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Date: December 2, 2019
To: Mayor and Council
Author: Ryan McLeod, CPA, CA
RE: 2020 Draft Budget - Executive Summary.docx
Report No.: FS-2019-17

AIM

To provide Council with an overview of the 2020 draft budget.

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 an 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 main 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 2020 are budgeted at \$13,758,999 (2019 - \$13,175,508), an increase of \$583,491. 'Net' operating expenses refers to gross operating expenses, less operating revenues + / - operating reserve adjustments. The detailed departmental operating budgets can be found on pages 11 - 35.

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

Wages and Benefits

Wages and benefits represent the single most significant component of the Town's operating expenses. Based on the existing staffing complement, salaries and wages funded by taxation will amount to \$5,610,000 (2019 - \$5,356,000). The increase of \$254,000 is primarily attributable to COLA adjustments, wage increases in accordance with our collective agreements (union) and performance based grid movements (non-union staff).

Increased Staffing Complement

In addition to the general increase in wages and benefits noted above, the 2020 budget includes the following:

- 1 additional full-time Parks and Recreation unionized employee at annual cost of \$85,000,
- 3 additional Recreation summer students at cost of \$38,000.

These additional resources are considered necessary to address our expanding park network and programming / special event needs.

Policing Costs

The Town's contract with the OPP is set to increase by \$119,000 in 2020. 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.

For 2020, the Provincial Government has restructured their grant program with respect to policing services. Under the previous grant program, the Town received \$95,000 annually which was used to offset general policing costs. Under the new grant program, the Town will receive funding through a partnership with 4 other local Police Service Boards to address mental health and addiction issues within our region. Any proceeds received through this grant will be fully offset by additional expenses.

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 1.9% between October 2018 and October 2019. While management strives to find efficiencies wherever possible, the general increase in the cost of goods and services cannot be completely avoided.

Grants & Donations

In 2019, Council reviewed the Town's Grant Policy and established a firm limit on grant awards of \$85,837 (representing .5% of the previous year tax levy) for the 2020 budget. The Town has received 23 grant requests totaling \$159,917. A summary of the grant requests can be found on page 53 of the budget. Administration will provide council with a complete copy of all grant applications, along with a scoring summary, in advance of the 2nd budget deliberation meeting.

Capital Budget

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

	2020 Draft Budget	2019 Budget
Current Year Expenditures	\$16,039,550	\$11,672,183
Less: Funding Sources	(\$14,640,314)	(\$10,661,623)
Transfers to Reserves	\$2,706,250	\$2,265,500
Debt Service Costs	\$922,278	\$926,819
Capital Budget - Funded by Taxation	\$5,027,764	\$4,202,879

A detailed list of the proposed capital projects can be found on pages 6 – 9 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 the Town's goal to become a leader in sustainable infrastructure renewal and development. In an effort to close our infrastructure deficit, the Town's strategic plan includes 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 2020 draft budget reflects this target.

Long-term Debt

With the exception of the 2 growth related capital projects, which related to Water and Wastewater (discussed below), Administration is pleased to report that the 2020 draft budget proposes no new debt. In a commitment to fiscal responsibility, the strategic plan includes a performance measure to reduce the Town's tax supported debt service costs to less than 6.3% of taxation in 2020. Based on the draft budget, the debt service costs in 2020 will be approx. \$922,000 or 5% of taxation.

