



Staff Report

Finance and IT Services

Report To: Committee of the Whole
Meeting Date: December 11, 2017
Report Number: FAF.17.150
Subject: 2018 Proposed Budget
Prepared by: Ruth Prince, Director of Finance and IT Services

A. Recommendations

THAT Council receive Staff Report FAF.17.150, entitled “2018 Proposed Budget” for information purposes; and

THAT Council review the 2018 Proposed Budget and Proposed Additions to the Base Budget attachments.

B. Overview

This report outlines the 2018 Proposed Budget as well as the proposed Additions to the Base Budget for the Committee of the Whole to review.

C. Background

Executive Summary

2018 Proposed Budget – Property Tax

Council made the following resolution at the July 10, 2017 Council meeting:

Moved by: Michael Seguin Seconded by: Joe Halos

THAT Council receive Staff Report FAF.17.72, entitled “2018 Budget”;

AND THAT Council direct staff to prepare a base budget for 2018 that will support the Town’s current level of service at a cost of no more than 3% (both operating and capital) over the 2017 Budget, Carried.

The 2018 Proposed Budget (Attachment 1) provides for the same services delivered in 2017 at a 0.74% increase. This does not include any proposed additions to the base budget.

The 2018 Proposed Budget is based on Staff’s best estimate of 2018 expenses. The following chart illustrates the main pressure areas in estimating the 2018 Budget.

Budget Area	Amount of Change (\$)
Change in Expenses	
Cost of Living Allowance (1.5%) and Benefits	\$ 243,780
Increase in Road's Materials (Gravel, Dust Suppression)	\$ 60,090
Increase in Utilities	\$ 23,520
Increase in IT Service Agreements	\$ 34,150
Decrease in Insurance	\$ (61,535)
Increase in Winter Control	\$ 36,410
Increase in Solid Waste Contract	\$ 90,830
Increase in Other Operating Expenses	\$ 139,460
Decrease in Inter-Functional Transfers (as per Policy)	\$ 50,450
Change in Revenue	
Increase in Revenue Sources	\$ (70,500)
Increase in Ontario Municipal Partnership Fund (OMPF) Grant	\$ (119,300)
2018 Proposed Increase in Cost of Services	
Additional Assessment (2.20%)	\$ (319,630)
2018 Proposed Budget Change	\$ 107,725

Executive Summary

2018 Proposed Budget – Water and Wastewater Rates

The water and wastewater rates are a combination of a Fixed Charge and a Consumption Charge based on actual consumption.

The 2018 Proposed Water and Wastewater budgets do not include any increases over the current 2017 rates. A decrease in the Collingwood water taking is keeping the water rates stable. An increase in the leachate revenue is keeping the wastewater rates stable. A decrease in this projected revenue would result in a rate increase to wastewater.

The Infrastructure Renewal Fee for Water and Wastewater remains constant for 2018. The 2018 Proposed Budget includes increased contributions to the Water and Wastewater Asset Replacement Reserves. An increase in water and wastewater connections is enabling the Town to meet its infrastructure contribution requirements as per the Hemson Asset Management Plan from 2014.

Municipal Budget

The Town of The Blue Mountains' Budget is the Town's annual financial plan, and is the financial foundation for guiding decision making within the year. The budget process allows Council to review and prioritize the programs and services delivered by the Town. It provides an insight into what work will be completed over the upcoming year as well as future years that are referenced in the budget forecast. The budget establishes the financial boundaries in which the municipality operates.

Additionally, the proposed budget provides the opportunity for the public to participate by reviewing and commenting on the financial plan for the upcoming fiscal year. The citizen review process is presently administered with information provided at Council meetings, Public

Information Sessions, and a Budget specific Public Meeting where citizens have the opportunity to share their views on the Proposed Budget. All citizens can also comment via letter or email for the Budget Public Meeting.

The Town's Budget breaks into two smaller budgets. Firstly, the Town's operating budget includes the day-to-day costs to run the municipality (e.g. salaries, utilities, supplies). The other is the capital budget. The capital budget funds investment and re-investment in infrastructure, equipment, and vehicles that provide long-term benefits to the community (e.g. roads, sewers, arenas).

A municipal budget has considerable constraints compared to those budgets from senior levels of government. A municipality is not permitted to budget for a deficit, so projected expenditures cannot exceed projected revenues.

Operational budgets reflect the financial estimates for the services the Town provides and the levels to which those services will be provided. Operational plans are developed based on the Town's Strategic Plan, as well as various Master Plans and studies completed for specific programs, services, or projects. The budget lays out the financial resources to implement these plans. It is important that funding levels and service level expectations are aligned to avoid delays, deferrals, or variances from the budget.

