



Staff Report

Department: Finance
To: Mayor and Members of Council
Meeting Date: January 15, 2020
Report No.: FIN-2020-01
Report Title: Budget 2020 Approval

Recommendation:

1. That Report FIN-2020-01, Budget 2020 Approval, dated January 15, 2020, be received; and
2. That Council approves the 2020 Municipal Operating Budget in the gross amount of \$30,066,574 with a net property tax levy amount of \$22,811,315; and
3. That Council approves the 2020 Municipal Capital Budget representing a gross expenditure of \$21,013,255; and
4. That staff be directed to present the 2020 Tax Rate By-law for all classes of property assessment for Council's consideration by the May 20, 2020 Council Meeting; and
5. That the 2020 Water and Wastewater Operating Budget in the gross amount of \$6,664,059 be approved; and
6. That the 2020 Water and Wastewater Capital Budget representing a gross expenditure of \$1,972,193 be approved; and
7. That in accordance with s.s.5(1) of the Development Charges Act, 1997 and s.5 of Ontario Regulation 82/98, it is Council's clear intention that any excess capacity provided by any of the above-referenced capital works will be paid for by future development charges.

Background:

Budget Timeline & Process:

The following highlights the processes and timelines related to the 2020 operating and capital budgets to date:

- Council Budget direction approved at 2% - October 2, 2019;
- Special Council meetings for budget deliberations;
 - November 26 to November 28, 2019;
- November 27, 2019 - Presentations by ABCs;
- December 18, 2019 - Public Input and Council adjustments/direction for final approval consideration on January 15, 2020.

User Rate-Supported Budget:

At the regular Council meeting of December 18, 2019 Council approved By-law 2019-84 to establish new rates for water and wastewater services to take effect March 1, 2020. The new rates reflect approved increases of 5% for water services and 4% for wastewater services.

The operating and capital budgets for both services are subject to approval and form part of recommendation contained in this staff report.

Fees and Charges By-law

At the regular Council meeting of December 18, 2019 Council approved By-law 2019-085 to establish the fees to be charges for specific user related services for 2020.

Analysis

Tax rate based operating budget:

The presentation provided by staff at the Budget Public Meeting held on December 18, 2019 included a slide that showed the status of the municipal budget at a 2.95% increase prorated for partial year impact for the new hires based on staggered hire dates. This approach resulted in reducing the municipal tax increase by 0.63% in 2020 but defers \$136,201 that will need to be added to 2021 budget before considering any new One-Time or Service Level initiatives that might be required.

	Full Impact		Partial Impact	
Tax Levy Status BEFORE Council Deliberations	\$314,211	1.44%	\$314,221	1.44%
Description of Proposed Changes:				
Transit Share Ride	42,450	0.19%	42,450	0.19%
Transit Support for First Light/Senior's Month	10,000	0.05%	10,000	0.05%
Hydro at Harbourview Park	25,000	0.11%	25,000	0.11%
Refurbishng Grader (correction)	(30,000)	-0.14%	(30,000)	-0.14%
Boom Blower Replacement (correction)	(35,000)	-0.16%	(35,000)	-0.16%
Asset Manager	40,096	0.18%	30,072	0.14%
Transit Driver	34,541	0.16%	23,143	0.11%
Manager of IT & Innovation	130,246	0.60%	87,265	0.40%
Apprentice Mechanic	64,955	0.30%	37,674	0.17%
Manager of Operations	134,778	0.62%	90,301	0.41%
Correct duplication (Community Justice & Safety)	50,000	0.23%	50,000	0.23%
Tax Levy Status AFTER Council Deliberations	\$781,277	3.58%	\$645,126	2.95%

After public input and further Council discussion the chart below reflects direction provided to staff for final decision. These changes, if adopted, represent a 4.28% increase in the Town portion of the property tax bill before considering impacts related to Education and County of Simcoe levy requests and tax ratio adjustments. The four changes from the previous disclosure are in bold:

DRAFT 1 TOTAL at November 26, 2019		\$314,221	1.44%
Proposed Changes:			
1	Transit Share Ride	42,450	0.19%
2	Transit Support for First Light/Senior's Month	10,000	0.05%
3	Hydro at Harbourview Park	25,000	0.11%
4	Refurbishng Grader (correction)	(30,000)	-0.14%
5	Boom Blower Replacement (correction)	(35,000)	-0.16%
11	New Staffing Allocation	550,000	2.52%
16	Community Justice & Safety (correction)	50,000	0.23%
17	Senior's Council additional funding request	5,500	0.03%
18	Physician's Recruitment	16,500	0.08%
	Additional Tax Revenue based on returned roll	(13,407)	-0.06%
	TOTAL	\$935,264	4.28%

Education rates have decreased by approximately 5% annually in recent years. To-date no information has been received from the Province to confirm the Education rate for 2020.