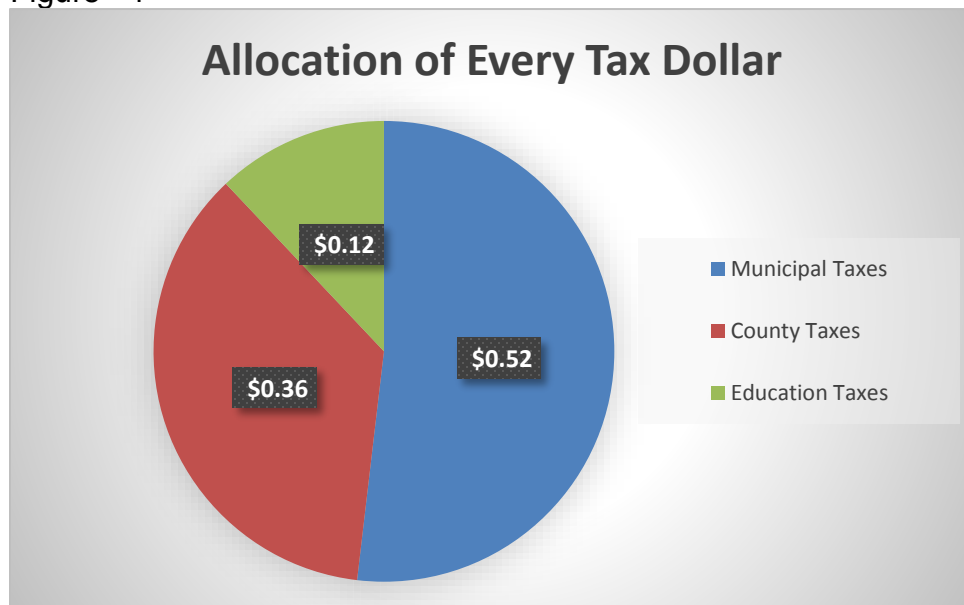
Further information and analysis on the proposed 2020 capital projects will be provided to Council during budget deliberations.

Taxation

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

Based on the 2019 budget, every tax dollar that a Kingsville resident paid was divided as follows:

Figure - 1



Municipal Tax Levy

The 2020 draft budget proposes a total Tax Levy of \$18,575,763 (2019 - \$17,167,387).

The Residential Tax Rate is calculated as follows:

$$\text{Total Tax Levy} / \text{Weighted Assessment Base} = \text{Residential Tax Rate}$$

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 6.2% in 2020. This 6.2% increase is a combination of phased-in assessment growth (2.7%) and new construction (3.5%). A detailed breakdown of the Town's assessment base and how each property class contributes to the tax levy can be found on page 4 of the budget document.

Council should note that municipalities are entering the final year of the 2016 assessment cycle. For the 2020 tax year, assessment values are based on a property's value as of January 1, 2016. In 2021, assessment values will be based on a phased in amount of the property's value as of January 1, 2019.

