

DATE: March 1, 2021

REPORT NO: T-07-2021

SUBJECT: **2021 Operating and Capital Budget Final Report**

CONTACT: Donna DeFilippis, Director of Finance and Treasurer

OVERVIEW:

- At the February 16th Administration/Finance/Fire Committee meeting a draft 2021 Operating and Capital Budget with a levy of \$8,054,840 which would result in an approximately 2.8% increase to the overall tax bill was presented to Council
- In addition, a new levy for the West Lincoln Memorial Hospital (WLMH) was presented in an amount of \$95,500
- Council was overall satisfied with the Draft 2021 Operating and Capital Budget as presented, however, discussion did take place regarding the hospital levy
- The Final 2021 Operating and Capital Budget as presented in this report requests approval for a total 2021 levy of **\$8,130,140 including \$75,300 for the WLMH** resulting in an estimated **3.10% increase to the overall tax bill** which equates to a \$135.79 annual increase for a home assessed at \$382,397 or an increase of \$11.32 a month

RECOMMENDATION:

1. That, Report T-07-2021, regarding the “2021 Operating and Capital Budget Final Report”, dated March 1, 2021 be received; and,
2. That, a tax levy of \$8,054,840, which represents a 5.68% tax levy increase after factoring in assessment growth, be approved; and,
3. That, a new tax levy of \$75,300 for the West Lincoln Memorial Hospital Rebuild in addition to the amount in item 2 for a total 2021 tax levy of \$8,130,140, be approved; and,

4. That, the Detailed 2021 Capital Program, attached as Schedules H to N to this report, totaling \$5,866,500 be approved; and,
5. That, water and wastewater user fees increase on July 1, 2021 as follows: 5% increase to the Water Consumptive Rate, the Water Base Charge, the Wastewater Base Charge, the water filling station Consumptive Rate and a 2% increase to the Wastewater Consumptive Rate; and,
6. That, a By-Law be passed which amends By-Law 2004-42, Schedules A and C to incorporate the revised water and wastewater fees effective July 1, 2021; and,
7. That, Council delegate authority to the CAO to approve in year 2021 budget amendments up to \$20,000 per item and to report to Council on a monthly basis regarding such amendments; and,
8. That, the balance of Capital and Special Projects for the years 2022 to 2030 as outlined on Schedules F and G to this report be approved in principle; and,
9. That, tangible capital asset amortization expense estimated at \$3,158,800 and post-employment expenses estimated at \$4,000 be and are hereby excluded from the 2021 Draft Operating and Capital Budget as permitted through regulation 248/09.

ALIGNMENT TO STRATEGIC PLAN:

Theme #1 and #6

- Strong Transportation Connections – Building safe, connected and well maintained infrastructure networks.
- Efficient, Fiscally Responsible Operations – Maintaining a lean organization with innovative approaches and strong asset management.

ATTACHMENTS:

- | | |
|---------------------------|--|
| • Schedule A | 2021 Draft Operating Budget Summary |
| • Schedule B | 2021 Draft Operating Department Budgets |
| • Schedule C | 2021 Change Requests Included in Budget |
| • Schedule D | 2021 Change Requests NOT Included in Budget |
| • Schedule E | 2021 COVID-19 Budget Impact |
| • Schedule F | 2021 Ten Year Capital Plan Detail-Expenditure |
| • Schedule G | 2021 Ten Year Capital Plan Detail-Funding |
| • Schedules H to N | 2021 Detail Capital Project Sheets by Asset Type |

BACKGROUND:

At the February 16, 2021 Administration/Finance/Fire Committee, Report T-06-2021 was presented to Council which outlined the 2021 Draft Operating and Capital Budget. That draft budget requested a 2021 General Tax Levy of \$8,054,840 and an additional levy for

the WLMH rebuild of \$95,500. At the meeting of February 16th the 2021 Draft Budget was overall well received, however, there was discussion regarding the new hospital levy. Discussion revolved around deferring the introduction of the levy as well as modifying the amount of the levy. Staff have reviewed the impacts of both options and have presented a revised hospital levy of \$75,300 as opposed to \$95,500. Details regarding this calculation are included in this report.

CURRENT SITUATION:

The 2021 requested levy of \$8,054,840 prior to including the hospital levy represents a \$524,440 increase over the 2020 levy of \$7,540,300.

