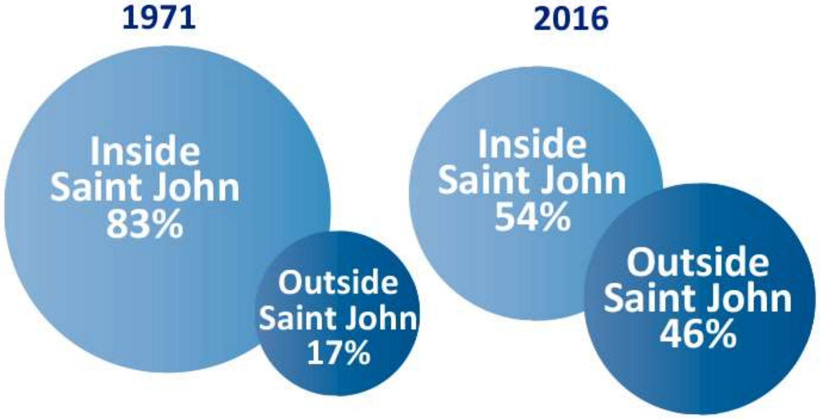


FIGURE 1.4 SAINT JOHN CMA WHERE THE POPULATION LIVES



2. The Restrictions of the New Brunswick Property Tax System

Property tax revenues account for 77% of total City revenues (2020 General Fund Operating Budget). In 2017, tax experts Harry Kitchen and Enid Slack were engaged to review and assess the fairness of the City's property tax rates and structure ("Tax Fairness Report" - Municipal Property Tax Issues in the City of Saint John, September 2017). This study revealed many barriers rendering the City of Saint John with the inability to provide fair taxation to its residents, commercial businesses, institutions and industry. Currently, the municipalities within New Brunswick virtually have no control over setting their own tax rates without Provincial restriction. This is unlike the vast majority of other Canadian provinces. The numerous challenges of the current property tax system has led to Saint John having the highest property tax rates in the Province at 1.785. This rate is 44% higher than Rothesay, 35% higher than Quispamsis, 24% higher than Fredericton and 8% higher than Moncton. Figure 2.1 presents the various tax rates of relevant communities.

FIGURE 2.1 2019 PROPERTY TAX RATES

	Saint John		Rothesay		Quispamsis		Fredericton		Moncton	
	Res	Non-Res	Res	Non-Res	Res	Non-Res	Res	Non-Res	Res	Non-Res
NB Rate	1.123	2.185	1.123	2.185	1.123	2.185	1.123	2.185	1.123	2.185
Municipal	1.785	2.678	1.240	1.860	1.318	1.977	1.441	2.161	1.650	2.475
Total	2.908	4.863	2.363	4.045	2.442	4.162	2.564	4.346	2.773	4.660

*Owner-occupied residential properties do not pay the 1.123 provincial rate

While the city offers many other positive factors for businesses, their employees have little incentive to live in the City and therefore have migrated to smaller and less costly bedroom communities such as Rothesay and Quispamsis. Spillover has caused outlying towns to thrive while the City bears the brunt of stagnant revenues and increasing costs. There is very little room to increase property tax revenue if assessment does not increase because the provincial property tax rate "crowds out" any flexibility to increase the municipal tax rate. According to the Tax Fairness Report, the original rationale for provincial property taxes was to support equal opportunity in the Province of New Brunswick; however, property taxes have now become part of the provincial general revenues in addition to sales tax and income taxes. In return, the province provides municipalities with a Community Grant and Equalization Payment, formerly referred to the Unconditional Grant. Figure 2.2 illustrates the redistribution of the property taxes collected by the Province of New Brunswick. In other communities such as Fredericton and Moncton, the tax base has been increasing between 3-4% to offset expenditure increases. Saint John is not seeing the same trend. Figure 2.3 compares the Saint John Tax base growth with other communities from 2013 to 2019. In Saint John, industrial assessment base has decreased by 3.7% compared to higher industrial tax base growth in other communities. This is due to provincial reassessments of Industrial properties in Saint John. Finally, the current legislation exempts most machinery and equipment from property taxes. Given the prevalence of heavy industry in Saint John, an industry which has a large proportion of machinery and equipment, the exemption has a significant impact on City tax revenues.

FIGURE 2.2 PROVINCIAL PROPERTY TAX REDISTRIBUTION

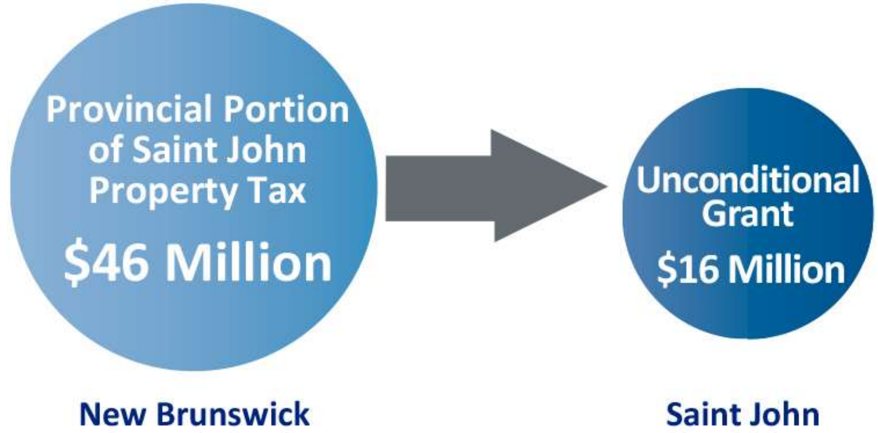
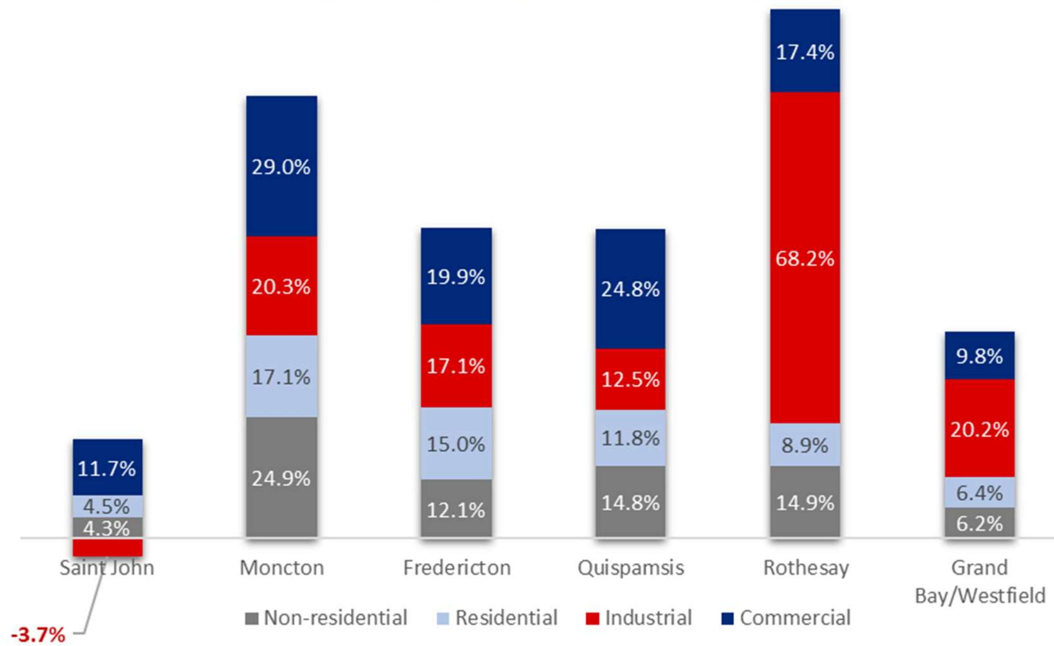


FIGURE 2.3 - ASSESSMENT BASE GROWTH BY TYPE BY MUNICIPALITY FROM 2013 TO 2019



Financial Environment Discussion & Analysis

3. Rising Costs of Labour and High Debt Service Costs

In 2018, total wages and benefits, including the annual pension fund top up, accounted for 57% of total expenses. From 2013 to 2018, property tax revenue grew at an average rate of 0.9% per year while at the same time wages and benefits have been growing at an average rate of 2.1% per year. From 2013 to 2018, total property tax revenue grew by $5.2 million in contrast to wage and benefit escalation by a total $7.9 million. It is estimated that by 2030, if all else remains the same, salaries & wages will have increased by an additional $7 million more than property taxes for a total of $14.9 million between 2013 and 2030. Figure 3.1 illustrates total value of these increases.

