# Five-Year Financial Strategy

In February 2018, the Municipality of the District of Lunenburg accepted a modified *Debt Affordability Model* as its Five-Year Financial Strategy.

The development of a Five-Year Financial Strategy gives Council the ability to see how current and planned projects affect the Municipal budget and in turn, the tax rate, going forward. It is a tool that can be used to help communicate why decisions are made and their effect on the Municipality's finances. It gives Council a solid model to be used as a budgeting tool going forward.

The development of the strategy focused on:

- being debt free by 2021;
- the desire to maintain stable tax rates;
- the ability to add special rates for new infrastructure projects as required; and
- the desire to carefully manage the reserves and continue to fund current commitments.

The *Debt Affordability Model* provided by the Nova Scotia Municipal Finance Corporation was used to meet this need. The tool was originally developed to focus on debt requirements and has been modified for MODL's forecasting purposes to include reserves. The model will be annually reviewed and used as a budgeting tool going forward.

The *Debt Affordability Model* is a long term financial planning model. It considers the following:

- municipal future revenue and expenditure growth;
- the impact on the tax burden of future generations;
- population and economic growth; and
- the effects of maintaining the current municipal tax rate and ensuring current municipal services are not jeopardized.

The *Debt Affordability Model* allows decision makers:

- flexibility to plan for the future;
- the ability to develop future capital improvement plans in a balanced and measured way;
- to prioritize capital projects that are competing for scarce resources; and
- the ability to develop a long-term financial plan.

The *Debt Affordability Model* can also help Council determine the appropriate level of debt. MODL does not foresee any debt requirements in the next five years; however, the model would be used for that purpose should the need arise.

Staff worked with the Nova Scotia Municipal Finance Corporation to develop reasonable and measured assumptions for the model. These assumptions can be changed and updated as additional information becomes available. There are no guarantees that the assumptions used will not change, but they do represent our best estimates.

## *Operating Budget Projections*

As with any financial plan, assumptions have inherent risks. Inflation is set at 2% in the model for the Operating Budget with a few exceptions based on historical trends.

The model does not consider increasing user fees. Increases in user fees will be set by a new policy. The strategy of this policy will be to increase user fees every three years based on the annual cumulative CPI for Nova Scotia.

## *Capital Budget Projections*

The capital budget in the model is input directly from the approved Municipal Capital Investment Plan. All Capital Infrastructure spending has been funded through the use of Gas Tax, Municipal Reserves, and Other contributions.

## *Reserve Funds Projections*

The reserves forecast identifies how the reserves are used and replenished throughout the 5-year period. MODL's strategy is to use restricted reserves like Gas Tax first when considering funding of capital projects. As well, there are current commitments through the Operating Budget for contributions to open space, roads, CES/CEF, elections, sewers, and depreciation.

**For all projections, please visit modl.ca to see the most recent Budget documents.**

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