



Council Report

Report Number:	CORP2023-001
Meeting Date:	February 28, 2023
Title:	2023 Proposed Budgets
Description:	2023 Proposed Tax Supported Operating Budget, Special Projects Budget, and Water and Wastewater Operating and Capital Budgets.
Author and Title:	Carolyn Daynes, Treasurer

Recommendation(s):

That report CORP2023-001, **2023 Proposed Budgets**, be received;

That the 2023 Proposed Tax Supported Operating Budget, attached as Appendix A to report CORP2023-001, be tabled for deliberation;

That the 2023 Proposed Special Projects Budget, attached as Appendix B to report CORP2023-001, be tabled for deliberation;

That the 2023 Proposed Water and Wastewater Operating Budget, attached as Appendix C to report CORP2023-001, be tabled for deliberation;

That the 2023 Proposed Water and Wastewater Capital Budget, attached as Appendix D to report CORP2023-001, be tabled for deliberation; and

That the \$600,000 in debenture financing of the 2023 Piers, Docks and Wharfs capital project (950230105) be replaced by \$600,000 in Capital Contingency Reserve (1.32248) financing; and

That the additional 2023 Blue Box Grant Funding of \$502,392 be transferred to the Capital Contingency Reserve (1.32248), committed to Waste Management future operating and capital expenses.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

The 2023 Proposed Tax Supported Operating and Special Project Budgets and the Water and Wastewater Operating and Capital Budgets were provided to Council and the public on December 13th, 2022. Staff have presented the proposed 2023 budgets, or parts thereof, at various recent Council meetings: An overview presentation on December 13th, 2022, department and external agency presentations on January 17th and 26th, 2023 and a summary presentation and public meeting on February 2nd, 2023.

As per the Long-Term Financial Plan (LTFP), the Proposed 2023 Tax Supported Operating Budget, attached hereto as Appendix A, is based on a 3% general tax levy increase as well as a 1.5% special tax levy increase for a dedicated infrastructure levy used exclusively to finance tax supported capital projects. The 3% general tax levy increase in part supports the Proposed 2023 Special Projects Budget attached hereto as Appendix B.

The Proposed 2023 Water and Wastewater (WWW) Operating Budget, attached hereto as Appendix C, is based on a 3% increase to user rates as per the LTFP and Water and Wastewater Rate Study. The rate study provides a long-term projection for water and wastewater operating and capital expenditures and resulting user fee revenue requirements. The WWW Operating Budget provides for transfers to Water and Sewer Infrastructure Reserves that in turn support water and wastewater capital projects. The Proposed 2023 WWW Capital Budget is attached hereto as Appendix D.

On February 14th, 2023 Council deliberated and approved, as amended, the 2023 Tax Supported Capital Budget.

Rationale:

Council is set to deliberate four distinct budgets at the February 28th, 2023 Council meeting. This report provides a brief summary of each of those budgets and discusses key highlights of the related challenges and opportunities for 2023.

2023 Proposed Tax Supported Operating Budget

For 2023, the LTFP forecasted a 3% general tax levy increase and a 1.5% special tax levy increase for a dedicated infrastructure levy which exclusively finances capital projects. The LTFP is designed to provide for the City's financial viability and stability through various strategies such as the building up of reserves and decreased reliance on debenture to fund tax supported capital budgets. Over the LTFP's horizon of 2022-2031, the dedicated infrastructure levy is set to reach a sustainable level by

approximately 2031, after which it will provide for a stable transfer to the Asset Management Reserve and permit less reliance on debenture financing for baseline tax supported capital needs. To 2031, this levy will contribute funding to lessen our infrastructure deficit.

