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Date: January 4, 2018
To: Mayor and Council
Author: Ryan McLeod, Manager of Financial Services
RE: 2018 Budget – Executive Summary
Report No.: FS-2018-02

AIM

To provide council with an overview of the 2018 draft budget.

BACKGROUND

This summary is intended to provide council with information on the budgeting process and communicate some of the internal and external factors that have had a significant impact on the proposed budget.

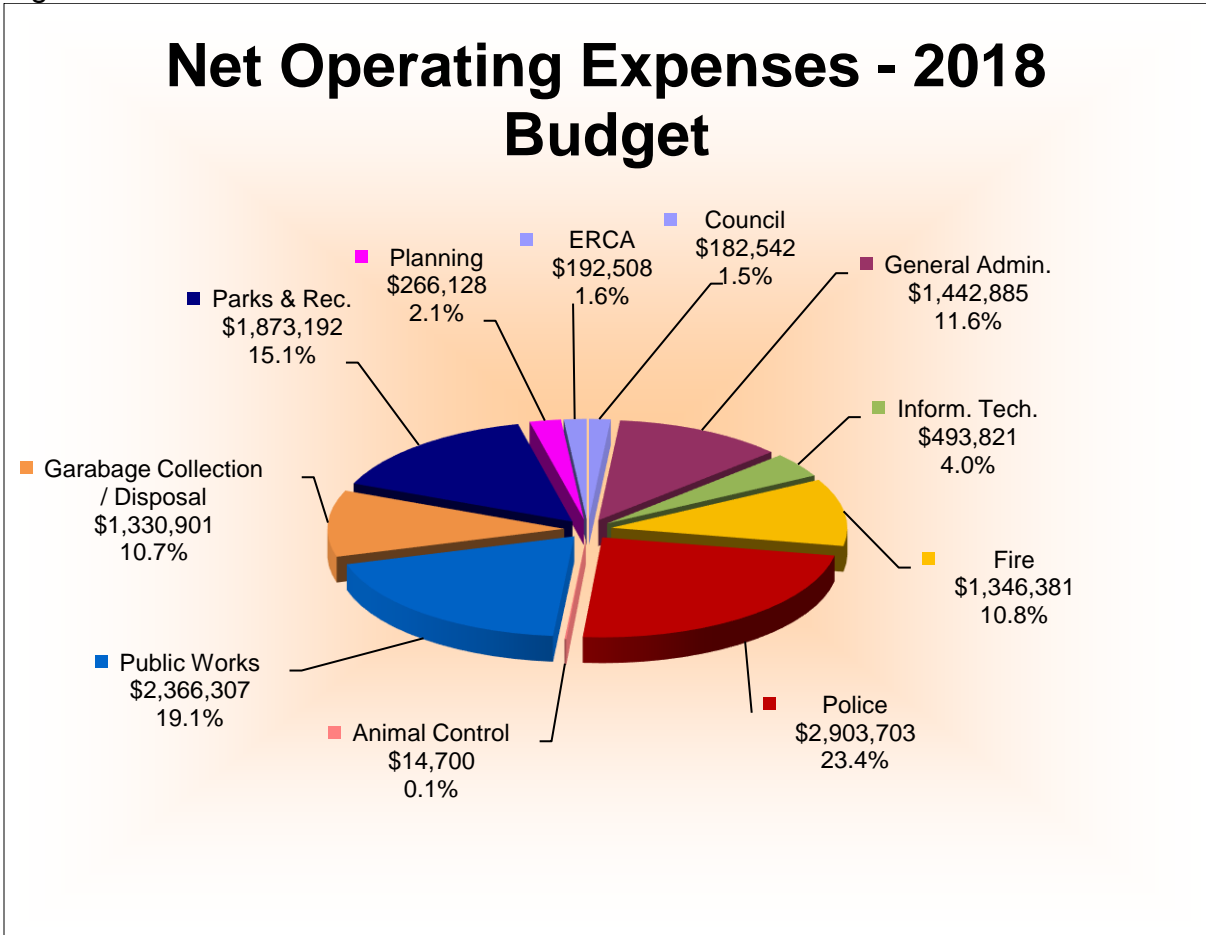
DISCUSSION

The Municipal Budget consists of an Operating and Capital Budget.