Midland's portion of Simcoe County's levy (at November 30, 2019) is projected to decrease again by approximately 1.5%. The actual impact on the taxpayer in Midland depends on the tax policy changes that the County will adopt over the next couple of months. These tax policy changes in recent years have been to the advantage of the

multi-residential and industrial taxpayer, not the residential one. It is anticipated that the final property tax impact to the residential taxpayer will be less than 4.28% but the amount of this change cannot be finalized at this time.

Direction from Council regarding the staffing allocation was that Department Heads are to prepare brief justification reports including details of job duties, responsibilities, skill requirement and alignment with strategic goals and present them to the Human Resources Committee in January. The Human Resources Committee will then provide its recommendation to Council in Quarter 1, 2020.

Budget 2020 Highlights with a monetary impact

Revenues:

- The planned “replacement” for the MPUC dividend has been drawn from a special reserve set up for that purpose from the proceeds of the sale. The 2020 draw of \$300,000 (\$100,000 less than in Budget 2019) is included based on the direction from Report TR-2017-22 and confirmed per Report TR-2018-23. This slowly removes the reliance on this \$500,000 revenue source to reduce property tax levy requirement by \$100,000 each year commencing in 2019 and will be fully phased out with the adoption of the 2023 operating budget.
- Inclusion of a \$600,000 draw on future savings as related to Police Services and referenced in report TR-2018-07. A total of \$4,500,000 (approximately half of the anticipated police savings) will be used over the course of 10 years as follows:

2018	\$800,000
2019	\$700,000
2020	\$600,000
2021	\$500,000
2022	\$450,000
2023	\$400,000
2024	\$350,000
2025	\$300,000
2026	\$200,000
2027	\$100,000

- Table 1 provides a breakdown of the operating revenues (excluding water & wastewater):

Table 1 - Operating Revenues	
Revenue Category	Percentage
Property Taxation	76.47%
Transfers from Reserves	6.85%
Harbour/NSSCR/Park Fees	3.58%
User Fees/Recoveries	3.38%
Government Grants	3.45%
Other Municipalities	1.81%
Interest	1.49%
Building Permit Fees	1.41%
Parking Fees	0.80%
Transit Fares	0.43%
Donations/sponsorships	0.33%

Expenses

Tax supported expenses are summarized as follows:

Table 2 – Operating Expenses	
Expense Category	Percentage
Payroll	32.36%
Materials, Supplies, Contracted Services etc. Expenses	53.49%
Transfers to Reserves	10.90%
Debenture Principal and Interest	3.25%

Assessment Increase

Additions and phase-in adjustments to the Town’s assessment base has resulted in an increase in assessment value of \$81,975,182 (\$74,130,262 in 2019). Phase-in assessment changes do create additional revenue to the Town. The assessment growth change does generate additional revenue and has positively impacted the 2020 municipal portion of the property taxes by \$843,389 or 4.0% (compared to \$735,350 or 3.8% in 2019) using 2019 tax rates. This increase in revenue was included in the 2020 Base Budget as an offset to expenditure increases before any service level change requests or additional costs related to existing levels of service.

Table 3 indicates the total net assessed property values by assessment class:

TABLE 3 - Assessment Value				
	\$ Dec 31/19 Assessment	\$ Jan 1/20 Assessment	\$ Increase in Assessment	% Increase in Assessment
Residential	1,547,897,733	1,610,040,863	62,146,130	3.1
Multi-Residential	82,487,352	89,211,700	6,724,348	0.3
Commercial	341,244,166	352,270,637	11,026,471	0.5
Industrial	64,384,467	66,462,700	2,078,233	0.1
TOTAL	2,036,013,718	2,117,985,900	81,975,182	4.0

Table 4 illustrates the dollar value of the Town portion of property taxes by assessment class at 2019 tax rates with the difference representing additional revenue attributable to growth available to offset any 2020 budgetary increases:

