

DATE: February 26, 2024

REPORT NO: T-05-2024

SUBJECT: **2024 Operating and Capital Budget Final Report**

CONTACT: Donna DeFilippis, CPA CA, Interim CAO and Treasurer
Katelyn Repovs, CPA CA, Interim Director of Finance

OVERVIEW:

- Council is presented with a 2024 Operating and Capital Budget which includes a general base tax levy of \$9,709,110 which represents a 6.55% levy increase over 2023, after factoring in assessment growth
- The overall tax bill, which includes all three taxing authorities will increase approximately 5.53% for an average single family home
- The hospital levy is proposed at an amount of \$226,500, which is an increase of \$50,200 over 2023
- The Urban Service Area Levy is \$186,320 in 2024, which represents a decrease of \$1,980 or 1.1% compared to 2023. This will result in the Urban Service Area tax for an average home in 2024 to be \$72.26 compared to \$74.14 in 2023.
- The 2024 budget supports \$10,282,100 in Capital and Special Projects to be completed in 2024.
- The overall Ten Year Capital Plan estimates \$104,349,700 in expenditures towards Special Projects, Infrastructure Rehabilitation and Investment in new assets which will provide service level improvements.
- This draft budget supports approximately \$21.8 million in operating expenditures funded by property taxes, user fees, grants and reserve transfers.

RECOMMENDATION:

1. That, Recommendation Report T-05-2024, regarding the “2024 Operating and Capital Budget Final Report”, dated February 26, 2024, be received; and,
2. That, a 2024 tax levy of \$9,709,110, which represents a 6.55% tax levy increase after factoring in assessment growth, be approved; and,
3. That, the 2024 hospital levy of \$226,500 for the West Lincoln Memorial Hospital Rebuild be approved; and,
4. That, the 2024 Urban Service Area Levy of \$186,320 be approved; and,
5. That, the Detailed 2024 Capital Program, attached as Schedules C and D to this

- report, totalling \$10,282,100 be approved; and,
6. That, Council approve debenture financing of \$1,000,000 in 2024 in order to finance Capital Project 941 – West St & Wade Rd Water Main Replacement which has a total budget of \$2,000,000; and,
 7. That, Council approve debenture financing of \$3,000,000 in 2024 in order to partially finance the Township’s Contribution towards the West Lincoln Memorial Hospital Rebuild; and,
 8. That, Council delegate authority to the CAO to approve in year 2024 budget amendments up to \$20,000 per item and that the Treasurer report to Council on a regular basis regarding such amendments; and,
 9. That, the balance of Capital and Special Projects for the years 2025 to 2033 as outlined on Schedules E and F to this report be approved in principle; and,
 10. That, tangible capital asset amortization estimated at \$3,545,692 and post-employment expenses estimated at \$22,800 be and are hereby excluded from the 2024 Operating and Capital Budget as permitted through Ontario Regulation 248/09.

ATTACHMENTS:

- **Schedule A** 2024 Operating Budget Summary
- **Schedule B** 2024 Operating Budget by Department
- **Schedule C** 2024 Capital and Special Projects -Summary
- **Schedule D** 2024 Capital and Special Projects -Detail
- **Schedule E** 2024 Ten Year Capital Plan -Funding Detail
- **Schedule F** 2024 Ten Year Capital Plan -Expenditure
- **Schedule G** 2024 Reserve Transfers

ALIGNMENT TO STRATEGIC PLAN:

The 2024 Operating and Capital Budget supports the following Strategic Plan Themes:

- Build a safe, connected, caring and active community
- Champion strategic and responsible growth
- Enrich our strong agricultural legacy
- Advance organizational capacity and effectiveness

BACKGROUND:

At the February 5, 2024 Special Council meeting, Report T-03-2024 was presented to Council which outlined the 2024 Draft Operating and Capital Budget. That draft budget required a 2024 General Tax Levy of \$9,943,950 and an additional levy for the WLMH (West Lincoln Memorial Hospital) rebuild of \$226,500. In addition, the Urban Service Area Levy was \$186,320. At the same meeting, Council requested that staff review the draft budget with the intention of further reducing the 2024 levy requirement.

