	Report Title	2020 Budget Considerations
	Report No.	FIN 19-19
	Author	Dave Rushton, Director of Finance
	Meeting Type	Council Budget Meeting
	Council Date	September 12, 2019
	Attachments	

RECOMMENDATION

THAT Council accepts report FIN 19-19 2020 Budget Considerations as information.

EXECUTIVE SUMMARY

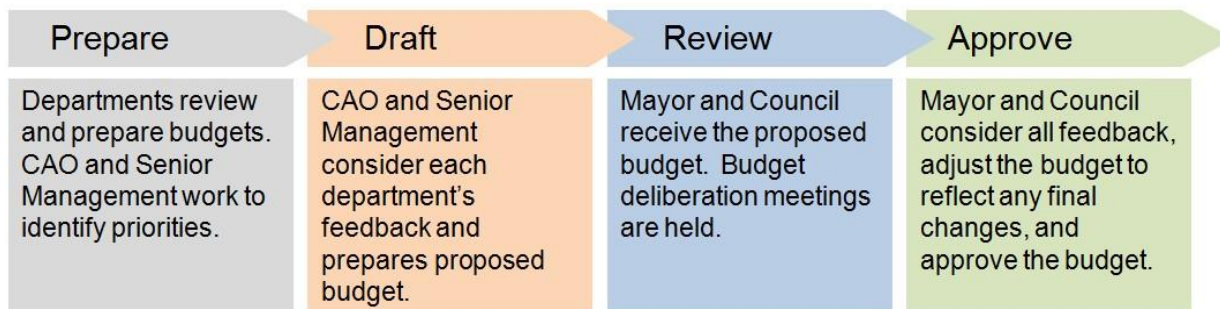
As Council prepares for the 2020 Budget there have already been several capital items that have been proposed and other items that council can recommend to be incorporated for consideration by staff in the development of the 2020 Budget Package to be presented to Council for their review. The 2020 business plan and budget approval is planned for the January 27, 2020 Council meeting. A January business plan and budget approval allows projects to be completed within their planned schedule and provides staff with direction regarding annual operations for the start of the fiscal year.

BACKGROUND

Business plans identify the annual business goals, outlines resource requirements necessary to achieve those goals, as well as identifies appropriate performance measures for monitoring and reporting purposes.

The Annual Business Plan/Budget Cycle is as follows:

- July – September (Q3) – establish business plan goals aligned with strategic plan
- October – December (Q4) – business plan and budget submission
- January – March (Q1) – Approve budget and begin implementation of business plans.
- April – May (Q2) Set tax rates for 2020.



The budgeting process allows municipalities to prioritize projects, programs, and service levels based on anticipated revenue and expenses. The proposed schedule for presentations and deliberations of draft business plans and budgets with Council was included in report FIN 19-18.

Based on the schedule presented above, consideration for adoption of the budget would be planned for the regular Council meeting scheduled on January 27, 2020. This timeframe will allow approved projects to be completed within their planned schedule and provide staff direction regarding annual operations.

The principles in the preparation of the annual budget may be summarized into the following:

- Maintain existing service levels,
- Incorporate long-term perspective,
- Establish linkages to Corporate and departmental plans,
- Identify and implement efficiencies,
- Keep tax levy reasonable,
- Ensure user fees for services are appropriate,
- Have planned capital projects ready for grant opportunities with upper levels of government (shovel-ready).

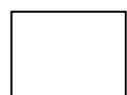
Asset Management Plan (AMP) Funding was included in the AMP policy and the Council approved and submitted to the Province an Asset Management Policy in June 2019.

The asset management plan funding will provide long-term financial support to the Town's capital program. The increase in the MPAC assessment is added each year for funding capital projects. Asset Management Plan Funding would be used to plan for the replacement of Town's assets. This gives staff clear guidelines to prioritize projects based on the funds available from taxation. The asset management plan funding contributes to the Asset Management Reserve. This Reserve is then used to fund projects during the budget process and other unplanned projects during the year. Asset management plan funding reduces the Town's reliance on external debt financing and reduce the long term cost of capital expenditures.