The City has very little leverage over wage escalation due to its heavily unionized workforce. As it is noted in Figure 3.2, only 14% of the total labour force accounts for non-unionized employees. With minimum numbers in the workforce, no contracting out or layoff clauses, binding arbitration and shift requirements, there is little control available to the City to manage these numbers. Over the past ten years or so, the city has minimized the staff establishment where possible. In fact, the number of staff has decreased by 83 (9.07%) since 2008.

FIGURE 3.1 FORECASTED $ INCREASE IN PROPERTY TAX REVENUE COMPARED TO $ INCREASE IN TOTAL WAGES BASED ON HISTORICAL RATES

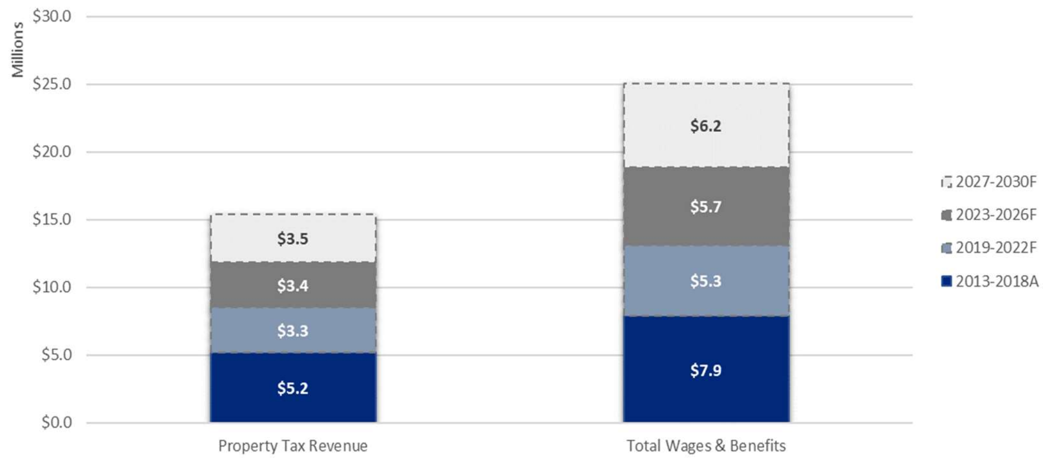
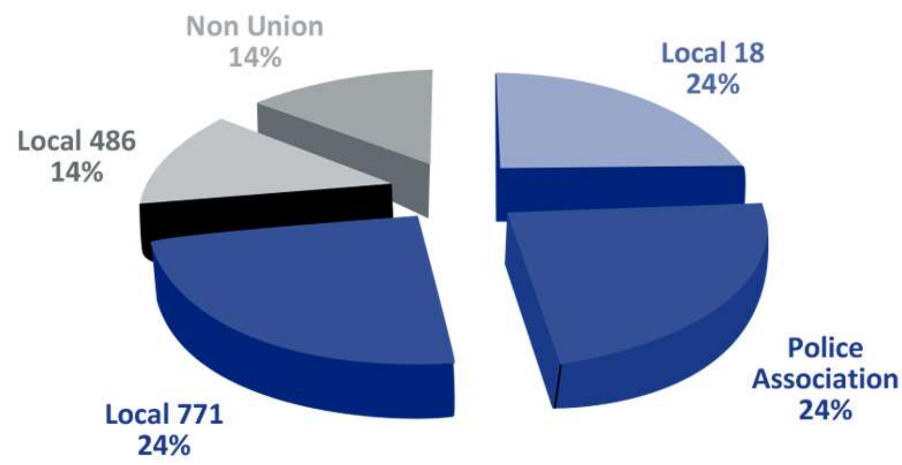


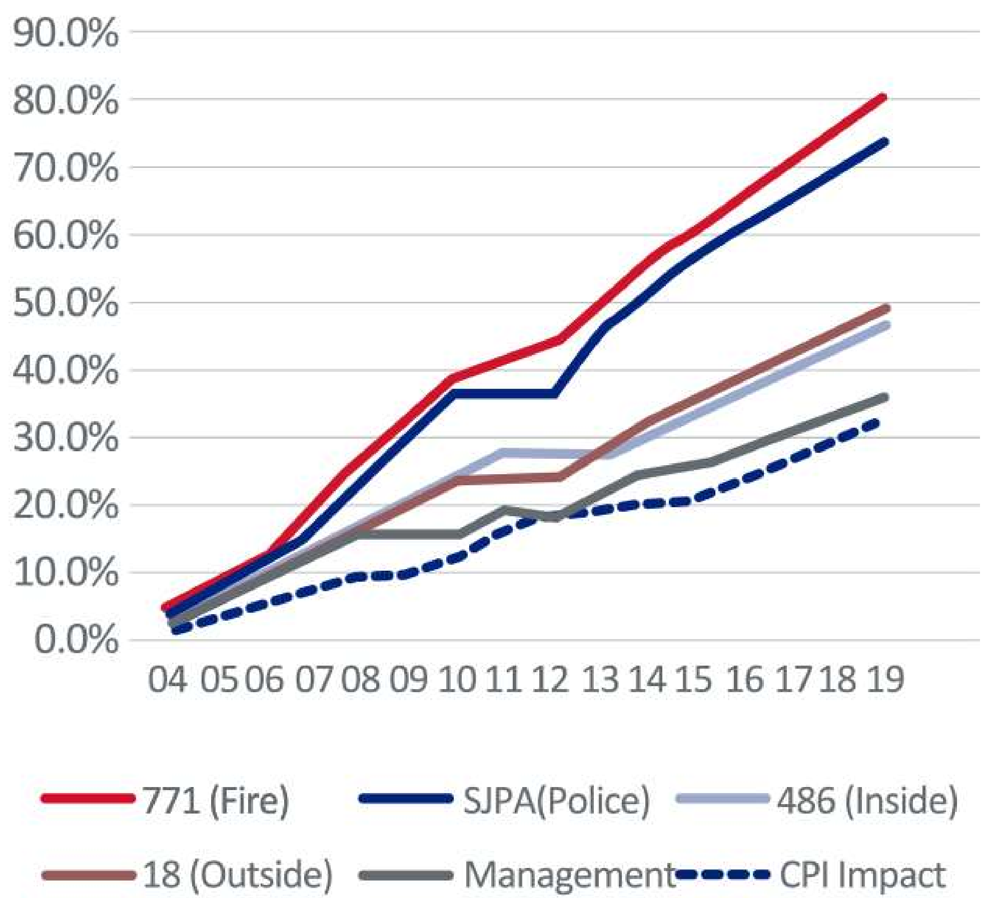
FIGURE 3.2 - 2018 WAGES



With less employees, the significance of the impact of the increases in salaries & wage expense is even greater. Wage rates for public safety employees have been increasing at a much faster pace than CPI and other employee groups within the City. Figure 3.3 presents the increase in wages by wage group between 2004 and 2019, as compared to CPI.

In addition to the challenge of rapidly rising wages and benefits expense, the City is faced with a high level of debt as well as the corresponding debt service costs. For years, the City has heavily relied on new debt to fund operations and renew infrastructure. For every dollar in revenue that is received, $0.11 is spent on debt service (2018 General Fund). On a consolidated level (including Water & Sewer Fund, agencies, boards & commissions), at the end of 2018, the City had a long-term debt balance of over $230 million which is the highest of any municipality in the Province. The General Fund alone accounts for $107 million of this total. Assuming no further debt is issued, the General Fund will be making almost $12.9 million in principal repayments in 2020, $12.4 million in 2021 and $11.7 million in 2021.

