



multi-year
BLUEPRINT

City of Oshawa

Strategic Financial Plan 2005 - 2009

City of Oshawa

Strategic Financial Plan 2005 - 2009

JUNE 2005

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Forward

We are proud to present the City of Oshawa Strategic Financial Plan 2005 – 2009. It serves as a multi-year blueprint for the City in the years to come.

Through the combined efforts of Council and the committed employees and management staff of the City of Oshawa, this Strategic Financial Plan signifies a collaborative process, the impact of which will be to establish Oshawa as a progressive leader, not only locally in Durham Region, but throughout Ontario and Canada.

The Strategic Financial Plan establishes six vital objectives for Oshawa:

1. Minimize property tax increases
2. Manage debt levels
3. Respond to infrastructure deficiencies
4. Support core municipal services
5. Maximize improvements to the City's image
6. Maximize assessment growth

Each of these objectives is supported by strategies and actions, which depict the methods and measures we intend to accomplish. All of the objectives support the vision and goals established in the recently adopted Community Strategic Plan – *Creating Our Tomorrow*.

The future of Oshawa relies on the continued involvement and interest of our citizens. We invite you to watch our progress on these objectives and welcome your suggestions for the betterment of our City.



Mayor John Gray



Bob Duignan, City Manager

INTRODUCTION

What is the Strategic Financial Plan?

The Strategic Financial Plan (SFP) is a guide for the City's overall budgetary strategy and provides a framework for making major financial decisions. The SFP uses both established strategic financial policies and Council decisions and integrates them with the proposed operating and capital plans to develop a financial “blueprint” and guide future decision-making.

Why does the City of Oshawa need a Strategic Financial Plan?

In 2004, the City of Oshawa developed a Community Strategic Plan called *Creating Our Tomorrow*. The Community Strategic Plan identifies a community vision for Oshawa as follows:

Oshawa will be:

A Vibrant, Strong and Progressive Community

A Green and Sustainable Community

A Caring and Responsive Community

where its people and businesses are proud to live, work, learn and play.

The SFP supports this long-term community vision, as well as the objectives, strategies and actions of the Community Strategic Plan and provides the necessary financial framework for their successful attainment.

The SFP allows current and future stakeholders to evaluate and participate in planning the City's financial future. It allows property owners, residents and others (investors and potential property owners) to understand the direction that City Council is moving, the major financial issues facing the City and how Council plans to address them.



Citizens, developers, businesses and industry are well served by a community that develops and maintains the necessary infrastructure to support services and growth in an affordable and sustainable manner. They want to know what will be developed, when it will be developed, how much it will cost and who will pay for it. They want to know the financial impact on property taxes, user fees and development charges. It is important that choices are identified and impacts quantified. The choices made today must be sustainable in the future.

The SFP is designed to address these issues by documenting the City's financial objectives, strategies and actions, and applying them to a multi-year financial projection. By developing a financial plan that has a long term perspective, Council will be able to strategically allocate scarce resources in the most cost-effective manner.

How will the Strategic Financial Plan be Used?

The SFP is a public document available to Council, staff, citizens, developers, businesses and industry.

Council and staff will use the SFP as a guide for future decisions, to review policy options and impacts through a multi-year financial projection, establish annual budget guidelines and prepare business plans. Citizens, businesses and industry will be able to use the SFP to understand the impact of Council's policies, intended direction, future choices and timing of future projects, while developers may use it to plan their investments.

New major capital and corporate initiatives should be collectively referred to the SFP process to ensure a comprehensive prioritization against the six objectives contained in the SFP.