Regulating Asset Management Planning

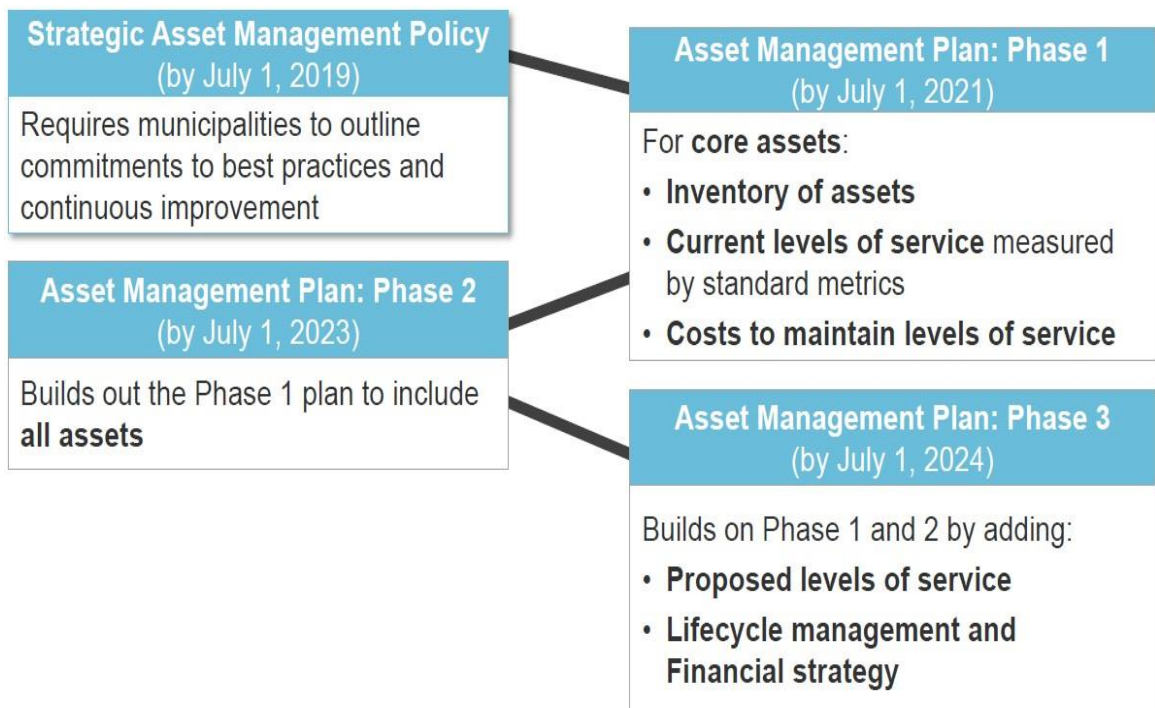
The Infrastructure for Jobs and Prosperity Act, 2015, was proclaimed on May 1, 2016 and includes an authority for the province to regulate municipal asset management planning. The purpose of the regulation is to implement best practices throughout the municipal sector so that the province, municipalities, and the federal government can work together to address challenges posed by aging infrastructure and increasing renewal pressures.

On January 1, 2018, Ontario Regulation 588/17: Asset Management Planning for Municipal Infrastructure came into effect. The regulation sets out requirements for municipal asset



management planning to help municipalities better understand their infrastructure needs and inform infrastructure planning and investment decisions. Building on the province's *2012 Building Together: Guide for Municipal Asset Management Plans*, municipalities are required to adopt a strategic asset management policy that would promote best practices and link asset management planning with budgeting, operations, maintenance and other municipal planning activities. Continued municipal asset management planning will also help councils prepare long-term infrastructure financing plans and make good investment decisions for their residents

The following is an overview of the regulatory requirements for a Strategic Asset Management Plan (SAMP) as outlined in O. Reg. 588/17:

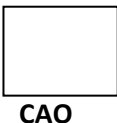


In June 2019, Council approved and submitted to the Province an Asset Management Policy.

Operating Budget

The operating budget includes the day-to-day expenses and revenues that are required to run the municipality and provide services to citizens. It includes expense items; such as, salaries, contracted services, fuel, utilities, building materials, transfer payments, debt charges, and asset management supported by the tax base.

Operating expenses are offset by revenues. Municipalities rely on property taxation as a major source of revenue.



Capital Budget

The Town acquires, operates, maintains and renews assets to support the delivery of services to residents, businesses, partner agencies, and visitors.

The capital budget funds the Town's infrastructure. Roads, bridges and sidewalks provide transportation networks. Recreation centres and playgrounds are community gathering places where people learn, play, stay healthy, and interact with one another. Fire trucks, and snow plows are required to support emergency services and keep our Town safe and accessible all year long.

The capital budget is financed through a combination of debt, government grants, development charges, reserves and contributions from the tax base.

The 2020 capital budget submission will identify projects that would be undertaken during the year and how each project will be funded. As part of the Capital section of the budget book, staff have provided commentary describing each project.

Budget Challenges/Risks/Opportunities

Ontario Municipal Partnership Fund (OMPF)

In August at the AMO Conference, the Province announced that the OMPF program was being funded in 2020 at the same level as 2019.

