
To: Mayor and Council

From: Jeff Schmidt, Deputy CAO/Director of Finance

Date: January 9, 2019

Subject: Draft 2019 Budget

Report Highlights

- Draft 2019 Tax Based Operating Budget proposes a 0.99% or \$120,393 net tax levy increase over 2018 for the Township's portion. This includes a 1% contribution towards Capital Infrastructure; however excludes any program changes.
- If the County of Simcoe approves its 2019 Budget with an increase of 2.0% and if we assume that the Provincial Government remains neutral on the education tax rate, then the blended tax increase (including the Policing Charge) is estimated to be 1.39%. For an average home assessed at \$451,393, this translates into a \$53 property tax increase over 2018 levels or approximately \$4.41 per month.
- The proposed budget aims to maintain – and in certain key areas, improve – service levels to Springwater residents; and invest in key infrastructure projects while being fiscally responsible.
- There are eight program changes being proposed in the 2019 Draft Requested Budget, which have an additional net tax impact of \$520,153 or 4.30%.
- Ontario Municipal Partnership Funds for 2019 are assumed to be at the same level as 2018, namely \$961,000.
- Draft 2019 Water Operating Budget proposes a 0.0% increase in water rates, as approved by Council on October 18, 2017 in the 2017 Water & Wastewater Rate Study.
- Draft 2019 Wastewater Operating Budget proposes a 4.3% increase in wastewater rates, as approved by Council on October 18, 2017 in the 2017 Water & Wastewater Rate Study.
- Policing Charge is proposed to increase from \$228 per residential property and \$114 per farmland property to \$240 per residential property and \$120 per managed forest and farmland property.

Recommendation

That the report from the Deputy CAO/Director of Finance regarding the Draft 2019 Budget, dated January 9, 2019, be received; and

That the draft 2019 Tax Based Operating Budget as presented January 9, 2019, be referred to the Special Budget Meetings of Council for deliberation and consideration; and

That the draft 2019 Water Operating Budget as presented January 9, 2019, be referred to the Special Budget Meetings of Council for deliberation and consideration; and

That the draft 2019 Wastewater Operating Budget as presented January 9, 2019 be referred to the Special Budget Meetings of Council for deliberation and consideration; and

That the draft 2019 Capital Budget as presented January 9, 2019 be referred to the Special Budget Meetings of Council for deliberation and consideration; and

That the 2019 policing charge increase to \$240 per property for all properties except for farmland and managed forest properties which will be charged \$120 per property; and

That the 2019 Tax Rate By-law be presented, including the County and Education Requisitions as soon as the Tax Ratios have been approved by the County of Simcoe; and

That Council adopt the compliance report for 2019 expenses that have been excluded from the 2019 Budget presented January 9, 2019 and as outlined in the subject report as a requirement of Ontario Regulation 284/09 of the Municipal Act, 2001.

Background

The purpose of this report is to establish a 2019 Budget for the Township of Springwater and fulfil legislated financial reporting requirements, such as Ontario Regulation 284/09.

Draft 2019 Consolidated Budget (excluding program changes)

The draft 2019 Budget proposes a 0.99% or \$120,393 net tax levy increase over 2018 for the Township. This includes a 1% or \$120,931 contribution for Capital Infrastructure, **however excludes any proposed program changes.**

If approved as presented, the Township's 2019 Budget will result in a \$27 property tax increase (Township and policing portions only) over 2018 levels for an average home assessed at \$451,393.

The draft 2019 Budget was distributed to all Members of Council on Friday, January 4, 2019 and available to the public via the Township's website on the same day. The draft 2019 Budget is being tabled Wednesday, January 9, 2019 and three budget deliberation meetings have been scheduled for January 16, 30, February 4. The final adoption/approval has been tentatively scheduled for Wednesday, February 20, 2019 (this date is subject to change).

