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STAFF REPORT: Finance & IT Services



REPORT TO: Council
MEETING DATE: June 17, 2013
REPORT NO.: FIT.13.28
SUBJECT: 2014 Budget Process and Pre-Consultation
PREPARED BY: Robert Cummings, CMA
 Director of Finance & IT Services

A. Recommendations

THAT Council receive Staff Report FIT.13.28, “2014 Budget Process and Pre-Consultation” for information purposes; and,

THAT Council direct staff to prepare a base budget for 2014 that will support the Town’s current service levels at a cost of no more than ____% over the 2013 Budgeted Levy; and,

THAT Council direct staff on any new services to be included for consideration in the 2014 Budget Review through the use of the Budget Enhancement Report; and,

THAT any addition or reduction in service shall be recommended to Council at the proposed Budget Review meetings, separate of the Base Budget with valid descriptions, estimates and financial impact for Council’s deliberation.

B. Background

Purpose: Inform Council of the Budget preparation process, budget factors, and key dates and to request any specific direction to staff on the 2014 Budget or process.

The Blue Mountains Budget Environment

In preparing for the 2014-16 Budget, it is clear that the challenges that confront The Blue Mountains are not unlike the challenges facing most Ontario municipalities. Ontario municipalities are making the best of providing demanded services in the slow recovery of the world economy. In this economic reality, municipalities continue to see lower user fee revenues, and a greater resistance to paying for services based on the average Ontarians’ disposable income.

Latest economic news has indicated that the global economy will continue to be a drag on the Ontario economic recovery. Additionally recent debt reports show the provincial net debt figure is just shy of \$253B. The interest on this debt is Ontario’s fastest growing budget item 5.5% per year(Globe and Mail, May 2013).

Economists are predicting that interest rates will remain low for at least another 1-2 years. Low interest rates are good for borrowing if you have an expected cash flow but not as good for those on a fixed income trying to preserve capital through a conservative investment program.

The forecast on inflation is relatively stable. Unfortunately, many of the businesses and companies the Town conducts business with such as utility providers, policing services and oil companies, continue to experience price pressures beyond the **average inflation rate** which ultimately mean The Blue Mountains is subject to cost increases.

Additionally, the effect of running a business in a litigious environment means there remains pressure on insurance premiums. As we have witnessed over the past few years, a municipality's ability to pay has increased their exposure to the risk of litigation and ultimately costs. Insurance companies continue to safeguard against that risk with training and advice but ultimately, premiums increase greater than the rate of inflation.

The Blue Mountains is in relatively good financial health when we look at a number of factors critical to a municipality's fiscal condition. The Town's infrastructure is a good mix of age, the Town has reserves and reserve funds that may not necessarily be at the level for sustaining our infrastructure but better than most municipalities. Debt is relatively low. And of course, the Town does have geography on its side being that The Blue Mountains is a very desirable location that continues to attract new residents. In recent years, development has gone quiet, but in recent months there has been an increase in Building permit revenue which may indicate a recovery is in the works.

A healthy economy and municipality are essential in the budget process. Municipal budgets are different from Federal and Provincial budgets. A municipality cannot operate with a deficit budget. The general theory on municipal budgeting is that the Town's desired services for its citizens should be funded from property taxes of those citizens benefitting or using the services. A poor economy puts pressure on user fee revenue that in turn put pressure on the tax base and or the delivery of services.

2013 Financial Position

Most recent financial information indicates that the Town is continuing to run within annual budgeted expenses. However, similar to 2012, the recovery from the downturn in the economy has impacted the Town's revenues negatively. Both user fees and grants from the province have been reduced as expected and as presented in the 2013 Budget process. This situation will impact the upcoming budget year depending on the scope of this shortfall. At this point, staff are not forecasting a 2013 deficit.

The Blue Mountains' staff continues to find innovative and creative ways to ensure service expectations are being met within budget or better. A big part of this has been our commitment to investigating innovative service delivery options and our purchasing standards. Still, the general public will attempt to compare cost increases against the average published inflation rate. However, as stated above, the inflation on a "municipal basket of goods" is different than the typical "basket of goods" used in the national inflation calculation.