Facility Capital Work

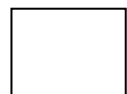
Several facilities have major work programs required based on the Asset Management Plan.

Capital funding from senior governments

Capital projects submitted by Engineering Services rely on funding from the Investing in Canada Infrastructure Program (ICIP) and the Provincial Connecting Link Program. Both of these projects were recently announced as approved. The Concession St. W. from Rolph to Charlotte project funded by ICIP is \$1.8M in total and the Town will need to fund \$500K some of which will come from DCs. The Oxford St. from Broadway to Vienna Rd. project funded by the Connecting Link Program is \$1.6M and the Town will need to fund \$ 200K.

Recently the Federal Government announced the Community, Culture and Recreation (CCR) stream of the Investing in Canada Infrastructure Program (ICIP) which launched on September 3, 2019. This funding could be used towards a large capital project such as the one described in the Aquatic Study. To qualify for the highest level of funding in the Rehabilitation and Renovation Category an individual project cap is \$5M. The Multi-Purpose Category, which includes large scale renovations, has a cap of \$50M. The Town's share under either of these programs would be 26.67%. The Federal and Provincial Funding allocation is about \$700M over 10 years.

After the 2019 Budget process the Federal Government announced an additional \$490K in one time gas tax funding in addition to our normal annual funding. This has not been spent as nor has the Provincial Government provided the Town \$600K for service improvements and capital projects.



Reserves and Reserve Funds

The Town maintains reserve and reserve funds in accordance with the Reserves and Reserve Funds Policy. Reserves are a critical component of a municipality's long-term financial planning. The purpose of maintaining reserves is to:

- Provide stability of tax rates;
- Provide funding for one-time or short term requirements without permanently impacting tax and utility rates;
- Make provisions for the replacement and/or maintenance of capital assets and infrastructure;
- Provide flexibility to manage debt levels and protect the Town's financial position;
- Provide a source of internal financing;
- Ensure adequate cash flows;
- Provide for future liabilities incurred in the current year but paid for in future years.

The Reserves and Reserve Fund Policy annual report is to provide an update on the balances of reserves, how they compare to the targeted funding levels established in the policy, and recommend to Council a plan to work towards achieving the targeted balances.

Development Charges

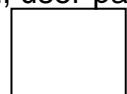
Development charges (DCs) are collected by municipalities to recover a portion of the growth-related costs associated with the capital infrastructure needed to service new development. DCs are based on the methodology that existing taxpayers should not be liable for capital costs of new growth. At the same time, new taxpayers should not have to contribute more than the net capital cost attributable to growth in order to maintain current levels of municipal services. DCs are the primary way for Ontario municipalities to raise funds for required growth related capital infrastructure improvements related to the provision of services and to provide a funding source to minimize the impact on the existing tax base. DC funds may only be used for the purpose for which they are collected.

In the DC Study, approved by Council in June 2019, several projects were recommended for implementation in 2020. Details of these projects will be in the 2020 Budget, in summary there are projects amounting to \$361K with \$209K coming from DCs and \$152K from taxation that includes \$52K in exemptions.

Debt Management Policy

A Debt Management Policy was adopted by Council through By-Law 4135 on September 11, 2017.. The purpose of the Debt Management Policy is to formally set out the parameters and provide guidance by establishing guidelines and appropriate controls for the use and issuance of debt and by integrating debt management with other long-term planning.

Debt is a long-term tool that can be used to help fund the capital budget. In many respects, it works much like a home mortgage, with the principal and interest being repaid over the asset's life. Debt financing should be used, where appropriate. More specifically, debt financing should only be considered for new, non-recurring infrastructure requirements, programs and facilities which are self-supporting and projects where the cost of deferring expenses exceeds debt servicing costs. In Tillsonburg we categorize debt in three ways; taxation-supported, user-pay,



