

DATE: September 16, 2024

REPORT NO: T-18-2024

SUBJECT: **2025 Budget Process and Schedule**

CONTACT: Donna DeFilippis, CPA, CA, Director of Finance/Treasurer
Katelyn Repovs, CPA, CA, Manager of Finance/Deputy Treasurer

OVERVIEW:

This report outlines key dates regarding the 2025 Budget process as summarized below:

- **Monday, January 27, 2025 Council Meeting:** Presentation of the 2025 Draft Operating and Capital Budget
- **Tuesday, February 18, 2025 Admin/Finance/Fire Meeting:** Presentation of the Final 2025 Operating and Capital Budget
- **Wednesday, February 19, 2025 Admin/Finance/Fire Meeting:** This date will only be required if the 2025 Budget is not approved at the February 18, 2025 meeting.
- **Monday, February 24, 2025 Council Meeting:** Ratification of the 2025 Capital and Operating Budget
- A 2025 budget engagement survey will be launched in the fall of 2024 in order to allow the public to share their thoughts regarding the 2025 budget
- This report also outlines some key items that will be impacting the 2025 Budget for Council's review

RECOMMENDATION:

That, Information Report T-18-2024, titled "2025 Budget Process and Schedule", dated September 16, 2024, be received for information.

ALIGNMENT TO STRATEGIC PLAN:

- Strategic Priority #4 ADVANCE- organizational capacity and effectiveness

BACKGROUND:

In accordance with Section 290 of the Municipal Act, a local municipality must prepare and adopt a balanced budget every year. The budget document is prepared annually through department submissions, meetings with the CAO and senior administration, and final compilation by the Finance department. In the absence of an adopted budget, the Township's Purchasing By-law allows departments to continue spending on operating items up to 35% of the prior year's budgeted amount.

The budget is designed to essentially balance cash inflows, such as tax revenues, with major outflows, like operating costs. The budget results in the determination of the overall tax levy requirement necessary to provide required services to the residents and businesses of West Lincoln. This tax levy requirement is used to determine tax rates and ultimately the amount of property taxes collected from property owners. In addition, the annual budget should reflect the priorities outlined by Council and consistent with the Corporate Strategic Plan. Approval of the annual budget is the beginning of a financial management and control process, where actual results are monitored and assessed against the approved budget.

The 2024 base tax levy is \$9,709,110, which contributes to funding an operating budget of \$21.9 million. As we approach the 2025 budget, it is important to note that a 1% increase in the tax levy will yield an additional \$97,091 in revenue.

CURRENT SITUATION:

Administration has drafted a schedule as it relates to timing for submission of departmental budgets and meetings with the Treasurer and CAO. This timeline is imperative for the Finance department as it allows for the necessary reviews, additional analysis, and preparation of the final draft budget and corresponding reports. Qwestica Software will be used to produce the budget, along with the accompanying "Openbook" platform, which provides a public facing, interactive tool that is available through the Township's website. The Township's Corporate Strategic Plan is a key guiding document referred to as the budget is developed. The budget dates outlined below have been chosen in order to ensure that the 2025 Capital and Operating Budget can be approved by the end of February 2025.

Key Budget Dates are as follows:

- **Monday, January 27, 2025 Council Meeting:** Presentation of 2025 Draft Operating and Capital Budget. Council will have an opportunity at this meeting to provide Administration with additional direction prior to presentation of Final 2025 budget.
- **Tuesday, February 18, 2025 Admin/Finance/Fire Meeting:** Presentation and approval of the Final 2025 Operating and Capital Budget.

- **Wednesday, February 19, 2025 Admin/Finance/Fire Meeting:** This date will **only be required** if the 2025 Budget is not approved at the February 18, 2025 Committee meeting.
- **Monday, February 24, 2025 Council Meeting:** Ratification of the 2025 Capital and Operating Budget.

A 2025 budget engagement survey will be launched in the fall of 2024 in order to allow the public to share their thoughts regarding the 2025 budget.

FINANCIAL IMPLICATIONS:

The annual budget is a guiding financial document for the Township. The overall municipal expenditures as approved in the budget are funded from various sources, including the tax base. As such, the budget information is required in order to determine the required municipal tax levy for the year. Once the budget is approved, Administration regularly reviews actual expenditures to ensure that spending matches the budget as approved by Council. Council is provided with regular financial updates where actual results are compared to budget. The budget figures are also reflected in the Township's year-end audited financial statements. Administration must abide by the approved budget or request a Budget Amendment during the year to cover unanticipated expenditures.

The items below are being highlighted to Council as they either will affect the 2025 Budget or will be a discussion item:

- **Contribution to West Lincoln Hospital:** As part of the 2021 Operating and Capital Budget Final Report T-07-2021, a new hospital levy of \$75,300 was introduced. In addition, a schedule to increase this levy over the following 4 year (2022 to 2025) was also shared with Council. This new hospital levy is part of the financing plan related to the required local contribution to the \$200 million build. The West Lincoln contribution is \$4,524,850, which will be comprised of reserves and debenture. The hospital levy ensures that funds are available to pay back the debenture.

