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**Date:** December 4, 2020  
**To:** Mayor and Council  
**Author:** Ryan McLeod, CPA, CA  
**RE:** 2021 Municipal Budget – Executive Summary  
**Report No.:** FS-2020-19

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## **AIM**

To provide Council with an overview of the 2021 Draft Municipal 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
- 2) It provides an opportunity to direct financial resources towards municipal priorities.
- 3) It provides a tool for financial management and control throughout the fiscal year.

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

## **DISCUSSION**

### **Property Tax Supported Budget**

The budget consists of two main components: an Operating Budget and a Capital Budget which are summarized in Table 1 below.

Table 1 – Operating and Capital Budget Totals

	2021 Draft Budget	2020 Budget	Increase (Decrease)
Operating Budget	\$14,683,611	\$13,759,488	\$924,123
Capital Budget	\$5,093,933	\$4,988,014	\$105,919
Less: Supplemental Taxes	(\$316,000)	(\$261,000)	(\$55,000)
<b>Tax Levy</b>	<b>\$19,461,544</b>	<b>\$18,486,502</b>	<b>\$975,042</b>

## **Operating Budget**

The Operating Budget funds the day-to-day services provided by the Town.

Administration is committed to responsibly managing financial resources to maintain or enhance the level of service the Town provides to its residents. The total 'net' operating expenses for 2021 are summarized in Table 2 below. 'Net' operating expenses refers to gross operating expenses, less operating revenues + / - operating reserve adjustments.

Table 2 – Net Operating Expenses, By Department

	2021 Draft Budget	2020 Budget	Increase (Decrease)
Council	\$ 230,031	\$ 229,539	\$ 491
General Administration <sup>1</sup>	\$ 1,915,845	\$ 1,784,477	\$ 131,368
Information Technology	\$ 597,177	\$ 573,712	\$ 23,465
Animal Control	\$ 26,600	\$ 20,700	\$ 5,900
Fire	\$ 1,592,313	\$ 1,432,608	\$ 159,705
Police	\$ 3,362,091	\$ 3,297,554	\$ 64,537
Public Works	\$ 2,817,998	\$ 2,605,287	\$ 212,711
Sanitation <sup>2</sup>	\$ 1,441,343	\$ 1,382,119	\$ 59,224
Cemetery	\$ 44,735	\$ 44,404	\$ 331
Parks & Recreation <sup>3</sup>	\$ 2,313,834	\$ 2,122,396	\$ 191,438
Planning	\$ 341,646	\$ 266,692	\$ 74,953
<b>Total Operating Budget</b>	<b>\$ 14,683,611</b>	<b>\$ 13,759,488</b>	<b>\$ 924,123</b>

The detailed departmental operating budgets can be found on pages 11 – 34 of the Municipal Budget.

<sup>1</sup> General Administration operating expenses includes the Office of the CAO, Financial Services, Legislative Services, By-law Enforcement, ERCA Levy, Donations & Grants.

<sup>2</sup> Sanitation refers to solid waste collection and disposal.

<sup>3</sup> Parks and Recreation operating expenses includes the departmental budgets of the Arena, Parks, Facilities, Fantasy of Lights, Marina, Migration Festival, Recreation Programs and Communities in Bloom.

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 increase to by \$180,000 (2021 - \$6,269,000, 2020 - \$6,089,000). The increase 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**

On September 21, 2020, Council was presented with an Organizational Review conducted by an independent consultant. This review identified that the Town is understaffed in several key areas which is contributing to low morale, high turnover and reduced service levels. To address the most urgent needs, Council approved the immediate addition of a full-time Environmental Supervisor, a full-time Office Support Employee for Infrastructure Services and to increase the current part-time Office Support Employee for the Fire Department to full-time. The financial impact of these 3 positions on the 2021 Operating Budget amounts to approximately \$155,000.

Based on the findings of the Organizational Review and management's working knowledge of the Town's most pressing human resource needs, the 2021 budget provides for the addition of the following positions:

- Director of Culture and Community Services
- Full-time Communications Coordinator
- Full-time Economic Development Officer
- Co-op student for Planning Services

The combined salaries and benefits of the proposed positions have a \$302,000 impact on the 2021 budget. It should be noted, all full-time positions have been budgeted for 9-months (vs. a full year) on the expectation that it will take approximately 3 months to fill these new positions.