ANNUAL BUSINESS CYCLE

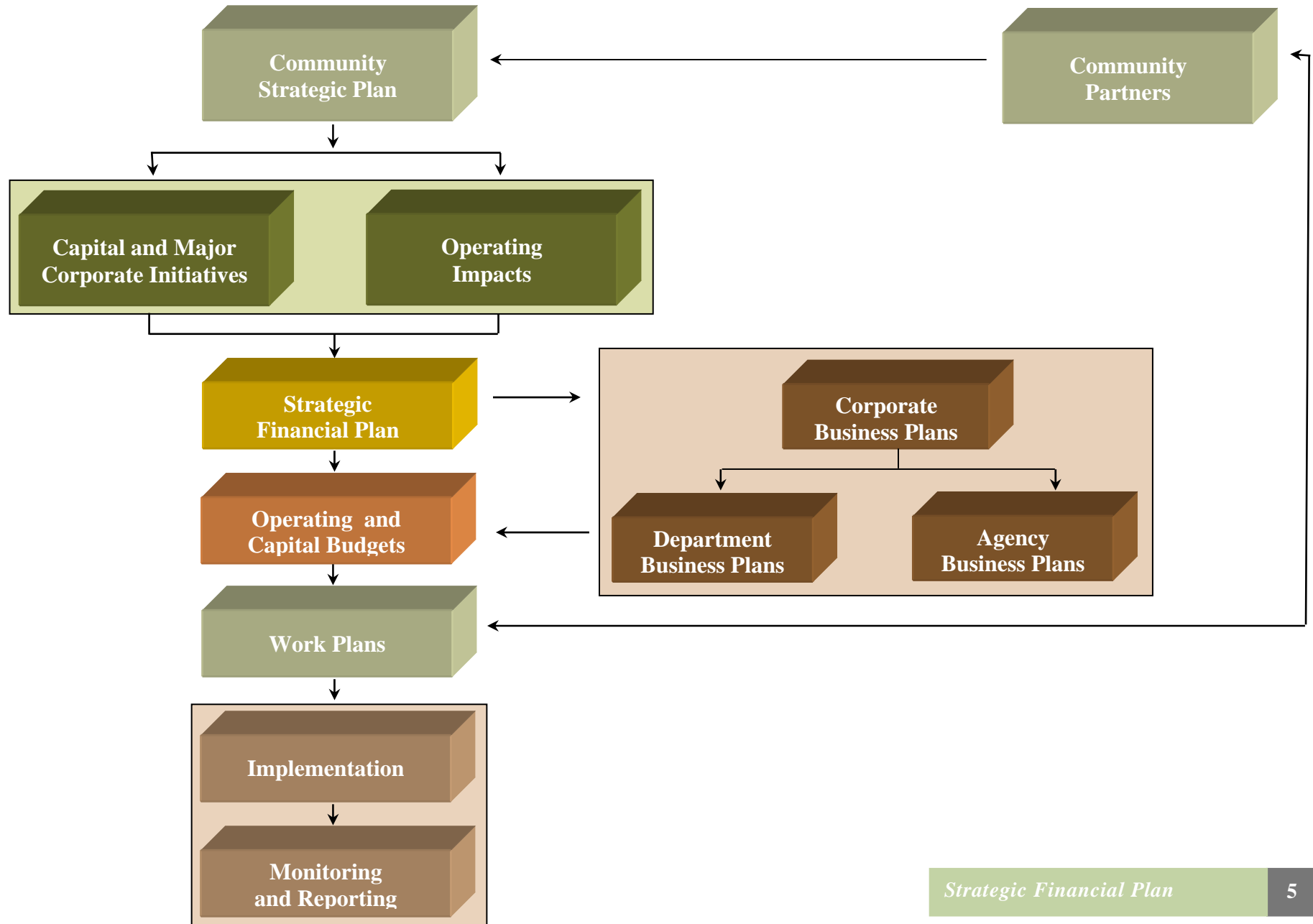
The SFP is a key element of the City's annual business cycle, as shown on page 4, and is central to the identification of corporate priorities, the preparation and adoption of business plans, the development and adoption of the operating and capital budgets, and the monitoring and reporting of budgets, plans and strategies.

The annual business cycle involves Council, staff and the community. The cycle begins in preparation for the next year's budget process. During the summer and fall of each year, capital priorities and operating impacts, driven partly by the Community Strategic Plan, are identified and assessed against the objectives of the Strategic Financial Plan (SFP). The SFP analysis guides the preparation of the Corporate Business Plan. The Corporate Business Plan, in turn, provides the necessary guidance for departmental and agency business plans. Both the SFP analysis and the business planning process feed into the preparation of the operating and capital budgets, which are presented to Council early in the new year. Following public input and Council approval of the budget, staff implement the budget through more detailed work plans, monitor progress and report back to Council throughout the year. The connections or linkages evident throughout the annual business cycle are presented graphically in the Linkages Map on page 5.