The items below are the driving factors for this increase:

- 1) **Inflationary Costs** impacting most budget lines of approximately 1.9%, totalling **\$180,670**. This is based on the levy funded expenditures in the budget, which in 2020 totalled just over \$9 million. Some budget lines and departments may have incurred cost increase in excess of 2%, however, mitigating factors in other budget lines were used to offset these increases.
- 2) Overall **increase to Reserves** (levy supported) totalling **\$225,490**. This includes increases to accommodate the anticipated debenture costs to fund the replacement of Fire Station #2 (\$38,000 in 2021). Also includes amount necessary to fund the required debenture to accommodate additional road work as outlined in the Ten-Year Capital Plan (\$35,000 road rehabilitation and \$60,500 for hard-topping roads). The chart below provides the breakdown of the increase to the levy supported transfer to reserves:

Chart #1: 2021 Reserve Contributions

CONTRIBUTION TO RESERVES 2021				
	2020	2021	Change	Change %
CONTRIB TO ARENA	12,600	12,850	250	1.98%
CONTRIB TO BRIDGES	133,000	150,000	17,000	12.78%
CONTRIB TO CAPITAL:				
General	139,000	150,600	11,600	8.35%
Roads Paved and Unpaved	-	95,500	95,500	100.00%
TOTAL CONTRIB TO CAPITAL	139,000	246,100	107,100	77.05%
CONTRIB TO CEMETERY	15,000	30,000	15,000	100.00%
CONTRIB TO CONTINGENCY	25,900	25,900	-	0.00%
CONTRIB TO ELECTION	36,000	36,000	-	0.00%
CONTRIB TO EQUIPMENT	350,000	368,400	18,400	5.26%
CONTRIB TO FACILITIES	69,400	71,000	1,600	2.31%
CONTRIB TO FIRE	321,000	359,000	38,000	11.84%
CONTRIB TO LIBRARY	36,000	36,100	100	0.28%
CONTRIB TO SEWERS	213,700	209,830	(3,870)	-1.81%
CONTRIB TO SIDEWALKS	9,000	9,100	100	1.11%
CONTRIB TO TECHNOLOGY	15,000	15,000	-	0.00%
CONTRIB TO WATER	269,300	301,320	32,020	11.89%
CONTRIB TO WINTER CNTRL	63,100	47,300	(15,800)	-25.04%
CONTRIB TO PLANNING	80,000	125,000	45,000	56.25%
	1,788,000	2,042,900	254,900	14.26%
Less User Fee Based	514,700	544,110	29,410	5.71%
TOTAL CONTRIBUTION TO RESERVES-LEVY BASED	1,273,300	1,498,790	225,490	17.71%

Included in the above is an increase to the Fire Reserve of \$38,000. The 2020 Budget included the replacement of Fire Station #2 at a cost of \$1,900,000. The budgeted financing for this project was as follows:

- Development Charges \$714,400
- Debenture \$942,600
- Community Fund \$243,000

The Draft 2020 Budget introduced a proposed increase to the Fire Reserve of \$76,000 to accommodate future debenture repayments. As part of the 2020 final budget approval, a decision was made to defer this budget increase of \$76,000 to the 2021 budget. Based on the current status of the project, staff anticipate that debenture repayment will not occur until 2022, as such, the required increase of \$76,000 is being allocated between two years, with an increase of \$38,000 in 2021, and another increase of \$38,000 required in 2022.

At the September 21, 2020 Public Works meeting, report PW-27-2020 was presented which outlined the results of the 2020 Roads Needs Study. Included was an analysis of the costs of hard-topping gravel roads. Staff have included the recommended projects in the ten-year capital plan. To meet the funding requirements for 2021, debentures totalling \$990,000 would have to be issued. In order to ensure the debenture can be re-

paid the levy needs to be increased by \$35,000 to maintain current assets and \$60,500 to hard-top gravel roads. Further discussion regarding the impact of the Roads Needs study on the budget is outlined later in the report.

The remaining reserve increases totalling \$91,990 are required to meet the needs of the ten-year capital plan. If these amounts were decreased, the result would be larger increases in future years. Alternatively, the removal of items from the ten-year capital plans or a significant deferral of projects may reduce the required transfer.

