

2019 Budget



January 9, 2019 – Budget Process Overview & Direction
(Rescheduled to January 14, 2019)



Budget Basics

- Section 290 of the Municipal Act
 - *“for each year, a local municipality shall, in the year of the immediately preceding year, prepare and adopt a budget including estimates of all sums required during the year for the municipality”*
- O. Reg 284/09 – Budget Measures-Expenses
 - *“municipality may exclude amortization expenses, post employment expenses and solid waste landfill closure and post closure expenses in preparing their budget, however if municipality choose to do so, the municipality before adopting the budget for the year shall prepare a report about the excluded expenses and adopt the report by resolution”*



Budget Basics

- *What is the difference between Operating versus Capital*

Operating budget:

- Pays for all of the day to day activities of the corporation;
- Examples of operating expenses include; wages, benefits, insurance, supplies, general repairs and maintenance, fuel, utilities, etc

Capital budget:

- Pays for all large investments, replacements or rehabilitation of assets under the municipality's control
- Examples of capital expenditures include; rehabilitation of roads, watermains and sewer mains, new facilities, rolling stock and/or equipment
- Assets are economic resources which incur future economic benefits



Budget Basics

*What is the difference between **Levy** based budget **Special Area Rate** budget and **User fee** budget?*

Levy based budgets are supported mainly by property tax dollars collected on all assessed property and include the following;

Policing, Planning, By-Law Enforcement, Fire, Transportation, Recreation, Economic Development, Conservation Authorities, Library, General Administration, Council, Community Grants, Cemetery, Animal Control

Special Area Rate (SAR) budgets are supported by property tax dollars collected from specific areas. Streetlighting budget is a special area rate budget

User Fee based budgets are supported by user fees and permits and include the following services;

Water, Sewer, Solid Waste and Building



Budget Basics

- *How are municipal services funded?*
 - Property taxes fund approximately 80% of the total levy-based budget requirements
 - User Fees
 - Permits and Licence Fees
 - Grants (OMPF, OCIF, Gas tax, etc)
 - Interest on investments
 - Sales (ie cemetery lots)
 - Donations



Budget Basics

- Ontario Municipal Partnership Funding (OMPF) - offsets operating expenses
 - 2019 funding allocation has not yet been announced
 - 2018 funding was \$1,455,300
- AMO-Gas Tax Funding – utilized for capital funding
 - 2019 funding allocation is \$306,274
- Ontario Community Infrastructure Fund(OCIF) Formula based funding – utilized for capital funding
 - 2019 funding allocation is \$673,392



Budget Basics

Assessment

Assessment Cycle – 2017 – 2020

- 2016 was a reassessment year based on a valuation date of January 1, 2016
- Market increase is phased in equally over 4 years

2019 Assessment

- 2019 Phase-in assessment change is projected at 8.2%
 - which equates to \$486,182 in taxation revenue (without any tax rate increase)
- 2019 Growth assessment change is projected at 0.8%
 - which equates to \$66,916 in taxation revenue



Budget Basics

Tax Rate vs tax levy

Tax Rate

- Assessment Value * tax rate = \$Taxes payable

There are 3 tax rates on tax bill;

- Municipal tax rate
- County Tax Rate
- Education Tax Rate

Example:

1.0% tax rate; \$260,000 assessment

\$2,600 in taxes levied

Tax Levy

- Total \$ expected to be collected by the Municipality
- Increases proportionately with changes in assessment values and growth (new assessment)