ANNUAL BUSINESS CYCLE



ANNUAL BUSINESS CYCLE LINKAGES MAP





OBJECTIVES, STRATEGIES AND ACTIONS

The following objectives with associated strategies and actions will guide Council and staff to ensure a strong, dynamic, fiscally responsible and sustainable future for the City of Oshawa.

Objectives

The following six objectives were approved by City Council and define the framework used to guide the development of the SFP:

1. Minimize property tax increases
2. Manage debt levels
3. Respond to infrastructure deficiencies
4. Support core municipal services
5. Maximize improvements to the City's image
6. Maximize assessment growth

For each of the above objectives, Council approved strategies and actions during the SFP process. These strategies and actions reflect the financial parameters required to support the six strategic objectives and ensure the quality of service within the community is maintained and, where appropriate, enhanced. Council also approved a number of strategic financial policies, which are presented in Appendix A.

1 MINIMIZE PROPERTY TAX INCREASES

The City must respond to the demand for programs, services and the continued maintenance of our existing infrastructure in an affordable manner. As a result, City Council must strike a balance between conflicting goals of minimizing taxes, maintaining existing programs, services and infrastructure, and providing new services in an environment of increasing costs.

Council understands the impact that an increasing tax load can have on citizens. Considering the difficulty in balancing the objectives mentioned above, and the major capital projects that will be built within the next 18-24 months, a comprehensive financial strategy was necessary.

Strategies and actions to address this objective follow.

Limit tax increases

- Target a maximum 3% increase in the 2006 tax levy requirement
- Apply for grants and subsidies such as Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF) to support infrastructure projects
- Implement a financial restructuring of the Oshawa Power & Utilities Corporation to reduce the need for debenture financing of capital projects
- Use annual operating surplus to reduce the tax levy requirement of the following year
- Reduce the City's tax levy requirement by the amount previously budgeted for Oshawa Transit
- Promote assessment growth



- Use Federal gas tax proceeds to fund items previously funded through tax levy
- Structure debentures to minimize tax levy increases

Establish stabilization fund policies

- Fund any operating deficit from the Tax Rate Stabilization Reserve to mitigate the impact on the following year's budget. A minimum balance of \$500,000 is to be maintained in the reserve; however, the balance in the Tax Rate Stabilization Reserve should be capped at 2% of annual operating expenditures
- Create a Tax Appeal Reserve to fund major property tax appeals. This new reserve will be funded by annual operating budget contributions and available funding transferred from the Tax Rate Stabilization Reserve

2 MANAGE DEBT LEVELS

The City has embarked on several major capital projects including a Downtown Sports & Entertainment Facility, South Oshawa Community Centre, Conant Street Wellness Centre, Legends Centre, Donevan Recreation Complex and Centennial Pool & Fitness Centre upgrades, Fire Station No. 5, City Hall Master Plan and City Hall Energy Management Retrofit (Ameresco) with a significant portion to be funded by debentures. Council will make every effort to minimize the impact of these increasing costs on the taxpayer and manage existing and committed debt levels.

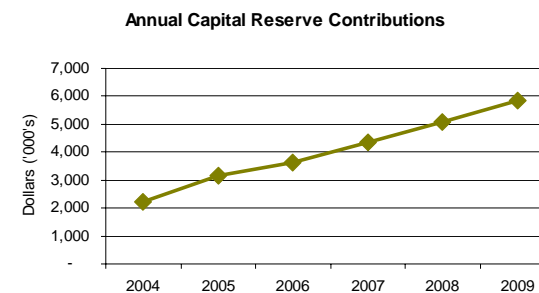
Strategies and actions to address this objective follow.

Establish a debt limit policy

- Limit debt servicing costs to 15% of tax levy requirement to maintain future financial flexibility
- Apply for grants and subsidies such as COMRIF to reduce reliance on debt financing
- Allocate proceeds from the financial restructuring of the Oshawa Power & Utilities Corporation to reduce the need for debenture financing of capital projects

Establish adequate reserves to limit the need for debt in the future

- Implement an annual contribution to a Facility Replacement/Renewal Reserve and increase these contributions each year until the annual contribution equals 2% of the value of facilities
- Implement an annual contribution to a reserve for the City's share of development project costs and increase these contributions each year until the annual contribution equals an appropriate level to support the City's costs
- Increase the annual contribution to the Playground Equipment Replacement Reserve by \$225,000
- Set aside significant one-time revenues in the Major Facility Reserve to fund major projects and reduce reliance on debt financing



The SFP directs an increase in contributions to reserves from an annual contribution of approximately \$2 million in 2005 to \$6 million in 2009.