CURRENT SITUATION:

At the February 5, 2024 Special Council Meeting staff presented a Draft Budget based on a levy of \$9,943,950. Staff were directed by Council to reduce this levy request and to present options to Council at the February 20th, 2024 Committee meeting. Report T-04-2024 2024 Operating and Capital Budget Update, which was presented at this meeting,

included a tax levy of \$9,799,910, which represented a decrease of \$144,040 from the original levy. This decrease of \$144,040 was obtained by making the following adjustments:

\$83,000 Decrease to Capital-Related Reserve Transfers

- Facility Reserve Transfer, reduced by \$15,000
- Cemetery Reserve Transfer, reduced by \$10,000
- Fire Reserve Transfer, reduced by \$15,000
- Library Reserve Transfer, reduced by \$33,000

The adjustments above were attainable by removing or delaying projects within the Ten-Year Capital Plan.

\$57,540 Net Decrease to Wages and Benefits Budget

The new position of Community Engagement and Events Coordinator represented a 1.0 FTE (full-time equivalent) increase in the 2024 Draft Budget presented to Council at the February 5th Meeting. Staff reviewed the requirements of this position and reduced the budget request to a 25-hour per week position, representing an FTE increase of 0.71, as opposed to 1.0.

To further mitigate the impact of this additional FTE request, Treasury staff removed a 0.5 FTE non-union position from the base budget (Part-Time Administrative Assistant to the Clerk’s Department). This position has been vacant since April 2022 without any significant impact to service levels. There have been increases to the staffing level of the Clerk’s Department since that time: Communications Specialist, Human Resources Coordinator and Legislative & Records Management Coordinator (this last position is a temporary contract position until the end of 2025, funded through the Capital Reserve). There may be a need to reinstate additional support in the future; however, this reallocation of staffing budget will be necessary for the years 2024 to 2026 in order to mitigate levy increases. A summary of the staffing adjustment is noted below:

Position	Change	Levy Impact
Community Engagement and Events Coordinator	Reduced from 1.0 FTE (35 hours/week) to 0.71 FTE (25 hours/week)	Reduction of \$21,660
Part-Time Administrative Assistant to the Clerk’s Department	Removed currently vacant position	Reduction of \$35,880

Furthermore, Staff made some additional minor adjustments to the operating budget resulting in an additional **decrease of \$3,500**.

The result of the above adjustments resulted in a levy of \$9,799,910, which equated to an increase of 7.55%, after growth, over 2023.

At the end of the February 20th meeting, Council approved the following additional

reductions to the budget:

- Reduce the Canada Day Event Tax Levy support to \$34,000
- Remove Project 400 Rehabilitation of Town Hall Parking Lot budgeted at \$170,000 from the budget
- Move Project 1120 Station 2 SBCA Cylinder Compressor and Filling Station budgeted at \$90,000 from 2024 to 2025
- Change the Community Engagement and Events Coordinator FTE from 0.71 to 0.50 and make it a temporary position

The changes above accounted for a **further reduction to the tax levy of \$87,570**. In addition, staff made an adjustment to the POA (Provincial Offences Act) Revenue, increasing it by \$3,230, resulting in a **decrease to the tax levy of \$90,800 or 1% compared** to what was presented in the February 20th report.

Staff have reviewed how to deliver the Farmer's Market in 2024 in light of the Community Engagement and Events Coordinator FTE reduction from 0.71 to 0.50. Based on the research and continual preparation for the Farmer's Market event, staff are now envisioning to deliver an intensified combined event called "Music, Market & Park it" to be held with the Six Music in the Park events in the months of July and August with the addition of a car show. Farmer's Markets tend to be more successful when connected to other programs, events, or special features; and Car Clubs prefer to join events rather than a standalone car show.