FIGURE 3.3 WAGES BY EMPLOYEE GROUP



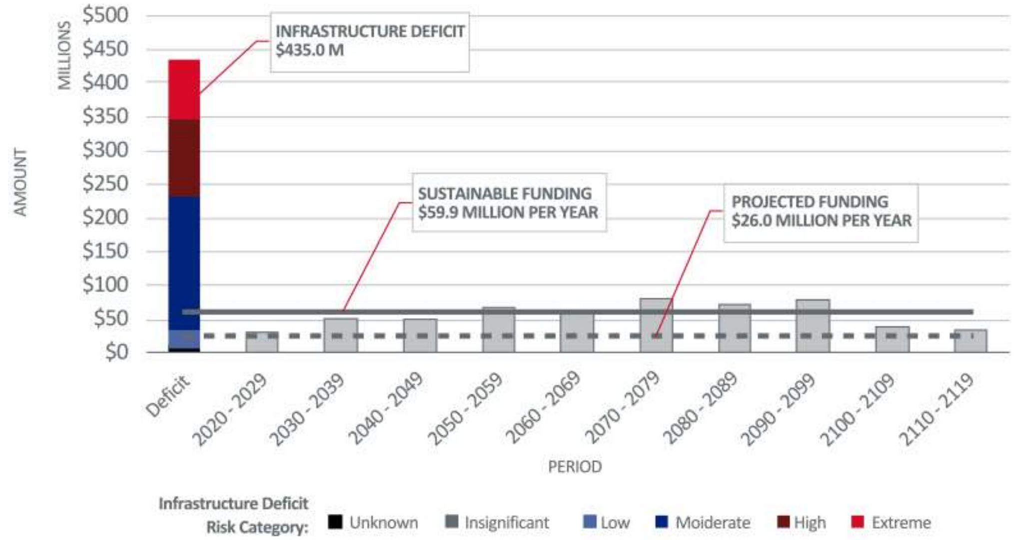
4. The Rising Infrastructure Deficit

The City is currently facing a $435 million infrastructure deficit. An infrastructure deficit is essentially the difference between the funding required for replacement, maintenance & repairs and the funding available. Following an extensive evaluation of the City's assets, a State of Infrastructure Report (SOTI) was prepared that evaluated all the assets and rated them based on their condition as well as the probability of failure and the consequence of failure.

It was determined that generally, assets are in Good to Fair condition however it is estimated that 19% of the City's assets are in poor or worse condition. Based on the current funding available of $26 million per year, the deficit will not improve. Approximately $60 million of funding per year is required to achieve sustainability. Compared to the current funding of $26 million per year, there is a $34 million gap in achieving sustainable funding.

In 2018, the General Fund's Infrastructure Deficit (excluding Saint John Water and Agencies, Boards and Commissions) was measured to be $121.4 Million. For the purposes of this long-term financial plan, we will be using this figure as the infrastructure deficit balance.

FIGURE 4.1 CONSOLIDATED SAINT JOHN INFRASTRUCTURE DEFICIT PROJECTION



Opportunities

Opportunities

While the financial environment may be challenging, there are opportunities available for the City. These prospects, if leveraged, will help address some of the financial challenges previously discussed.

1. The End of the Shared Risk Pension Top-up Contributions
On January 1st, 2013, the City converted its pension plan to a shared risk model. The objective of this new plan was to attain a minimum funded ratio of 150% (as calculated under Pension legislation). To achieve this ratio, the City is required to make additional contributions over and above its annual required contributions. As such, the city has been required to make an additional 17% of earnings for a period of 15 years. This additional contribution is typically approximately $9.5 million. These payments end in 2028.

2. Renegotiation of the Collective Agreements
At the end of 2019, three of the four union agreements are up for renegotiation. This will give the City the opportunity to work towards bringing total wages & benefits back into a range that is more affordable and to improve business flexibility. The following collective agreements expire on December 31, 2019:

- Local 18 – Outside workers
- Local 771 – Firefighters
- Police Union

3. Municipal Reform
Recently, the provincial government has presented a three-part plan to the City with the objective of achieving long-term sustainability. The three parts are as follows (Sustaining Saint John – A Three-Part Plan):

PART 1: Implement 20 Actions devised by a joint working committee of the Government of New Brunswick and City of Saint John officials.

PART 2: Establish a Regional Management Task Force to identify and agree on arrangements for shared service delivery and shared use of services within the region, and achieve equitable cost-sharing by March 31, 2020. The Task Force will be composed of Saint John region mayors and Local Service District representation.

PART 3: Re-assessment by the provincial government of the city's operational status in May 2020, to determine what, if any, further response is required.

This report presents many potential action items around municipal property tax reform, collective agreements, city boundaries and new revenue streams, to name a few. A few of these proposed initiatives will likely benefit the City in the short-term, such as the tax exemption for local government transit facilities and the monetization of Saint John Energy. Most significant action items such as municipal tax reform, the Province has commited to review by 2022. Of all action items presented in the Three Part Plan, four of these items would have the biggest impact on the City's road to sustainability:

- Regional Cost Sharing: There is a large quantity of residents who live in the adjacent communities and travel to the City to work and play. They pay taxes in their home communities but utilize the infrastructure, facilities and attractions that the City offers on a regular basis. There is also little doubt that without the City, these outside residents would not have jobs to buy homes and pay taxes to these outlying communities. The governments within these communities have shown little willingness to contribute to City infrastructure, thereby making it necessary for the Province to step in.

- **Binding Arbitration Legislation**: As previously mentioned, three of the four union contracts are up for renegotiation in 2020. The Firefighters and Police contracts are amongts the three up for renegotiation. The challenge that presents itself is that when the City and the public safety unions cannot agree on terms of a new contract, the case goes to binding arbitration. A third party arbitrator then decides on the terms of the contract, without consideration of the City's financial situation.

  This will not change without an amendment to the legislation.

- **Municipal Tax Reform**: Due to the current legislation in place, all municipalities in the province of New Brunswick have no control on property tax outside of the residental tax rate. As previously discussed, this is one of the largest barriers between the City and sustainability.

- **Monetization of Saint John Energy**: A change in legislation will enable the City to develop new revenue streams with Saint John Energy, including co-investing in new renewable energy generation opportunities and related utilty service growth opportunities. This will also allow for the formalized flow of dividends from the utility to the city. [1]

[1] Building a Sustainable Future for Saint John - A 2018 Provincial Election White Paper

Financial Principles

Financial Principles

The current financial state of the City of Saint John did not happen overnight. Infact, the road that has led to the present day is comprised of many factors and encompases numeous decisions. There is no magic fix available to the issues and the solutions will also not be realized overnight.

The only way to long-term financial security is to dilligently plan and then execute over the long-term. Four key financial principles have been identified: Sustainability, Flexibility, Vulnerability and Accountability.

Principle	Description & Importance	Implementation
Long-Term Sustainability	• "Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs."[2] • A decision that may benefit the short-term may not necessarily be good for the long-term. This principle ensures that due care is taken to evaluate future considerations.	• Ensure goal congruence – operating & capital budgets, debt management & expenditures take into account the overall organizational long-term financial strategy. • Maintaining appropriate reserve fund balances • Evaluation of long-term impact of decisions. Dismissing options that are detrimental to long-term sustainability. • Exercising fiscal responsibility as it pertains to affordability and debt management.
Increased Flexibility	• Flexibility is the ability to cover expenditures while still having funds available for reserves, debt repayment, etc. • It is important to maintain a structurally sound operating budget where operating revenues naturally exceed operating expenditures to ensure the ability to meet future spending needs.	• Currently there is a structural deficit. Changes will be required to achieve a balanced structural budget. • Eventual elimination of infrastructure deficit will increase flexibility. • Reducing debt load will reduce principal and interest payments.
Reduced Vulnerability	• The city needs to reduce, if not eliminate it's vulnerability to the need of provincial government assistance to meet its basic spending needs. • The ability to grow own source revenue to cover required expenditures	• To eliminate the reliance on provincial transfers to fund day-to-day operations • To be able to fund demands of tax base without the need for outside assistance
Accountability	• Accountability means that the City's Senior Leadership and Council must be responsible to all stakeholders for the actions and results of this plan. • Accountability is important as it will ensure alignment of all departments and areas of the organization to ensure compliance to the plan.	• Establishment of clear financial indicators that evaluate actual results compared to planed results. • Monitoring of results on a regular basis • Making adjustments to goals, initiatives and actions when results are not consistent to desired outcome.