3 RESPOND TO INFRASTRUCTURE DEFICIENCIES

The City's infrastructure is aging and funds must be committed to ensure it is properly maintained and refurbished. The City has an obligation to protect its investment and ensure the safety of its citizens and staff using buildings, parks, roads, sidewalks and other City owned infrastructure. At the same time, a balance must be achieved between new facilities and services and the proper maintenance of existing facilities and infrastructure.

Strategies and actions to address this objective follow.

Ensure adequate funding is available to support infrastructure projects

- Establish adequate reserves (see page 8)
- Implement a \$250,000 annual contribution to the street resurfacing program and increase these contributions by \$175,000 per year until the annual contribution equals \$2.3 million
- Apply for grants and subsidies such as COMRIF to support infrastructure projects
- Use Federal gas tax proceeds to fund infrastructure projects
- Allocate proceeds from the financial restructuring of the Oshawa Power & Utilities Corporation to reduce the need for debenture financing of capital projects
- Commit future debt room to infrastructure projects including a potential consolidated depot
- Continue investment in infrastructure renewal



Legends Centre

“A balance must be achieved between new facilities and services and the proper maintenance of existing facilities and infrastructure”

4 SUPPORT CORE MUNICIPAL SERVICES

The City provides a wide range of services for both citizens and businesses. Some services are required for a modern, growing community while others are required as a core responsibility of any municipality to ensure the health and safety of its citizens. Examples of core services include snow removal, road maintenance, refuse collection, fire services, park and playground maintenance/replacement, recreation programs and street lighting.

It is important to provide the means to effectively deliver these services today. It is equally important, however, to ensure that these services will be maintained in the future at established standards. The City must carefully plan and prioritize the use of its resources to ensure its service commitments are sustainable now and in the future.

Strategies and actions to address this objective follow.

Ensure the City is providing the right services in the right way

- Conduct a comprehensive program review to improve efficiency and effectiveness in program service delivery

Ensure adequate funding is available to support core municipal services

- Apply for grants and subsidies such as COMRIF to support core municipal services



5 MAXIMIZE IMPROVEMENTS TO THE CITY'S IMAGE



Downtown Sports & Entertainment Facility

As the largest urban centre in Durham Region, Oshawa has many community assets upon which to build a strong future. Recognition of Oshawa as a priority urban centre by the province in Places to Grow, Better Choices, Brighter Future - A Growth Plan for the Greater Golden Horseshoe, as well as local initiatives such as the Downtown Action Plan, is raising the profile of Oshawa among the development community as a future investment area. Significant attention is currently being given to creating a new image for Oshawa; one that reveals the many existing assets of the community and captures its future potential.

Strategies and actions to address this objective follow.

Undertake various initiatives aimed at promoting Oshawa as a vibrant, strong and progressive community

- Complete a re-branding exercise for the City
- Build new state-of-the-art recreation and entertainment facilities
- Implement the Downtown Action Plan
- Maintain and refurbish existing City facilities

6 MAXIMIZE ASSESSMENT GROWTH

Assessment growth improves the City's general financial position, provides the capacity to sustain services and the ability to attract businesses and employment. Assessment growth provides an opportunity to spread the cost of services over a larger tax base, thus lessening the impact of individual potential tax rate increases.

The City must, however, strike the right balance in assessment growth amongst major property classes. It is recognized that there is a greater demand for services for residential growth such as recreation facilities and libraries, whereas commercial, institutional and industrial growth does not require these support services.

Strategies and actions to address this objective follow.