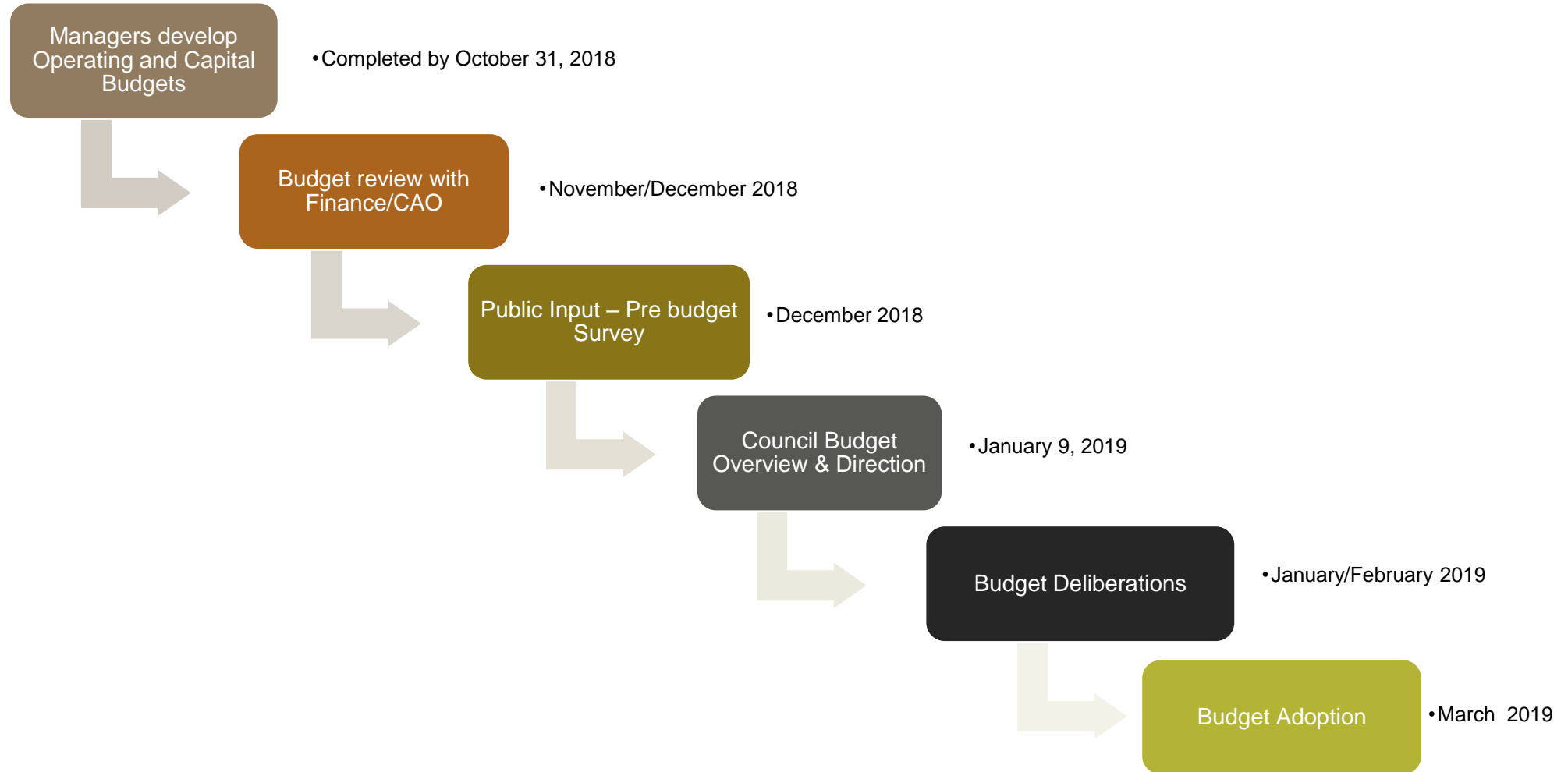
Note:

With the tax rate held constant (0% tax *rate* increase) tax levy will increase as a result of assessment growth as per MPAC¹

