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Date: December 5, 2018
To: Mayor and Council
Author: Ryan McLeod, CPA, CA
RE: 2019 Draft Budget Submission & Executive Summary
Report No.: FS-2018-17

AIM

To provide Council with the 2019 draft budget for review and consideration.

BACKGROUND

As per section 290, of the *Municipal Act, 2001*, every year, municipalities are required to prepare and adopt a budget. The budget must include all estimated revenues, expenses, debt repayments and reserve contributions or withdrawals for the year.

The annual budget serves 3 main purposes;

- 1) It determines the amount of revenue to be raised from property taxes, which in turn, establishes the tax rate.
- 2) It provides the opportunity to direct financial resources towards municipal priorities.
- 3) It provides a tool for financial management and control.

DISCUSSION

The municipal budget includes both 'property tax' supported operations and 'water & wastewater rate' supported operations. Property tax supported operations determine the property tax rate, while the water and wastewater budgets form the basis for future water and wastewater rate discussions.

Property Tax Supported Operations

A summary of all property tax funded operations is located on page 3 of the budget document. As indicated in this summary, the budget consists of two components: an Operating Budget and a Capital Budget.

Operating Budget

Administration is committed to responsibly managing our financial resources to maintain or enhance the level of service the Town provides to its residents. The total 'net' operating

expenses for 2019 are budgeted at \$13,139,755 (2018 - \$12,334,780), an increase of \$804,975. 'Net' operating expenses refers to gross operating expenses, less operating revenues + / - operating reserve adjustments. The detailed departmental operating budgets can be found on pages 10 - 35.

The major factors contributing to increased operating costs are as follows:

Wages and Benefits

Salaries and wages funded by taxation amount to \$5,356,000 (2018 - \$5,172,000) and are the single most significant component of the Town's operating expenses. The increase of \$184,000 is primarily attributable to COLA adjustments, wage increases in accordance with our collective agreements (union) and performance based grid movements (non-union staff).

OMPF Funding Decrease

In 2019, the amount the Town receives from the Ontario Municipal Partnership Fund (OMPF) is anticipated to decrease by \$136,965 (2019 - \$776,135, 2018 - \$913,100). While the Province has not yet issued the 2019 allocation notices, financial struggles at the Provincial level would suggest this funding will, at a minimum, continue to decrease at the same rate it has over the past few years. As this provincial transfer payment offsets general operating expenditures, any decrease will need to be funded by taxation to maintain current service levels.

Policing Costs

The Town's contract with the OPP is set to increase by \$145,327 in 2019. The OPP contract is based on a Provincial costing formula, which factors in a base service costs per household, plus additional costs based on calls for service.

Enhanced By-law Enforcement

As directed by Council, the 2019 budget includes \$85,500 for the cost of hiring an additional by-law enforcement officer. This position is being considered in response to growing concerns regarding greenhouse light pollution and odour control, in addition to a general increase in by-law enforcement requests.

Growth Related Costs

A number of operating cost increases are directly related to the growth of the municipality. For example, garbage collection is based on the number of households. Park maintenance is a function of the size and location of our parks. Streetlight hydro is based on the number of streetlights. Road maintenance is a function of the number of lane kilometers. As the municipality grows, so will the operating costs required to maintain established levels of service.

Inflation

According to Statistics Canada, the Consumer Price Index for Ontario rose by 2.5% between October 2017 and October 2018. While management strives to find efficiencies wherever possible, the general increase in the cost of goods and services cannot be ignored.

Grants & Donations

In accordance with Town Policy, the 2019 draft budget reflects a grants and donations budget of 0.5% of taxation or \$82,000 (based on 2018 taxes). As of the date of this report, we have received grant requests totaling \$160,450. A detailed listing of grant requests can be found in Appendix A of the budget document. As in previous years, Council will assess grant applications during budget deliberations. Please note that grant awards in excess of the \$82,000 currently budgeted will increase taxation.

Capital Budget

The capital budget consists of current year capital expenditures (offset by various funding sources), reserve contributions and long-term debt servicing costs. The capital budget is summarized below:

	2019 Draft Budget	2018 Budget
Current Year Expenditures	\$11,951,183	\$11,784,884
Less: Funding Sources	(\$10,669,623)	(\$10,548,290)
Transfers to Reserves	\$2,195,500	\$1,710,500
Debt Service Costs	\$926,819	\$953,929
Capital Budget - Funded by Taxation	<u>\$4,403,879</u>	<u>\$3,901,023</u>

A detailed list of the proposed capital projects can be found on pages 6 – 8 of the budget document. The funding sources for each capital project, such as grants, reserves, development charges, etc. are identified in the columns on the right hand side of the schedule. Please note, only those projects with amounts in the last column on the right hand side of the schedule impact current year taxation.