Provide support to projects and initiatives that will lead to increased assessment in the City

- Commit to renewal and construction of major facilities that attract residents to Oshawa
- Apply for grants and subsidies to support projects and keep the tax rate down thereby making it more affordable for residents and businesses in Oshawa
- Implement the Downtown Action Plan



44 – 50 Bond Street East

FIVE-YEAR FINANCIAL PROJECTION

“The five-year financial projection will ensure a focus on fiscal sustainability and accountability”

An SFP is not complete without a multi-year financial projection. It is needed to add context to the objectives, strategies and actions and show the impact of the strategies on the taxpayer. The five-year financial projection included in this SFP follows the base budget approach used in the preparation of the City’s annual operating budget. Each year of the projection is based on the following:

- the prior year tax levy requirement;
- estimated inflationary increases based on specific commodities and industry trends;
- Council resolutions affecting the budget including many of the approved strategies and actions;
- changes to salaries and benefits based on contractual increases; and
- other known factors that will change the base budget such as one time or extraordinary expenditures and revenues.

The five-year financial projection, presented in Table 1 on page 16, will ensure a focus on fiscal sustainability and accountability and includes the following five sections:

1. **Opening Tax Levy** - The opening tax levy equals the prior year closing tax levy plus prior year taxation revenue from growth.
2. **Adjustments to Maintain Current Service Levels** - The annual operating budget faces pressure from inflation, contractual obligations, previous commitments, and external and other factors that are partially offset by taxation revenue from growth and the application of the recently approved Federal gas tax funding. These generally unavoidable adjustments must be made to the budget to ensure the City is able to maintain existing services at current levels.

3. **Adjustments to Reflect Transit Transfer to Region** - This section illustrates the decreased tax levy requirement for Oshawa Transit and Handi Transit, which will be transferred to the Region of Durham effective January 1, 2006.
4. **Adjustments Based on SFP Decisions and Increased Service Levels** - This section illustrates the financial impact of the decisions made by Council to improve the services and facilities available to citizens, as well as establishing reserve contributions to support future financial sustainability. These adjustments include the financing costs as well as the operating costs associated with these decisions.
5. **Closing Tax Levy** - This represents the amount that must be raised through taxes and the increase that the amount represents over the prior year.

In summary, Table 1 shows that Council approval of the 2005 operating budget resulted in a 5.9% increase in the tax levy requirement. The balance of the financial projection (2006-09) is based on a number of assumptions and anticipated revenues and expenditures. A more detailed explanation of the assumptions related to Table 1 can be found in Appendix B.

In 2006, the projection recognizes a reduction in the City's budget as a result of the transfer of transit services to the Region of Durham and the projected receipt of Federal gas tax funding. These reductions offset budget increases and help the City stay within the target maximum 3% tax levy increase established by Council.

In 2007–09 the City does not anticipate any significant reductions in the budget, therefore the projected tax levy increases are moderately higher than in 2006. The projected tax levy increase in 2007 is 6.6%. This is the year when all of the City's new facilities will be fully operational. In 2008 and 2009, the tax levy increase is slightly less at 4.5% and 4.1%, respectively.

Not included in the five year projection are any new future initiatives, service level increases, possible expenditures related to implementation of the Community Strategic Plan objectives and external factors that may arise, which could have significant budgetary impacts.