As such, staff will not be operating the Farmer's Markets in April, May, and June, September, October, and November for 2024. The success of this new "Music, Market & Park it" event will be reviewed and assessed at the end of 2024 and a plan will be developed for the 2025 season and 2025 budget accordingly.

Staff will also review the seasonal market fees because of this change and will present any changes to market user fees in a future report to Council. In addition, staff will develop an appropriate title and hours of work through consultation between the Recreation and Human Resource departments.

2024 TAX LEVY AND ESTIMATED IMPACT ON PROPERTY TAXES

The 2024 Operating and Capital Budget requires a base tax levy of \$9,709,110, which represents a 6.55% tax levy increase, after factoring in assessment growth. Assessment growth results in a portion of the tax levy increase not impacting the actual taxes paid by property owners. For the 2024 budget, residential assessment growth is estimated at \$32,800 (0.36%). This means that of the \$627,560 increase in the required tax levy, the first \$32,800 of that increase does not increase the taxes paid by property owners.

The **estimated** impact to the total tax bill based on an average assessment of \$388,600 is outlined in the chart below. The base tax levy of \$9,709,110 will result in an annual property tax increase of \$101.10 or \$8.43 a month for an average residential property.

	2023 Total Taxes	2024 Total Taxes	\$ Change	% Change
Assessment	\$ 388,600.00	\$ 388,600.00	\$ -	0.00%
Municipal	\$ 1,549.25	\$ 1,650.35	\$ 101.10	6.53%
Hospital	\$ 30.07	\$ 38.50	\$ 8.43	28.03%
Total Township	\$ 1,579.32	\$ 1,688.85	\$ 109.53	6.94%
Total Region	\$ 2,712.33	\$ 2,878.60	\$ 166.27	6.13%
Education	\$ 594.56	\$ 595.00	\$ 0.44	0.07%
TOTAL	\$ 4,886.21	\$ 5,162.45	\$ 276.24	5.65%
Urban Service Area	\$ 74.14	\$ 72.26	\$ (1.88)	-2.54%
TOTAL WITH URBAN SERVICE AREA	\$ 4,960.35	\$ 5,234.71	\$ 274.36	5.53%

Urban Service Area Special Charge:

The 2024 Budget includes an Urban Service Area levy of \$186,320 (\$188,300 in 2023). The Urban Service Area levy is a special levy collected in the Urban Serviced Area of Smithville and funds the cost of streetlights and sidewalks (including sidewalk snow removal) within this designated area. The overall levy is decreasing by \$1,980. The average homeowner will pay \$74.14, a decrease of \$1.88 (2.54% decrease) over the amount paid in 2023 of \$72.26.

Levy for West Lincoln Memorial Hospital:

A new levy was introduced in 2021 to provide funding for the Township’s share of the West Lincoln Hospital new build. The total cost of the project is estimated at \$200 million, with the local municipalities (West Lincoln, Lincoln and Grimsby) responsible for \$21,650,000. Based on 2021 Household data, West Lincoln’s total share is estimated at \$4,524,850 and will most likely be required to make this contribution in late 2024 or early 2025. At the time of the funding commitment, West Lincoln had \$1,250,000 available in its Hospital Reserve. The Township’s funding commitment requires the issuance of a debenture to make up the shortfall. Staff is projecting that a 20-year serial debenture of \$3 million will be required. The following chart outlines the required hospital levy over the years of 2021 to 2025, with 2025 being the year that staff anticipate the first debenture payment would be due.

