



CORPORATE SERVICES

Staff Report

REPORT NO: COR 2023-11

TO: ad hoc Budget Advisory Committee

SUBMITTED BY: Patrick Kelly CPA, CMA Director of Corporate Services / Treasurer

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REVIEWED BY: Sharon Chambers, CAO

DATE: February 13, 2023

SUBJECT: 2023 Base Operating Budget (DRAFT)

RECOMMENDATION:

THAT the ad hoc Budget Advisory Committee receive Report COR 2023-11 for information.

SUMMARY:

This report provides the ad hoc Budget Advisory Committee (“Committee”) an overview of the first draft of the proposed 2023 Base Operating Budget for the Township of Wilmot. The draft base operating budget contains revenue and expense estimates for levy funded and user-pay funded departments and divisions and is based on maintaining existing levels of service to the Wilmot community. Any proposed increases to levels of service will be presented later in the budget process, following the presentation of the capital budget proposal.

The Township’s historical budget practice has been to begin the budget with a target levy adjustment based upon inflation only. While this practice served to keep relative property taxes in Wilmot Township below that of peers across the Region and surrounding municipalities, it does not consider other external factors beyond inflation that may require increased funding levels to maintain existing levels of service and program delivery. Such external factors could include changing regulatory requirements, decreased funding from senior levels of government, the introduction of new proactive maintenance programs to effectively manage the Township’s

infrastructure assets, and activities required to prepare for growth in advance of growth-related revenues being realised.

In keeping with historical practice, in December 2022, staff presented a recommendation to committee for a target inflationary levy adjustment of 4.8%, from which to build the base operating budget. Council referred the resolution back to staff, with a desire to receive additional information before establishing the levy adjustment target. Staff concur with this approach, as it is important for Council to have a greater understanding of both inflationary and external budget pressures as it relates to the delivery of programs and services. Ultimately, it is within the purview of Council to decide upon the services and programs that are provided to the community.

As a starting point, staff have prepared a draft operating budget which includes the 2023 projected operating revenues and expenses for council's consideration and discussion purposes. The first draft of the operating budget illustrates that approximately \$885,000 in additional funding from property taxes would be required to maintain existing service levels.

Staff understands that this levy requirement far exceeds the historical inflationary target which is based on Statistics Canada's Core CPI-Median measurement. This report will highlight the key factors impacting the 2023 budget, while providing context by illustrating the Township's financial position among comparator municipalities.

Staff is not requesting that Council approve the operating budget at this time, rather, it is recommended that discussion regarding a target levy increase be revisited after both the operating and capital budgets have been presented to Council. Because the capital program is partially funded through the operating budget, the two budgets should not be considered in isolation.

Immediately following the approval of the 2023 budget, staff will begin working on updating and enhancing the budget process for 2024. The 2023 capital budget will include an update of the Township's strategic plan which will set Council's priorities for the term. Going forward, the budget will be linked to Township's strategic plan, with a greater focus on program delivery and tracking toward strategic goals.

BACKGROUND:

The base budget is the portion of the municipal budget that has been identified to fund ongoing operating costs, excluding any new or expanded levels of service. While base budgets are dependent on resource availability, as are all budgets, the intent of the base budget is to ensure an ongoing allocation that is sufficient to sustain existing municipal operations.

Historical Budget Practice

The Township's historical budget practice has been to begin the budget with a target levy adjustment based upon inflation only. This practice served to keep relative property taxes in Wilmot Township below that of peers across the Region and surrounding municipalities.

According to the most recent [BMA Study](#), Wilmot's property taxes were ranked amongst the lowest in the Waterloo-Wellington area, and lower than the majority of participants across the entire study.

In addition to limiting levy adjustments to inflation or below, the Township's annual capital program has been structured with a heavy reliance upon infrastructure reserve funds and debt avoidance. This approach helped the Township to maintain a debt free status for more than a decade.

The challenge with this practice, is that it has also left infrastructure reserve funds at a status well below our peers across the Province, and significantly below what is necessary to support the Township's Asset Management Program. At the end of 2020, Wilmot's tax-funded infrastructure reserve funds were just 19% of own-source revenues, placing them the lowest within the BMA study.