- 3) **Change Requests** included in budget totalling **\$59,730** and are discussed in detail later in this section of the report.
- 4) A **decrease in anticipated Planning Fee Revenue**, impacting the Planning Budget, totalling **\$58,550**

The increase in the levy of \$524,440 equates to a 5.68% increase in the overall levy and a 5.62% increase in the base West Lincoln portion of the tax bill. The overall tax bill is anticipated to increase by 2.80% as per the chart below:

Chart #2: Impact of \$8,054,840 Proposed Levy

	2021 Total Taxes	2020 Total Taxes	Share of Tax Bill, 2021	\$ Change	% Change
Assessment	\$ 100,000.00	\$ 100,000.00		\$ -	0.00%
Municipal	\$ 368.52	\$ 348.92		\$ 19.60	5.62%
Urban Service Area***	\$ 20.55	\$ 20.55		\$ -	0.00%
Total Township	\$ 389.07	\$ 369.47	33%	\$ 19.60	5.30%
Region**	\$ 635.64	\$ 623.18	54%	\$ 12.46	2.00%
Education***	\$ 153.00	\$ 153.00	13%	\$ -	0.00%
				\$ -	
TOTAL	\$ 1,177.71	\$ 1,145.65		\$ 32.06	2.80%
** assume 2.0% increase to Niagara Region portion of taxes					
***no anticipated change					

For an average home assessed at \$382,397 the increase is estimated at \$122.61 or \$10.22/month.

As outlined in reports T-02-2021 and T-06-2021 the estimated West Lincoln contribution to the WLMH rebuild is \$5,754,000. The total project is currently estimated at \$200 million. The Township already has \$1,250,000 set aside in a special reserve for the purposes of the hospital rebuild. This means that an additional \$4,504,000 would need to be raised and forwarded to the hospital as early as 2024. The financing will require the issuance of a 20-year debenture which is estimated to have an annual repayment amount of approximately \$381,000. This means that the Township needs to ensure that the levy has

been increased by this amount by 2025. Staff is proposing the following schedule of levy increase to meet this requirement:

Chart #3: Proposed Hospital Levy Requirement

WLMH Levy Requirement		
Year	Total Levy	Levy Change
2021	\$ 75,300	\$ 75,300
2022	\$ 151,700	\$ 76,400
2023	\$ 228,100	\$ 76,400
2024	\$ 304,500	\$ 76,400
2025	\$ 381,000	\$ 76,500

The 2021 contribution to the hospital levy is recommended to be \$75,300 in 2021. This will result in a total levy of \$8,130,140. This will result in an overall total tax bill increase estimated at 3.10%, as per the chart below:

Chart #4: Impact of \$8,130,140 Proposed Levy which includes the hospital levy

	2021 Total Taxes	2020 Total Taxes	Share of Tax Bill, 2021	\$ Change	% Change
Assessment	\$ 100,000.00	\$ 100,000.00		\$ -	0.00%
Municipal	\$ 371.96	\$ 348.92		\$ 23.04	6.60%
Urban Service Area***	\$ 20.55	\$ 20.55		\$ -	0.00%
Total Township	\$ 392.51	\$ 369.47	33.23%	\$ 23.04	6.24%
Region**	\$ 635.64	\$ 623.18	53.82%	\$ 12.46	2.00%
Education***	\$ 153.00	\$ 153.00	12.95%	\$ -	0.00%
TOTAL	\$ 1,181.15	\$ 1,145.65		\$ 35.50	3.10%
** assume 2.0% increase to Niagara Region portion of taxes					
***no anticipated change					

For an average home assessed at \$382,397 the overall annual tax increase is estimated at \$135.79 or \$11.32/month.

CHANGE REQUESTS

Schedules C and D of this report summarizes all of the Change Requests put forward by departments as part of the budget process. For each Change Request you will find a description, justification, budget impact and alignment to the Township's Strategic Plan. The total value of all of these change requests is \$350,570, with \$261,230 having a direct impact to the Tax Levy and \$89,340 having an impact to the Water and Wastewater

Reserves. Senior Staff carefully reviewed and discussed these change requests and were very conscious of the fact that they could not all go forward due to the budget impact they would have. However, they are all attached so that Council could review and consider what the needs are coming forward from Township departments. The requests that have not been included in this budget document will most likely be requested once again in future budget deliberations. **Schedule C** provides details regarding the Change Requests included in the 2021 Budget and **Schedule D** provides details on the Change Requests that have been deferred.