[2] https://www.investopedia.com/terms/s/sustainability.asp

Policies

Policies

The purpose of having a long-term financial plan is to have a road map to reach a defined set of goals. In the City's case, the number one goal is to be financially sustainable. Just like any other road trip, there are an unlimited number of routes that can be taken to reach the destination, in this case sustainability. Some routes are longer than others. Some itineraries will use more resources than others. The goal here is to find the path that will get the City to sustainability as quickly and efficiently as possible. A number of best practice policies have been adopted by council to help achieve this goal. These policies are meant to follow 6 key financial values:

1. Don't Spend More Money than you make

If every year a person uses credit cards to pay for things that they need, but can't afford, they will dig themselves a financial hole that will be very difficult to get out of. Every year, their debt levels will get higher and a larger portion of their money will go to funding their minimum payments. That is why it is important to only spend the money you have made, thereby living within your means. The Operating Budget Policy (FAS-004) was established to strengthen financial sustainability and reduce financial vulnerability. It is summarized as follows:

- Maintain a structurally balanced budget: Recurring operating expenses should be covered by recurring operating revenues
- The City needs to be able to function without having to rely on revenue sources outside of its control
- One time revenues should only be used for onetime expenses

2. Borrow Wisely

While it would be great to be able to pay cash for everything, the reality is that at some point or another debt will become a fact of life, especially when it comes to large ticket items such as houses or cars. The Debt Management Policy (FAS-006) sets out the acceptable conditions for the use of debt in addition to debt limits, targets and capacity. It stipulates that long-term debt will only be issued to finance projects approved in the Capital Budget and the Capital Investment Plan – never to fund operating or maintenance costs. The other key limits and targets are as follows:

Limits (From the New Brunswick Local Governance Act):

- Borrowings in any one year shall not exceed:
  - 4% of budget or $15k per year, whichever is greater
  - 2% of the assessed value of real property
  - Total amount borrowed shall not exceed 6% of the assessed value of real property

Key Performance Indicators of Debt Limits of the General Fund:

- Debt per Capita shall not exceed $1600
- The Debt Service Ratio shall not exceed 12%
- Total debt outstanding as a percentage of the Operating Budget shall not exceed 70%

Targets to be achieved by 2030:

- Debt per Capita of $1,175
- The Debt Service Ratio to be 9%
- Total debt outstanding as a percentage of the Operating Budget to be 50%

Policies

3. Save your Money for a Rainy Day

Everyone knows that surprises happen. There will always be unforeseen expenses that will come up and sometime the money to cover said expenses will not be available. So, in order to ensure the City remains in compliance with the Debt Management and Operating Budget policies, an Operating and Capital Reserves Policy (FAS-003) was created. This policy allows the City to set aside money to use for future operating expenses and capital expenditures. The stipulations are:

- Reserves are meant to provide for:
    - Major unanticipated events
    - Major Capital renewal
    - Future Liabilities
    - One time operating expenses which are greater than $100,000 that are not part of the operating budget
    - Infrastructure deficit
    - Investment growth opportunities

4. Take Good Care of your Property

When you own a car, you know that routine maintenance such as changing the oil and rotating the tires will help extend the life of your vehicle as well as minimize the operating expenses in the long run. Also, once the car gets old, there is an optimal time to replace it before the maintenance charges become too high. City assets are very similar and for that reason, an Asset Management Policy (FAS-001) was created. The specific objectives of the Asset Management Policy are to:

- Improve the reliability of customer service by maintaining clearly defined levels of service by maintain assets in good condition
- Improve the decisions related to the management of the City's assets
- Improve the transparency and accountability of community investments in the management of the City's assets.
- Improve the management of the City's exposure to risks of reduced service delivery
- Facilitate the leveraging of partnerships and infrastructure funding from external sources.

5. Take Control of Your Expenses before they take Control of You

For the majority of people who do not receive significant pay increases every year, the smallest of increase in basic expenses such as rent, mortgage payments and electricity have a major impact on their monthly spending. Think about how hard it would be to manage if your rent increased by 3% or so every single year, when your pay only increased by 1%. There will come a point where living in your apartment will simply not be affordable any longer. For the City, as described earlier in this report, total wage expenses have been increasing at a much faster rate than revenue. It is to this end that the Wage Escalation Policy (FAS-007) was created. This policy is meant to ensure that:

- The City spends within its means
- Wage escalation does not cause a tax rate increase in order to balance the General Operating Budget
- Wage escalation does not cause a reduction in service levels in order to balance the General Operating Budget
- Wage escalation does not exceed the City's assessment base growth
- All employee groups are treated equitably

Policies

6. Fix the roof before you buy new living room furniture

The Capital Budget Policy (FAS-005) of the City advises that the capital budget shall comprise of 90% capital renewal and 10% for new capital. It also prescribes the priority in which capital money is spent each year, specifying that capital projects will be completed in the following order:

1. Mandatory
2. Risk
3. Priority of Council
4. Positive Financial Impact
5. Discretionary

This means that given the limited available money to spend, the leaky roof will need to be replaced before pretty new living room furniture can be purchased. The Capital budget policy follows four key principles and strategies: affordability, ownership, fiscal responsibility and asset management.

Priorities and Public Consultation

Priorities

In addition to taking into account all the above items, the Ten Year Financial Plan will take into consideration Council's Priorities as defined in 2016. These priorities are divided into four categories:

- Growth & Prosperity
- Vibrant, Safe City
- Valued Service Delivery
- Fiscally Responsible

The full list of Council's Priorities can be found in Appendix A.

Public Consultation

In March of 2019, the City of Saint John completed a public consultation process to collect input into the development of this financial plan. The budget simulator sought feedback on 15 different services currently delivered by the City. Participants were asked to balance the City's budget by using a slider feature to decide whether they would increase or decrease a budget for a particular service. The total financial impact of the reductions or increases were shown in the tool to allow for the participants to see the impact of their choices. A summary of quantitative responses can be found in Appendix B. Please refer to the full report "*Saint John, What are your Plans for 2021: A report of the Long Term Financial Plan Public Consultation Results*" for further detail.

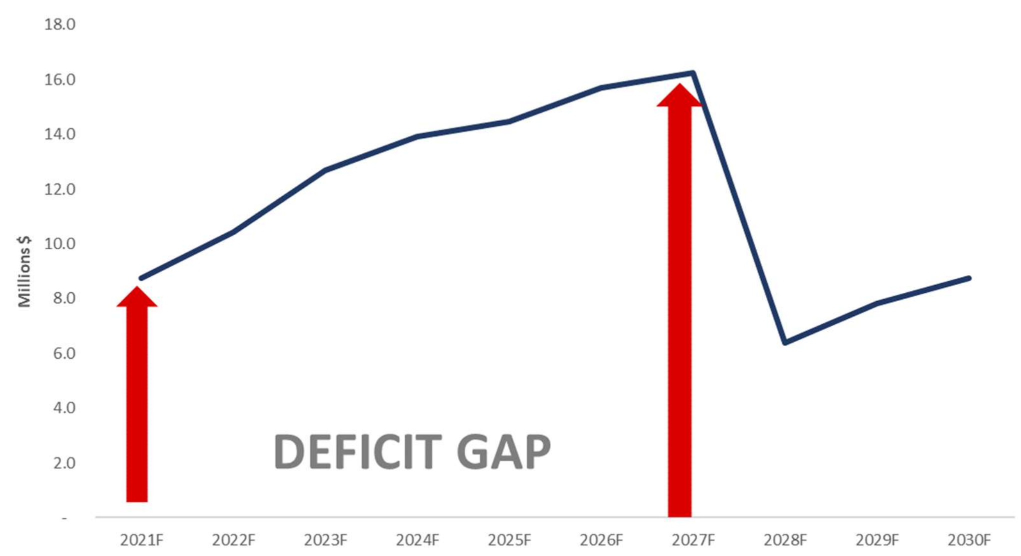
Baseline Financial Forecast – Identifying the Gap