Operating Budget

Administration is committed to responsibly managing our financial resources to maintain or enhance the level of service we provide to residents. The total 'net' operating expenses for 2018 are budgeted at \$12,413,068 (2017 - \$11,228,651). 'Net' operating expenses refers to gross operating expenses, less operating revenues + / - operating reserve adjustments. A breakdown of the projected net operating expenses is illustrated in Figure 1.

Figure 1 -



As stated in the strategic plan, administration will strive to limit the annual increase in net operating expenditures to no more than 2% over the prior year. Due to a number of factors, some of which are outside of management or council's control, administration has been unable to meet this goal in 2018. The major factors contributing to increased operating costs are as follows:

Wages and Benefits

Salaries and wages funded by taxation amount to \$5,197,000 (2017 - \$4,615,000) and are the single most significant component of operating expenses. In 2018, the budget for salaries and wages increased by \$582,000, due to 3 major factors:

- 1) As discussed in the report presented to council on December 11, 2017, Bill 148 - Fair Workplaces, Better Jobs Act is expected increase wages and benefits expense by approx. \$219,000. The provisions related to equal pay for equal work, regardless of employment status, are expected to have the most significant impact on our operating budget.
- 2) During 2017, Council approved management's recommendation to add 2 new full-time employees to the Parks & Recreation Department (1 union, 1 non-union supervisor). These positions were considered necessary to maintain our growing network of parks and recreation facilities. The combined financial impact of these positions on this budget is approx. \$150,000.

- 3) In 2017, a report was presented to the Personnel Committee recommending an adjustment to the non-union salary grids to remain competitive in the labour market and to address staff retention concerns. The total cost of the increase to non-union salary grids, including COLA adjustments, is approx. \$129,000.

Other factors contributing to the increase in salaries and wages include previously negotiated increases to unionized employee wages (1.5% or approx. \$30,000). No new full-time employees are being proposed in the 2018 budget.

Prior Year Surplus

In 2017, the Town applied \$233,000 of the 2016 surplus against 2017 operating expenditures. The 2018 Budget reflects no surplus (or deficit) from 2017. As surpluses or deficits can fluctuate significantly from one year to the next, it is administration's recommendation that any surplus or deficit from 2017 be applied to either a budget stabilization reserve or capital reserve for application in future years. This practice is consistent with sound municipal financial management as it reduces the volatility of the tax rate.

OMPF Funding Decrease

In 2018, the amount the Town receives from the Ontario Municipal Partnership Fund (OMPF) will decrease by \$161,100 (2018 - \$913,100, 2017 - \$1,074,200). As this provincial transfer payment offsets general operating expenditures, the decrease will need to be funded by taxation to maintain current service levels.

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 rose by 1.9% between November 2016 and November 2017. 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 2018 draft budget reflects a grants and donations budget of .5% of taxation or \$75,000. As of the date of this report, we have received grant requests totaling \$210,086. As in previous years, council will assess grant applications during budget deliberations. Please note, that grant awards in excess of the \$75,000 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:

	2018 Budget	2017 Budget
Current Year Expenditures	\$11,793,884	\$10,616,454
Less: Funding Sources	(\$10,556,290)	(\$9,105,327)
Reserve Contributions	\$1,710,500	\$1,259,042
Debt Service Costs	\$953,929	\$963,171
Capital Budget - Funded by Taxation	<u>\$3,902,023</u>	<u>\$3,733,340</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. Due to competing capital spending priorities, Administration fell short of this goal in 2018. Included in the 2018 Capital Budget is \$1,458,948 (2017 - \$1,137,838) for infrastructure spending & reserve contributions, funded by taxation. This represents an increase of \$321,110 or 2.1% of the prior year tax levy.

Long-term Debt

Administration is pleased to report that the 2018 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 6.5% of taxation in 2018. Based on the draft budget, the debt service costs in 2018 will be 5.8% of taxation.