¹ Municipal Property Assessment Corporation



Building the Budget

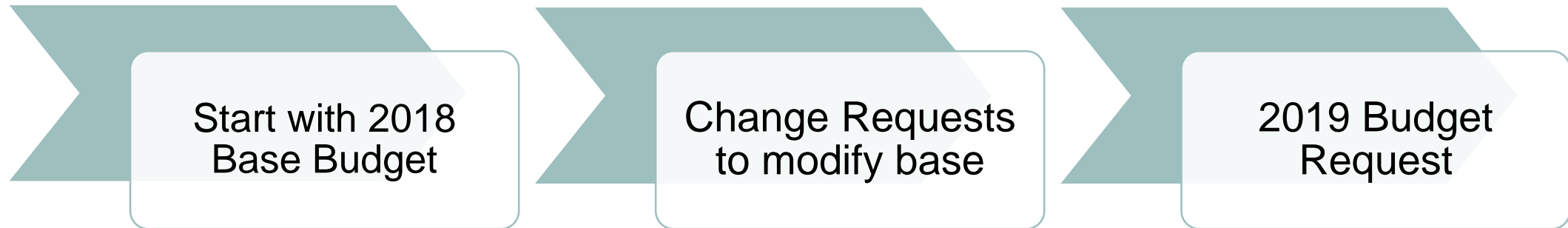


2019 Budget Strategy

- In order to maintain current levels of service it is assumed the base budget less any one-time projects from 2018 is the starting point for building the 2019 budget. This includes regular items like wages, benefits, utilities, supplies, contracted services, debt payments, etc.
- Utilities and insurance are estimated with an CPI increase of 2%
- Wages are estimated with a 2.2% COLA (per Pay Admin policy Ontario CPI for September each year)
- Capital replacement reserve was maintained at current level. A new contribution strategy will be developed as part of the asset management plan.
- All other operating changes were identified by a change request



2019 Operating budget process



2018 Base Budget = Approved 2018 operating budget less any one-time projects, such as election expenses, website costs, etc.