Table 1
Five-Year Financial Projection

	2005	2006	2007	2008	2009
	Budget	Forecast	Forecast	Forecast	Forecast
1 Opening Tax Levy	76,266,200	82,255,100	85,936,100	92,882,000	98,454,300
2 <u>Adjustments to Maintain Current Service Levels</u>					
Taxation Revenue from Growth	(1,233,100)	(1,233,800)	(1,289,000)	(1,393,200)	(1,476,800)
Growth Related Expenses	508,400	616,900	644,500	696,600	738,400
Prior Year Surplus	(1,250,000)	625,000	312,500	312,500	
OPUC Dividend/Interest on Taxes and Investments	(800,000)				
Salaries and Wages	1,931,800	1,588,000	1,408,800	1,451,100	1,494,600
Inflation	1,240,300	1,106,500	1,169,300	1,335,400	1,459,000
Capital Budget	504,000	150,000	175,000	200,000	225,000
Reserves for Fire Equipment	150,000	150,000	150,000	150,000	
Community Groups	(200,000)			(350,000)	
Debenture/Interfund Note Repayments			200,000	185,000	
Department Costs	(41,900)				
Loss of Community Reinvestment Funding		250,000	151,000		
OMERS		400,000			
Federal Gas Tax Funding		(1,355,700)			
Total Adjustments	<u>809,500</u>	<u>2,296,900</u>	<u>2,922,100</u>	<u>2,587,400</u>	<u>2,440,200</u>
% Change in Tax Levy Requirement	1.0%	2.8%	3.4%	2.8%	2.5%
3 <u>Adjustments to Reflect Transit Transfer to Region</u>					
Transfer Oshawa/Handi Transit to Region of Durham		(4,806,800)			
% Change in Tax Levy Requirement	0.0%	-5.8%	0.0%	0.0%	0.0%
4 <u>Adjustments Based on SFP Decisions and Increased Service Levels</u>					
Reserves/Street Resurfacing	925,000	475,000	712,500	750,000	750,000
Debenture Payments	1,524,800	750,000	987,300	841,700	821,400
OPUC Interest on Note		1,672,100			
Operating Costs for New Facilities	1,496,500	2,060,000	1,035,000		
Total Adjustments	<u>3,946,300</u>	<u>4,957,100</u>	<u>2,734,800</u>	<u>1,591,700</u>	<u>1,571,400</u>
% Change in Tax Levy Requirement	4.9%	6.0%	3.2%	1.7%	1.6%
5 Closing Tax Levy	<u>81,022,000</u>	<u>84,702,300</u>	<u>91,593,000</u>	<u>97,061,100</u>	<u>102,465,900</u>
% Change in Tax Levy Requirement	5.9%	3.0%	6.6%	4.5%	4.1%

CONCLUSION

Following a long period of minimal investment in the City's infrastructure, Council has set a course to address many deficiencies during the next few years. The expenditures associated with these initiatives will create pressures on the annual operating budget for the period 2006-2009. By adopting a number of financial strategies and actions, Council has addressed its objective to minimize property tax increases during a period of unprecedented growth, investment and construction. The referral of all new major capital and corporate initiatives to the SFP process will ensure a comprehensive prioritization against the six objectives contained in the SFP.

City Council's approval of a Strategic Financial Plan, including a number of strategic financial policies, is evidence that the City seriously considers its financial future and related decisions that impact its citizens. Committing to a plan means that Council has considered the major pending issues and available opportunities, and has put in place a strategy that will allow residents and interested outsiders (investors, developers and potential homeowners) to know the direction the City is moving.

Council has committed to building reserves that will grow and be available in the future to respond to major capital rehabilitation and replacement of its facilities and infrastructure. It has initiated major projects that will help to maximize improvements to the City's image and assessment growth. Council has established a debt ceiling that it considers appropriate, both now and in the future. This ceiling will allow the City to respond to infrastructure deficiencies and, in a variety of exciting projects approved in 2005, support core municipal services. The objective to minimize property tax increases will also be achieved by considering all pressures being exerted on the City and taking a longer term perspective when assessing the implications of today's decisions.

How and When will the Strategic Financial Plan be Monitored?

Staff will update the SFP annually to review the City's financial performance, the objectives, strategies and actions within the Plan, alert Council to major pending changes (e.g. changing legislation) and update the five-year projection to allow Council to continue to make decisions within the context of long-term planning. A major review of the SFP will be undertaken following each municipal election.

APPENDIX A – LIST OF COUNCIL-APPROVED STRATEGIC FINANCIAL POLICIES

Corporation Grants - The corporation grant policy establishes eligibility requirements to guide Council in approving grants for Oshawa-based not-for-profit community groups or organizations initiating or delivering programs and services to the citizens of Oshawa.

Debt Limits - In recognition of the need to limit the amount of debt taken by the City, Council established a maximum debt ceiling equivalent to 15% of taxation revenues.

Investments - The investment policy governs the investment of surplus cash, reserve and reserve funds and sinking funds of the City in accordance with the Ontario Municipal Act. The goal of the policy is to invest all available funds of the City in a prudent manner to maximize the rate of return while minimizing the degree of risk and ensuring an adequate level of liquidity.

Tax Appeals Reserve - As the City is continuously vulnerable to major property tax appeals, a Tax Appeal Reserve has been established. It is funded by annual operating budget contributions and available funding transferred from the Tax Rate Stabilization Reserve.

