



STAFF REPORT

DEPARTMENT: Treasury
CHAIR: Councillor G. Canning
DATE: **November 27, 2017**
REPORT NO.: **TR-2017-25 Budget 2018 Guideline**

RECOMMENDATION:

That Report TR-2017-25 respecting the Budget 2018 Guideline be received, and

That Council endorses the Budget 2018 meeting schedule as noted in Report TR-2017-25; and

That Council directs the Director of Finance to present the 2018 Operating and Capital Budgets that reflect a net increase of 2.5 %.

BACKGROUND:

With all of the staffing changes experienced over the past two years, the municipal budget process has been presented somewhat later than Council has been accustomed to in previous years. In addition, with these staff changes came some alterations in the manner in which the budget has been prepared and subsequently presented to Council. Despite the changes the ability of various stakeholders was managed and applicable public budget meetings were held to enlist the ideas and suggestions received. Changes are continuing with the preparation of Budget 2018.

The traditional budget process can be viewed as having four distinct phases:

- Phase 1) Initial Planning – Presentation of a guideline report to Council such as this one establishing some basic understanding of key budget issues, and to seek Council direction on the formulation of the draft budget document.
- Phase 2) Budget Preparation – Staff develop the draft budget based on guidelines consistent with those articulated by Council, and referred to in Phase 1 above. Staff undertake the internal review and research on the entire budget prior to presentation to Council.
- Phase 3) Budget Review and Alignment – Council schedules a series of special public budget meetings to deliberate upon the draft budget, receives public and stakeholder comments, and provides further direction to the Administration respecting proposed changes.

Phase 4) Approval – Council approves a final budget that will be used to set the tax rate. At this point there may be greater certainty as it pertains to details respecting the levy requirements of the County and the Provincial Rates required for Education purposes.

The public budget process ideally focuses on service levels and issues impacting their delivery.

ANALYSIS:

In addition to routine budget implications, staff have also identified the following areas which will require additional focus and direction:

- Operating cost impacts of the new Operations Centre;
- Cost impact of additional properties surplus to Town operations;
- Potential for property tax appeal awards of material value; and
- Need to address the widening infrastructure funding gap.

Only some of these issues will be fully dealt with in Budget 2018 and will likely continue to be a budget consideration in future years. It is important to note that this report is at a high level. Council will decide on the actual budget using detailed information during the budget deliberations.

An important part of the budget process focuses on setting targets within the context of financial pressures and potential solutions. The following sections provide insight to key areas that affect the Town's budget.

Municipal Costs

The majority of municipal costs are directly affected by inflationary and growth pressures. Inflation increases the cost of goods and services gradually over time. The goods and services that municipalities use are different than the mix used to calculate the Consumer Price Index (CPI). As a result, municipalities often face cost increases higher than the general CPI which includes:

- Shelter;
- Household operations;
- Clothing and footwear;
- Transportation;
- Health and personal care;
- Recreation, education and reading;
- Alcohol and tobacco.

The Ontario CPI for Ontario posted for October 2017 was an increase of 1.4% over the same time last year.

Many municipalities have found the use of any posted CPI misleading in maintaining expected service levels and use a Municipal Price Index (MPI) calculated on the specific “basket of goods” that reflect their purchasing requirements:

- Salaries and benefits;
- Utilities;
- Facilities and maintenance;
- Insurance;
- Fuel;
- Debt.

The MPI for 2018 has been calculated at 2.45% by municipalities in central Ontario. Upon analysis, the increases experienced in these municipalities closely align with Midland’s current reality.

Keep in mind that many of the Town’s services are directly linked to usage levels. As the service population grows, demographics change; or, as the demand for a particular service increases, costs will also shift and potentially increase. In addition, Midland is facing pressure related to our capital requirements. Several significant projects will apply upward pressure on the Town’s financial requirements to fund these projects, and fund the future operations once they are in place.

Payroll Costs

Wages

The draft budget has included all groups at the scheduled increases based on the Collective Agreements and Council by-laws. These known increases have been included in the payroll portion of each departmental budget:

| Group/Wages | % Change |
|-----------------------------|-----------------|
| Council | 0.00% |
| Fire | 0.00% |
| IBEW | 1.00% |
| Library | 1.00% |
| Non-Union/Management | 0.00% |
| OPSEU | 1.50% |

Note that a market survey has been undertaken. A separate and future report will be forthcoming as part of a broader Corporate Human Resources strategy.