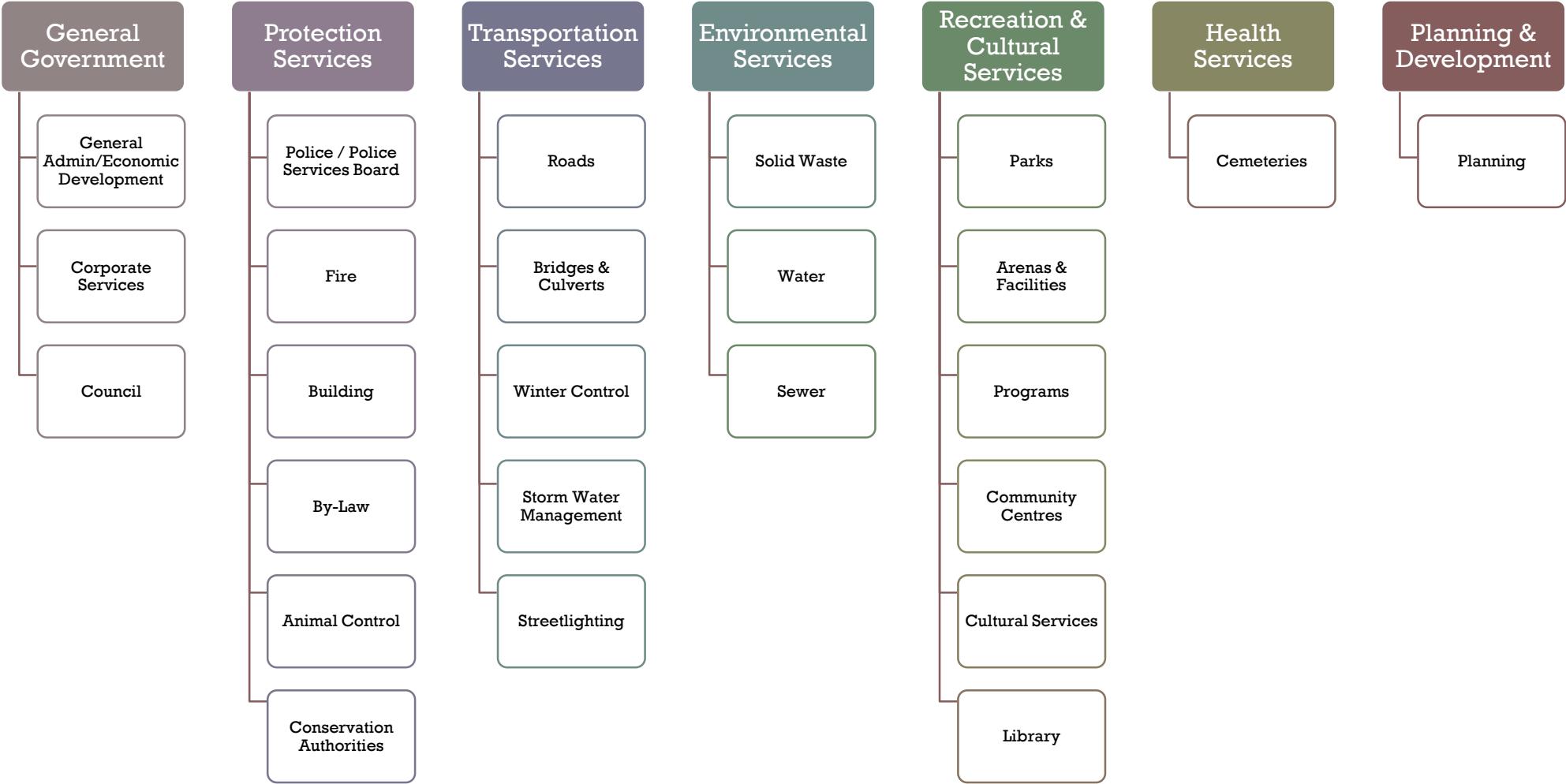
Change Requests include

- Annualization (CPI changes, contractual changes, etc)
- Legislated Initiatives (as result of legislation such as Asset Management Legislation)
- One Time Special Initiatives (special projects for this budget year, such as Development Charges study)
- Changes in Levels of Service (initiatives that increase/decrease the levels of service)



2019 Budget Reporting Divisions

(based on Ministry reporting requirements)



Unknowns

- Ontario Municipal Partnership Funding (OMPF)
 - 2019 Allocation unknown
 - Minister of Finance is conducting a detailed review of this transfer payment
 - Correspondence indicates Ministry is operating with a smaller funding envelope, however focus of review to support the Northern and rural municipalities that need it most
- Upper Thames Conservation – have not received 2019 budget



Budget Pressures

- Aging infrastructure and equipment
- Cost of living
- Policing costs
- Health & Safety Regulations
- Asset Management Regulations
- Minimum Maintenance Standards
- Increased fuel and vehicle maintenance costs



Reserves & Reserve Funds

- **Reserves** are an appropriation from net revenues at the discretion of Council
 - they have no reference to any specific asset and does not require the physical segregation of money
 - Any interest earned are reported as part of the general fund revenue
- **Reserve Funds** are established by Council an/or when a statute requires revenue received for a special purpose be segregated from the general revenues
 - e.g. Development Charges Revenues
- Reserve and Reserve Fund Policy and Procedure adopted by Council
 - Contains a schedule of purpose of the reserve and recommended reserve levels



Reserves & Reserve Funds

- Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long term financial plan;
 - Strengthens its long term financial sustainability
 - Helps to minimize fluctuations in the tax rate
 - Provides funding to sustain infrastructure
- Based on our level of debt it is important to continue to maintain a consistent commitment to reserves in order to have sufficient revenues for future capital needs