Tax Discretionary Reserves as a % of Own Source Revenues - Trend

Municipality	2016	2017	2018	2019	2020
Wilmot	28%	28%	26%	23%	19%
Markham	49%	18%	27%	19%	20%
Newmarket	2%	2%	7%	11%	20%
Ottawa	16%	21%	19%	18%	21%
Tillsonburg	17%	20%	20%	21%	24%
Sault Ste. Marie	21%	24%	26%	23%	25%
Kitchener	20%	19%	20%	23%	26%
Brockville	11%	13%	16%	30%	28%
Prince Edward County	31%	27%	24%	29%	28%
Greater Sudbury	38%	33%	29%	26%	30%
Waterloo	35%	35%	36%	34%	31%
Barrie	25%	24%	24%	26%	32%
Thunder Bay	23%	24%	25%	27%	32%
Tiny	30%	33%	31%	30%	32%
Dryden	45%	42%	38%	42%	34%
North Bay	30%	33%	34%	32%	34%
Strathroy-Caradoc	16%	18%	29%	34%	34%
Central Elgin	65%	67%	57%	46%	35%
Brantford	30%	26%	43%	38%	36%
Belleville	28%	31%	31%	33%	37%
Toronto	22%	23%	24%	23%	37%
St. Catharines	31%	32%	33%	31%	37%
St. Thomas	20%	17%	18%	23%	37%
Lincoln	55%	48%	46%	44%	41%
Timmins	26%	26%	28%	36%	42%
Woolwich	31%	32%	27%	38%	42%
Pelham	20%	-6%	6%	18%	43%
Guelph	28%	23%	27%	35%	43%
Minto	37%	43%	42%	50%	45%
Hamilton	42%	44%	42%	38%	45%
Sarnia	26%	34%	37%	42%	47%
Quinte West	32%	35%	37%	42%	47%
Innisfil	41%	46%	52%	44%	48%
Cornwall	44%	44%	46%	44%	50%
Caledon	40%	40%	44%	43%	51%
Windsor	36%	33%	39%	42%	52%
Meaford	40%	48%	46%	51%	55%
Grey Highlands	46%	47%	46%	49%	55%
Whitchurch - Stouffville	47%	31%	34%	44%	56%

In an effort to reverse this trend, the 2019 budget included the introduction of a dedicated infrastructure levy, which works to build infrastructure reserve fund capacity to sustain the Township's Asset Management Program. With committee approval of the dedicated infrastructure levy at 2.8%, the Township will now be transferring nearly \$800,000 into levy-funded infrastructure reserve funds. Continuation of this effective long-term infrastructure planning tool will serve the Wilmot community for many years to come.

Continuing with historical practices, in December 2022, staff presented a recommendation to committee for a target inflationary levy adjustment of 4.8%, from which to build the base operating budget. Historically, staff have worked to reach the target set by committee; however, for 2023 it was recognized that this approach does not consider other external factors outside of inflation that may be impacting the operating budget, including preparing for impending growth. Council referred the resolution back to staff, with a desire to have additional information before establishing budget targets.

Budget estimates for 2023 are reflective of the current economic environment, recognizing the pressures of inflation and service level expectations for a growing community. Throughout the pandemic and continuing into 2023, staff have worked to find efficiencies in all service areas, while providing the services that help to achieve our corporate vision for a *"cohesive, vibrant and welcoming countryside community."*

In preparing the base operating budget, staff apply consistent methodologies across all departments and divisions. The established methodologies deployed include:

- Monitoring and updating contract pricing for third-party services;
- Reviewing economic indicators to project rates for fuel, heat and hydro;
- Estimating consumption of commodities based on projected activity levels;
- Updating unit rates for standard materials and supplies;
- Updating staffing costs based on established policies for grid movements and cost-of-living adjustments;
- Updating costs estimates for maintaining building, fleet and equipment based on lifecycle analysis

While the 2023 Municipal Budget process formally commenced in December 2022, shortly after the new Council was sworn in, staff and leadership from each service area have been continually compiling and analyzing information for this budget. The draft budget represents the collaborative efforts of staff in identifying opportunities for increased own-source revenues, while providing the necessary resources for staff to meet the needs and expectations of the Township.

Over the past several weeks, at the direction of Committee, staff have undertaken a more extensive review of preliminary budget estimates and have worked to provide more detailed information than was historically reported, to help the Budget Committee in making a more informed decision.