Tax Rate Stabilization Reserve - The City maintains a Tax Rate Stabilization Reserve to minimize the adverse affect of any shortfalls in annual revenues or unforeseen increases in annual expenditures, and to help offset increases in taxes. The primary source of funding is year-end operating surpluses, and to a much lesser degree, net financing (excesses minus shortfalls) from completed capital projects. To ensure sufficient funds are available to meet possible deficits, a minimum balance of \$500,000 should be maintained. Additionally, to avoid excessive balances from accumulating, a cap has been established for the balance in the reserve equal to 2% of annual operating expenditures.

Use of One-Time Revenue - One-time revenue is to be set aside in the City's Major Facility Reserve for the ultimate major repair or replacement of City facilities.

APPENDIX B – FIVE-YEAR FINANCIAL PROJECTION ASSUMPTIONS

Adjustments to Maintain Current Service Levels

Taxation Revenue from Growth - Projected assessment growth is estimated to increase taxation revenue by 1.5% of the prior year's taxation revenue.

Growth Related Expenses - Expenditures related to projected assessment growth are based on historical costs equaling approximately 0.75% of the opening tax levy requirement.

Prior Year Surplus - Prior year operating surplus was used to reduce the tax levy requirement in 2005. The reliance on prior year surplus to balance the budget is phased out over three years.

OPUC Dividend/Interest on Taxes and Investments - The 2005 budget included increased projections for dividend income from the OPUC and interest on taxes and investments. It is expected these revenues will continue at these levels in 2006 and beyond.

Salaries and Wages - The salary increase is 3.5% in 2006 as approved by Council and an estimated 3% in the remaining years.

Inflation - The City's inflation estimate is based on the specific commodities used by the City and is approximately 3%.

Capital Budget - The annual operating budget contribution to the capital budget was \$4.7 million in 2005. Additional funding is required to ensure the City provides the same level of service for a larger infrastructure inventory therefore an annual increase of approximately 3% is included in the projection.

Reserve for Fire Equipment - A ten-year replacement schedule identified the need to increase contributions by \$150,000 per year until 2008 at which time an appropriate annual contribution rate would be reached.

Community Groups - The final annual payment of \$200,000 on a five-year agreement with the YMCA was made in 2004. In 2007, the final annual payment of \$350,000 will be made to Lakeridge Health under a ten-year agreement approved by Council. The tax levy requirement is therefore reduced to reflect the completion of each of these agreements.

Debenture/Interfund Note Repayments - Interfund note repayments will be initiated in 2007 and 2008 to match the expected assessment increases resulting from the expenditures.

Department Costs - This item reflects the net effect of the adjustments made to 2005 departmental operating budgets.

Loss of Community Reinvestment Funding - Provincial withdrawal of the Community Reinvestment Fund grant representing \$250,000 in 2006 and the balance of \$151,000 in 2007 has been reflected in the appropriate years.

Ontario Municipal Employees Retirement System - OMERS is projecting a rate increase between 0.6% and 1.3% to return the pension plan to a fully funded position. Staff have projected the increase at 1%.

Federal Gas Tax Funding - The maximum amount of the Federal gas tax funding is applied to reduce the tax levy contribution for capital projects in 2006 and beyond.

Adjustments Based on SFP Decisions and Increased Service Levels

Reserves/Street Resurfacing - The full implementation of the Reserves/Street Resurfacing contribution policy is phased-in over three years.

Debenture Payments - Debentures are structured so that they are amortized over a term of 23 years, with the first three years requiring no principal repayments.

OPUC Interest on Note - Interest revenue is reduced as a result of refinancing the promissory note held by the City.

Operating Costs for New Facilities - The Legends Centre is scheduled to open in the fall of 2005. The projection shows the introduction of operating costs for the Legends Centre spread over 2005 and 2006 as the facility opens and becomes fully operational. In addition, the City will be faced with annual operating costs for the other major capital projects including Fire Station No.5, South Oshawa Community Centre, and Conant Street Wellness Centre. The costs included in the projection are estimates and will be adjusted as more information related to the operations of each facility becomes known.

City of Oshawa

Strategic Financial Plan 2005 - 2009

OBJECTIVES

- Minimize property tax increases
- Manage debt levels
- Respond to infrastructure deficiencies
- Support core municipal services
- Maximize improvements to the City's image
- Maximize assessment growth

YESTERDAY

TODAY

TOMORROW...

Creating
OUR