Baseline Financial Forecast – Identifying the Gap

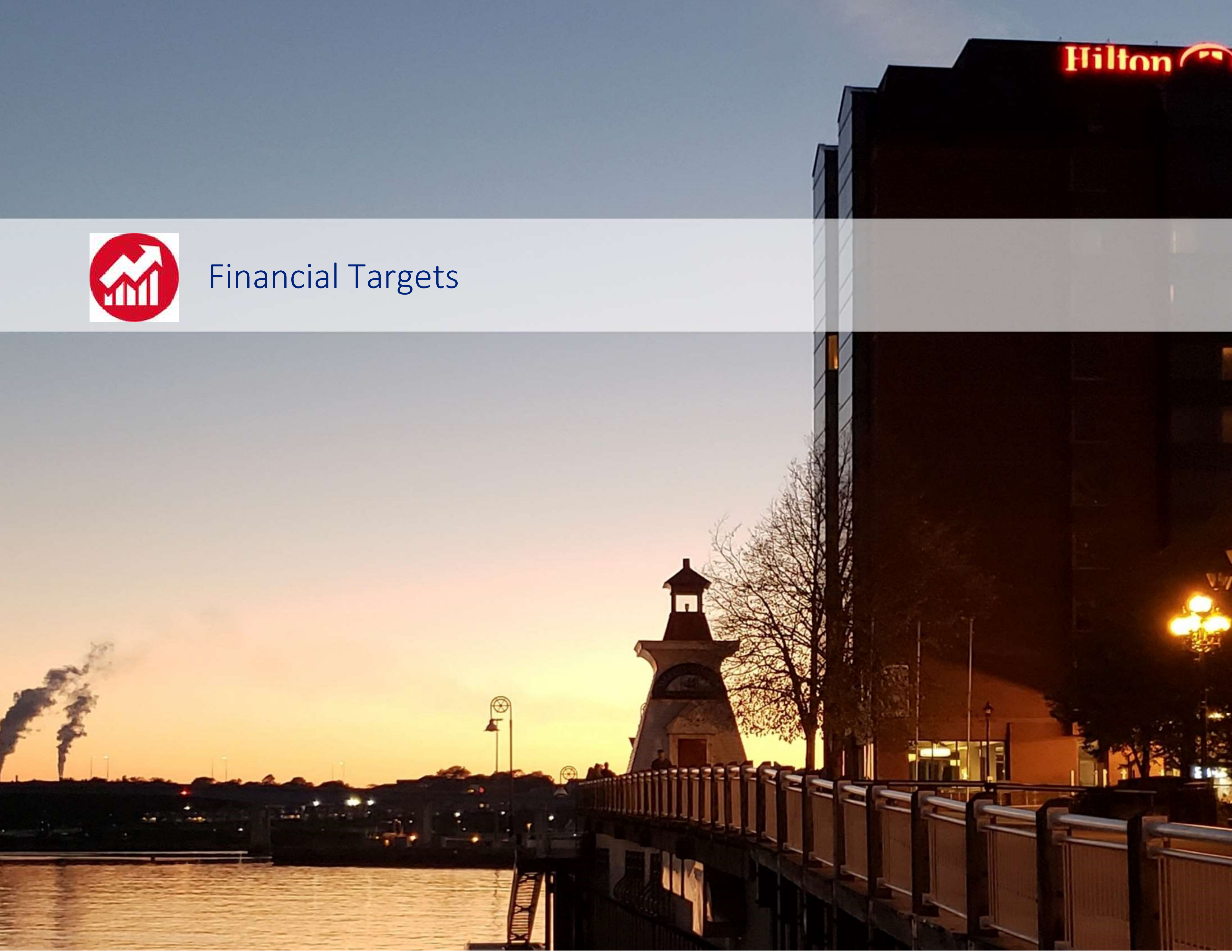
There is little doubt that the road to sustainability will not happen without significant change. If wages continue to escalate at historical rates, the City's financial future will be highly uncertain. While the extra pension payments will end in 2027, wages will have escalated to a point where large annual deficits will be the norm without further Provincial Government bailouts. Even with the $11 million annual pension savings, large operating deficits will still loom.

Once the Provincial temporary financial assistance ends in 2020, a $9 million dollar shortfall is projected. Thererertically speaking, if expenses continue to oupace revenues this shortfall would continue to rise to $13 million by 2023 and exceed $16 million in 2027. Figure 5.1 illustrates the projected deficit over the next 10 years if no changes are made.

FIGURE 5.1 PROJECTED ANNUAL DEFICIT



Financial Targets



Financial Targets

Over the past few years, the Finance Committee has approved a number of key financial policies to guide decision making around long-term financial planning. Within these policies, the Finance Committee has set targets that serve as the foundation of this financial plan.

Financial sustainability will be achieved by following these policies to achieve the targets and by restructuring in 2020 to realign expenses to revenues. Based on the City's adopted Principles, Policies and Priorities, achieving the following financial targets have been identified as critical to sustainability:

Policy	Measure	Target	Due Date
Operating Budget Policy	Structural budget	Maintain a structurally balanced budget	Annual
Debt Management Policy	Debt per capita	Reduce to $1,175	December 31, 2030
Debt Management Policy	Debt Service Ratio	Reduce to 9%	December 31, 2030
Debt Management Policy	Debt Outstanding as a % of Operating Budget	Reduce to 50%	December 31, 2030
Operating and Capital Reserves Policy	Operating fund balance	Maintain a minimum of $2 million for unforeseen expenditures	On going
Asset Management Policy	Infrastructure Deficit	Reduce by 25%	December 31, 2030
Wage Escalation Policy	Annual Wage Escalation %	Less than property tax growth	Annual
Debt Management Policy	Debt Balance	Reduce by 25%	December 31, 2030
Various	Pay-as-you-Go	Increase to $12 million annually	December 31, 2030

Financial Strategy

Financial Strategy – Base Case

2020 Transition Budget – Addressing the Gap

The operating year of 2020 will be marked as one of transition for the City. Currently, there is no flexibility in our operating expenses. Therefore, operating expenses will be reduced by a minimum of $10 million dollars pursuant to the City Manager's restructuring plan. Following the direction of Council, more specifically, the City will:

- Reduce wages in 2020 by $5,000,000
- Reduce other goods and services in 2020 by $5,000,000

These reductions in 2020 will allow 2021 to begin on a path towards sustainability. Under the direction of the City Manager, a number of initiatives will be undertaken, including numerous Continuous Improvement initiatives and a planned workforce reduction.

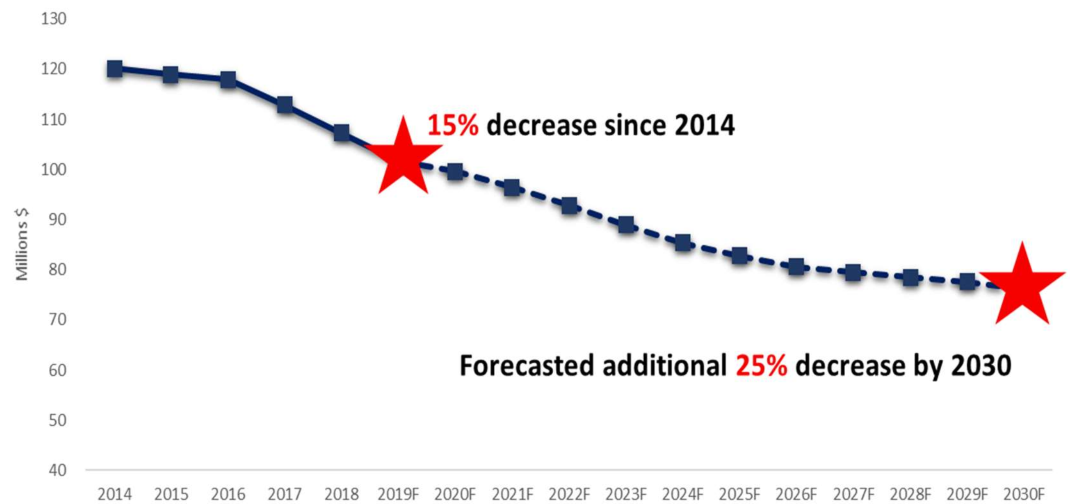
Base Case 10 Year Financial Plan

The Base Case financial plan scenario is founded on the possible. It focuses on the opportunities within the City's control and sets attainable goals.

The following has been assumed within the Base Case Financial Plan:

- Property tax assessment growth of 1.5% per year (2020 Actual is 1.83%)
- Pay-as-you-Go increase by an average of $1 million per year
- Inflation of goods and services of 1.5% per year
- Tax remains stable at $1.785
- Interest rate on new borrowing at 3.0% per annum
- Unconditional Grant from the Province of New Brunswick remains stable at 2020 level

FIGURE 6.1 GENERAL FUND LONG-TERM DEBT BALANCE



Appendix C summarizes the 10 year annual operating results of the Base Case financial model.

The 10 year baseline forecast in Appendix C meets all of the financial targets. Specifically, the budget is balanced, the total debt load has been reduced, and infrastructure deficit declines by 2030. Figure 6.1 displays the long-term debt balance from 2014 to 2030.

Financial Strategy – Base Case

Figure 6.2 presents the breakdown between existing (as of 2019) long-term debt and new long-term debt balances expected to be undertaken in the next 10 years.

In addition to meeting the long-term debt balance targets, the 10 year financial plan meets the 25% reduction of the infrastructure deficit. Figure 6.3 lays out the forecasted infrastructure deficit including projected invested capital and CIP requirements based on the SOTI report.