Reserves

RESERVES	ACCOUNT NUMBER	BALANCE DEC.31,2016	Transfers In			Transfers Out		BALANCE DEC.31,2017	2018 Estimate	
			Contributed from General	Interest Earned	Contr from Capital	Transfer to General	Transfer to Capital		Estimated Amounts Committed to Projects(Contribution)	ESTIMATED BALANCE Dec 31, 2018
			WORKING FUND RESERVE	0000-33-0000	(1,716,749.65)	(473,607.00)			(482,979.67)	
BENEFITS CONTINGENCY RESERVE	0000-33-0100	(115,397.84)						(115,397.84)		(115,397.84)
INSURANCE CLAIMS CONTINGENCY RESERVE	0120-33-0700	(5,939.50)						(5,939.50)		(5,939.50)
GRANT RESERVES (UNUSED \$)	0000-33-0500	-						-		-
GREEN INITIATIVES (Energy MgmtPlan)	0000-33-0300	(9,175.86)						(9,175.86)		(9,175.86)
ELECTION RESERVES	0120-33-0001	(14,000.00)	(7,000.00)					(21,000.00)		(21,000.00)
COMMUNITY IMPROVEMENT-INCENTIVE PROGRAM	0120-33-0002	(35,000.00)	(35,000.00)					(70,000.00)		(70,000.00)
OPP CONTRACT STABILIZATION RESERVE	0290-33-0000	(422,247.00)				53,641.00		(368,606.00)		(368,606.00)
WINTER CONTROL STABILIZATION RESERVE	0320-33-0000	(58,451.00)	(56,087.00)					(114,538.00)		(114,538.00)
SHRC RODEO	0720-33-0000	(53,889.26)	(9,787.00)					(63,676.26)		(63,676.26)
SH EARLY CHILDHOOD LC	0630-33-0000	(9,915.75)						(9,915.75)		(9,915.75)
TELEPHONE RESERVE (Dept Specific Reserve)	0120-33-0400	-						-		-
HURON PARK FIRE (Dept Specific Reserve)	0221-33-3700	(7,681.00)						(7,681.00)		(7,681.00)
ROADS RESERVE (Dept Specific Reserve)	0310-33-0000	(82,332.00)					25,000.00	(57,332.00)		(57,332.00)
TREE REPLACEMENT RESERVE	0310-33-0000-0022	-	(10,000.00)					(10,000.00)		(10,000.00)
STREETLIGHT RESERVE (Dept Specific Reserve)	0340-33-0000	(273,639.07)	(8,542.23)			46,193.35	82,438.32	(153,549.63)		(153,549.63)
EXETER POOL (Dept Specific Reserve)	0739-33-0000	(93,000.00)					6,735.80	(86,264.20)	75,000.00	(11,264.20)
MACNAUGHTON PARK WASHROOMS	0739-33-0000-0001	(10,000.00)	(10,000.00)		(15,000.00)			(35,000.00)	35,000.00	-
SOUTH HURON WATER (Dept Specific Reserve)	0430-33-0000	-	(2,857,520.94)					(2,857,520.94)		(2,857,520.94)
STEPHEN WATER (Dept Specific Reserve)	0432-33-2300	(110,092.79)						(110,092.79)		(110,092.79)
GRAND BEND SEWERS (Dept Specific Reserve)	0412-33-0000	-						-		-
EXETER SANITARY SEWERS (Dept Specific Reserve)	0410-33-0000	-						-		-
SOLID WASTE (Dept Specific Reserve)	0450-33-0000	(418,843.04)				69,800.15	196,337.07	(152,705.82)		(152,705.82)
TOTAL		(3,436,353.76)	(3,467,544.17)	-	(497,979.67)	169,634.50	429,235.23	(6,803,007.87)	762,732.67	(6,040,275.20)



Reserves & Reserve Funds

Capital replacement reserves strategy

- Present Strategy was adopted in 2008
 - 10 year phase-in strategy for contributions to the capital replacement reserves
 - Annual contribution dependent on budget pressures, with a minimum contribution equal to previous year
 - Contribution based on amortization values
 - 25% of amount contributed can be used for current year capital asset replacement
- Strategy moving forward – phased approach
 - Model lifecycles of the assets beyond age based conditions
 - Annualize the cost of the assets to determine optimal funding
 - Consider current financial constraints and develop a phased plan to reach optimization
 - Start with core assets and expand to all asset classes while maintaining status quo (amortization approach)