Further information on the rational and responsibilities for each position will be provided prior to budget deliberations.

### **Insurance**

Based on the results of the Town's 2020 Insurance and Risk Management Request for Proposal (RFP), the Town's 2021 premiums are expected to increase by \$105,200 (2021 - \$495,667 + PST, 2020 - \$390,467 + PST). This increase can be attributed to a combination of market conditions and the Town's insured loss history.

### **OMPF Funding Decrease**

In 2021, the amount the Town receives from the Ontario Municipal Partnership Fund (OMPF) will decrease by \$105,900 (2021 - \$751,700, 2020 - \$857,600). This unconditional grant is calculated by the Province using a variety of financial indicators. The two most significant indicators are 'Weighted Assessment per Household' and 'Median Household Income'. In theory, these indicators are reflective of the Municipality's ability to

generate sufficient revenue through property taxation. As noted in Table 3 below, Kingsville is above the Provincial average on both of these indicators.

Table 3 – OMPF Primary Financial Indicators

	Kingsville	Provincial Average
Weighted Assessment Per Household	\$291,762	\$287,000
Median Household Income	\$77,429	\$69,000

### **Policing Costs**

The Town's OPP contract represents approximately 24% of the Town's entire operating budget. In 2021, the OPP contract will increase by \$74,050 (2021 - \$3,381,540, 2020 - \$3,307,490). The contract is based on a Provincial costing formula which factors in a base service cost per household plus additional costs for each municipality's historical calls for service. The increase in 2021 is primarily attributed to an increase in the number of households within the Town.

### **Growth Related Costs**

Based on the property tax roll, the number of households in Kingsville increased by 146 during 2020 (1.9% increase). In addition to the Policing contract described above, 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 lane kilometers. As the municipality grows, so will the operating costs required to maintain the established levels of service.

### **COVID-19 Implications**

The Coronavirus is expected to continue to have a significant impact on Municipal finances. In the 2021 budget, Administration estimates the Town will incur approximately \$231,000 in additional costs for PPE, enhanced cleaning, or lost revenue as a result of this virus.

Fortunately, in 2020 the Town received \$542,800 from the Federal-Provincial Safe Restart Fund to help offset COVID-19 operating costs and financial pressures. Any unspent funds from 2020 can be carried over to offset COVID related expenses in 2021. Through effective cost management strategies, it is anticipated the Town will be able to carryover sufficient proceeds from the 2020 grant to offset the additional 2021 COVID expenses.

### **Capital Budget**

The capital budget consists of current year capital expenditures, which are offset by various funding sources such as grants, reserve withdrawals, and other revenue. The capital budget also includes reserve contributions and long-term debt servicing costs. The capital budget is summarized in Tables 4 and 5 below:

Table 4 – Capital Budget Summary

	2021 Draft Budget	2020 Budget	Increase (Decrease)
Current Year Expenditures	\$ 18,866,064	\$ 16,264,550	\$ 2,601,514
Less: Funding Sources	\$(17,434,740)	\$(14,893,814)	\$ (2,540,926)
Transfers to Reserves	\$ 2,745,000	\$ 2,695,000	\$ 50,000
Debt Service Costs	\$ 917,609	\$ 922,278	\$ (4,669)
<b>Total Capital Budget</b>	<b>\$ 5,093,933</b>	<b>\$ 4,988,014</b>	<b>\$ 105,919</b>

Table 5 – Capital Budget, By Department

	2021 Draft Budget	2020 Budget	Increase (Decrease)
Council	\$ -	\$ -	\$ -
General Administration	\$ 160,022	\$ 230,022	\$ (70,000)
Information Technology	\$ 6,000	\$ 204,050	\$ (198,050)
Animal Control	\$ -	\$ -	\$ -
Fire	\$ 363,000	\$ 313,000	\$ 50,000
Police	\$ 80,000	\$ 80,000	\$ -
Public Works	\$ 3,640,080	\$ 3,179,249	\$ 460,831
Sanitation	\$ -	\$ -	\$ -
Cemetery	\$ -	\$ -	\$ -
Parks & Recreation	\$ 794,831	\$ 976,693	\$ (181,862)
Planning	\$ 50,000	\$ 5,000	\$ 45,000
<b>Total Capital Budget</b>	<b>\$ 5,093,933</b>	<b>\$ 4,988,014</b>	<b>\$ 105,919</b>