Infrastructure Sustainability

As stated in the strategic plan, it is our goal to become a leader in sustainable infrastructure renewal and development. In an effort to close our infrastructure deficit over the next 10 years, the strategic plan indicates a commitment to increase capital spending on infrastructure and / or reserve contributions by 2.9% of the annual tax levy, each year. Administration is pleased to report that the 2019 draft budget reflects this target.

Long-term Debt

Administration is also pleased to report that the 2019 draft budget proposes no new debt. In a commitment to fiscal responsibility, the strategic plan includes a performance measure to reduce our tax supported debt service costs to less than 6.4% of taxation in 2019. Based on the draft budget, the debt service costs in 2019 will be approx. \$926,819 or 5.3% of taxation.

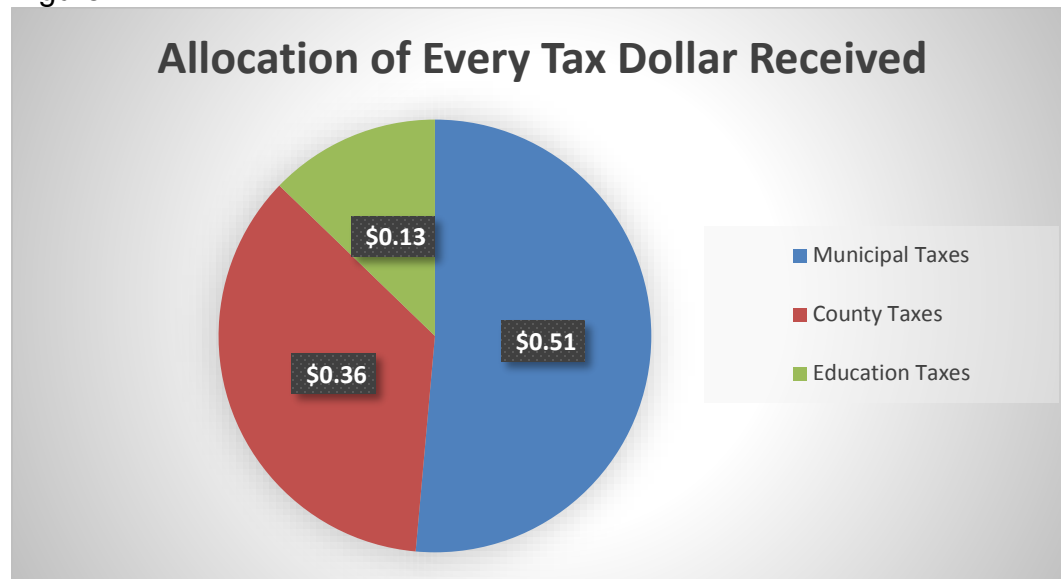
Further information and analysis on the proposed 2019 capital projects will be provided to Council prior to budget deliberations.

Taxation

When residents receive their tax bill, they are actually paying 3 different taxes: Municipal (or local) taxes, County taxes and Education taxes.

Based on the 2018 budget, every tax dollar that a Kingsville resident paid was divided as follows:

Figure - 1



Municipal Tax Levy

The 2019 draft budget proposes a total Tax Levy of \$17,332,634 (2018 - \$16,024,803).

The Residential Tax Rate is calculated as follows:

Total Tax Levy / Weighted Assessment Base = Residential Tax Rate

Based on this formula, any increase to the Town's assessment base will reduce the impact of budgetary changes on the tax rate.

Assessment Growth

According to the latest assessment information provided by MPAC, the weighted value of our assessment will increase by 5.13% in 2018. This 5.13% increase is a combination of phased-in assessment growth (2.73%) and new construction (2.4%). A detailed breakdown of the Town's assessment base can be found on page 4 of the budget document.