The prior year's budget acts as the base budget for the upcoming fiscal year since it was compiled using the inputs noted above. Budgets are reviewed, line by line and in detail with staff, managers, Directors and the CAO to find cost savings and to ensure there is enough funding to provide the service at the appropriate level as approved by Council.

D. Analysis

Funding the Municipal Budget

Taxation

The Town relies heavily on property taxes as the primary revenue source to deliver necessary services. The Town also receives development charges, user fees, and grants as additional sources of revenue. Property tax is the tax that a property owner pays based on the assessed value of owned property within the municipality. Assessment value is calculated based on the Fair Market Value (FMV) of the property being taxed which is determined by the Municipal Property Assessment Corporation (MPAC). MPAC operates under the jurisdiction of the Province of Ontario.

User Fees

User Fees are collected from individuals who use a range of different services and amenities provided by the municipality. They are a useful revenue source because there is a direct relationship between the service provided and the funding. User fees range from building permits to the rental of town owned facilities, like the Beaver Valley Community Centre and the Harbour. Including in the Budget document is proposed changes to the Town's current user fees. These proposed User Fee Changes will be discussed through the budget process.

Water and Wastewater Rates

The Town also uses a rate fee for services used that can be directly measured, such as Water and Wastewater usage. Water and Wastewater have Operating and Capital budgets which are not funded from property taxes. These services are funded only by the users of the system.

Grants

On occasion, the Town receives grants, primarily from the provincial and federal governments. These grants fund a broad range of operating and capital projects.

Ontario Municipal Partnership Fund

The Ontario Municipal Partnership Fund (OMPF) provides funds to the Town based on households. The 2018 Budget includes an OMPF funding amount of \$1,269,300 which is \$119,300 higher than the 2017 amount. The increase is a result of a higher Rural Communities Grant and Northern and Rural Fiscal Circumstances Grant. These grants increased as a result of our households increasing from 7,379 to 7,692. (313 Households)

Ontario Community Infrastructure Fund

On July 4, 2016 the Province of Ontario announced the expansion of the Ontario Community Infrastructure Fund (OCIF). This fund focuses on roads, bridges, water and wastewater infrastructure projects. The Town proposed OCIF – Formula based funding allocation for the next three years is shown in the chart below.

Formula-Based Funding	Funding Amount
2017 Formula Allocation	\$425,755
2018 Proposed Formula Allocation	\$602,799
2019 Proposed Formula Allocation	\$923,251
Total Proposed Allocation	\$1,951,805

The 2018 Proposed Budget uses the 2018 formula allocation to fund Elma and Alice Reconstruction.

Clean Water Wastewater Fund

On September 14, 2016 the Town received a funding announcement that the Federal and Provincial governments had joined together and were releasing Phase 1 of the Clean Water and Wastewater Fund (CWWF). The Town's allocation is \$1,504,961 for 2016-2018 and the following 5 projects were approved for funding:

1. Clarksburg Concept Design
2. Thornbury West Stormwater Master Plan
3. Craigeith and Thornbury Wastewater Plant UV Replacements
4. Water and Wastewater Plant Roof Replacements
5. Elgin Street and Moore Crescent Sewage Pumping Station Renovations

Debt and Long-Term Debt

The Blue Mountains currently has external debt related to capital infrastructure. Provincial limits on municipal debt are set based on a maximum percentage of revenues that may be used to service the debt costs (e.g. interest and principal payments) on an annual basis.

In the Province of Ontario, municipalities have the authorization to incur long-term debt for municipal infrastructure as long as annual debt repayments do not exceed 25% of net revenues. The Province provides an annual statement for municipalities known as the Annual Repayment Limit statement (ARL) which outlines the revenue and debt servicing calculations. The Blue Mountains 2017 Annual Repayment Limit statement from the Province states that the Town is utilizing less than 2% of net revenues to service debt and is only utilizing 7% of the legislated capacity of net revenues. In February 2017, Council passed Policy number POL.COR.17.01 Debt Policy. This policy sets out the strategy, methods, goals and control management of debt requirements and commitments while ensuring compliance with the Municipal Act, 2001 as amended and related Regulations. The Town is well below the 15% of the Town's own source revenues as outlined in the Policy.

The 2018 Proposed Budget includes two projects that will require long-term debt; Elma and Alice Street Reconstruction and the Leachate Management Forcemain. The Harbour debt was started in 2017 and will be formalized at the beginning of 2018. The Landfill Mining and Expansion costs are waiting to be formalized as long-term debt and could be included with the Leachate Management costs.