Major capital projects proposed for 2021 include:

- Replacement of Fire Rescue Truck 124 - \$500,000
- Road 2 East Reconstruction - Union to Graham - \$4,700,000
- Jasperson Dr - Phase 2 Construction - \$1,930,000
- Jasperson Dr - Phase 3 Reconstruction - \$1,770,000
- Bridge #18 - Reconstruction - Road 11 over Ruscom River - \$1,450,000
- Bridge #502 - Reconstruction - Division Road North over Mill Creek – \$600,000
- Graham Side Road - Resurface (County Rd 18 – County Rd 8) - \$1,300,000
- New Splash Pad at Lakeside Park - \$700,000
- New Pickleball and Bocce Facility - \$350,000
- Lion's Park – Phase 2 Redevelopment - \$200,000

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 far right column of the schedule impact current year taxation.

## **Investing in Canada Infrastructure Program (ICIP) – COVID-19 Stream**

On November 6, the Town received notification that is eligible for \$115,364 in additional funding through a new Federal-Provincial grant program. Eligible expenditures include the following categories:

1. **Retrofits, Repairs and Upgrades** for municipal, provincial, territorial and indigenous buildings, health infrastructure and educational infrastructure;
2. **COVID-19 Response Infrastructure**, including measures to support physical distancing;
3. **Active Transportation Infrastructure**, including parks, trails, foot bridges, bike lanes and multi-use paths; and
4. **Disaster Mitigation and Adaptation**, including natural infrastructure, flood and fire mitigation, tree planting and related infrastructure.

The Town must submit its application for this funding by December 21, 2020, and projects must be completed by December 31, 2021. Based on a review of the Town's needs and the eligibility criteria, Administration is recommending to apply this funding towards the pavement of trails at Lakeside Park under the Active Transportation category.

## **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. Unfortunately, due to operating pressures and budget limitations, Administration regrets to report that despite significant in-year infrastructure spending, the 2021 draft budget falls just short of its infrastructure funding target with a 2.4% levy increase for infrastructure. An additional \$90,000 in infrastructure spending or reserve contributions would be required to reach the Town's strategic target.

## **Development Charges**

The 2021 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 \$2,600,000 available in DC reserves. The draft budget has applied approximately \$5,519,700 of DCs to various property tax supported projects (i.e roads and parks) and \$11,295,000 in DCs to water and wastewater projects.

The difference between the amount of DC's applied in the 2021 budget vs. the DCs collected amounts to approximately \$14.2 million. This difference will have to be financed through the issuance of long-term debt. This debt will be repaid from the future collection of DCs and will not impact current or future year tax levies, however, the amount of debt issued will impact the Town's overall borrowing capacity.

### **Long-term Debt**

Over the past 4 years, the Town has been successful in avoiding the issuance of long-term debt to finance capital projects. However, the Town currently finds itself in a position with significant immediate infrastructure needs to support existing and future development.

The 2021 Capital budget includes \$1,316,000 in long-term debt to partially fund the reconstruction of Road 2 E from Union to Graham. This debt will have to be repaid through future tax levies. The balance of 2021 projected debt issuance refers to Development Charge projects as described above.

Table 6 – Projected Debt Issuance

Tax Funded Debt	\$ 1,316,000
Development Charge Debt	\$ 14,214,700
<b>Total Projected Debt Issuance</b>	<b>\$ 15,530,700</b>

The Town has sufficient debt capacity to finance the projects included in the 2021 Capital budget.

### **Deferred or Declined Projects**

Every year, Administration is required to make difficult decisions as to which capital projects are included in the draft budget presented to Council and a number of priority projects are deferred to future years or declined. Please refer to Appendix A for a list of capital projects which were considered by Administration or Council for inclusion in the 2021 budget but are not included in the current draft budget. There will be opportunity for further discussion on deferred or declined projects during budget deliberations.