Reserves & Reserve Funds

Capital Replacement Reserves

CAPITAL REPLACEMENT RESERVE-USER FEE PRGS	****-33-0000-9000	(7,123,754.97)	Transfers In			Transfers Out		(7,823,688.39)		
Sew ers Capital Replacement Reserve	0410-33-0000-9000	(2,237,608.23)	(468,584.16)			588,042.78	(2,118,149.61)	1,749,338.00		(368,811.61)
GB Sew ers Capital Replacement Reserve	0412-33-0000-9000	(227,061.00)	-				(227,061.00)	227,061.00		-
Water Capital Replacement Reserve	0430-33-0000-9000	(4,495,167.08)	(800,000.04)				(5,295,167.12)	1,018,533.00		(4,276,634.12)
Landfill Capital Replacement Reserve	0450-33-0000-9000	(163,918.66)	(19,392.00)				(183,310.66)	(19,300.00)		(202,610.66)
CAPITAL REPLACEMENT RESERVE-LEVY PRGS	****-33-0000-9000	(3,022,111.74)					(3,604,722.04)			
General Admin Capital Replacement Res	0120-33-0000-9000	(143,666.97)	(44,286.60)				(187,953.57)	(52,313.00)		(240,266.57)
Fire Capital Replacement Reserve	0220-33-0000-9000	(541,641.25)	(169,685.52)				(711,326.77)	(129,181.00)		(840,507.77)
Building/Dev Capital Replacement Reserve	0240-33-0000-9000	(18,282.61)	(3,230.04)				(21,512.65)	(3,279.00)		(24,791.65)
Bridges/Culverts Replacement Reserve	0310-33-0000-0010	(265,000.00)	-				(265,000.00)			(265,000.00)
Transportation Capital Replacement Reserve	0310-33-0000-9000	(1,790,615.89)	(787,552.45)			522,666.77	(2,055,501.57)	204,298.00		(1,851,203.57)
Streetlighting Capital Replacement Reserve	0340-33-0000-9000	(17,647.67)	(23,118.96)				(40,766.63)	(22,160.00)		(62,926.63)
Cemetery Capital Replacement Reserve	0550-33-0000-9000	(65,831.00)	(6,579.72)				(72,410.72)	(10,179.00)		(82,589.72)
Recreation Capital Replacement Reserve	0730-33-0000-9000	(179,426.35)	(104,204.28)			33,380.50	(250,250.13)			(250,250.13)
TOTAL RESERVES	TOTAL	(13,582,220.47)	(5,894,177.94)	-	(497,979.67)	169,634.50	1,573,325.28	(18,231,418.30)	3,725,550.67	(14,505,867.63)



Reserve Funds

	ACCOUNT NUMBER	BALANCE DEC.31,2016	Transfers In			Transfers Out		BALANCE DEC.31,2017	Estimated Amounts Committed to Projects (Contribution)	BALANCE
			Contributed from General	Interest Earned	Contr from Capital	Transfer to General	Transfer to Capital			
DISCRETIONARY RESERVE FUNDS										
DASHWOOD CDF	0991-33-0000	(79,012.54)		(842.98)				(79,855.52)		(79,855.52)
WEBBER PIT RESERVES	0131-33-0000	(33,086.92)		(353.00)				(33,439.92)		(33,439.92)
EXETER-CEMETERY EXPANSION	0550-33-4440	(474.90)		(5.99)				(480.89)		(480.89)
EXETER-CEMETERY COLUMBARIUM	0550-43-440	(18,243.39)	(7,102.88)	(193.72)				(25,539.99)		(25,539.99)
LANDFILL PERPETUAL CARE FUND	0450-43-0000	(313,438.80)	(87,347.36)	(3,344.04)				(404,130.20)		(404,130.20)
AMENITY FEE-COMMUNITY FUNDING (Turbines)	0120-43-0000-0150	(293,295.80)	(332,003.45)	(3,129.14)		20,241.90		(608,186.49)	288,696.50	(319,489.99)
SHRC - RESERVE FUND DRESSING ROOM PROJECT	0730-43-0000	(25,455.78)		(271.58)				(25,727.36)		(25,727.36)
BLDG CODE-REVENUE STABILIZATION RESERVE FUND	0240-43-0000	(500,089.48)	(43,241.55)	(5,335.40)				(548,666.43)		(548,666.43)
BLDG CODE-LEGAL/INSURANCE RESERVE FUND	0240-43-0100	(300,053.69)	(25,944.93)	(3,201.24)				(329,199.86)		(329,199.86)
BLDG CODE-CAPITAL RESERVE FUND	0240-43-9000	(200,035.76)	(17,296.62)	(2,134.16)				(219,466.54)		(219,466.54)
RESERVE FUNDS - Sub Total	Sub-Total	(1,763,187.06)						(2,274,693.20)		(1,985,996.70)
KIRKTON WOODHAM POOL	0738-43-0000	-						-		-
EXETER CDF	0990-43-0000	(316,384.92)	(42,925.52)	(3,375.47)			22,713.41	(339,972.50)	207,074.48	(132,898.02)
TOTAL DISCRETIONARY RESERVE FUNDS		(2,079,571.98)	(555,862.31)	(22,186.72)			20,241.90	(2,614,665.70)	495,770.98	(2,118,894.72)
OBLIGATORY RESERVE FUNDS-DEFERRED REVENUE										
			Transfers In			Transfers Out				
DEVELOPMENT CHARGES-Other Services	0810-43-0100	(8,181.42)	(4,416.00)	(87.29)				(12,684.71)		(12,684.71)
DEVELOPMENT CHARGES - Fire	0810-43-0220	(7,571.92)	(8,578.00)	(80.78)				(16,230.70)		(16,230.70)
DEVELOPMENT CHARGES-Transportation	0810-43-0310	(132,064.76)	(39,330.00)	(1,408.98)				(172,803.74)		(172,803.74)
DEVELOPMENT CHARGES-Sewers System	0810-43-0410	(262,800.13)	(10,013.00)	(2,803.78)				(275,616.91)		(275,616.91)
DEVELOPMENT CHARGES-Water System	0810-43-0430	(805.90)	(31,752.00)	(8.60)		11,893.00		(20,673.50)		(20,673.50)
DEVELOPMENT CHARGES-Parks & Recreation	0810-43-0730	(51,550.54)	(29,976.00)	(549.99)				(82,076.53)		(82,076.53)
TOTAL DEVELOPMENT CHARGES	Sub Total	(462,974.67)	(124,065.00)	(4,939.42)	-	11,893.00	-	(580,086.09)		(580,086.09)
PARKLAND RESERVES	0002-53-7200	(67,961.69)	(4,500.00)	(725.08)				(73,186.77)	64,000.00	(9,186.77)
FEDERAL GAS TAX REVENUE	0120-43-0000	0.12						0.12		0.12
OCIF Funding	0120-43-0000-0001	-		(1,759.42)	(74,459.56)			(76,218.98)		(76,218.98)
TOTAL OBLIGATORY RESERVES FUNDS & DEFERRED REVENUE		(530,936.24)	(128,565.00)	(7,423.92)	(74,459.56)	11,893.00	-	(729,491.72)	64,000.00	(665,491.72)



