



Council Report

Report Number: CORP2021-005
Meeting Date: February 16, 2021
Title: 2021 Tax Levy Supported Operating Budget
Author and Title: Jennifer Stover, Director of Corporate Services

Recommendation(s):

That Report CORP2021-005, **2021 Tax Levy Operating Budget**, be received;

That all uncommitted funding received under the Safe Restart agreement be transferred to the Contingency reserve to be used for the purpose of addressing operating shortfalls and municipal pandemic relief; and

That Council approve the 2021 Tax Levy Supported Operating Budget.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

At the Council Meeting of February 2, 2021, Council adopted the following resolution:

CR2021-077

That Staff provide options to Council, at the February 16, 2021 Special Council Meeting, to fund a reduction in the proposed 2021 tax levy increase, as a one-time community pandemic relief, in a manner that would not negatively impact the City's long term financial plan.

This report addresses that direction.

Rationale:

The City's 2021 operating budget was aligned to the approved "pre-pandemic" 2020 budget. The budget, as presented, includes a 3.84% tax levy increase.

Below are a list of options for Council's consideration in lowering the tax levy increase.

Special Projects Budget – optional reduction of 0.25%

In March 2019, the City received \$725,000 one-time funding from the Province to support small and rural municipalities in their effort to "become more efficient and reduce expenditure growth in the longer term." To date, the City has spent \$425,000 of this funding on various information technology improvements and master / management plans.

The decision units for the Special Projects budget recommends that seven Information Technology projects be funded from the remaining \$300,000 of this grant. On the assumption that Council approves these decision units in the Special Projects budget, it has the impact of reducing the tax levy by 0.25%.

Area Tax Rates – optional reduction of 0.30%

The City has area tax rates where levels of service are not consistent across the City. Any surplus in the area rate at year end gets transferred to a reserve specific to that area rate. Any deficit in the area rate is added to the tax levy for the following year. The area rate reserves are then used to stabilize any tax levy increase and/or fund capital projects in the following year.

The change in area rating currently included in the 2021 budget is as follows:

Area Rate	2020 Levy	2021 Levy	Difference
Fire Area A	2,131,675	2,620,417	488,742
Fire Area C	2,407,966	2,523,286	115,320
Transit	735,370	937,496	202,126
Lindsay Parks	290,116	300,551	10,435
Street lighting	423,717	636,750	213,033
OPP	8,476,045	8,342,610	(133,435)
KL Police	8,075,040	8,199,306	124,266
Total	23,660,416	22,539,929	1,020,487

Staff are completing the 2020 year end financials in preparation for the audit. A surplus in four of the area rates is expected. As a result of the surplus, there is sufficient funds in the specific reserves to reduce the tax levy to 2020 levels in Fire Area C, Lindsay Parks, and KL Police. Staff are recommending that the Street lighting area rate be reduced by \$115,000. The above recommendations ensure that each reserve has a balance of at least \$100,000 to fund future initiatives.

Using the 2020 surplus to reduce the tax levy in these four area rates would result in a reduction of \$365,021, and have the impact of reducing the tax levy by 0.30%.

Pandemic Related Budget Changes – optional reduction of 0.70%

To date, the City has received \$5.8 million in funding from the upper levels of government under the Safe Restart agreement. These funds are to be used for the purpose of addressing operating shortfalls and municipal pandemic relief. Staff are recommending that these funds be transferred to the Contingency Reserve to ensure that these funds are used at the direction of Council.

Included in the proposed 2021 operating budget are increased expenses and/or reduced revenues directly related to the pandemic. Specifically, the budget for Victoria Manor includes \$541,489 of increased expenditures to assist the home in managing the effects of the pandemic.

At the time that the budget was prepared, the impacts that the pandemic would have on operations in 2021 was unknown. To be prudent, staff did include a provision for some lost revenue to arena, halls and transit. The Community Services revenue budget was reduced by \$205,214, and the transit budget by \$89,250 accordingly.