To date, \$226,500 has been included in the hospital levy, and there was originally a final increase planned in 2025 of \$50,200. However, the debenture proceeds of \$2,670,950 were received in July 2024, which now provides Administration with the actual debenture repayment schedule. This debenture has an average interest rate of 4.39% over the twenty year term. Based on the debenture schedule, a balance of \$207,000 is required in the hospital levy. This means that there is no need to increase the levy in 2025; in fact, **a decrease to the hospital levy of \$19,500** will take place.

- **Asset Management:** In June 2022, Council was presented with the Township's Asset Management Plan through Report T-19-2022. That report included information regarding the cost of full funding of our asset replacements. In order to reach the full funding required, a tax levy increase of 5% or \$485,455 annually was recommended. This is necessary to reach the annual full funding target of \$12.7 million. The 2024 budget included a 2.05% increase to the tax levy to fund required

investments in infrastructure renewal. The allocation in 2024 fell below what the required contribution was. Reserve transfers will be reviewed as part of the 2025 budget process, with the goal of increasing the contributions currently allocated towards asset replacement.

The Asset Management Plan is currently being updated. Administration will present the plan update to Council in October and will provide more up-to-date information regarding infrastructure funding.

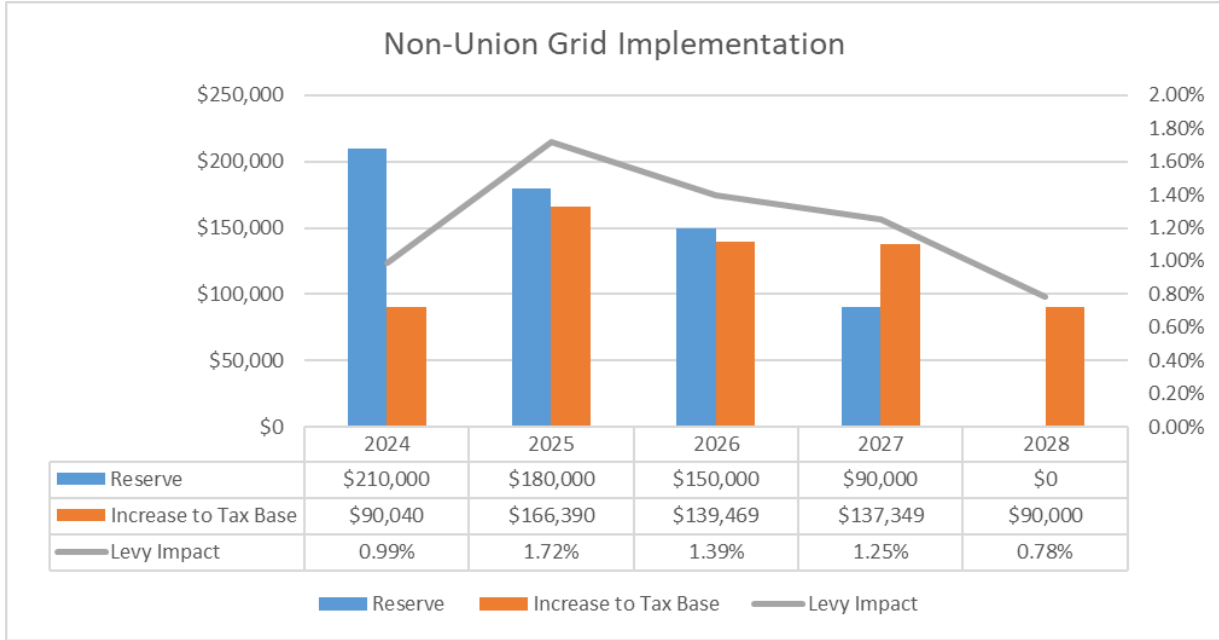
- **Inflation:** The average annual Consumer Price Index (CPI) was 3.9% in 2023. The CPI as of July 2024 is 2.5%, which represents a year-over-year increase. The price of goods and services have increased throughout many sectors of the economy and the Township is impacted with higher costs when purchasing supplies and contracted services. Administration will work on ensuring that operating budget lines remain within a 2% increase, however, in some instances, this will not be possible. Administration is estimating that a 2% increase to operating expenditures, excluding wages and benefits, equates to approximately \$189,000.

In terms of wages, an increase of 2.9% for 2025 has been approved within the collective agreement. Applying this increase across all wages and benefits will result in an increased expenditure of approximately \$248,000.

The non-residential building price index indicates a year-over-year increase of 4.6% at the time of writing this report. The increased costs related to non-residential construction will impact the Capital Budget, as project costs will likely increase.

- **Non-Union Salary Review:** In 2020, Council approved a project to conduct a Pay Equity/Market Equity Non-Union Compensation Review. The results of this review were presented to Council at a Special Council meeting held on November 17, 2021. At that meeting, Council endorsed and approved the Non-Union grid and directed Administration to commence the implementation in 2022. This grid is comprised of 6 steps, with the final step being job rate (the maximum rate paid to any incumbent in the job class).