Benefit Costs

Changes to benefit costs have been confirmed by the benefit plan consultant:

| Benefits | % Change |
|---|-----------------|
| Health Benefits | -16.90% |
| Dental Benefits | 3.20% |
| Life Insurance | 2.50% |
| Long Term Disability | 2.50% |
| Fire - Blanket 8% Increase to Health | Nil |

Workplace Safety & Insurance Board Costs

These rate increases are based on the current premium and multiplier as provided by Federal Government. The increase in this element of payroll burden is highest for volunteer firefighters:

| WSIB Costs | % Change |
|---|-----------------|
| WSIB #580 - Transit | 2.50% |
| WSIB #817 - Library | 2.80% |
| WSIB #835 - Water & Wastewater | 4.70% |
| WSIB #845 - Other Municipal Services | 4.90% |
| WSIB Premium (Volunteer FF) | 13.37% |

Challenges & Opportunities

Continuous improvement efforts are an important component of the Town's budget process to partially off-set increasing cost pressures. As part of the Administration's next steps a detailed analysis of the budget will be undertaken and every effort to look for possible cost savings and efficiencies will be explored at the senior management level.

In addition to considering cost savings, an examination of existing rates and fees will be undertaken to ensure that we are recovering our costs where appropriate. A number of fee adjustments are currently under consideration and will likely be included in Budget 2018 Draft #1 for Council's review and potential adoption effective July 1, 2018.

Much of the Town's budget is closely related to service levels. In some cases, cost saving proposals will require adjustments due to service levels. While the line-by-line review often identifies savings that have a nominal impact on services, other savings and opportunities may impact services more significantly. Council will need to consider the value of these services and the trade-offs related to any cost savings attained.

Service Delivery Review

As reported to Council in the interim Service Delivery Report dated October 23, 2017, an estimated \$360,000 will be added to Budget 2018 to deal with foundational issues identified at that time.

On November 27, 2017 Council will receive the Consultant's observations related to opportunities within the Corporation for improving the delivery of services. At the time of the drafting of this report those details have not been shared with staff. We will incorporate to the extent possible the identified opportunities and the appropriate timetable for implementation to align them with the Budget 2018 exercise to the best of our ability.

Governance Review

The Governance Review should provide for some efficiency in the manner in which we undertake our governance services. Those efficiencies should provide some additional capacity to certain parts of the organization.

Assessment Growth & Tax Appeals

Assessment growth represents new assessment as a result of construction, improvements or expansion of properties. In many cases, this growth has a direct impact on service requirements. The Town, over the last 4-5 years, has experienced minor growth in assessment. In 2017, the Town's significant tax growth was offset against the assessment appeals which eroded the positive impact.

The table below provides the comparison between the Town and the overall net assessment growth for the County of Simcoe:

| | <u>Town of Midland</u> | <u>Simcoe County</u> |
|------|----------------------------|--------------------------|
| 2013 | 1.09% | 2.13% |
| 2014 | 0.26% | 1.95% |
| 2015 | 0.57% | 1.74% |
| 2016 | -0.14% | 1.73% |
| 2017 | 0.27% | 2.12% |

Most of the County's growth is in the southern lower-tier municipalities which, in 2017, resulted in a shift of the upper-tier property tax burden. Midland benefited from this shift. Although the County approved a 2% increase in 2017, Midland's share of the County levy decreased by 1.2%. This change in assessment value was also reflected in the Town's Education Levy which dropped by 6.6%.

It remains to be seen what the final assessment growth or taxation shifts will be for Budget 2018; however, the Town's final supplementary tax run for 2017 was received from MPAC on November 20, 2017 which added previously vacant portions of Mountain View Mall and more residential units, leaving staff optimistic that assessment growth available for 2018 will be significantly more robust than last year.

Note that at this point, a 0.25% increase in assessment will provide approximately \$45,000 in additional property tax revenue.

External Agencies, Boards & Commissions

Major services provided by agencies outside the normal departmental structure include policing and library services; both of which are historically difficult to influence.

- Staff have worked collaboratively with the Midland Public Library Board, a process begun during the development of last year's budget, and the Board will present the outcome to Council.
- Due to the disbandment of Midland Police Service expected to occur in February 2018, the Treasurer has budgeted policing costs based on the forecasts developed for the Ad Hoc OPP Costing Committee.