FIGURE 6.2
PROJECTED LONG-TERM DEBT BALANCE

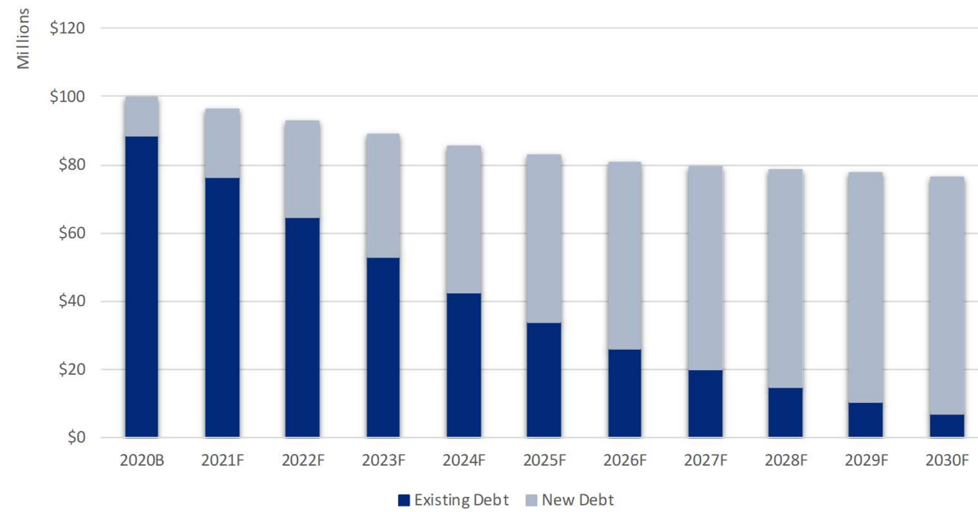
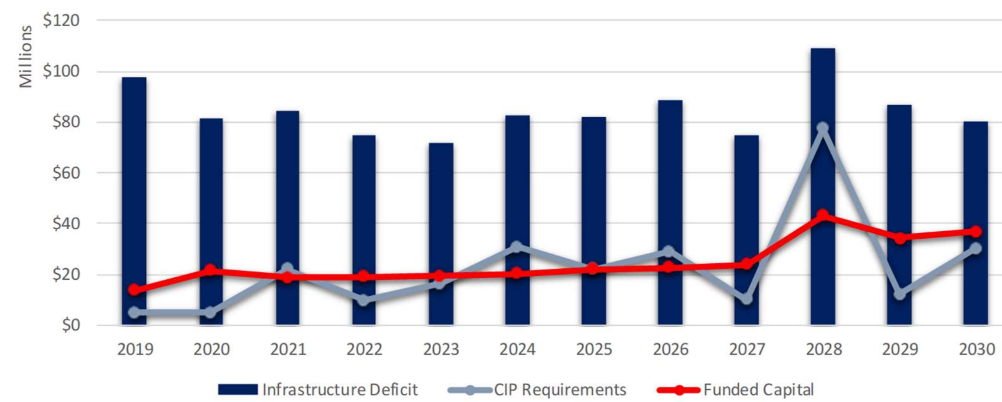


FIGURE 6.3
PROJECTED INFRASTRUCTURE DEFICIT



Financial Strategy – Stretch Goal

Stretch Goal 10 Year Financial Plan

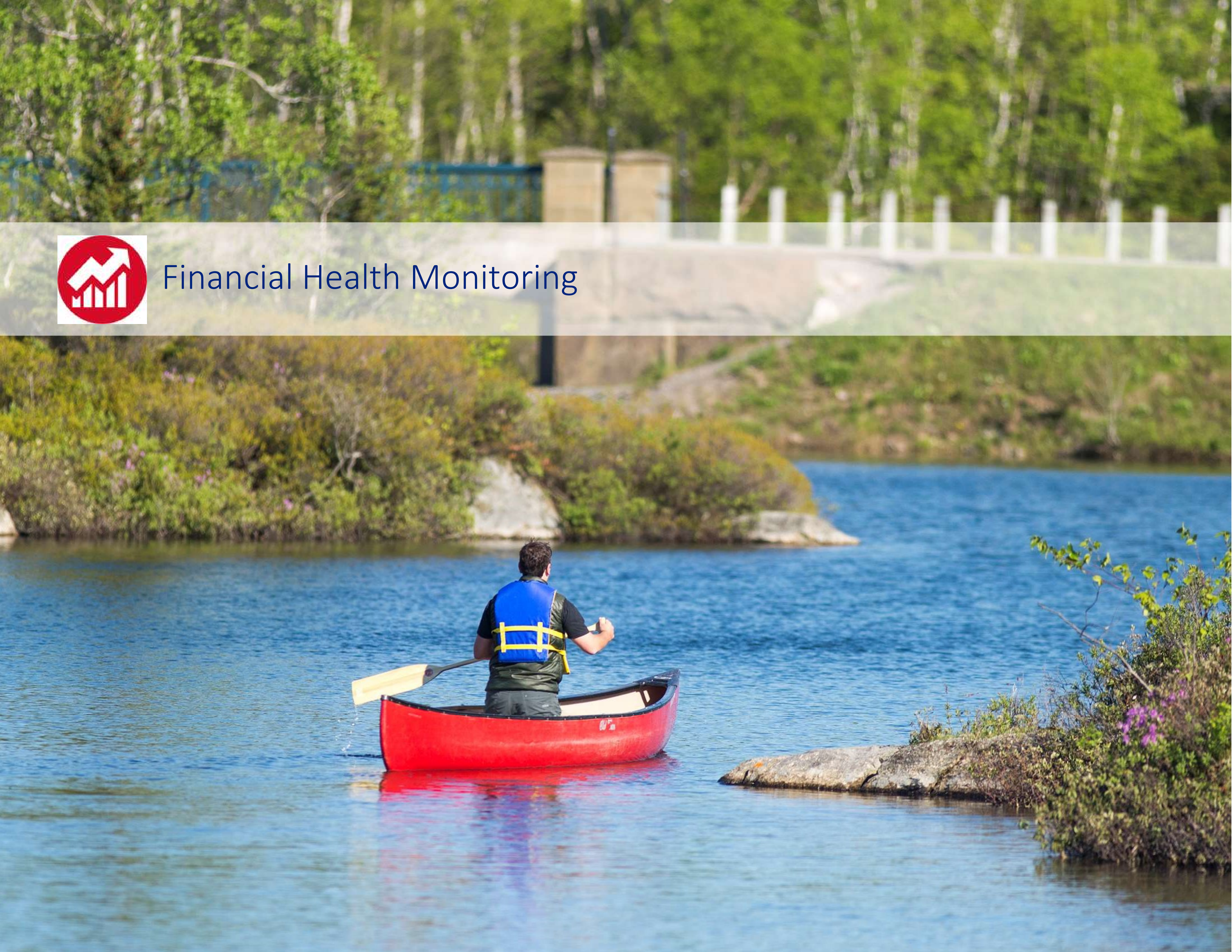
The baseline case financial plan provides a roadmap to sustainability based on conservative assumptions and financial targets. But what happens if some of the growth initiatives that have been underway start to affect population in a positive way? Or what happens if the Province of New Brunswick undertakes changing property tax legislation that makes property taxes the domain of municipalities or would allow municipalities the ability to implement a more “fair” taxation structure? Or what happens is Saint John Energy grows and the City benefits through a new dividend structure. It is highly possible that some of the opportunities that have been discussed could happen. It is possible that they could all happen to varying degrees, impacting the financial situation for the better. The Stretch Goal case takes into account the positive financial impact that these initiatives could have on the City’s financial situation. The assumptions that have been made in this case are:

- 3% Property Tax Base growth (Municipal Tax Reform, Population Growth, Investment in Economic Development)
- Empowerment of municipalities to generate their own revenue
- Pay-as-you-Go increase by $1.250 million per yea
- Inflation of goods and services of 1.5% per year
- Cost of new borrowing 3.0% per annum
- Unconditional Grant for the Province of New Brunswick remains stable at 2020 level
- Saint John Energy Dividends: based on the modest case as provided by SJE
- Regional cost sharing
- Regionalization of services
- Binding arbitration reform

The tax rate is summarized in Figure 7.1. Appendix D summarizes the 10 year annual results of the Stretch Goal financial model.

FIGURE 7.1 – TAX RATE									
2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
$1.775	$1.775	$1.765	$1.765	$1.700	$1.700	$1.700	$1.570	$1.570	$1.570

Financial Health Monitoring



Financial Health Monitoring

Now that the path to sustainability has been defined and the targets set, the key will be to monitor actual results as they compare to the plan and make updates where necessary. Bi-annual monitoring will be done by the Finance Committee for annual update and presentation to Council. In order to achieve subjective monitoring, a Financial Health Scorecard will be used to track the progress compared to the plan. Exhibit 8.1 presents the financial health scorecard for 2021 based on the Long-Term Financial Plan base and stretch cases.

Additionally, it is recommended that an organization-wide Balanced Scorecard system be implemented to help monitor the progress of the plan. As defined on Investopedia, "a balanced scorecard is a strategic management performance metric used to identity and improve various internal business functions and their resulting external outcomes. Balanced scorecards are used to measure and provide feedback to organizations.

Data collection is crucial to providing quantitative results as managers and executives gather and interpret the information and use it to make better decisions for the organization." This tool has been widely accepted in the business world for many years and is proven to be very effective. It is recommended that a Scorecard be created at the city level and cascaded down to each service area in the first quarter of 2020. This initiative will create alignment across the City and allow each area to see how their decisions and strategic plans impact the big picture.