It was a difficult process to evaluate and rank all of these requests. Senior staff considered public safety, impact to service levels, amount of the request and consequences of delaying the request. At the end, a value of **\$59,730** has been included in the levy based budget. These are staff recommendations and are presented for Council review and approval. As a result of this analysis, the ranking for these change requests are as follows:

Chart #5: Change Requests, both included in 2021 and deferred

2021 Change Request Summary				
Rank	Change Request	Included in 2021	Deferred	Total
Tax Levy Impact				
1	Additional Volunteer Firefighters Stn 1	\$ 26,940		\$ 26,940
3	Accounting Clerk/General Secretary Position Change	\$ 16,790		\$ 16,790
4	Part-Time Communications Officer-Municipal Cost Sharing	\$ 16,000		\$ 16,000
5	Additional Volunteer Firefighters Stn 2		\$ 17,950	\$ 17,950
6	Full-Time Human Resources Advisor		\$ 88,550	\$ 88,550
7	Establishment of Community Improvement Plan Fund		\$ 50,000	\$ 50,000
8	Consulting Fees - Road Condition Inspections (Pavement Management System Update)		\$ 20,000	\$ 20,000
9	Preventative Maintenance (Spot Repairs & Crack Sealing)		\$ 25,000	\$ 25,000
	Total	\$ 59,730	\$ 201,500	\$ 261,230
User Fee/Reserve Impact				
2	Water and Waste Water Operator	\$ 89,340	\$ -	\$ 89,340

CAPITAL BUDGET:

Attached to this report are **Schedules F to N** that outline the proposed Capital and Special Projects for 2021, as well as the Ten Year Capital Plans. Total works totalling \$5,866,500 (62 projects) are planned for 2021 and detailed project sheets can be found in Schedules H to N. Over the ten years of the plan, from 2021 to 2030, a total of \$76 million is budgeted for. Below is a high level summary per year.

Chart #6: Ten Year Capital Plan-Expenditure

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
Environmental Infrastructure	567,800	935,500	1,987,650	3,870,600	1,262,800	171,200	1,336,100	90,200	91,000	-	10,312,850
Equipment	416,700	218,100	303,700	156,400	201,600	374,500	242,900	191,650	178,750	117,100	2,401,400
Facilities	115,000	86,000	-	155,000	20,000	113,000	1,794,000	-	-	-	2,283,000
Land Improvements	113,000	440,000	178,000	522,000	330,000	1,000,400	384,840	108,020	-	558,690	3,634,950
Road Infrastructure	2,491,000	4,776,500	3,128,000	15,423,900	2,614,000	2,621,300	3,994,000	5,450,000	2,735,500	2,370,000	45,604,200
Rolling Stock	1,625,000	1,016,000	189,500	631,000	1,585,000	1,858,000	629,600	460,000	680,000	-	8,674,100
Special Projects	538,000	635,000	492,000	350,000	395,000	215,000	315,500	120,000	-	130,000	3,190,500
Total Expenditure	5,866,500	8,107,100	6,278,850	21,108,900	6,408,400	6,353,400	8,696,940	6,419,870	3,685,250	3,175,790	76,101,000

Funding of these projects over the ten years is summarized in the chart below. Moving or removing a project from the ten-year capital plan may have an impact on annual reserve contributions or debenture financing. Likewise, adding a project to this plan may result in an increase to a reserve transfer or may result in increased debenture financing.

Chart #7: Ten Year Capital Plan-Funding

Ten Year Capital Fund Financing	
	Total
Funding from Reserves	26,028,930
Gas Tax	4,753,340
Investing in Canada Infrastructure Program	4,036,550
Ontario Community Infrastructure Fund	2,663,900
Regional Grants	100,000
Municipal Cost Sharing	410,000
Total Government Transfers	11,963,790
Donations	6,500
Developer Contribution	20,000
Proceeds from Debenture	19,001,480
Total Other Revenue	19,027,980
User Charges	19,080,300
Total Funding Source	76,101,000

Debenture financing of just over \$19 million would be required in order to complete the projects in the ten-year Capital plan. In order to fund this debenture repayment an increase to the tax levy would be required. The debenture funding is outlined as follows:

- Road Rehabilitation Works - \$10,649,080 debenture financing, which would require an average annual tax levy increase of approximately \$101,100 each year
- Hard-topping gravel roads- \$6,980,000 debenture financing, which would require an average annual tax levy increase of approximately \$84,000 each year
- Growth related projects- \$1,372,400 debenture financing, which would require a onetime levy increase of approximately \$131,750 in 2024
- Replacement of Public Works Building in 2027, total \$742,000 of debenture financing which would require a tax levy increase of approximately \$72,000 in 2027.