Summary of draft 2019 Consolidated Budget (excluding program changes)

The table below provides a breakdown of the proposed 2019 net tax levy increase of \$120,393 or 0.99%:

	\$	%
Township Net Tax Levy (excluding assessment growth)	\$143,554	1.19
Add: Assessment growth (estimated)	(896,569)	(7.41)
Net Levy Required (including assessment growth)	(\$753,015)	(6.22)
Add: Elimination of 1/3 tax free exemption for Council	45,574	0.38
Add: Cost of Living Adjustment (1.77%)	124,755	1.03
Add: Merit/Step Increases	18,334	0.15
Add: Group & Statutory Benefit Increase (estimated)	28,042	0.23
Add: Additional Debt (principal & interest)	116,000	0.96
Add: Township costs for proposed works on Swaley Drain	17,000	0.14
Add: Increase in contracted services (sidewalk maintenance and storm water management maintenance)	73,000	0.60
Add: Official Plan Update	38,750	0.32
Add: Transfer to Capital	270,734	2.24
Add: Reduction in Provincial Offences Act (POA) revenues	75,500	0.62
2019 Net Tax Levy Increase (Township only)	\$819,902	6.77
2019 Net Tax Levy Required (includes Township only)	\$66,887	0.55
Service Partners:		
Add: Library general levy (COLA, OMERS, etc.)	32,245	0.26
Add: NVCA – general levy & asset management levy	20,201	0.17
Add: Severn Sound Environmental Association	1,060	0.01
2019 Net Tax Levy increase (Service Partners)	53,506	0.44
2019 Net Tax Levy Required (including Service Partners)	\$120,393	0.99

Impact on Average Property Owner

As shown in the table on the previous page, the net impact of the draft 2019 Budget is a 0.99% increase or \$27 in the Township's portion of the property tax bill, assuming an average home assessed at \$451,393.

If the County of Simcoe approves its 2019 Budget with an increase of 2.0% and if we assume that the Provincial Government remains neutral on the education tax rate, then the blended tax increase (including the Policing Charge) is estimated to be 1.39%. For an average home assessed at \$451,393, this translates into a \$53 property tax increase over 2018 levels or approximately \$4.41 per month.

	2018	2019	Change (\$)	Change (%)
Township of Springwater	\$1,524.22	\$1,539.39	\$15.17	0.99
County of Simcoe	1,286.56	1,312.29	25.73	2.00
Education	767.37	767.37	-	-
Sub-total (before policing)	\$3,578.15	\$3,619.05	\$40.90	1.14
Policing	228.00	240.00	12.00	5.26
Total	\$3,806.15	\$3,859.05	\$52.90	1.39

2019 Draft Tax Based Operating Budget (excluding program changes)

The Township's draft 2019 tax based operating budget, as presented in the 2019 Budget Book, was developed based on Council's Direction of July 4, 2018, as well as on the basis of maintaining the same services/programs and service levels that were provided in 2018.

The draft 2019 Tax Based Operating Budget consists of gross expenditures in the amount of \$19.8M and revenues of \$19.7M, thus leaving a net tax levy requirement of \$120,393 or a 0.99% increase over 2018. This includes the requirements for the Library and Conservation Boards/Authorities, as well as a 1% contribution for Capital Infrastructure. **It does not include any program changes.**

Ontario Municipal Partnership Fund

The Ontario Municipal Partnership Fund is the Province of Ontario's main general assistance grant that provides unconditional operating support to Ontario municipal governments. In 2008, the Province signed the Provincial-Municipal Fiscal Service Delivery Review Agreement with municipalities, which resulted in the Province assuming costs for services that had previously been supported by the municipal property tax base.

In 2018, the Province provided \$510M in funding to Ontario municipalities, which is a \$5M increase over 2016 and 2017 allocations; however is much lower than what was being provided from 2011 – 2015, where the highest allocation was \$598M in 2012 and the lowest was \$515M in 2015. The Township of Springwater received \$961,000 in 2018 as their allocation of the Ontario Municipal Partnership Fund. These funds were allocated in the 2018 Budget as follows:

- \$376,701 included in Corporate Revenues
- \$351,849 included in Public Works (Road Maintenance)
- \$232,450 included in Policing

On December 21, 2018, the Township received a letter from the Minister of Finance regarding the Township's 2019 OMPF allocation. The Township has been advised that the OMPF is currently under review and municipalities will be provided with an update in early 2019 regarding their allocations. For the 2019 Budget, staff has currently included the same allocation of OMPF funds; \$961,000; that were provided for in the 2018 budget.