As noted within this report and the attached budget presentation, staff have identified that continuation of historical practices, and adjusting based upon an inflationary adjustment of 4.8% alone, would not enable staff to continue meeting the existing service levels expectations of Wilmot Township.

REPORT:

Budget Presentation Format

As noted within reporting at the January 30th meeting of the Budget Committee, staff have created an updated statement format that helps to provide additional context for Council and the public. This will be further enhanced within the 2024 budget process.

Where applicable, more detail has been provided for operating program expenses within each service area. Costs have been broken down into sub-categories for Building (Maintenance, Utilities); Fleet (Fuel, Vehicle/Equipment Repairs); and Contracted Services / Materials and Supplies.

Minor Capital expenses refer to smaller projects that are one-time in nature and fall below the capitalization threshold of \$10,000. For each of these budget lines footnotes have been provided to ensure Council are aware of the specific initiatives planned to occur in 2023, beyond the regular operations of each division.

Program Support represents the transfer of funding from user-funded divisions to various levy-funded departments for services provided directly to the respective user-funded divisions.

Affordability and Average Dollar Impact

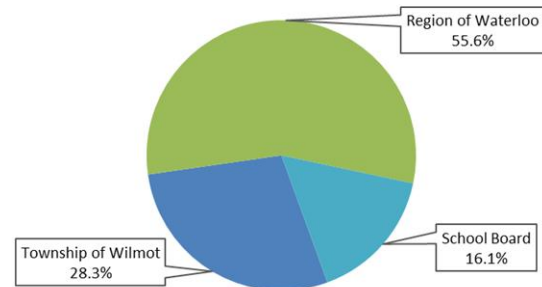
In projecting the levy requirement for the Municipal Budget, staff look at existing community demographics and the affordability of property ownership in Wilmot Township. Staff review and analyze data provided through the BMA Study¹, which is provided in the fall of each calendar year to participating municipalities.

The 2021 BMA Study identified several areas where Wilmot Township ranks favourably in terms of affordability. Average household income (\$128,422) is on the high end of those municipalities participating in the study, while taxes and user fees remain below mean amounts across the study. The combination of these two factors indicates that Wilmot's municipal fees (taxes and user rates) as a percentage of household income tend to be on the low end in comparison to our peers across Ontario (3.9%). This may be an indicator that historical adjustments aligned to inflation are appearing to now be impacting municipal resource availability for a community with impending growth.

Most information, shared online and in media sources, tends to focus on the percentage levy increase being proposed for the upcoming budget year. While this figure provides an accurate depiction of the total levy adjustment, the impact on property owners varies based on a number of factors, including the base levy, tax ratios and property classes.

Looking at the 2022 tax levy, the average property owner remitted just under \$1,100 in property taxes to the Township, which enabled access to many critical services from the Township. The majority of taxes were remitted to the upper-tier Region of Waterloo for services within their upper-tier mandate.

Average Residential Property Tax Breakdown



The base levy represents the tax levy that was collected in the preceding year to fund municipal services. Depending on the existing base levy a percentage levy adjustment can vary significantly across municipalities. For example, for a municipality with a base levy of approximately \$10M, similar to Wilmot, a 5% increase would translate to \$500,000 in new levy funding for operations. However, for a municipality with a base levy of \$20M, the same 5% levy increase would generate \$1M in additional funding.

As such, staff continue to focus on sharing information with Council on the annual dollar impact to the average household to determine the affordability of proposed levy adjustments. Based on

¹ Since 2000, BMA Management Consulting Inc. has annually completed a municipal comparative study on behalf of participating Ontario municipalities. The study identified both key quantifiable indicators and selective environmental factors that should be considered as part of a comprehensive evaluation of a local municipality's financial condition

the average property within an assessment of \$408,600, the dollar impact of the proposed base operating budget, including assessment growth and the dedicated infrastructure levy will be \$128.28 annually, or \$10.69 monthly