Base Budget Principles

The Town has services to provide to its citizens on a regular, ongoing, uninterrupted basis. In 2011, Council and staff underwent a review of the services being conducted by the Town. There were some service changes made after that review. It was also acknowledged that there were some services being under-delivered such as roads maintenance. Council directed additional funds in the 2012 and 2013 Budget process to meet those service requirements. Since the service review, the Town's service delivery has remained relatively stable. Staff recommends preparing a budget based on the services currently in place. This level of budget presentation is considered the Town's Base Budget and includes the inflationary or deflationary costs related to the current service level. Any additional services will be presented in a separate budget document similar to the presentation in 2013.

Capital project funding continues to face pressure as a result of past years' focus on operations and future asset renewal. As a fiscally responsible Town, it is wise to ensure Town infrastructure is functional now and into the future. The Asset Management Program is not complete, but early indicators of our infrastructure deficit recommend that we continue grow our capital funding to ensure reliable asset utilization into the future. This was also emphasized by the Town's Auditors, KPMG at the 2012 Financial Statement Audit presentation in May of 2013.

2014-16 Projected Budget

In the 2013 Budget presentation, the projected 2014 Budget is a 5.6% increase in Town levy over 2013 to maintain current service levels. The chart below illustrates some of the pressure areas in 2014 as best estimates from 2013.

Budget Area	Amount of Change
Capital Works, Studies, Plans	\$ 354,000
Policing	82,000
Salaries & Wages	148,000
OMPF Grant decrease	125,000
Contract Services(Winter Control)	110,000
General Expenses	53,000
Insurance	20,000
Utilities	10,000
Additional(New) Assessment	(210,000)
2014 Projected Budget Change	692,000

The projection for 2015 is a 5.8% increase in Town levy over 2014 to maintain the same service levels. These projections will be examined closely in this budget period by staff as part of the Town's budgeting process. As more current information becomes

available, the costs will be updated. Town staff will prepare a 3-year operating budget and a 5-year capital budget for Council's consideration.

General Expenses

The projected budget for 2014 includes a Cost of Living Adjustment of 2%. This estimate will be reviewed as part of the budget process to ensure it is competitive with the market.

Policing Services

The Policing Services budget is projected to increase by \$82,000 and \$225,000 in 2014 and 2015 respectively. The budget has been estimated lower than the expected contract based on the historic credit the Town receives annually. The Town has received a credit in the range from \$45,000 to \$190,000 annually since 2008. Given this history, it was appropriate to use the credit information in the calculation of an annual budget slightly lower than the contract amount. In years where there is no credit available, the Town will use money from a reserve to make up the shortfall. However, depending on the service level required on the given contract options presented to Council on April 8, 2013, the increase in the base budget could be greater than the \$82,000 that represents 0.7% of the levy increase over 2013. The policing service level that Council selects could reduce the tax levy increase by as much as \$400K (-3.3%) or increase it as much as \$255K (2.1%) carried for 2014 at this point in time. Council's deliberation on this item will go well beyond dollars and cents as it should when determining the appropriate level of service for our citizens.

Ontario Municipal Partnership Fund

The Ontario Municipal Partnership Fund is the main transfer payment to municipalities. In February 2012 the Province announced the 'phase down' of the Program \$575M to \$500M by 2016 – details not released. The Town expects to lose about 10% per year until 2016. The impact in 2014 will be a loss of \$151,500 in grant money. This will have a 1.25% impact on the Town's tax levy.

2013 is a transition year for the OMPF, during which the Province will be working with its municipal partners on the redesign of the program that will be implemented in 2014. To date, there has been little information provided to municipalities.

Capital

The capital funding envelope in 2013 was about \$1.583M from taxation. The projected number in 2014 is in the range of \$2.043M. The increase is the result of a number of matters that include:

- An additional \$200,000 for the Landfill project
- Previously deferred projects that have now become more of a requirement
- Enhancing the capital program to address the Town's infrastructure deficit

The 5-year capital plan is examined each budget period to ensure the appropriate mix of capital work is planned for in a feasible timeline and cost. A \$500K increase in this

amount in 2014 is a big number but only because it has been in decline for about 5 years when, at its peak, was about \$1.9M.