It should be noted that any reductions in OMPF will have a significant impact on the Township's property taxes. In 2019, a 1% increase for Springwater equates to \$120,931. For other municipalities in Ontario, OMPF reductions have a big impact on local property tax rates, particularly because a 1% property tax increase raises just \$50,000 for almost half of Ontario's municipal governments.

Program Changes

Where new initiatives or resources are requested, Program Changes were required to be developed that identified the net impact to the draft 2019 Budget, as well as a business case/justification was required in order to support Council's consideration of each request.

The Draft 2019 Requested Tax Based Operating Budget currently includes eight program changes. They have been separated into two different categories; Township, and Service Partners. The impact of these program changes, should they be considered by Council, would be in addition to the net tax levy requirement previously noted.

Township Program Changes

Senior Staff met to review each of the staff/township initiated proposed program changes for 2019. There are seven staff/township initiated program changes being presented to Council for their consideration. The overall net impact for all seven program changes is \$512,653 or 4.24%. The chart below provides the staff/township initiated program changes:

Program Change	Department	Gross Costs	Revenue/ Cost Savings	Net Tax (\$)	Net Tax (%)
Mechanic	Public Works	\$67,971	67,000	\$971	0.01
Asset Management Coordinator	Public Works	80,491	24,147	56,344	0.47
Snow Removal – Township Facilities	Public Works & RPP	141,853	56,056	85,797	0.71
Facility Staffing Requirements	RPP	94,362	-	94,362	0.78
Increase in Volunteer FF Training Hours	Fire & Emergency Services	154,000	-	154,000	1.27
Probationary Firefighter	Fire & Emergency Services	67,109	-	67,109	0.55
Committee Coordinator	Clerk's	54,070	-	54,070	0.45
Sub-total		\$659,856	\$147,203	\$512,653	4.24

In terms of personnel impact, these changes would result in eight new permanent full-time staff. The Program Change justification forms, or business cases, are included under the appropriate Departments in the 2019 Tax Supported Operating Budget section of the Budget Book.

Service Partner Program Changes

As part of the annual Budget process, the Township includes requests from its service partners, including: the Springwater Public Library Board; Nottawasaga Valley Conservation Authority; and the Severn Sound Environmental Association.

The Draft 2019 Requested Tax Based Operating Budget includes one program change proposal from the Township's service partners. The Severn Sound Environmental Association (SSEA) has proposed a program change that would add an additional net tax levy impact of \$7,500 or 0.06%.

Staff is seeking Council's consideration of these program changes (Township and Service Partners).

Policing Charge

The Ontario Provincial Police (OPP) provides policing services to the Township of Springwater. The costs attributable to this service are fully passed onto Springwater residents. From 2015 to 2017, the policing charge was \$216 per residential property and \$108 for farmland and managed forest properties. As the costs of policing services have increased over the past several years, the policing charge in 2018 was increased to \$228 per residential property and to \$114 per farmland property or managed forest.

As costs continue to rise, the policing charge in 2019 for a residential property is proposed to increase to \$240 per property and \$120 per farmland or managed forest property.

Draft Ten Year Capital Plan and 2019 Capital Budget

The 2019 – 2028 Ten year Capital Plan, as presented in the draft 2019 Budget Book, was developed by staff identifying the highest priority needs they felt the Township of Springwater is going to face over the next ten years. In addition, it incorporates information from studies that have recently been undertaken (i.e. 2018 Development Charge Background Study, 2015 Parks & Recreation Master Plan, 2015 Fire Master Plan, 2014 Asset Management Plan, 2017 Roads Needs Study, 2016 Long Range Financial Plan, 2017 Water & Wastewater Rate Study, etc.). The Ten year Capital Plan proposes gross expenditures in the amount of \$137.9M, with sources of funding coming from reserves, reserve funds, development charges, grants, debt, other levels of government and taxation (operating budget). Of the \$137.9M in gross capital expenditures, \$92.9M is allocated towards growth related capital expenditures and \$45.0M is for renewal/rehabilitation of existing capital infrastructure.