Capital Project – Pre-Approval

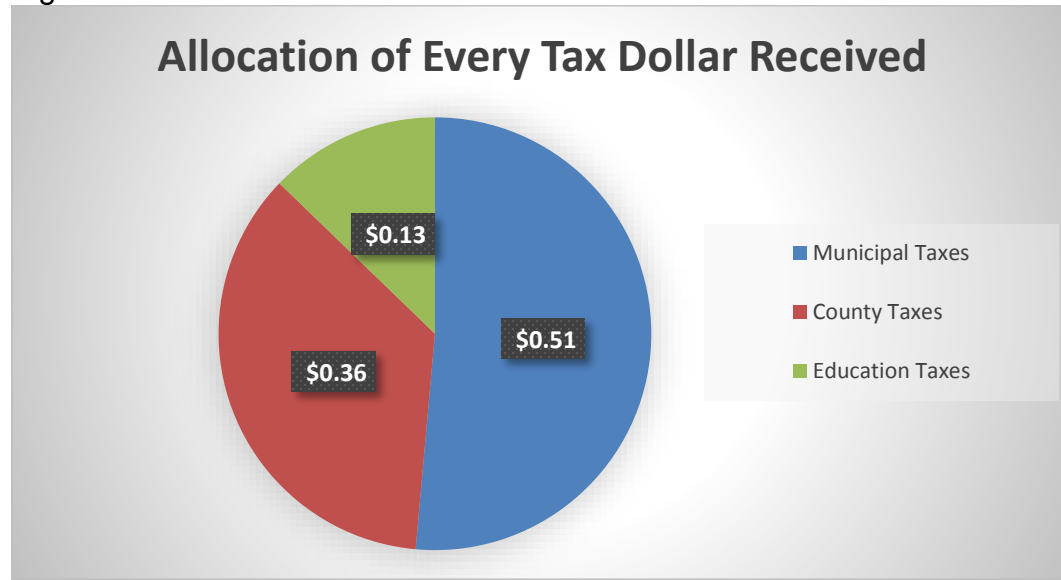
In an effort to expedite the RFP and tendering procurement processes, and to obtain competitive pricing, Municipal Services has requested that council consider the pre-approval of a number of capital projects during budget deliberations on January 16, 2018. A list of the projects requested for pre-approval consideration can be found in appendix A.

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 draft budget, every dollar that Kingsville residents pay is divided as follows:

Figure 2 -



Municipal Tax Levy

The 2018 draft budget proposes a total Tax Levy of \$16,114,091 (2017 - \$14,750,990).

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 5.2% in 2018. This 5.2% increase is a combination of phased-in assessment growth (4%) and new construction (1.2%). A detailed breakdown of our assessment base can be found on page 4 of the budget document.

Tax Rates

The 2018 budget proposes a municipal tax rate increase of 3.8%. On a home valued at \$200,000 this represents an annual increase of \$50.73.

For budget discussion purposes, council should be aware that a 1% change in the municipal tax rate equals approx. \$155,000.

As illustrated in Figure 2 above, municipal taxes represent only 51% of the residential tax bill. When combined with the County increase of 1.5% and the Education tax rate decrease of 5%, the combined total property tax rate increase is 1.9% or \$48.41 on a home valued at \$200,000.

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

Sandra Zwiers, (Former) Director of Financial Services

RECOMMENDATION

That council receive this report as part of the 2018 budget deliberation process.

Ryan McLeod

Ryan McLeod, CPA, CA
Manager of Financial Services

Peggy Van Mierlo-West

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

Appendix A – Projects Requested For Council's Approval on January 16, 2018

- Project # 29 - Road Program
- Project # 31 - Bridge #14 – Road 10 over Paterson Drain
- Project # 32 - Culvert #503 – McCallum Drive over Mill Creek
- Project # 33 - Fleet Replacement - 2005 GMC C5500 s/a truck
- Project # 36 - Fleet Replacement- Salter/plow for 14-05
- Project # 37 - Bridge #18 – Road 11 over Ruscom River
- Project # 38 - Bridge #46 – South Talbot Road over Boose Drain
- Project # 39 - Bridge #45 – South Talbot Road over No. 5 Drain
- Project # 40 - Fleet Replacement - 2004 Dodge 4x4 Quad Cab
- Project # 42 - Kings 13A – County Road 20
- Project # 44 - Kings 13B (phase 4) – County Road 20
- Project # 59 - Fleet Replacement - 2006 Ford F-150 p/u
- Project # 60 - Fleet Replacement - 2007 Ford 1/2 Ton
- Water Project # 1 - Fleet Replacement - 2004 Ford F-350 Extended Cab Service