Based on the 2021 Capital Plan a debenture of \$990,000 with a term of 15 years would be issued in late 2021 to provide funding for the road projects that are in the budget. In addition, in 2022, after completion of the Fire Station #2 rebuild, a 20 year debenture of approximately \$942,600 would be issued. These amounts are estimates and final amounts will be determined once the projects are completed.

ONTARIO REGULATION 284/09 REQUIRED REPORTING:

As a municipality, the Township is required to follow the accounting standards established by the Public Sector Accounting Board (PSAB). The PSAB standards do not require municipal budgets be prepared on a fully accrual basis. The Township of West Lincoln, like most Ontario Municipalities, continues to prepare budgets on a cash basis. A key outcome of the annual budget is a tax rate. The tax rate is based on annual cash requirements and therefore does not include the PSAB requirements around accrual accounting and accounting for “non-financial assets and liabilities”

Ontario Regulation 284/09 allows a municipality to exclude from its annual budget estimated expenses related to the following:

- i. Amortization expenses
- ii. Post-Employment Benefit Expenses
- iii. Solid waste landfill closure and post-closure expenses – N/A to our Township

The regulation however does require that the municipality report on the impact of these excluded costs. In particular, reporting is required to estimate the impact on the accumulated surplus and the impact on the future tangible capital asset funding requirements from resulting from the exclusion of any of the expenses listed above.

- i. Amortization Expense:
Amortization expense represents the reduction in the economic benefits realized by the Township’s Tangible Capital Assets during the fiscal period. Amortization expense should not be used to determine the impairment of an asset; however, it is a good tool to predict the future annual financial commitment required for asset rehabilitation or replacement. The 2021 Draft Operating and Capital Budget excludes \$3,158,800 of estimated amortization expense, which would reduce the

Township's accumulated surplus. The 2021 Budget does include total transfers to reserves relating to Tangible Capital Assets of \$1,834,600. In 2021, \$2,685,080 is being transferred from Reserves to finance Capital expenditures. It should also be noted that the 2021 Budget includes \$5,328,500 in recommended Tangible Capital Asset Investments. These investments are treated as expenditures in the 2021 Budget; however, in accrual accounting they are Tangible Capital Additions and are not expensed, resulting in an increase to the accumulated surplus.

- ii. **Post-employment Benefits:**
Post-employment benefits are non-pension benefits provided to employees that met specific criteria upon retirement. The 2021 Draft Operating Budget excludes an estimated \$4,000 of post-employment benefits expense which has the impact of decreasing the accumulated surplus. The 2021 Budget does include \$33,600 of the current year's post-employment benefit costs paid out to current eligible retired employees, offsetting the liability.

Impact on Accumulated Surplus:

The accumulated surplus shown in the Township's Financial Statements represents the net resources available to provide future services. It does not represent surplus cash. The Township's accumulated surplus as calculated using PSAB policies was \$92.5 million as of December 31, 2019. The closing balance as of December 31, 2020 is not yet available. Chart 8 below outlines the estimated impact of excluding the above two expenses:

Chart 8: Impact of Excluding Amortization and Post-Employment Benefits on the Accumulated Surplus

Tangible capital asset amortization	3,158,800
Reserve financing for tangible capital assets	2,685,080
Post employment benefit net expense	29,600
Total decrease to accumulated surplus	5,873,480
Investment in tangible capital assets	5,328,500
Reserve contributions related to the acquisition of tangible capital assets	1,834,600
Total increase to accumulated surplus	7,163,100
Net increase (decrease) to accumulated surplus	1,289,620

INTER-DEPARTMENTAL COMMENTS:

Department Heads have all been involved in the creation of their own budget documents. Department Heads worked with their staff to send in initial budget plans which are then reviewed and discussed with the Treasurer and CAO resulting in the final draft document as presented to Council. The Library Board approves the budget submitted for the Library.

CONCLUSION:

It is concluded that the 2021 Operating and Capital Budget report and recommendations be approved as presented. Staff has presented the recommendations in such a format that should Council not want to approve the Hospital Levy they would move to eliminate recommendation #3.

Prepared & Submitted by:



Donna DeFilippis, Director of Finance

Approved by:



Bev Hendry, CAO