TABLE 4 - Town Portion Tax Levy				
	\$ Dec 31/19	\$ Jan 1/20	\$ Growth Tax Levy	% Year-over- Year Change
Residential	15,143,809	15,751,525	607,716	2.9
Multi-Residential	917,711	992,524	74,813	0.3
Commercial	4,146,609	4,285,144	138,535	0.7
Industrial	811,126	833,451	22,325	0.1
TOTAL	21,019,255	21,862,644	843,389	4.0

User Rate-Supported Operating Budget

Council approved the following rate increases based on the detailed capital and operating budget and long-term asset needs forecast provided by the Director of Infrastructure. This applies to both the monthly fixed fee and the variable charge per cubic metre of consumption:

- Wastewater 4%
- Water 5%

By-law 2019-84 to establish new rates for water and wastewater services to take effect March 1, 2020 was approved at the regular Council meeting of December 18, 2019.

No changes were proposed to the water & wastewater operating budgets as presented.

Reserves and Reserve Funds

Saving for future capital replacement initiatives and “smoothing” the annual impact to both the property tax rate and water and wastewater user rates is an important financial initiative. The contribution to reserves and reserve funds from the respective service areas and tax/user rate supported budgets are identified in the Operating Budget document as “9990 Transfers to Reserves”.

Property Tax-Supported:

TABLE 5 - Tax Supported Reserve Contributions				
	2019	2020	\$ Change	% Change
I.T. Reserve	322,000	315,500	(6,500)	-2.02%
Fire Capital Reserve	320,000	320,000	0	0.0%
Facility Replacement Reserve	209,500	100,000	(109,500)	-52.27%
NSSRC Facility Reserve	102,000	102,000	0	0.00%
Library Capital Reserve Fund	55,000	50,000	(5,000)	-9.09%
Parks Facility Reserve	127,000	127,000	0	0.00%
Community Improvement Program	125,000	150,000	25,000	20.00%
Capital Sustainability Reserve*	204,140	436,984	232,844	114.06%
Remaining Contributions	1,916,359	2,059,159	142,800	7.45%
Total	3,380,999	3,660,643	279,644	8.27%

* This reserve and contribution from property taxes began in 2019 as 1% of the total property tax levy budget requirement. The intent was that the amount would compound annually by adding an additional 1% (i.e. 2% in 2020, 3% in 2021 etc.) to ensure future asset life cycle repair and replacement is achieved. This approach is consistent with the Provincial mandate regarding asset management and having a sustainable financial plan in place.

User Rate-Supported:

TABLE 6 - Rate Supported Reserve Contributions				
	2019	2020	\$ Change	% Change
Wastewater Reserve	753,407	702,926	(50,481)	-6.70%
Water Reserve	1,135,883	1,116,338	(19,545)	-1.72%
Total	1,889,290	1,819,264	(70,026)	-3.71%

Property Tax Supported Capital Budget

The capital budget as initially presented totaled \$21,193,305. During the budget process the project for resurfacing of Sunnyside was discovered as an error and will be removed from the requested amount. Two items were added to the budget and the chart below reflects the revised request.

TAX SUPPORTED: Project Description	Current Year \$ Cost	Source of Funding				
		Donations, Grants & Proceeds	Fed/Prov Gas Tax	Reserve/ Reserve Funds	Debt	Tax Levy
Land & Land Improvements	439,000	-	-	189,000	250,000	-
Buildings & Leasehold Improvements	1,483,112	24,659	10,000	1,003,453	445,000	-
Vehicles, Apparatus & Off-Road Rolling Stock	1,378,000	63,000	663,495	586,505	-	65,000
Information Technology Hardware & Software	390,178	15,000	-	375,178	-	-
Other Equipment	674,165	12,000	-	475,680	186,485	-
Roads & Other	3,309,610	250,000	-	3,059,610	-	-
Community Revitalization	13,365,000	-	-	3,365,000	10,000,000	-
Studies	119,000	-	-	31,118	-	87,883
Joint Boards (Huron Airport Fuel System)	35,000	-	-	-	-	35,000
Total Tax Supported at November 26	\$ 21,193,065	\$ 364,659	\$ 673,495	\$ 9,085,543	\$ 10,881,485	\$ 187,883
Adjustments:						
Remove:						
Resurface Sunnyside (page 59 in Budget Book)	- 524,810			- 524,810		
Add:						
Splashpad	320,000			320,000		
Hydro at Harbourview Park	25,000					25,000
Total Proposed Changes	-\$ 179,810	\$ -	\$ -	-\$ 204,810	\$ -	\$ 25,000
Total Revised Proposed Tax Supported	\$ 21,013,255	\$ 364,659	\$ 673,495	\$ 8,880,733	\$ 10,881,485	\$ 212,883

User Rate-Supported Capital Budget

The total requested budget of \$1,972,193 as presented was not amended and is being recommended for approval.