Tax Rates

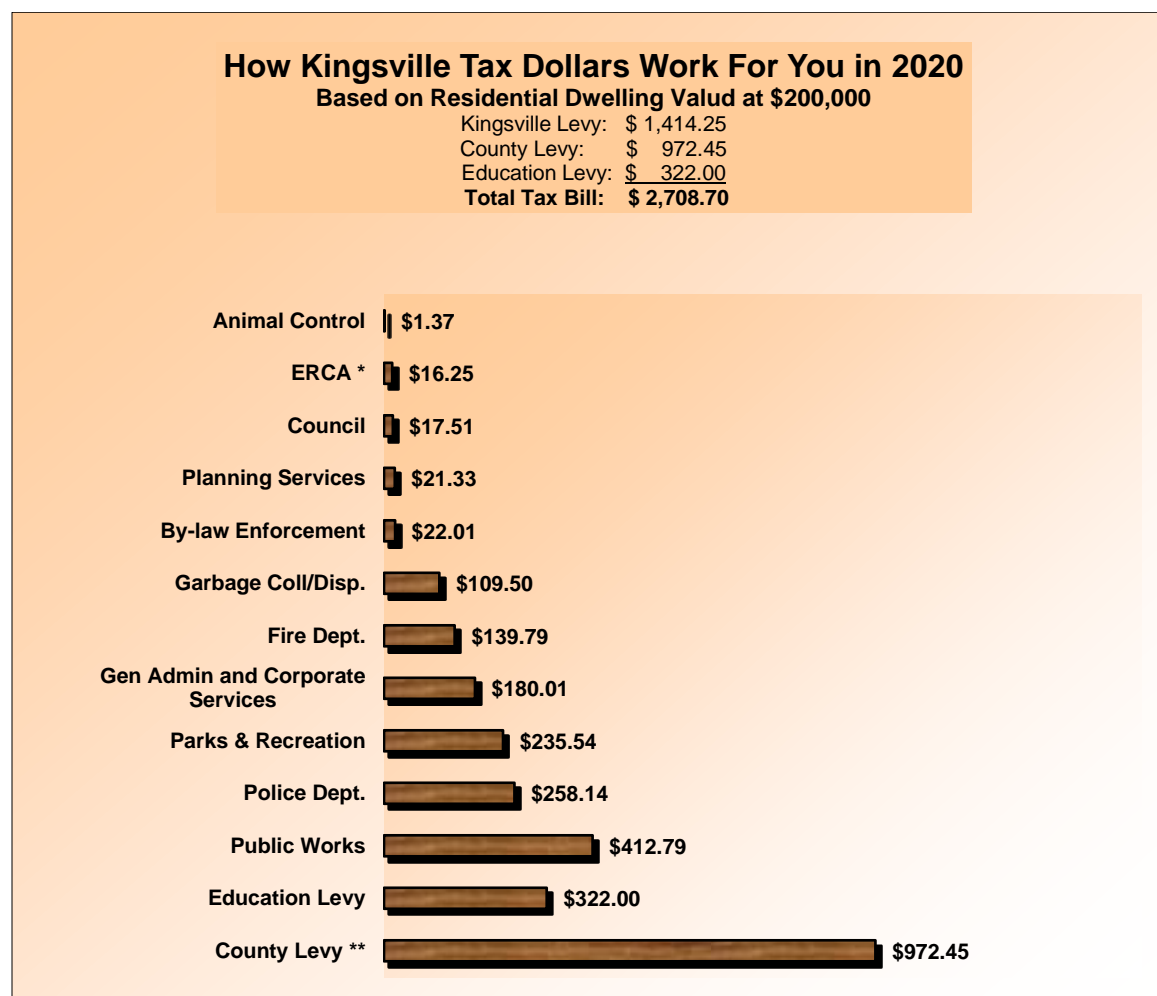
The 2020 budget proposes a municipal tax rate increase of 1.9%. On a home assessed at \$200,000 this represents an annual increase of \$26.66.

As illustrated in Figure 1 above, the municipal taxes represent only 52% of the property tax bill that Kingsville residents will pay. The County tax rate is established by County Council. At the time of this report, the proposed rate increase reflected in the draft County Budget is .67%. The Education Tax rate is established by the Province. At the time of this report, these rates are unknown.

For budget discussion purposes, council should be aware that a 1% change in the municipal tax rate equals approx. \$170,000.

Tax Dollars at Work

The following chart illustrates how the tax dollars, on a home assessed at \$200,000, would be distributed based on the 2020 draft budget. For the purpose of this chart, we have assumed no changes in the Education tax rates.



Water and Wastewater Rate Supported Operations

A summary of all water and 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.

Development Charges

The 2020 capital budget includes a number of growth related capital projects which are eligible for full or partial funding through Development Charges (DCs). At year end, the Town will have approximately \$3,900,000 available in DC reserves. The draft budget has applied approximately \$3,500,000 of these DCs to various road, parks, water and wastewater projects.

There are 2 large growth related projects which would otherwise be eligible for DC funding, however, there is not currently sufficient DCs available to finance these projects:

Project	Project Cost	Eligible DC	DC %
Southwest Water main Construction (Phase 1, 2, 3)	\$9,000,000	\$6,750,000	75%
Cottam Sanitary Sewage Capacity Upgrade	\$1,200,000	\$1,200,000	100%

The Town has the option of proceeding with these projects through debt financing, and repay this debt through the future collection of DCs. Before proceeding with either project, Council should carefully consider the impact of these projects on future development. If Council chooses to defer the construction of these projects, it will limit the potential for future development in these service areas. Proceeding with the project, however, does not guarantee that private developers will proceed with their investment plans.

Further information and analysis on these and other 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;

- Meeting #1 - Tuesday, January 14th or Thursday, January 16th, 2020
- Meeting #2 - Wednesday, January 29th or Thursday, January 30th, 2020

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

LINK TO STRATEGIC PLAN

Improve recreational and cultural facilities and opportunities within the Town of Kingsville.

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 receives the 2020 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