Reserve Fund Utilization

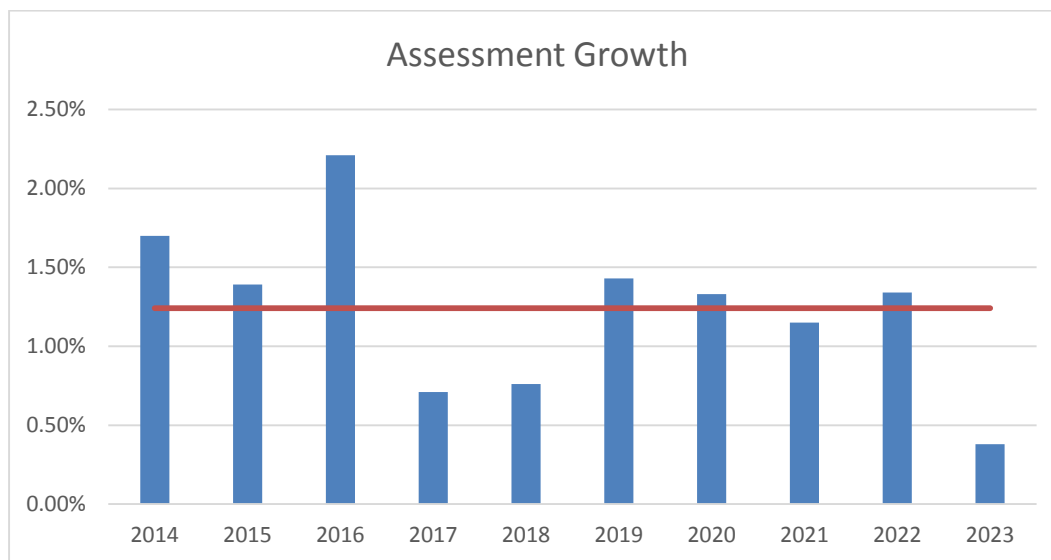
The BMA study further details that while Wilmot debt was amongst the lowest in the Province, levy funded, discretionary reserve funds were the absolute lowest within the entire study. Staff recognize this is most likely the result of the Township's historical reliance upon the use of existing reserve funds to offset levy adjustments and fund capital initiatives.

Moving into 2023, as referenced in previous staff reports on reserve and reserve funds, capacity no longer exists to continue to rely on reserve funds. The Debt Management/Reserve Fund Strategy project will work to re-build capacity through a new tax stabilization reserve fund and greater alignment of reserve funds to the Asset Management framework.

Assessment Growth

In high growth settings, assessment growth can help municipalities to offset increasing costs to provide services. For example, if Wilmot were experiencing assessment growth in the range of 5%, additional funding of \$500,000 would be available, without impacting the existing tax base.

Municipalities like Wilmot, with growth on the horizon, are placed in a challenging fiscal circumstance, whereby costs continue to rise during a period of lower assessment growth. Assessment growth percentages for Wilmot are shown in the chart below.



In the absence of assessment growth, further adjustments are required to the existing base levy to maintain services at increasing costs. Wilmot's assessment growth for the 2023 budget season was the lowest across the entire Region at 0.38%. This raised just \$37,700 in additional

funding towards Township services at the same time that the Township's operating and capital budgets contain growth related expenditures.

Ontario Municipal Partnership Fund (OMPF)

In the fall of 2017, Township staff were notified of a significant change in the level of funding from the Province via the OMPF transfer. Transitional assistance is provided annually under the OMPF program, to ensure the direct impact to municipalities is spread over a longer term. This limits claw backs of funding to a maximum of 15% from the previous years' allocation. Accordingly, the OMPF funding provided to Wilmot in 2023 will be \$514,700, representing a reduction of \$90,800. On it's own, this amounts to an almost 1% tax rate increase to make up the shortfall (0.91%)

Staff continue to advocate for a review of the on-going reductions in OMPF funding support of operations in rural farming communities across Ontario.

Inflationary Pressures / Commodity Costs

The impacts of inflation have been witnessed across all sectors of the economy, and from a municipal perspective, they have been most visible within commodity costs and third-party contracted services. The combined impact is the equivalent of a 4.26% levy adjustment as outlined in the chart below.

Functional Area	2022 Budget	2022 Actual	2023 Budget	% Levy Impact
Fuel	\$159,295	\$246,640	\$278,200	1.19%
Natural Gas	107,950	140,905	147,650	0.40%
Hydro	487,660	549,700	578,990	0.92%
3 rd Party Contracted Services	540,000	576,750	714,000	1.75%
Subtotal	\$1,294,905	\$1,513,995	\$1,718,840	4.26%

Operating Budget Highlights

Operating Revenue Enhancements

With the anticipation of a full return to pre-COVID activity levels and increased fees associated with growth-related development activities, the 2023 budget is estimating more than \$10.8M in operating revenues. The largest component of these revenues is from the Township's Water/Sanitary system, which will generate \$6.7M in funding to maintain a safe drinking water system.