Each External Agency, Board or Commission, when they were provided with their 2017 grant, received a letter which included the following paragraph:

"The funding of external Agencies, Boards and Committees that have relied on contributions from the property taxes in past years did attract more scrutiny during the 2017 budget process. Council has directed staff to bring forward a policy for their consideration that will set a framework for these "grants" in future. It is expected that clearly stated objectives for the use of the funds during the budget year will be submitted with any request and, subsequently, an accounting of the outcomes achieved that can demonstrate clear linkage to the benefits received by the residents and taxpayers of the Town of Midland. Staff will be undertaking this review over the next several months and will be engaging all of the grant recipients in a discussion related to the principles to be considered under this policy."

Unfortunately, the policy alluded to in this letter has not been fully developed. Therefore, an interim step is being proposed for this year.

Budget 2017 included a total outflow of \$443,936 for items included in this category. Staff have heard from a number of other organizations that wish to be added to the list in 2018. The following table outlines the 2017 Approved and 2018 Proposed Budget for external agencies.

| Organization | 2017 Approved Budget | 2018 Proposed Budget |
|---|-------------------------------------|-------------------------------------|
| Active Transportation Committee | 1,500 | 1,500 |
| MMS Scholarship | 1,000 | 1,000 |
| St. Theresa Scholarship | 1,000 | 1,000 |
| Education Grant to County of Simcoe | 1,000 | 1,000 |
| Broadband Gap Analysis Study through NSCFDC | 12,000 | 0 |
| Contribution to EDCNS | 91,920 | 91,920 |
| Hospital Capital Campaign Anticipate (ends in 2017) | 41,600 | 0 |
| Midland Legion Pipes and Drums | 1,200 | 1,200 |
| Salvation Army Outreach Services | 5,000 | 5,000 |
| Physician Recruitment (confirm annually, no multi-year commitment) | 22,000 | 22,000 |
| Senior's Council Lunch (paid to Askennonnia Seniors Centre) | 1,600 | 1,600 |
| Sustainability Plan Contribution (2015 to 2018, 4 year commitment) | 9,800 | 9,800 |
| Boys and Girls Club (direct support \$59,633, NSSRC rent \$32,130) | 91,763 | 91,763 |
| Affordable Recreation | 10,000 | 10,000 |
| Contribution to BIA towards their Summer Student | 5,000 | 5,000 |
| Donation to LINC TLC - accessible transit | 4,820 | 4,820 |
| Donation to Midland Horticultural Society | 5,000 | 5,000 |
| Insurance donation to MCC (declines at \$4,000 annually) | | |
| Huronian Museum | 83,933 | 84,000 |
| Town Crier | 600 | 600 |
| Sports Hall of Fame | 500 | 500 |
| Askennonnia Seniors Centre (direct support \$6,000, NSSRC staff support \$22,000) | 6,000 | 28,000 |
| Culture Midland | 35,200 | 35,200 |
| Contribution to Butter Tart Festival | 10,000 | 10,000 |
| Santa Claus Parade | 1,000 | 1,000 |
| Ontario Special Olympics | 500 | 500 |
| | 443,936 | 412,403 |

It is proposed that the total amount for these requestors be frozen at \$443,936. Should all requests for 2018 equal last year's requests, the difference of \$31,533 can be distributed to other opportunities for the broader community, or allocated to items generated by the Service Delivery Review.

This interim step will assist requestors to reduce their reliance on property taxes while staff moves forward to develop a policy framework that attempts to address principles as outlined by the CAO in Report CAO-2017-12, dated May 18, 2017:

- a) Develop a formal program which includes key elements such as a formal application process, vetting and ensuring that the applicant meets certain criteria (to be flushed out within the future policy framework);
- b) Demonstration that proposed projects/programs will provide direct benefit to Midland residents;
- c) Demonstration that the purpose for the funding meets Council's strategic objectives;

- d) Where programs are of a broader regional nature and provide a clear benefit beyond Midland residents, the applicant should demonstrate their efforts in seeking a similar grant from other jurisdictions;
- e) Limitations respecting either the number/frequency, size and purpose for the grants over the term of Council;
- f) Setting clear grant amount maximums in any one year;
- g) Ensuring that applicant organizations are in good standing with the municipality;
- h) Demonstrating that the program deliverables per the grant application have been achieved as criteria to future funding eligibility.

This continued effort will provide opportunities to existing organizations as well as incentive for new organizations to participate with the goal of creating criteria that would encompass a fair and equitable approach to building a sustainable program.