Form of The Blue Mountains' Budget

The 2018 Proposed Budget is compiled into the following sections that follow a descriptive index page:

1. 2018 Proposed Budget Executive Summary
2. Change in Taxation Schedules
3. Town's Financial Position – Indicators
4. Overview Summaries of Capital Projects
5. Department Budgets – Operating and Capital (Taxation)
6. Department Budgets – Operating and Capital (User Fees)
7. Proposed Additions to the 2018 Base Budget Reports

Budgeting Pressures

The Town's largest operating expenses are salaries and benefits. This should not be a surprise in a service organization. The cost to provide uninterrupted services relies heavily on available, engaged human resources. The Cost of Living Adjustment ensures the Town remains competitive in the market place for human resources and continues to effectively recruit and retain staff.

The Town has limited options when it comes to effectively dealing with budgeting pressures. The options become limited in mitigating cost increases in the face of inflation and any other challenges that affect service delivery.

A few options for dealing with these pressures are:

- Increasing the user-fee for that service.
- Increase funding for services by increasing the required tax levy.
- Decreasing the service level expectation to align with current funding levels.
- Improve efficiency among services by finding better methodology for service delivery.
- Find better pricing for materials and services that the municipality has to purchase.

The 2018 Proposed Budget was prepared by utilizing many of the options identified above. Staff are continuously looking for operational efficiencies that would offset the inflationary pressures on the tax levy and maintain service levels and balance the competing priorities of affordability and sustainability.

Proposed Budget Highlights

Taking into account the Town's 2018 Proposed Budget and the County's Approved Budget, the 2018 Proposed Budget proposes an increase in the overall blended property tax levy of 0.63% over 2017. This increase provides funds that will support local Town services, County services (EMS, roads etc.), and provincial education. The allocation of a Town raised tax dollar is approximately 41% Town, 40% County and 19% Province.

Included in this overall blended tax levy increase is a 0.74% increase to support existing Town services for the upcoming year. The 2018 Proposed Budget provides the estimates to maintain the existing and committed services and level of services expected from the 2018 year.

In addition, there are a few service level additions that have been drafted for Council's review.

Proposed Budget Highlights

Capital Budget

The following are some of the significant projects planned for 2018:

- Leachate Management Forcemain
- Northwinds Beach Pedestrian Crossing
- Cemetery Improvements
- Elma and Alice Street Reconstruction

User Fees and Water and Wastewater Rates

The proposed budgets for the Town's operation of Water and Wastewater facilities are also attached. Within these budgets is an asset renewal reserve contribution that is generated from the fixed rate portion based on the Linear Asset Management Plan created by Hemson

Consulting. These reserves are intended to provide for the partial replacement or renewal of existing assets.

The budget for Water services proposes no increase to the fixed charge of \$26.96/month. The consumption rate is proposed to remain the same.

The budget for Wastewater services also proposes no increase to the fixed charge of \$22.63 per month and no consumption rate increase.

Operating Budget

Staff will be presenting the 2018 Proposed Operating Budget that proposes a 0.74% Town levy increase that supports Council's direction of maintaining present services in the Town.

It is important to note that the 2018 Proposed Budget is staff's best estimate of 2018 costs and revenues based on current knowledge. It contains numerous efficiencies gained over the past few years from Council direction on partnerships with bulk purchasing groups, competition in the procurement process, and the general commitment of staff to find price savings and operational efficiencies in their daily work.

If Council, in their review of the 2018 Proposed Budget, feels the necessity to pursue a property tax levy impact less than a 0.74% increase, then Council should note that they could consider the following tools:

- Reduction of existing services or service levels;
- Deferring a taxation funded capital project;
- Increase reliance on long term debt for infrastructure renewal; or
- Use of the potential 2017 cost savings.

These are some of the tools available for Council's consideration and are not Staff's recommendation. The implementation of any of the above requires a cautious approach to the effect on citizens and the cost in future budget years. For example, using a single year's cost savings to lower the tax levy in the following year creates double the pressure on the subsequent year's tax levy. Good budgeting dictates that cost savings, debt and deferring capital projects should only be used in unique circumstances and with a careful eye to the future ramifications.

2016 Accumulated Surplus

During the 2016 year-end process a \$53,624 cost savings was identified for 2016. The cost savings was transferred to the Legal Reserve to offset funding that would have needed to be raised from taxation in future years.

2017 – Preliminary Financial Results

Throughout the 2017 fiscal year the Town experienced positive variances in a few areas. The estimated cost savings for 2017 year end is approximately \$141,500. Staff does not recommend applying the cost savings to the 2018 Proposed Budget.

E. The Blue Mountains' Strategic Plan

Goal #4: Promote a Culture of Organizational and Operational Excellence
Objective #4: To Be a Financially Responsible Organization

F. Environmental Impacts

None.

G. Financial Impact

As per report and attached document.

H. In consultation with

Debbie Brown, Budget Analyst
Vicky Bouwman, Financial Analyst
Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets
Senior Management Team

I. Attached

1. 2018 Proposed Budget Package

Respectfully Submitted,

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