EXHIBIT 8.1 – FINANCIAL HEALTH SCORECARD 2021	PRINCIPLE	PLAN	STRETCH
Debt per Capita	Sustainability	$1,427	$1,427
Assessment Growth	Sustainability	1.5%	3.0%
Debt Service Ratio	Sustainability	10.5%	10.5%
Tax Rate	Flexibility	$1.785	$1.775
Total Debt as a % of Operating Budget	Sustainability	60%	59%
Cumulative Debt Reduction (Millions $) since ending 2019	Sustainability	$5.1	$5.1
Pay-as-you-Go Contribution	Flexibility	$3,000,000	$3,250,000
Infrastructure Deficit Reduction since 2018	Sustainability	2.5%	2.5%
Unconditional Grant (% of Total Revenue)	Vulnerability	10.1%	9.9%
Total People Cost (% of Total Revenue)	Flexibility	57%	56%

Conclusion

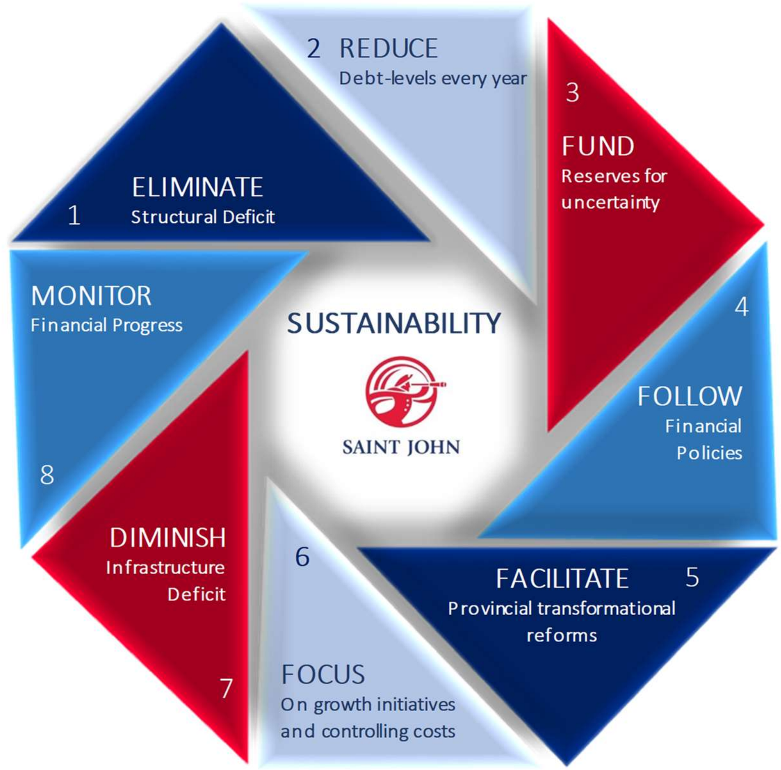
Conclusion

This is the City of Saint John's first Long-Term Financial Plan. It has been developed to ensure the City remains finanically strong and so that Council's today and tomorrow have the best possilbe financial advise and best financial practices in place to make informed decisions. Fortunately, the City has already on course to changing its financial state. The financial policies that Common Council have approved in conjunction with the strong collaboration with the Provincial Government on various municipal transformational reforms are placing the City on the right path.

The Long-Term Financial plan reaffirms to both Council and its taxpayers that the City is accountable and transparent and is committed to ensuring the City is sustainable and is in a financially healthy position into the future.

To summarize the road to sustainability and the financial plan in one graphic, Figure 9.1 outlines the steps that need to be taken in achieving a sustainable Saint John.

FIGURE 9.1 THE STEPS TO ACHIEVE SUSTAINABILITY



Appendices

Appendix A: Council's Priorities: 2016-2020

Through good governance and with the support of the community, our focus is on growing Saint John. By being fiscally responsible, the City delivers services that contribute to a vibrant, attractive and prosperous city.

Growth & Prosperity

Saint John is recognized by residents and businesses as a positive and supportive city. We grow in a smart way and attract talent, innovation and opportunities so all people can thrive.

GrowSJ

- Drive development in accordance with PlanSJ that *creates density* required for efficient infrastructure and services.
- Promote Saint John as a community to live, work and play to *grow the residential tax base*.
- Advocate for *equitable taxation* among residents, commercial businesses, institutions and industry.

Strong Economy

- Ensure Saint John has a *competitive business environment* for investment.
- Support the retention and attraction of businesses that *create job opportunities*.

Key Performance Indicators

- Building permit values (Primary Development Area and city)
- Change in tax base assessment within the city
- Return on investment from development incentives
- Change in population
- Change in number of new businesses in the city

Vibrant, Safe City

Saint John is home to unique, livable neighbourhoods that offer a variety of housing options and appropriate transportation choices. Residents celebrate our history, enjoy a variety of cultural and recreation activities, and appreciate our greenspaces and waterways.

Great Neighbourhoods

- *Develop neighbourhoods* through planning that aligns with PlanSJ and includes:
  - Accessible, reliable and cost-effective *public and active transportation*
  - Streetscape *beautification*
  - Modernization of *heritage preservation* processes
  - *Park and greenspace* investment that aligns with PlaySJ
- Ensure that the delivery of efficient *public safety services* address the evolving needs of a growing community.

Vibrant City

- Invest in *arts, culture and recreation* experiences that create a sense of community pride.

Key Performance Indicators

- Percentage of fire incidents contained to the point of origin
- Crime incident trends
- Resolution rate for property issues related to by-laws
- Participation at arts, culture and recreational events
- Number of City-supported community-led programs and initiatives

Valued Service Delivery

Saint John invests in sustainable City services and municipal infrastructure. Our community is engaged and understands what they can expect from service delivery.

Asset Management

- Develop an integrated *asset management plan* that aligns with PlanSJ to prioritize investment.
- Invest in strategic *road improvements*.

Appendix A: Council’s Priorities: 2016-2020

Customer-Focused Services

- Explore *service improvements* through innovation, technology and developing partnerships with other organizations.
- Define *service levels* for all City services.
- Implement *mandate letters* with the City’s agencies, boards and commissions to define expectations.

Key Performance Indicators

- Pavement Condition Index (Ratio of lane-km in ‘good’ or ‘satisfactory’ condition)
- Reliability of water and wastewater systems
- Work request completion ratio (# requests completed to # requests entered)
- Infrastructure deficit

Fiscally Responsible

Saint John takes a strategic approach to financial management that is equitable, balanced and efficient. Decision-making is in line with our strategic plans to ensure our financial sustainability.

Financial Health

- Develop *long-term sustainable financial plans* and budgets that align capital investment and fiscal capacity with service objectives.
- Investigate options to *allocate water costs* among ratepayers.
- *Report on performance metrics* to show effective service delivery and good fiscal management.

Innovation and Improvement

- Advance a culture of *continuous improvement* to drive operational efficiencies.
- Leverage opportunities to *generate alternative revenue* sources.

Key Performance Indicators

- Total debt as a percentage of annual revenue
- Revenue from own sources as a percentage of total revenue
- Capital from operating as a percentage of operating budget
- Percentage of continuous improvement savings in relation to stated targets

Summary of Quantitative Responses

Addressing the Budget Shortfall

Based on the options provided to participants in the Budget Simulator tool to balance the budget, on average participants are willing to accept a decrease in current service levels. The amount of decrease varies based on the service area, with reductions ranging from 1.5% to 19% in respective budget allocations. In summary, budget reductions were identified across all service areas as outlined in Table 2. More specifically:

- Average percentage budget reductions were higher for Economic Development, Transit Services, Recreation Programming, Sports Facilities and One Stop Development Shop /Property Compliance Programs; and
- Average percentage budget reductions were lower for Road Maintenance and Snow Control Streets and Sidewalks.
- In terms of dollar allocations, the highest average budget reductions were in Police Services, Fire Rescue and Suppression Services and EMO, Economic Development, and Transit Services.

Participants in the budget simulator indicated that they would accept a slight increase in property tax rates; the average increase of property tax rates was close to a one-cent increase. The participant results on property taxes are described in Table 3. Summarized responses with renters and non-residents removed were as follows:

- 50% of participants either chose to maintain the tax rate or decrease the tax rate
    - 32% of participants did not change the tax rate
    - 18% of participants chose to reduce the tax rate
- 50% of participants chose to increase the tax rate

When including renters and non-residents, slightly more participant chose to increase the tax rate.

On average, participants were able to reduce the budget shortfall by $3.9 Million (43% of $9 million goal). These results are inclusive of both cost reductions and increases in revenue. Average service area results are shown in Table 2. The impact of a decrease in funding for each service is outlined in Appendix A as determined by the average change in funding submitted by participants.