The 2022 budget included the first step of implementation of the approved Non-Union Salary Grid. Subsequent budgets were (and are) being increased with the goal of having all positions budgeted for at job rate. The funding of this implementation is a blend of both reserve transfers and the tax levy. The chart below summarizes the implementation plan, including the estimated transfer from reserves and the impact to the tax levy up to 2028, at which point all costs will be on the tax levy. The 2025 budget will include an additional \$166,390 funded through the tax levy, resulting in a 1.72% increase to the levy.



- Assessment Growth:** Assessment growth represents the value increase associated with a change to a property’s state, use or condition. Assessment growth is important as it provides an additional revenue source to the operating budget. At the time of writing this report, assessment growth for 2024 is estimated at 0.25%. This equates to the first \$24,000 of any tax levy increase having no impact on taxes paid. It can also be looked at the following way - the 2025 tax based operating budget could increase by \$24,000 without requiring an increase to the tax levy.

2025 represents the second year that assessment growth will be low. The 2024 budget was based on assessment growth of 0.36%. In comparison, the 2023 budget utilized assessment growth of 1.88% which meant that the first \$187,000 of the tax levy increase did not impact property taxes paid.

- Staffing:** The 2024 budget introduced the following temporary part-time position: Community Engagement and Events Coordinator with as a 0.5 FTE. In order to assist in the funding of this position and to mitigate property tax increases, another part-time position was removed from the base budget: the Part-time Administrative Assistant to the Clerk’s Department, which is currently vacant. The Clerk’s Department is receiving assistance from a temporary contract position (Legislative & Records Management Coordinator) until the end of 2025, funded through the Capital Reserve.

The 2025 budget will include the Part-time Administrative Assistant position in the base budget. The Community Engagement and Events Coordinator with an FTE of 0.5 will also be included in the base budget.

Report PD-76-2022 dated August 11, 2022, included the following two resolutions:

That, Council approve an additional Full Time Equivalent (FTE) in the Planning and Building Department and that a Manager of Planning position be created and the Planner I and Planner II positions be renamed Planner and Senior Planner respectively; and,

That, one of the Planner II positions be funded by the Land Owners Group for up to the next four years to help accommodate for planning approval pressures.

Unfortunately, the Land Owners Group will not be providing any funding towards this position. The loss of funds in 2024 totaled \$121,200, which Administration mitigated through a transfer from the Planning Reserve of \$60,000, for a net 2024 impact of **\$61,200**. This was a temporary measure to provide relief to the 2024 levy. The full impact of this position, with the remaining \$60,000, will be included in the 2025 levy.

The Chief Administrative Officer will be bringing a further report to Council in October 2024 to review current levels of service and resourcing requirements.

- Reserve Transfers:** The funding of Capital and Special Projects relies on a combination of financing tools: grants, reserve transfers and debentures. Reserves play a key role in the Township’s Ten Year Capital Plan, in addition, reserves are necessary to fund unavoidable events. A properly balanced approach to the investment into and use of reserves is the basis of good financial management. Council approved the Township’s current Reserve and Reserve Fund Policy in October 2021.

The chart below is the forecast of the required reserve transfers for capital investments and the estimated impact to the tax levy. This forecast will be revised and updated as the 2025 Capital Plan is drafted.

	2025	2026	2027	2028	2029	2030	2031	2032	2033
Budgeted Contributions	1,800,440	2,089,580	2,581,320	2,975,400	3,401,400	3,728,600	3,842,700	3,898,200	3,923,500
Increase in Contributions	244,870	289,140	491,740	394,080	426,000	327,200	114,100	55,500	25,300
Increase to Levy	2.52%	2.84%	4.59%	3.51%	3.61%	2.64%	0.88%	0.41%	0.18%

At this point of time, reserve transfers will need to increase by \$244,870, which would result in a 2.52% tax levy increase. Significant investments into reserves will be required in order to meet the funding requirements outlined in the Capital Plan.

- Storm Water:** Report PW-20-2024, regarding Stormwater Management (SWM) Pond Assessments was presented at the August 2024 Council meeting. That report indicated Stormwater Capital needs as follows:

Immediate: \$2,225,000
 Within five years: \$ 375,000
 Total: \$2,600,000

The operating budget has traditionally included approximately \$40,000 for repair and maintenance of urban storm infrastructure and \$43,000 for rural storm repair and maintenance. The 2024 approved Ten Year Capital Plan includes \$200,000 in 2025 for stormwater pond rehabilitation. The funding of the \$2.6 million in stormwater pond maintenance and repairs will have an impact on the Capital Plan and will require a shifting of other projects within the plan, or additional reserve transfer increases.

INTER-DEPARTMENTAL COMMENTS:

This report was discussed with the Senior Management Team.

CONCLUSION:

This report outlines key dates relating to the 2025 Capital and Operating Budget Process. The report also provides details regarding items that will impact the 2025 budget.

Prepared & Submitted by:

Approved by:

Donna DeFilippis
Director of Finance/Treasurer

Truper McBride
CAO