### **2020 Carryover Projects**

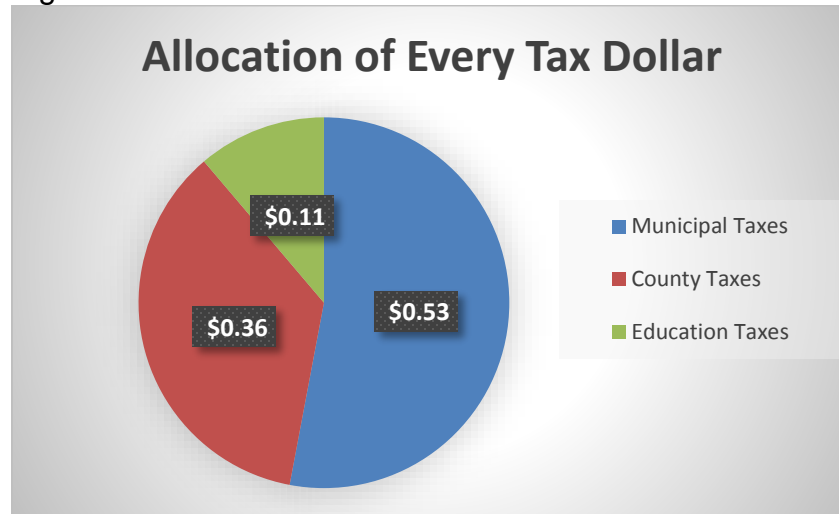
Every year, the capital budget includes various projects that were approved in the prior year but were incomplete at year end. There are a variety of factors which can contribute to a delay in project completion, such as unforeseen complications, weather conditions or contractor availability. Administration recommends that the unexpended funds associated with any projects in process at year end should be set aside to fund their completion in the next budget cycle.

## **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 2021 Draft budget, every tax dollar that a Kingsville resident pays will be divided as follows:

Figure – 1



### **Municipal Tax Levy**

The 2021 draft budget proposes a total Tax Levy of \$19,461,544 (2020 - \$18,486,502).

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 assessment roll return provided by MPAC, the weighted value of the Town's assessment base will increase by 2.4% in 2021 (2020 - 6.2%). Due to COVID-19, MPAC deferred the implementation of the new assessment cycle, therefore 100% of the Town's assessment growth relates to new construction. 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 due to the deferral of the new assessment cycle, all property value's are based on their assessed values as of January 1, 2016 and do not reflect the significant increase in market values the Town has witnessed in recent years.

### **Tax Rates**

The 2021 budget proposes a municipal tax rate increase of 2.8%. On a home assessed at \$250,000 this represents an annual increase of \$49.37.