WLMH Levy Requirement		
Year	Total Levy	Levy Change
2021	\$ 75,300	\$ 75,300
2022	\$ 125,800	\$ 50,500
2023	\$ 176,300	\$ 50,500
2024	\$ 226,500	\$ 50,200
2025	\$ 252,000	\$ 25,500

OTHER ITEMS FOR CONSIDERATION AND INFORMATION:

CAPITAL BUDGET

The 2024 Capital and Special Projects Budget totals \$10,282,100 and is funded through a combination of reserves, grants, user fees and debentures. The Ten Year Capital Plan totals \$104,349,700. Capital investments have a direct impact on the service level our residents receive. \$4,099,500 is budgeted to keep our infrastructure assets like buildings, road and parks in a good state of repair. \$823,600 is being invested into renewing our equipment and rolling stock. Our Environmental Assets related to Water, Wastewater and Storm Water will receive funding of \$5,235,800. The balance of \$123,200 relates to special projects that include studies and software implementation. All details regarding the Capital Budgets can be found on the following Appendices:

- **Schedule C** 2024 Capital and Special Projects -Summary
- **Schedule D** 2024 Capital and Special Projects -Detail
- **Schedule E** 2024 Ten Year Capital Plan -Funding Detail
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Approximately 21% of the base tax levy is applied to reserve transfers that fund Capital and Special Projects. In addition, 2.05% of the overall tax levy increase in 2024 is attributable to reserve transfers that fund Capital and Special Projects.

DEBT MANAGEMENT

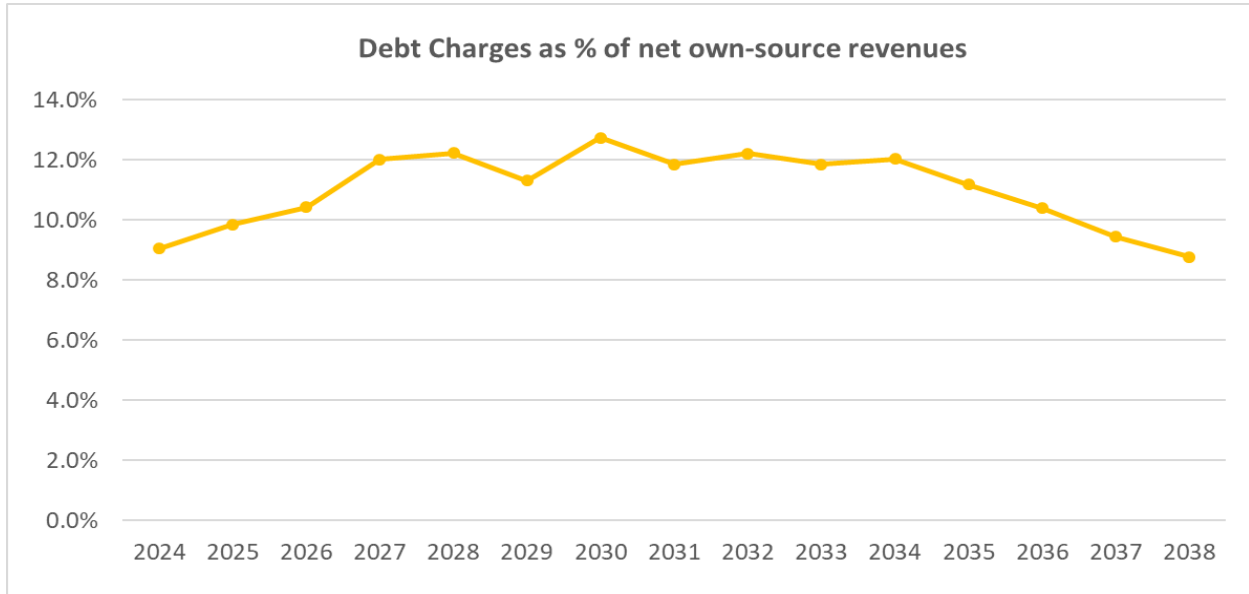
The chart below outlines the 2024 opening balance of outstanding debentures, the payments required in 2024 and the projected closing balance of debentures. For the two proposed debentures for 2024, the interest rate is just an estimate and will not be known until the debenture is issued later in 2024.