One noteworthy increase year-over-year is projected to come from Community Services where revenues are budgeted to increase by \$550,695 (39.1%). The return of in-person activities at the WRC and increased visitors to Castle Kilbride will help bring revenues back up to the level experienced before the pandemic. These revenue enhancements are critical to offset the expiry

of COVID relief funding, however it should be noted that program revenues within Community Services do not fully offset program related expenditures.

Levy Funded Capital Allocation

The Township's Capital Program is funded from a variety of sources including: Senior Government Grants, Development Charges, Debt Financing, Infrastructure Reserve Funds and current year levy dollars.

The base annual levy funded transfer to the capital program was established with the first iteration of the 10-year Capital Forecast in 2006. Since that time, a year-over-year inflationary adjustment of 2.0% has been applied. As such the base operating budget is built upon the basis of a \$1.43M allocation to Capital.

As access to senior government funding programs and reliance on development charges are under much scrutiny by the Provincial government, the Township needs to become more capable of sustaining the capital program through "own-source revenues".

Debt Servicing Costs

The Township issued long-term debt in the fall of 2022 to support key infrastructure initiatives. The total debt servicing costs in 2023 are budgeted at \$655,761 (Principal - \$296,000; Interest - \$359,761).

A number of the projects for which debt was issued are considered growth-related in nature and will be serviced via development charges (\$470,802). The remaining payments will be covered through the general levy (\$184,959). This levy funded debt servicing costs is the equivalent of a 1.86% levy increase.

Investment Income

The Township continues to earn significant interest on funds held within the general bank account, with an estimate of \$365,000 in 2023. This is the combination of historically high prime interest rates and large volumes of cash on-hand to service near term capital needs. It is important to note that investment returns from cash-on-hand should not be considered a sustainable funding mechanism. The outlay of funds towards major infrastructure projects over the next 2 years, and a return to more normalized prime interest rates will reduce the proceeds from investment income.

Investment income also includes returns from the Township's ownership share of ENOVA Power Corp. Over \$670,000 in investment income will help support Township operations in 2023. This income is a combination of dividend income and interest on a long-term note with ENOVA Power Corp. Unlike bank investment income, investment within the hydro utility do generate a sustainable source of revenue to support Township operations and reduce levy requirements.

COLA, Grid Movement, Part-Time Staffing

A cost-of-living adjustment of 2.10% and grid movements have been included within budget estimates across all departments, with a total impact of \$243,507. In addition to this a number of positions approved and on-boarded in 2022 have now been annualized into the 2023 budget with a total impact of \$212,583.

Part-time staffing requirements across Community Services have been adjusted with an anticipated return to “normal” activity levels in the summer months, and to ensure legislative maintenance standards across the Transportation Services division. The aggregate impact of part-time staffing adjustments is \$155,880.

In the absence of increased operating revenues and investment returns, the combination of cost-of-living adjustments, grid movements and annualized wages would require a 6.14% levy adjustment to maintain existing staffing levels.

Mandatory Employment Related Costs (MERCs)

All payroll remittance rates for OMERS, CPP, EI, EHT, WSIB and Group Benefits have been updated, and are reflected within the proposed budget

Overall MERCs are projected to grow by \$144,810 in 2023. This is mainly driven by the annualized levels of service and increased premiums and source deduction rates for CPP, EI, WSIB and Group Benefits. These increases in payroll costs would equate to a 1.5% levy adjustment.

Legal Fees and Insurance Premiums

The Township continues to witness a significant increase in activity levels requiring third-party legal input. The Township has historically experienced approximately \$70,000 in annual legal fees; however the 2022 fiscal year resulted in expenditures exceeding \$250,000. While a significant proportion of these costs are associated with Ontario Land Tribunal (OLT) matters, Township staff are still projecting the budget allocation to nearly double to \$130,000 in 2023. The projected increase partially relates to modernization within the Legislative Services division which will include an overhaul of outdated Township by-laws and policies that will require legal review.

The Township has benefitted greatly over the past several years from membership within the Waterloo Region Municipal Insurance Pool (WRMIP). This pooled membership has helped to keep premium increases far below what has been witnessed by municipalities on the open market. Increases in premiums are capped at 10% within the pool and the Township budget is calculated to include a provision for a 10% increase above current year premiums.