Debt

- How much debt is too much?
 - Ministry of Municipal Affairs and Housing offers guidance in the form of a 25 percent Annual Repayment Limit (ARL) for municipalities as outlined in O. Reg 403/02
 - Means when municipality wants to borrow it is limited to no more than 25 percent of its own source revenue (taxation, user fees/charges, investment income, etc)
 - Debt cannot extend beyond the lifetime of the capital work for which the debt was incurred and cannot exceed 40 years.



Debt

Current Position

- Total Outstanding Debt as of December 31, 2017 = \$22,309,438
- Total Debt Servicing as of December 31, 2017 = \$ 1,859,048

- Provincial Maximum is 25%
- South Huron's Annual Debt Repayment limit is 11.9%
 - This is considered high by provincial indicators



Debt

Debt Allocation by Asset Category (as of December 31, 2017)

Water	= \$11,165,108
Sewer	= \$10,386,849
Recreation	= \$ 757,481
Total	= <u>\$22,309,438</u>

New Debt Commitments

Exeter & District Swimming Pool - \$864,000 (per 2018 budget document)



Where we are

2019 Proposed Budgets

- \$9 M Capital Projects (Levy & User)
- \$18.5M Operating Costs (Levy & User)

Estimated tax impact based on 2019 estimates to date	Increase \$ (Decrease)\$	Increase \$ (Decrease)\$
	Rural	Urban
Based on a 8.74% Levy Increase		
Annual Increase on \$100,000 residential Assessment	\$ 9.37	\$ 16.36
Annual Increase on home assessed at \$265,000 (SH Average)	\$ 24.83	\$ 43.35
Tax Rate Increase	1.7%	2.5%
2018 Tax Impact	Increase \$ (Decrease)\$	Increase \$ (Decrease)\$
	Rural	Urban
Based on a 6.70% Levy Increase		
Annual Increase on \$100,000 Residential assessment	\$ 0.91	\$ 5.60
Annual Increase on home assessed at \$233,505 (SH average)	\$ 2.13	\$ 13.07
Tax Rate Increase	0.16%	0.84%



Council Input/Questions