Draft 2019 Capital Budget

The draft 2019 Capital Budget is comprised of carry forward projects from 2018 in the amount of \$8.6M, as well as new capital requests for 2019 in the amount of \$8.2M, for a total 2019 Capital Budget of \$16.8M. It contains funding sources as follows:

Funding Source	Amount
Development Charges	\$5.8M
Reserves	2.9M
Debt	2.0M
Water Reserve Fund	1.6M
Wastewater Reserve Fund	1.3M
Taxation (Operating)	1.2M
Grants/Contributions	0.8M
Gas Tax	0.7M
Parkland Reserve Fund	0.5M

Some of the major capital projects being proposed in 2019 are as follows:

Project	Gross Expenditure
Multi-Purpose Complex	\$2,575,000
Elmvale Lift Station	2,100,000
Albert St E – Hwy 93 to Agnes (0.2km) – Second Phase	1,410,000
Anten Mills Water Tower	1,100,000
Ronald Road – East of George Johnston	930,000
Elmvale WWTP – Clarifier Covers (Design & Construction)	800,000
Tanker Truck (T25)	650,000
Ball Diamonds – 2 additional @ Tree Nursery Sports Park	525,000
Craig Road	400,000

Project	Gross Expenditure
Radio Repeaters (2) & Towers (Midhurst & Centre Vespra)	350,000
Inflow & Infiltration abatement program	330,000
Fire Stn 2 – New Construction & Furnishings	300,000
Administration Lower Level Space Accommodation	300,000

Draft 2019 Water Operating Budget

The draft 2019 Water Rate Based Operating Budget consists of gross expenditures and revenues in the amount of \$2.7M. Council has approved the new rate structure, which is effective February 1, 2018 and is to be reviewed again in 2020. The impact on a typical household (one who consumes 220 m³ per year) is a zero increase as rates are being held at the same level as 2018.

The impact on a small commercial user (one who consumes 350 m³ per year) is a zero increase as rates are being held at the same level as 2018.

Draft 2019 Wastewater Operating Budget

The draft 2019 Wastewater Rate Based Operating Budget consists of gross expenditures and revenues in the amount of \$1.4M. Council has approved the new rate structure, which is effective February 1, 2018 and is to be reviewed again in 2020. The impact on a typical household is an increase of \$35.70 over 2018 or \$2.97 per month.

The impact on a small commercial user is an increase of \$52.89 over 2018 or \$4.41 per month.

Ontario Regulation – 284/09

The Province of Ontario enacted Ontario Regulation 284/09 “Budget Matters – Expenses” to allow for certain items to be excluded from a municipality’s budget but with a required reporting disclosure. The regulation allows a municipality to exclude from their estimated expenses costs that are related to amortization expense, post-employment benefits, and solid waste landfill closure and post-closure expense. However, if a municipality chooses to exclude these expenses, they are required to report on the impact of them.

The Township of Springwater does not have any post-employment benefits nor does it have any solid waste landfill closure and post-closure expenses. Therefore, the only cost

not captured in the current budget is amortization expense.

The Township has chosen to prepare its budget on a cash flow basis, rather than an accrual basis. Most municipalities have taken this approach because it is a more straightforward and easy to understand method and it ensures that the Township is raising enough cash flow through the tax rate to fund our annual capital expenditures.

Under the PSAB reporting guidelines, the Township's estimated budgeted surplus/(deficit) on a full accrual basis would be:

	Total	Tax Supported	Water/Wastewater Supported
Approved Budgeted 2019 Surplus/(Deficit) on a Cash Basis	-	-	-
Add back:			
Budgeted Capital Expenditures	\$16,797,500	\$12,025,000	\$4,772,500
Principal Portion of Long Term Debt	715,298	715,298	-
Subtract:			
2019 Estimated Amortization Expense	(4,919,774)	(4,290,662)	(629,112)
Projects in capital budget that are considered repair and maintenance or minor and therefore not capitalized under PSAB	(682,500)	(620,000)	(62,500)
Proceeds of Long Term Debt	(5,000,000)	(5,000,000)	-
Estimated Budgeted 2019 Surplus/(Deficit) on Full Accrual Basis	\$6,910,524	\$2,829,636	\$4,080,888

The budgeted surplus is strictly an estimate and may vary significantly from actual year end results. If all of the capital projects do not get completed, than the actual amount of capital expenditures added back will be lower, which would result in a lower estimated surplus or potentially a deficit.