The chart below outlines overall expenditures on insurance and legal in 2022, with projected increase expected for 2023. The combined impact is the equivalent of a 0.86% levy increase.

Functional Area	2022 Budget	2022 Actual	2023 Budget	% Levy Impact
Annual Insurance Premium	\$223,775	\$225,660	\$248,000	0.25%
Legal Fees	70,000	268,330	130,000	0.61%
Self-Insured Deductible	60,000	60,130	60,000	0.00%
Subtotal	\$353,775	\$554,120	\$438,000	0.86%

Minor Capital Initiatives

Several initiatives that are one-time/minor capital in nature are included within the proposed budget, as referenced in accompanying notes. These one-time projects are below the capitalization threshold of \$10,000.

The aggregate sum of Minor Capital items within the proposed operating budget is \$106,580. Community Parks and Facilities have over \$67,000 in combined initiatives planned for 2023, with a focus on health and safety related items and accessibility improvements. The majority of remaining Minor Capital Expenses are found within Fire Services (\$31,980).

Vehicle / Equipment Repairs and Maintenance

Fleet related expenses across all service areas will grow in 2023, in part due to rising fuel costs, but also due to aging fleet. Overall repairs and maintenance on fleet and equipment will grow by \$12,300 in the 2023 budget.

The Township is currently developing a Fleet Management and Replacement Strategy as part of our Asset Management Program. This strategy is intended to assist in lowering the lifecycle cost of fleet services and will consider lease programs for small to mid-size fleet.

The Fleet Management Strategy is anticipated to be completed for Council review and endorsement in Q2 of 2023.

Contribution from User-Funded Divisions

Overall Township operating costs are offset by a contribution from user-funded divisions. The Township's Water/Sanitary, Building and Cemetery services are user-funded enterprises, whereby fees collected from users offset the cost of providing services.

As each user-funded division utilizes the services of various levy-funded divisions, a corresponding contribution is made towards levy funded operations. The aggregate sum of contributions from user-funded divisions to the levy is \$1.27M in 2023. The funds cover program support fees such as planning staff resources deployed to building department matters, corporate services support for all user-funded divisions (i.e. Billing / IT), engineering services towards to water/sanitary matters, etc.

The formula used to calculate program support fees was last updated in 2019, and staff will be undertaking a comprehensive review as part of the 2023 Business Plan for Corporate Services.

ALIGNMENT WITH THE TOWNSHIP OF WILMOT STRATEGIC PLAN:

This report is aligned with several of the goals and strategies within the Township Strategic Plan.

The proposed budget will help the community to further enjoy quality of life through active transportation (Maintaining Trails, Safe and Efficient Roads), arts, culture and heritage (Castle Kilbride), health and wellbeing (PPE, Health and Safety Training), and recreation and leisure opportunities (Parks and Facilities Minor Capital).

This budget also promotes community engagement through supporting Community Groups / Volunteers and Youth (Municipal Grants Program).

Furthermore, this budget will help maintain economic prosperity through supporting the Waterloo Region Economic Development Corporation (WREDC) and increasing investment in local economic development.

Finally, the budget will promote responsible governance through active communications, fiscal responsibility and investments in on-going infrastructure maintenance.

FINANCIAL CONSIDERATIONS:

The summary page outlines how the combination of Property Taxes, Operating Revenues, Grant Funding, Investment Income, Development Charges and User-Pay Contributions cover the operating expenditures, transfers to Capital, transfers to infrastructure reserve funds and debt servicing costs.

The first draft of the 2023 operation budget would result in \$128.28 in additional property taxes to the average residential property owner with an assessment of \$408,600. The average portion of taxes remitted for Township of Wilmot services in 2023 would be approximately \$1,225.00.

In order to achieve the original staff proposed target of 4.80%, an additional \$400,000 would need to be reduced from the existing draft budget. As indicated earlier in this report, the draft budget as presented represents the levy requirement to maintain existing levels of service. Staff are recommending that further discussion on the target levy adjustment be deferred until after the presentation of the Capital budget. In the meantime, Council may request additional information from staff to explore ways to mitigate the tax increase to residents. This could include opportunities to reduce program related costs through service level adjustments, increasing user fees or other revenues, or a combination of both.

ATTACHMENTS:

- 2023 Base Operating Budget (DRAFT)