Conclusions:

Tax-Supported Budget:

Council began deliberations on Budget 2020 with a proposed tax levy increase of 1.44%, a year-over-year increase after applying assessment growth revenues of \$314,211. Subject to further Council direction, the revised proposed tax-supported budget as approved in principle would result in a 4.28% budget increase after assessment growth revenues have been applied.

If approved, the impacts to the various property assessment classes are estimated as follows (without having County & Education rates available at this time):

Multi-Residential Assessment Property Class

2020 will be the final year of the multi-residential property class ratio reduction bringing it to 1.00 – the same as residential. The chart below reflects this decrease while factoring in the impact of the proposed 2020 Town operating budget impact. Staff have left the education and County portion the same as 2019 at this time.

Based on \$100,000 of taxable assessment	2019 Taxes	2020 Taxes	\$ Change	% Change
Town Purposes	\$1,113	\$1,031	\$(81)	-7.31%
County Purposes	317	317	-	0.00%
Education	161	161	-	0.00%
TOTAL	\$1,590	\$1,509	\$(81)	-5.11%

Industrial Assessment Property Class

Like the multi-residential phase-in tax ratio process, the industrial rate has been reducing annually to the commercial rate. The 2020 ratios will reflect achieving this initiative.

Based on \$100,000 of taxable assessment	2019 Taxes	2020 Taxes	\$ Change	% Change
Town Purposes	\$1,321	\$1,291	\$(30)	-2.28%
County Purposes	376	376	-	0.00%
Education	1,290	1,290	-	0.00%
TOTAL	\$2,987	\$2,957	\$(30)	-1.01%

Commercial Assessment Property Class

There is no change to tax policy for this class; however, the table below clearly shows the overall reduction to Midland's portion of the County levy resulting from the shifts that occur when other lower tier municipalities have more growth. As a result, the Town will collect slightly less per \$100,000 of assessment for this class of assessment than last year as follows:

Based on \$100,000 of taxable assessment	2019 Taxes	2020 Taxes	\$ Change	% Change
Town Purposes	\$1,228	\$1,291	\$63	5.17%
County Purposes	349	349	-	0.00%
Education	1,030	1,030	-	0.00%
TOTAL	\$2,607	\$2,671	\$63	2.43%

Residential Assessment Property Class

The tax ratio for this class equals 1.00 as established by the Province. When the ratio is reduced in any other class of assessment, it is the residential class that picks up the “shortfall”.

A 4.28% property tax levy increase translates into an increase of 3.57% per \$100,000 of assessment for the residential property owner as follows assuming no change to the Education and County Levy component. Staff anticipate, given prior years’ experience, that both components will decline again in 2020 resulting in a more modest over-all increase to the residential taxpayer

Based on \$100,000 of taxable assessment	2019 Taxes	2020 Taxes	\$ Change	% Change
Town Purposes	\$981	\$1,031	\$51	5.17%
County Purposes	\$279	279	-	0.00%
Education (set by Province)	\$161	161	-	0.00%
TOTAL	\$1,421	\$1,471	\$51	3.57%

The 2020 Tax Rate By-law for all classes of property assessment will be presented for consideration by Council at the May 20 (or sooner), 2020 regular meeting.

Council and Administration continue to make significant efforts to provide greater disclosure and transparency during the budget process. Your Administration’s objective continues to be the ongoing improvement of our discipline regarding the creation and use of reserves and reserve funds so that the municipality’s financial sustainability is enhanced.

Council's Strategic Priorities:

This recommendation is consistent with the following Council Strategic Priority:

Pillar One - Accountable, Responsive and Innovative Governance

Prepared by: L. Davis,
Financial Leadership Advisor

Approved by: A. Sidhu
Chief Administrative Officer (Interim)