Description		Principal and		Closing Balance 2024	Original Principal	Interest Rate	Term (years)	Maturity Date
		Opening Balance 2024	Interest Payments					
Bridge 12	Existing	\$ 130,260	\$ 32,846	\$ 101,313	\$ 289,466	3.16%	10	02/15/2028
Rec Center, Draw #1	Existing	\$ 12,250,000	\$ 929,209	\$ 11,750,000	\$ 15,000,000	3.53%	30	02/15/2048
Rec Center, Draw #2	Existing	\$ 3,466,667	\$ 229,730	\$ 3,333,333	\$ 4,000,000	2.80%	30	12/19/2049
2021 Road Rehab & Hard Topping	Existing	\$ 780,000	\$ 80,175	\$ 720,000	\$ 900,000	2.63%	15	12/22/2036
Vaughan Road	Existing	\$ 1,080,000	\$ 107,685	\$ 1,026,000	\$ 1,080,000	5.02%	20	10/03/2043
Fire Station 2	Existing	\$ 1,592,600	\$ 158,795	\$ 1,512,970	\$ 1,592,600	5.02%	20	10/03/2043
Hospital Rebuild	2024 Issue			\$ 3,000,000	\$ 3,000,000	4.50%	20	
Highway 20 & Wade Road - Watermain	2024 Issue			\$ 1,000,000	\$ 1,000,000	4.50%	20	
		<u>\$ 19,299,526</u>	<u>\$ 1,538,440</u>	<u>\$ 22,443,616</u>	<u>\$ 26,862,066</u>			

Council approved a Capital Financing and Debt Management Policy (POL-T-01-2021) at the October 18th, 2021 Administration/Finance/Fire Committee meeting. The basis of the policy is to provide guidelines to Council so that they are approving the right amount of debt at the right time. This policy includes reporting requirements that are to be addressed by the Treasurer as part of the annual budget.

One of the key factors to be considered when issuing debt is the impact to the ARL (Annual Repayment Limit). The ARL is a borrowing threshold or “limit” and compares annual debt repayment and interest costs to Township revenue. The Township policy has

been established so that each year, debt repayment and interest cannot exceed 10% of the Township’s Own-Source Revenue as calculated in the FIR (Financial Information Return). This is lower than the provincial threshold of 25%. The graph below projects the ARL over the years 2024 to 2038. As the chart below indicates, the Township’s threshold of 10% will be exceeded in 2026.



One of the requirements of the policy is to review and update key financial indicators as part of the 2024 budget. The chart below takes into account the implications of the 2024 budget, including the issuance of new debt. The Township is in a low risk position for all indicators, except for the last one, Debt Servicing Costs as a Percentage of Total Revenue. Values between 5 to 10 percent are considered moderate risk. Debt repayments are consuming a higher portion of the operating budget, which could put the Township at risk of having less flexibility in providing funding for other items.

Sustainability Indicators			
Indicator	Definition	Calculation	Comments
Net Financial Assets as % of Own-Source Revenue	Indicates how much of the Township's own source revenue is serving debt	-4.78%	Staff are projecting that the Township will be in a net debt position at the end of 2024. This will be the result of the \$3 million debenture issuance required for the Hospital Rebuild. Although in a negative position, the Province would still consider us as Low Risk
Total Reserves as a % of Operating Expenditure	Indicates how much money is set aside for future needs	62.21%	Anything over 40% is low risk, the Township is in a good position
Asset Consumption Ratio	Indicates how much of an assets' life expectancy has been consumed	33.68%	Anything less than 50% is considered low risk, if this number were higher it could mean that there were significant replacement needs. A very low number may mean that Township assets are not being aged enough
Flexibility Indicator			
Debt Servicing Cost as a % of Total Revenue	Indicates how much of each dollar raised in revenue is spent on paying down debt	7.98%	This measure is indicating that the Township is at Moderate risk. Debt servicing is consuming a higher portion of the operating budget and may constrain the funding that is available for other service delivery