Property Taxes – Town, County, Provincial

Please note that when the Town tax levy is blended in with the County and Provincial rate changes, the actual percentage increase to a Blue Mountains' residential property owner is different. It is different because of the property taxes paid, 42% goes to the County for County Services, 35% funds Town services and the remainder goes to the Province. The Blue Mountains has one of the lowest tax rates in Ontario based on results from a recent survey (BMA) of municipalities.

In 2010 and 2011, staff developed a comprehensive Water Financial Plan and a similar Wastewater Plan to deal with the sustainable delivery of these services. From these plans, the recommended budgeted rate increases in 2013 was a 22% increase in Water fixed charge and a 6.5% increase in the consumption rate and a 13% increase in the Wastewater fixed charge with no change to the usage rate. Council adopted lower increases in 2013 being: 10% for fixed and 6.5% for consumption rate for Water and a 7% for fixed and 0.0% for usage in Wastewater. Council indicated these increases would be place in 2013 and in 2014 in order to meet the sustainable demands on the Water and Wastewater infrastructure. The 2014 Budget process will review the adequacy of these changes in relation to estimated costs.

As stated earlier, in the 2012 Budget Process, Council and Committees examined all the services provided by the Town and Town Staff. This exercise proved beneficial in understanding the need for the service levels presently provided and the associated cost to deliver these services on an annual basis.

Given Council's recent review of the services, Staff is recommending a base budget approach to the upcoming budget process. This approach only looks at estimating the future cost of existing services. It does not rationalize each and every service the Town delivers from a \$0.00 starting point like a Zero-Based budgeting approach. Staff will do their very best to reduce costs or inform Council of potential unneeded services. However, the primary driver of the 2014 Budget will be subject to external pricing inflation and the potential for a continued lag on 2014 revenue projections.

Timeline

Ideally, the upcoming fiscal year budget should be complete prior to the start of the next fiscal year. In order to do this and serve the needs of public process, the Budget typically requires a number of meetings. In the attached 2014 Budget Timeline, staff is proposing to have Budget meetings completed by December of 2013.

C. The Blue Mountains' Strategic Plan

To ensure long-term financial sustainability of the Town of The Blue Mountains

D. Environmental Impacts

The Blue Mountains is committed to environmental sustainability.

E. Financial Impact

The Town's Budget process is contained in current budgeted staff costs

F. In Consultation With

Debbie Brown, Financial Analyst
Renee Ouellette, Financial Accountant
Troy Speck, CAO

G. Attached

1. 2014 Budget Timeline

Respectfully submitted,

Robert Cummings, CMA
Director of Finance & IT Services

For more information, please contact:
Robert Cummings
rcummings@thebluemountains.ca
519-599-3131 x245

2014 Budget Timeline

Task	Due Date
Budget Pre-consult with Council – Staff Report	June 17, 2013
Budget team will distribute 2014 - 2016 Data to SMT & SAM for review and input of 2016 data	July, 2013
All information from SMT & SAM pertaining to Capital and Operating Changes provided to Budget Team	August 30, 2013
Capital & Operating Budget Review by Department Heads & SAM	September 18 - 27, 2013
Draft Electronic Budget Document distributed to SMT	October 4, 2013
CAO & Director of FIT to review departmental budgets with Department Heads	October 7-11, 2013
SMT Review of Draft Budget / Service Delivery Review Considerations	October 16 & 17, 2013
Update / Changes of Draft Budget to Finance	October 21 – 25, 2013
Final Draft Budget to Debbie for creation of Electronic Budget Document	October 30, 2013
Review by Department Heads	November 4 – 6, 2013
Distribution of Electronic Budget to Council, Committee, SMT & SAM	November 8, 2013
Grants & Donation Applications - Presentation to F&A Committee	November 12, 2013
Budget Meetings – Committee of the Whole Review	November 27 & 28, 2013
Public Meeting Notice on website and local newspapers	December 2013
Public Information Session / Workshop for Draft Budget	December 2013
Budget Meeting - Finalization	December 2013
Statutory Public Meeting	January 2014
Budget By-law Prepared by Council	February 2014