Reserves & Reserve Funds

Reserves form an important component of the budget and Council's ability to finance capital activities. Currently the Town maintains a number of reserves and reserve funds; most of these reserves are for specific purposes or facilities.

The Town's reserves and reserve fund portfolio is made up of two distinct elements:

- **Discretionary Reserves** - The total "discretionary" reserve portfolio's projected balance at the end of 2017 is \$12.6 million. The outstanding balance committed to the existing internal loans totals \$4.5 million leaving an "available" balance of \$8.1 million.
- **Obligatory Reserve Funds** - The total "restricted" or obligatory reserve fund portfolio projected balance totals \$4.4 million.

Council received a report on October 23, 2017 regarding these funding sources, and adopted Resolution No. 2017-449, as follows:

"That Council receive Report TR-2017-21, being a report on the Status of Midland's Reserve and Reserve Fund Portfolio, Implementation of a Reserve Continuity Policy, and Establishment of a Sustainable Fire Department Equipment & Vehicle Reserve, dated October 23, 2017; and

That the Director of Finance be directed to suspend the current reserve policy; and

That the proposed draft sustainable reserve policy described in Report TR-2017-21 be approved and applied consistently to other infrastructure-related reserve and reserve funds as the opportunity arises to fund future assets; and

That the Town's current internal loan program described in Report TR-2017-21 as Method #1 be eliminated effective December 31, 2017; and

That the internal loan program described in Report TR-2017-21 as “Updated Internal Loan Methodology” (Method #2) be restricted to corporate initiatives with long-term community-wide benefit, including the addition of the application of interest effective December 31, 2017.”

Where possible, the Budget will propose changes and increases to the historical annual reserve contributions to contribute to improved sustainability of Town operations and infrastructure.

All changes proposed will align with the information conveyed to Council on this topic at the General Committee meeting held on November 13, 2017.

Capital

Capital projects are a major component of the Town’s budget. Capital projects contribute directly to quality of life, service levels, regulatory and safety obligations and the public image of the Town.

The Town’s 2018 capital budget materials will include:

- Project detail sheets for the 2018 proposed capital budget;
- 10-year capital forecast in some areas.

Although not complete for Budget 2018, in future the capital forecast will be paired with a reserve and reserve fund forecast based on the projected capital requirements. This approach to capital budgeting will contribute to the following:

1. Encourage longer term asset management planning;
2. Reduce budget ‘surprises’;
3. Streamline the budget process by pre-informing decision makers of known future issues;
4. Identify financial sustainability issues and concerns;
5. Contribute to meeting Provincial requirements for asset management.

2017 Operating Budget Results & Issues for 2018

Staff regularly monitor their budgets. All managers have real-time access to the budget system. This access allows all managers with budget responsibility to remain on top of their spending. The preferred reporting option compares the actual financial activities to the amount of budget expected to be used in the same time period. Activities for the remainder of the year may be higher or lower than the budget and will determine the final surplus or deficit position.

Fluctuations in expenditures throughout the year are normal and expected with a number of operating areas since a budget developed a year or more in advance is only an estimate.

There are currently several areas that are in surplus positions, which offset others which are over budget. Potential savings in some areas may partially offset the negative impact of areas such as winter control and assessment appeal costs.

Council Member 1/3 Tax-Free Allowance

Due to Council's decision to implement the change on January 1, 2019 there will be no impact on this budget in this regard. In 2019 the impact will be approximately \$32,000.

Meeting Schedule

Tentative dates for the detailed budget presentations and deliberations for 2018 have been established as follows:

| Tentative Date | Meeting Content |
|-----------------------|--|
| Thursday, February 22 | Agencies, Boards & Commissions; Town Operating |
| Thursday, March 1 | Town Operating continued (if needed) |
| Thursday, March 22 | Town Capital |
| Wednesday, March 28 | Public Budget Meeting |
| Monday, April 9 | Integrate public comments (if needed) |
| Monday, April 23 | Budget approval |

These dates, along with meeting start times, will be confirmed over the next few weeks.

Budget approval in April 2018 will be followed by the levying by-law in May 2018.

FINANCIAL IMPACT:

This report is intended to provide Council with background in preparation of Budget 2018, and for Council to provide direction to staff. Final decisions on the budget will be made during budget deliberations and based on the budget schedule. As such, there is no direct financial impact resulting from the recommendations in this report.

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