The estimated surplus on a full accrual basis is not the complete picture of the future requirements. In addition to looking at the Township's full accrual surplus/(deficit), it is also important to compare the Township's amortization expense to the amount of funds that the Township currently collects for future asset replacement. The table on the next page provides further information:

	Total	Tax Supported	Water/Wastewater Supported
2019 Estimated Amortization Expense	(\$4,919,774)	(\$4,290,662)	(\$629,112)
Add Back:			
Transfers to Reserve/Reserve Funds for Capital Replacement	1,573,381	524,500	1,048,881
Taxation/User Fees currently collected to fund capital	4,089,472	1,156,972	2,932,500
Principal & Interest payments	1,045,543	1,045,543	-
Surplus/(Shortfall) in Funding Capital replacement	\$1,788,622	(\$1,563,647)	\$3,352,269

The amount of funding the Township currently sets aside for future capital replacement for water & wastewater infrastructure is anticipated to be in a surplus position. This is to be expected since the Township's water and wastewater systems are intended to be at full cost recovery, including a provision for future asset replacement. The majority of these assets are fairly new and hence large investments have not had to be made in the last few years. However, in the future when infrastructure needs to be replaced, the Township will have funds set aside in the water and wastewater reserve funds to assist with these expenditures.

The more significant concern is that the Township does not have enough tax based funding being set aside to fund the replacement of the Township's tax based infrastructure, particularly roads and related infrastructure. The only other stable funding source that the Township has to fund capital infrastructure is Gas Tax, which the Township currently receives approximately \$578K per year. This is not nearly enough to close the Township's funding gap. The draft 2019 Capital Budget that has been proposed includes a significant increase in the amount of funding from taxation (operating budget) compared to 2018. The amount proposed in 2019 is \$1,156,972 compared to 2018 which was \$886,238, hence an increase of \$270,734. In addition to this, Council may wish to consider increasing the tax funding set aside for asset replacement. The draft 2019 Budget includes 1% or \$120,931 to assist in funding the Township's tax based capital infrastructure.

Financial Implications

The implications of the draft 2019 Budget, as presented, are as follows:

- a) Tax Rate Operating Budget Impact – with the County of Simcoe proposing a 2.00% increase to their 2019 Budget and the education rate remaining revenue neutral, the overall (blended tax increase), excluding any program changes, would be 1.39%, which translates to a \$53 increase or approximately \$4.41 per month on an average home assessed at \$451,393.
- b) Program Changes – there are eight program changes being proposed in the 2019 Draft Requested Tax Based Operating Budget. Staff is seeking Council's consideration of some or all of these program changes, the net tax impact is \$520,153 or 4.30%.
- c) OMPF – The 2019 Draft Tax Based Operating Budget includes OMPF funds in the same amount as 2018, namely \$961,000. Once the Province confirms the Township's allocation for 2019, staff will provide an update.
- d) Policing Charge - the policing charge in 2019 for a residential property is proposed to increase to \$240 per property and \$120 per farmland or managed forest property.
- e) Water Operating Budget Impact – An average residential water user (based on annual consumption of 220 m³) will not see an increase over 2018 as rates have been held to 2018 levels.
- f) Wastewater Operating Budget Impact – An average residential wastewater user (based on annual consumption of 220 m³) will see an increase of \$35.70 over 2018 or \$2.97 per month.
- g) Ontario Regulation (284/09) – Calculations continue to highlight that the Township is not putting enough funds aside for future tax based asset replacement needs which may impact future budgets. With this said, the draft 2019 Budget includes 1% or \$120,931 to assist in funding the Township's tax based capital infrastructure.

Pillars of Commitment

The above initiative supports the following Strategic Pillars of Commitment:

- Infrastructure, Financial Management & Service Delivery

Approvals

Submitted by: Jeff Schmidt CPA, CGA, Deputy CAO/Director of Finance

Reviewed by: Jeff Schmidt CPA, CGA, Deputy CAO/Director of Finance

Financial Implications Reviewed by: Jeff Schmidt CPA, CGA, Deputy CAO/Director of Finance

Approved by: Robert Brindley, Chief Administrative Officer

Version Code: C04 2019-01-03 3:26 PM 2198661

shared\C - Council, Boards, By-Laws and Resolutions\C04 Reports to Council\Finance Department\2019