Appendix B: Saint John, what are your plans for 2021?

Table 2: Average Change in Operating Costs and Revenue by Service

Service	Projected 2021 Budget	Average % Submitted Change	Average Increase/ Decrease in Budget
Public Safety Services			
Police Services	$27,804,299	-4.48%	-$1,245,633
Fire Rescue and Suppression Service and EMO	$26,550,521	-3.33%	-$884,132
Transportation Services			
Snow Control Streets and Sidewalks	$7,398,882	-2.73%	-$201,989
Roadway Maintenance	$7,052,442	-1.47%	-$103,671
Sidewalk Maintenance	$846,321	-3.41%	-$28,860
Pedestrian & Traffic Management Service	$2,505,962	-4.25%	-$106,503
Environmental Services			
Solid Waste Management	$4,007,889	-3.98%	-$159,514
Stormwater Management	$4,028,715	-3.16%	-$127,307
Parks & City Landscape	$3,523,599	-3.67%	-$129,316
Growth and Community Development			
Growth and Community Planning	$1,962,108	-4.36%	-$85,548
One Stop Development Shop / Property Compliance Programs	$3,032,453	-5.84%	-$177,095
Growth and Community Development- Economic Development			
Growth Outcomes (includes Economic Development Greater Saint John, Develop SJ, Discover Saint John, Growth Reserve Fund and Population Growth)	$2,943,504	-18.94%	-$557,500
Transit Services			
Transit Services	$5,976,781	-7.88%	-$470,970
Recreation Programming			
Recreation Programming, Support/Pro-Kids and Neighborhood/Community Hockey Grants	$2,485,336	-6.10%	-$151,605
Sports & Recreation Facilities	$3,712,575	-5.21%	-$193,425
Property Tax			
Property Tax	$124,995,178	0.53%	$662,474
Change in Budget			-$3,960,595
Projected 2021 Shortfall			$9,000,000
Remaining Deficit			$5,039,405

Appendix B: Saint John, what are your plans for 2021?

TABLE 3: PROPERTY TAX RESPONSES

Change in Taxes	# Respondents	% Respondents	% Respondents (Renters and Non-Residents Removed)
+ 3 Cents	174	32%	28%
+ 2 Cents	60	11%	11%
+ 1 Cent	62	11%	10%
No Change	161	29%	32%
- 1 Cent	41	7%	8%
- 2 Cents	18	3%	4%
- 3 Cents	37	7%	7%

Appendix C: Base Case Model Output

CITY OF SAINT JOHN
BASE CASE GENERAL OPERATING FUND FORECAST
YEAR ENDED DECEMBER 31

	2020B	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
REVENUES											
Property Taxes	127,966,924	129,847,070	131,755,417	133,692,389	135,658,415	137,653,932	139,679,382	141,735,214	143,821,882	145,939,851	148,089,590
PILT Adjustment	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185
Equalization & Unconditional Grant	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081
Financial Assistance	8,242,960	-	-	-	-	-	-	-	-	-	-
All Other Revenues	14,366,274	14,383,880	14,446,800	14,510,034	14,573,584	14,637,452	14,701,639	14,766,147	14,830,978	14,896,133	14,961,614
TOTAL REVENUES	166,708,424	160,363,216	162,334,482	164,334,688	166,364,265	168,423,650	170,513,287	172,633,627	174,785,127	176,968,250	179,183,470
EXPENDITURES											
Salaries & Benefits	81,948,928	80,654,152	81,879,574	83,107,768	84,354,384	85,619,700	86,903,996	88,207,556	89,530,669	90,873,629	92,236,733
Other Goods and Services	52,862,736	47,875,927	48,346,310	48,874,255	49,410,118	49,954,020	50,506,080	51,066,421	51,635,168	52,212,445	52,798,382
Fiscal Charges											
Interest	3,725,523	3,613,658	3,382,868	3,243,372	3,092,920	2,956,059	2,852,796	2,775,524	2,716,126	2,673,620	2,504,223
Principal	12,924,752	13,188,323	13,125,396	13,378,310	13,088,407	12,097,000	11,725,333	10,591,667	10,458,000	10,397,333	9,930,667
	151,461,939	145,332,060	146,734,148	148,603,705	149,945,830	150,626,779	151,988,205	152,641,168	154,339,963	156,157,027	157,470,005
Previous Year's (Surplus) Deficit	119,915	-									
Other Charges											
Pension	9,575,000	9,222,331	9,362,521	9,502,959	9,645,504	9,790,186	9,937,039	10,086,094	-	-	-
LTD	661,570	661,570	661,570	-	-	-	-	-	-	-	-
Capital from Operating	2,000,000	3,050,000	4,300,000	5,550,000	6,500,000	7,750,000	8,250,000	9,500,000	10,750,000	12,000,000	13,600,000
Other Charges	2,340,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Transfer to Reserve	550,000	1,797,256	976,243	378,024	(27,068)	(43,315)	38,043	106,364	9,395,164	8,511,223	7,813,465
	15,126,570	15,031,157	15,600,334	15,730,983	16,418,436	17,796,871	18,525,082	19,992,458	20,445,164	20,811,223	21,713,465
TOTAL EXPENDITURES	166,708,424	160,363,216	162,334,482	164,334,688	166,364,265	168,423,650	170,513,287	172,633,627	174,785,127	176,968,250	179,183,470

Appendix D: Stretch Case Model Output

CITY OF SAINT JOHN
STRETCH CASE GENERAL OPERATING FUND FORECAST
YEAR ENDED DECEMBER 31

	2020B	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
REVENUES											
Property Taxes	127,966,924	131,727,215	135,600,313	139,589,603	143,698,573	140,886,487	145,038,112	149,314,285	141,963,781	146,153,458	150,468,824
PILT Adjustment	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185	1,185
Equalization & Unconditional Grant	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081	16,131,081
Financial Assistance	8,242,960	-	-	-	-	-	-	-	-	-	-
Saint John Energy Dividends	-	500,000	500,000	2,000,000	2,200,000	2,400,000	2,600,000	2,800,000	3,000,000	3,000,000	3,000,000
All Other Revenues	14,366,274	14,383,880	14,446,800	14,510,034	14,573,584	14,637,452	14,701,639	14,766,147	14,830,978	14,896,133	14,961,614
TOTAL REVENUES	166,708,424	162,743,361	166,679,378	172,231,903	176,604,423	174,056,205	178,472,017	183,012,699	175,927,025	180,181,856	184,562,704
EXPENDITURES											
Salaries & Benefits	81,948,928	81,408,175	83,239,171	85,111,857	86,761,951	88,445,341	90,162,723	91,914,811	93,702,332	95,526,029	97,386,662
Other Goods and Services	52,862,736	47,875,898	48,366,686	48,915,955	49,474,094	50,041,255	50,617,594	51,203,268	51,798,437	52,403,267	53,017,922
Fiscal Charges											
Interest	3,725,523	3,613,658	3,382,868	3,243,372	3,092,920	2,956,059	2,852,796	2,775,524	2,716,126	2,673,620	2,504,223
Principal	12,924,752	13,188,323	13,125,396	13,378,310	13,088,407	12,097,000	11,725,333	10,591,667	10,458,000	10,397,333	9,930,667
	151,461,939	146,086,054	148,114,121	150,649,494	152,417,372	153,539,655	155,358,446	156,485,270	158,674,895	161,000,248	162,839,473
Previous Year's (Surplus) Deficit	119,915	-	-	-	-	-	-	-	-	-	-
Other Charges											
Pension	9,575,000	9,308,219	9,516,646	9,729,799	9,916,251	10,106,418	10,300,378	10,498,208	-	-	-
LTD	661,570	661,576	661,576	-	-	-	-	-	-	-	-
Capital from Operating	2,000,000	3,250,000	4,500,000	5,750,000	7,000,000	8,250,000	9,500,000	10,750,000	12,000,000	13,250,000	14,500,000
Other	2,340,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Transfer to Operating Reserve	- -	362,488	87,035	802,610	670,800	1,860,132	2,413,193	2,979,221	2,652,130	2,538,867	2,923,231
Transfer to Capital Reserve	550,000	3,500,000	3,500,000	5,000,000	6,300,000	-	600,000	2,000,000	2,300,000	3,092,741	4,000,000
	15,126,570	16,657,307	18,565,257	21,582,409	24,187,051	20,516,550	23,113,571	26,527,429	17,252,130	19,181,608	21,723,231
TOTAL EXPENDITURES	166,708,424	162,743,361	166,679,378	172,231,903	176,604,423	174,056,205	178,472,017	183,012,699	175,927,025	180,181,856	184,562,704