These pandemic related costs and lost revenues add an additional burden to the tax levy of \$835,953 for 2021.

The City has received \$5.8 million in funding to support 2020 and 2021 pressures stemming from the pandemic. Using the Safe Restart funds to offset these budget pressures would result in a reduction in the tax levy by 0.70%.

Library Services – optional reduction of 0.11%

The Library's budget is increasing by \$131,423. Similar to area rating, the Library also has a reserve for the disposition of any surpluses. This reserve is used to cover any deficits and/or fund any library specific capital projects.

Page 176 of the 2021 budget book identifies that the proposed balance in the Library reserve, after funding the 2021 capital program is \$218,895. This forecasted balance excludes any contributions to the reserve resulting for the 2020 surplus.

Staff are expecting Library Services to have a 2020 surplus in excess of \$500,000 which would result in an overall reserve balance of more than \$700,000.

Using the 2020 surplus to reduce the Library tax levy requirement of \$131,423, would lower the tax levy increase by 0.11%.

Other Options

On the assumption that Council concurs with all options above, the tax levy would be reduced from 3.84% to 2.48%. There are three other funding sources that Council could consider to lower the tax levy increase further.

The 2019 surplus of almost \$3M was directed by Council to be used for "the purpose of funding community, economic, and corporate pandemic recovery initiatives". There is approximately \$780,000 remaining of these funds that could be used to reduce the tax levy. To date these funds have been used for tangible initiatives in the community, and it is recommended that they continue to be used for that purpose. Staff are therefore not recommending this option.

The City is expecting a 2020 surplus. While the exact amount has yet to be confirmed, Council could give direction to dispose of some or all of the 2020 surplus to reduce the tax levy in 2021. Staff are not recommending this option either. Annually, there are pressures on both the operating and capital budget. The long term financial plan update will further identify these pressures and assist Council in determining the best use of these funds.

Finally, the City is in receipt of \$5.8 million of funding from the Safe Restart program. In addition to the \$835,953 noted above in direct pandemic related costs and lost revenue, the City is expecting further pandemic related pressures in 2021. The shut down to February 11th has already impacted revenues in excess of what was budgeted, and additional expenses continue to be monitored. These funds were provided to the City exactly for the purpose of containing costs and mitigating lost revenues, and therefore staff believe that this the most appropriate fund to support the 2021 budget.

Other Alternatives Considered:

Should Council wish to enact any of the above options, the following resolutions could be considered.

That \$115,320 of the Fire Area C 2020 area rated surplus be allocated to the 2021 budget;

That \$10,435 of the Lindsay Parks 2020 area rated surplus be allocated to the 2021 budget;

That \$115,000 of the Street lighting 2020 area rated surplus be allocated to the 2021 budget;

That \$124,266 of the KL Police 2020 area rated surplus be allocated to the 2021 budget;

That \$835,953 of Safe Restart funding be allocated to the 2021 budget to offset pandemic related costs and reduced revenues;

That \$131,423 of the 2020 Library surplus be allocated to the 2021 budget;

That Council approve the 2021 budget with a tax levy increase of ____ and that the 2019 surplus / 2020 surplus / Safe Restart funding be used to support this direction.

Alignment to Strategic Priorities

This report is in alignment with the 2020-2023 Kawartha Lakes Strategic Plan priorities of:

1. A Vibrant and Growing Economy
2. Good Government

Financial/Operation Impacts:

Using one-time funding sources to reduce the tax levy has longer term effects on the City's financial planning. In determining the appropriate tax levy however there are other factors that must be considered. The economic impact of the pandemic on our community is a reality and the City's financial plan will need to adapt to these changing conditions.

For reference in determining the appropriate tax levy increase for 2021, a 1% tax levy increase is each to approximately \$1.2 million. A half of a percent is therefore equal to approximately \$600,000, and quarter of a percent approximately \$300,000.

Consultations:

Senior Management Team
Treasurer

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Department Head: Jennifer Stover, Director of Corporate Services