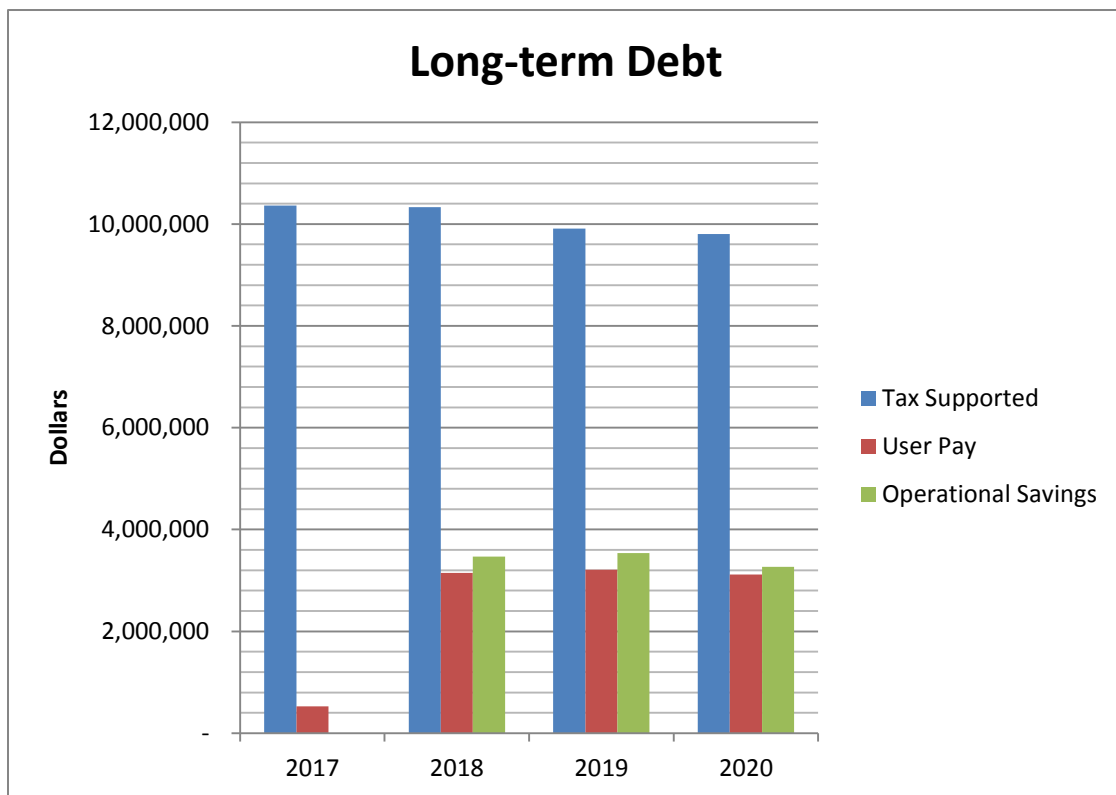
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and operational savings.

The Annual Repayment Limit as set by the Province for 2019 is \$3.4M. Any long term lease like being proposed by the Town Hall Committee or commitment to a large aquatic centre would significantly reduce this amount. This calculation allows 25% of revenues less grants and sale of assets to be used to pay principal and interest. While this is a limit, staff would not recommend that level of debt be used.

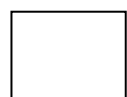
There is about \$1M available from tax supported debt available for the 2020 budget.

The following chart shows the four year (2017-2020) forecasted balance (shown in the millions) of long-term debt compared by category.



Tax Rate Levy

This is the amount of change by which the weighted assessment is multiplied by to get the actual taxes charged to property owners. In the last few years, staff has attempted to keep the change to near inflation rates as a guideline for the development of the Budget. Council can provide a percentage range in this matter prior to the draft of the Budget.



FINANCIAL IMPACT/FUNDING SOURCE

There is no financial impact beyond what has been approved in the 2019 budget.

Summary of Sources and Commitments for 2020 Budget.

	<u>Sources</u>	<u>Commitments</u>
AMP	\$2.1M	
ICIP	\$1.5M	\$.3M
Connecting Link	\$1.6M	\$.2M
DCs	\$.2M	<u>\$.2M</u>
Debt	\$1.0M	
Gas Tax	\$1.0M	
One Time Provincial	<u>\$.6M</u>	
Total	\$8.0M	\$.7M

Use of Reserves has not been factored in at this point.

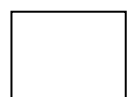
Risks/Implications

Delayed approval of the 2020 budget will cause some planned projects' schedules to be condensed which could potentially result in additional costs.

The outcome of the regional review may have an impact on the planned schedule.

COMMUNITY STRATEGIC PLAN (CSP) IMPACT

1. Excellence in Local Government
 - Demonstrate strong leadership in Town initiatives
 - Demonstrate accountability
2. Demographic Balance
 - Make Tillsonburg an attractive place to live for youth and young professionals
 - Provide opportunities for families to thrive
 - Support the aging population and an active senior citizenship
3. Culture and Community
 - Promote Tillsonburg as a unique and welcoming community
 - Provide a variety of leisure and cultural opportunities to suit all interests
 - Improve mobility and promote environmentally sustainable living



Report Approval Details

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Attachments:	
Final Approval Date:	Sep 6, 2019

This report and all of its attachments were approved and signed as outlined below:

**No Signature - Task assigned to David Calder was completed by workflow administrator
Donna Wilson**

David Calder - Sep 6, 2019 - 9:39 AM