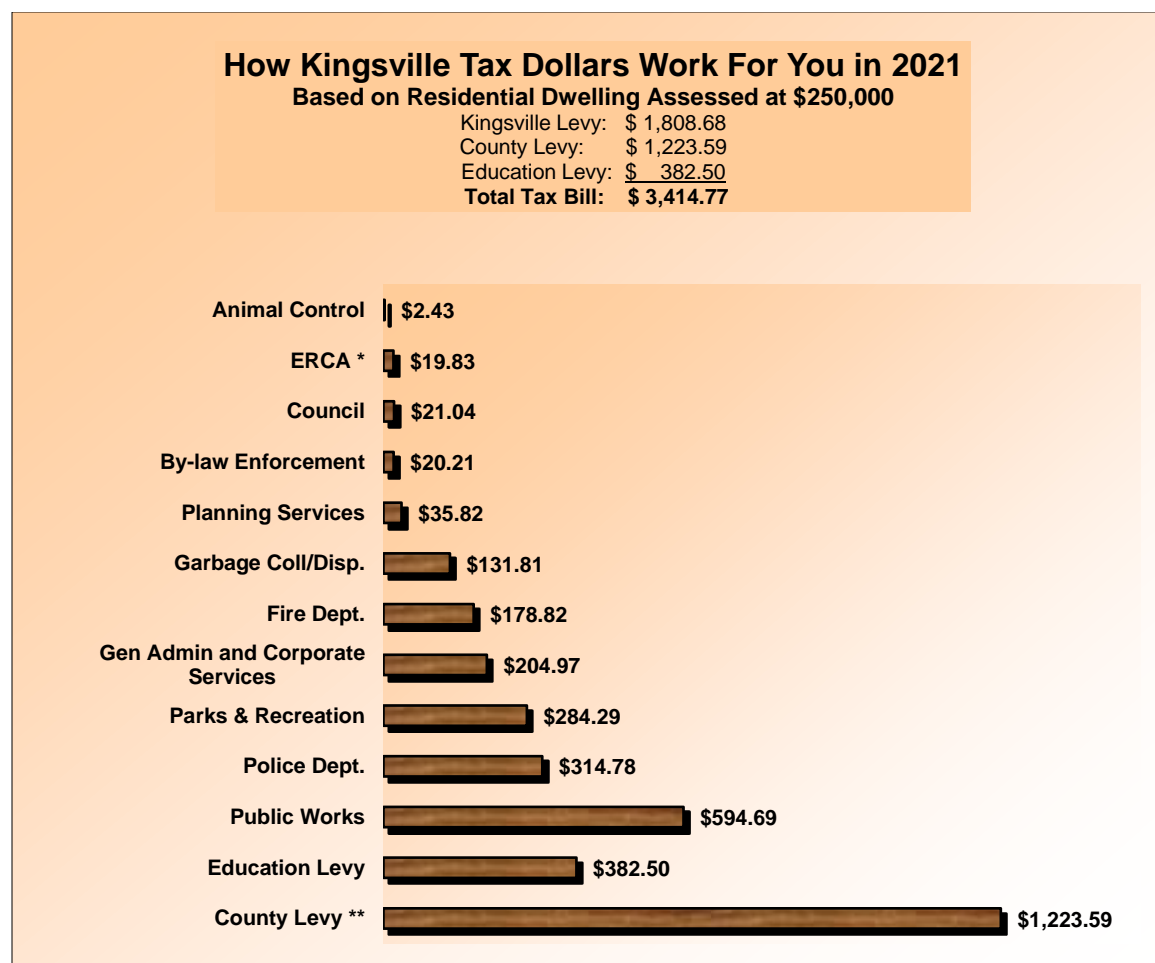
As illustrated in Figure 1 above, the municipal taxes represent only 53% of the total property tax bill that Kingsville residents will pay. The County tax rate is established by County Council and at the time of this report is projected to increase by .49%. The Education Tax rate is established by the Province, and is unknown at this time.

Assuming the Education Rate does not change, the overall 2021 property rate would increase by 1.6%.

For budget discussion purposes, council should be aware that a 1% change in the municipal tax rate equals approx. \$185,000.

## Tax Dollars at Work

The following chart illustrates how the tax dollars, on a home assessed at \$250,000, would be distributed based on the 2021 draft budget.



## **Water and Wastewater Rate Supported Operations**

A summary of all water and wastewater rate funded operations can be found on page 35 of the budget document. The detailed operating budgets for these departments, can be found on pages 37-40. Water and wastewater capital projects, along with the various funding sources, are listed on page 36.

## **Budget Deliberation Dates**

The following dates have been set for budget deliberations;

- Meeting #1 - Wednesday, January 13<sup>th</sup>, 2021
- Meeting #2 - Wednesday, January 27<sup>th</sup>, 2021

## **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.

Manage growth through sustainable planning.

## **FINANCIAL CONSIDERATIONS**

In 2020, the Town of Kingsville had the second lowest property tax rate in the County. When considering property taxes and OMPF funding, Kingsville generates the lowest revenue per household by a significant margin. To address the Town's infrastructure deficit and other priorities identified in its various Master Plans, while simply maintaining existing service levels, the Town will have to accept an increase to its tax levy.

Please refer to Appendix B for a comparison of Kingsville property taxes and revenue to other municipalities in our region.

## **CONSULTATIONS**

All members of the Town of Kingsville Management Team

## **RECOMMENDATION**

That Council receives the 2021 Draft Budget for deliberation on January 13<sup>th</sup> and 27<sup>th</sup>, 2021.

That Council supports the submission of the Lakeside Park trail paving project for Investing in Canada Infrastructure Program (ICIP) – COVID-19 Stream.

That Council approve the transfer to reserves the amount of unspent tax dollars on 2020 capital projects for their completion in 2021.

*Ryan McLeod*

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