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 to be prepared on a fully accrual basis. The Township, 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 estimated expenses from its annual budget 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

In addition to these excluded expenses, the cash based budgets prepared by the Township include certain types of transactions that need to be excluded for PSAB reporting purposes. These are not covered in Ontario Regulation 284/09:

- Debenture principal repayments
- Funds from debenture issuances
- Transfers to and from reserves
- Tangible Capital Asset expenditures

The regulation 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 resulting from the exclusion of any of the expenses listed above. The impact of these adjustments is discussed further below:

- 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 2024 Operating and Capital Budget excludes \$3,545,692 of estimated amortization expense, which would reduce the Township’s accumulated surplus.
- ii. Transfers to and from Reserves:
The 2024 Budget includes total transfers to reserves relating to Tangible Capital Assets of \$2,011,610. Further, in 2024, \$4,800,750 is being transferred from reserves to finance Tangible Capital Assets. These transfers are treated as expenditures and revenues, respectively, in the 2024 Budget. However, they are excluded from accrual accounting and, on a net basis for the 2024 year, result in an overall decrease to the Township’s accumulated surplus.

- iii. **Tangible Capital Asset Expenditures:**
The 2024 Budget includes \$10,158,900 in recommended Tangible Capital Asset Investments. These investments are treated as expenditures in the 2024 Budget; however, in accrual accounting, they are treated as non-financial assets and are not expensed, therefore resulting in an increase to the accumulated surplus.

- iv. **Post-Employment Benefit Expense:**
Post-employment benefits are non-pension benefits provided to employees that met specific criteria upon retirement. The Township has received an actuarial valuation of the Township's post-employment benefit liability in accordance with PSAB 3250 and 3255 standards. For the 2024 year, the actuary has estimated a liability and expense increase of \$22,800, which is excluded from the 2024 Operating Budget. This will result in a decrease to the accumulated surplus.

- v. **Debenture Principal Repayments:**
The 2024 budget includes \$856,030 in debenture principal payments. Under the accrual method of accounting, debenture principal payments are considered a reduction of the debt liability and not an expense. For accrual accounting purposes, these payments are not expensed, therefore resulting in an increase to the accumulated surplus.

- vi. **Debenture Issuance Proceeds:**
The 2024 Budget includes debenture financing relating to Tangible Capital Assets of \$1,000,000. This financing is treated as revenue in the 2024 Budget. However, for accrual accounting, it is treated as a debt liability, thus resulting in a decrease to the Township's accumulated surplus.

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 \$99.7 million as of December 31, 2022. The closing balance as of December 31, 2023 is not yet available. The Chart below outlines the estimated impact of excluding the Ontario Regulation 284/09 expenses, along with the other PSAB reporting adjustments:

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

Tangible capital asset amortization	3,545,692
Reserve financing for tangible capital assets	4,800,750
Debenture issuance proceeds	1,000,000
Post-employment benefit net expense	22,800
Total decrease to accumulated surplus	9,586,642
Investment in tangible capital assets	10,158,900
Debenture principal payments	856,030
Reserve contributions for acquisition of tangible capital assets	2,011,610
Total increase to accumulated surplus	13,026,540
Net increase (decrease) to accumulated surplus	3,439,898

INTER-DEPARTMENTAL COMMENTS:

Department Heads have all been involved in the updating of both the Operational and Capital budgets pertaining to their area of responsibility. 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 document as presented to Council. The Library Board approves the budget submitted for the Library. The comments related to the Farmer's Market have been provided by the Director of Public Works and Recreation.

CONCLUSION:

It is concluded that the 2024 Operating and Capital Budget report and recommendations be approved as presented. The approval of the 2024 Budget establishes the tax levy that will be collected in 2024. Property Tax represents the Township's main revenue source that enables the delivery of municipal services within the municipality.

Prepared, Submitted and Approved by:



Donna DeFilippis, Interim CAO and Treasurer