Tax Rates

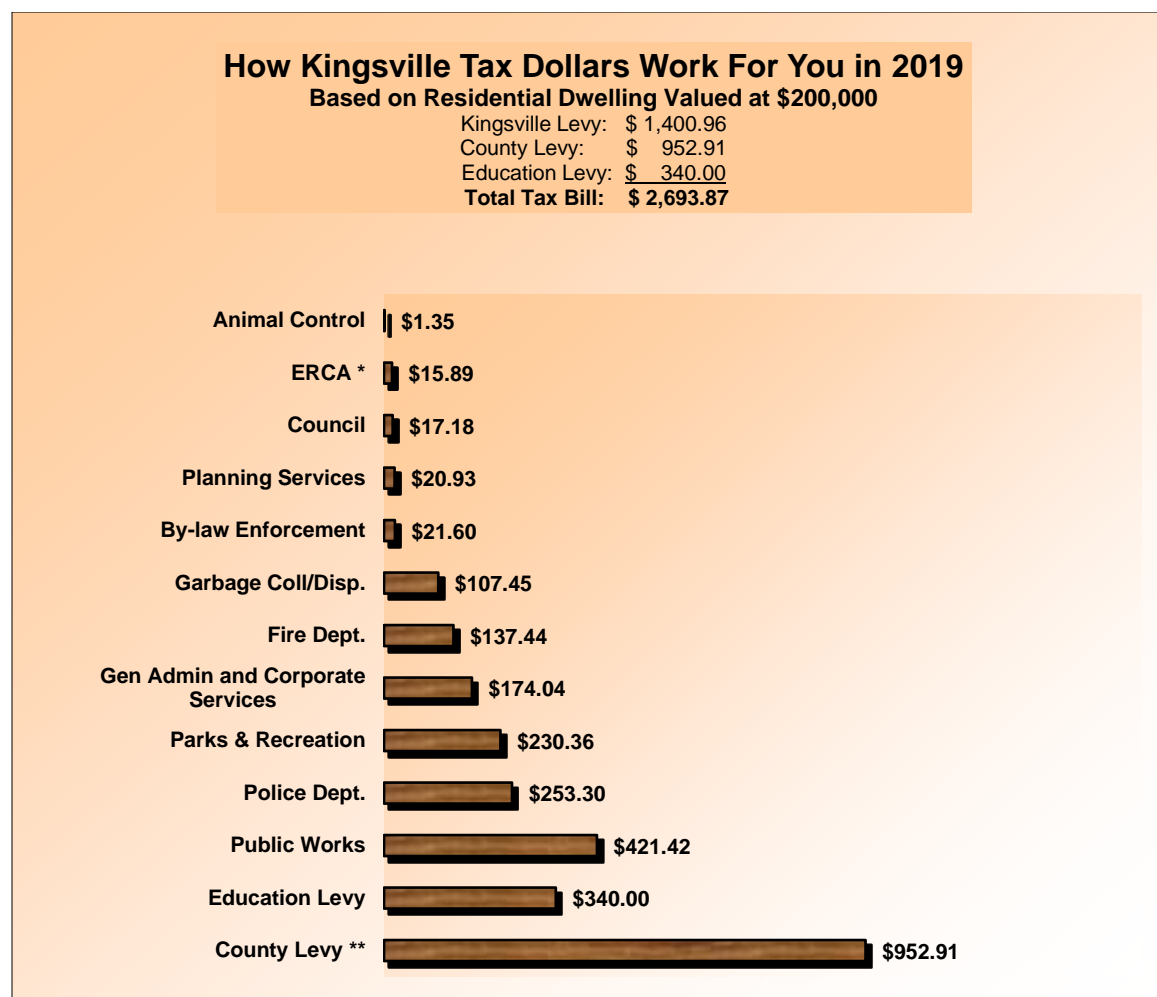
The 2019 budget proposes a municipal tax rate increase of 2.9% (2018 – 3.3%). On a home valued at \$200,000 this represents an annual increase of \$39.22 (2018 - \$43.14).

As illustrated in Figure 1 above, the municipal taxes represent only 51% of the property tax bill that Kingsville residents will pay. The County tax rate is established by County Council. The Education Tax rate is established by the Province. At the time of this report, the County and Education Tax rates are unknown.

For budget discussion purposes, council should be aware that a 1% change in the municipal tax rate equals approx. \$160,000.

Taxes Dollars at Work

The following chart illustrates how the tax dollars, on a home valued at \$200,000, would be distributed based on the 2019 draft budget. For the purpose of this chart, we have assumed no changes in the Education or County tax rates.



Water and Wastewater Rate Supported Operations

A summary of all water / wastewater rate funded operations can be found on page 36. The detailed operating budgets, for these departments, can be found on pages 38-42. Water and wastewater capital projects, along with the various funding sources, are listed on page 37.

Further information and analysis on the proposed capital projects for water and wastewater will be provided to Council prior to budget deliberations.

Budget Deliberation Dates

In light of other municipal commitments, Administration recommends the following dates for budget deliberations;

- Friday, January 11, 2019
- Friday, January 25, 2019
- Friday, February 8, 2019 (if necessary)

These dates are recommendations only. It is understood that alternative dates may be necessary to accommodate every Councillor's availability.

LINK TO STRATEGIC PLAN

Effectively manage corporate resources and maximize performance in day-to-day operations.

To become a leader in sustainable infrastructure renewal and development.

FINANCIAL CONSIDERATIONS

Please see above.

CONSULTATIONS

Senior management team

RECOMMENDATION

That Council receive the 2019 draft budget and provide direction on budget deliberation dates.

Ryan McLeod

Ryan McLeod, CPA, CA
Director of Financial Services

Peggy Van Mierlo-West

Peggy Van Mierlo-West, C.E.T.
Chief Administrative Officer