The Proposed 2023 Operating Budget was prepared with the LTFP in mind, particularly planned tax levy increases. There were many challenges but also some victories in ensuring that the 2023 budgets came in on plan:

- The operating budgets for 2021 and 2022 were pandemic budgets for which staff were unsure whether various user fee revenues would recover, making budget preparation challenging. In 2023 staff have prepared a budget where user fee revenues are greater than or equal to pre-pandemic levels. This is a result of increases in fees but also increased usage and rentals of arenas, ball diamonds and facilities.
- The operating budgets for 2021 and 2022 included Safe Restart Pandemic Grants of \$2,265,953 and \$1,500,000 respectively. This grant program is not available in 2023 and therefore staff had to account for this loss of revenue through decreased expenses and increased revenue if available.
- Creating an affordable budget when the rate of inflation exceeds 7% was very difficult. Staff were asked multiple times to review their budgets for savings and to ensure that what is being presented to Council today is a base budget very similar to the 2022 budget. That the proposed general tax levy increase is 3% demonstrates staff's commitment to budgeting in line with the LTFP despite the ongoing challenges of a high-inflation environment.
- Insurance premiums have been increasing steadily for years and some municipalities were experiencing increases of over 50%. Staff were able to hold the City's premium increase to just under 7%.
- Weather is always a driving but uncertain factor for the Public Work's Winter Control program, and 2022 was no exception. Winter Control costs were approximately \$1 million over budget in 2022. For 2023 staff are proposing only a modest increase to the Winter Control budget due to the stabilizing effect of the Winter Control Contingency Reserve, which was created in 2020. Having this reserve as a hedge against uncertainty in weather has enabled staff to reduce the impact of volatility in winter control costs.
- Growth in assessment is generating an additional \$2 million in revenue.
- Enhanced interest income from investment of funds has resulted in an increase in the 2023 budget of over \$3 million in revenue. The City has over \$50 million in short term investments. With the prime interest rate increasing from 2.45% in

early 2022 to 6.7% currently, those investments are generating significantly better returns. Interest income has been modest over recent years, so the recent increase in it is a positive contributor to balancing the 2023 tax supported operating budget.

Staffing makes up a large percentage of any municipal operating budget. The City has multiple collective agreements prescribing annual wage increases. Of note is that the City's wages, as a percentage of total operating expenses, are amongst the lowest of our comparators.

2023 Proposed Special Projects Budget

Special projects are programs or initiatives that are one-time in nature, require more than a year to complete and do not result in the creation of, or improvement to, an asset. Each special project is managed like a capital project whereby project financing is secured for the term of the project, not merely the calendar year or following project approval. Proposed 2023 special projects consist of studies, software and various other one-time operating activities which will generally require more than a year to complete.

As indicated in Appendix B, the Proposed 2023 Special Projects Budget amounts to \$2,159,000 in expenditure, which is financed \$1,764,773 by the tax levy and \$394,227 by the DC Reserve, Contingency Reserve and grants. The two largest special projects proposed for 2023 are the Secondary Plans and Rural Zoning by-law appeals and the Next Generation 911 System. The Kawartha Lakes Police Service is seeking a grant to support the latter project. Should that effort be successful, staff will return to Council with a report to adjust the project's financing as needed.

2023 Proposed Water and Wastewater Operating Budget

The City's Water and Wastewater Rate Study, which has been incorporated into the LTFFP, recommends a 3% user rate increase for 2023. In the early 2000's Council approved a City-wide uniform user rate structure, which results in deficits in higher-cost systems (e.g. Kinmount) being covered by surpluses in lower-cost systems (e.g. Lindsay). This is reflected in Appendix C, wherein the Proposed 2023 Water and Wastewater Operating Budget is structured by system, each of which is in either a deficit or surplus position. For the City's 21 water systems and 6 wastewater systems, respectively, these deficits and surpluses cancel out to ensure total expenses equal total revenues. As per the LTFFP, the proposed 2023 user rate increase is 3%.

The main purpose of the Water and Wastewater Rate Study is to ensure that user fee revenue is sufficient to cover operating expenses as well as capital needs over the long term. A key part of that strategy is the building up of transfers to Water and Sewer Infrastructure Reserves into operating budgets in support of current and future capital

projects. Reserve financing is often supplemented by debenture financing, the principal and interest payments for which are included in operating budgets. As per the LTFP, due to the need to smooth out the impact of fluctuating capital expenditures while keeping user rates predictable and affordable, debenture is expected to remain a vital financing source for water and wastewater capital needs for the foreseeable future.

System-specific operating costs include those relating to labour, contracted services (OCWA contracts) and materials. Below is a summary of the water and wastewater operating revenues and expenses proposed for 2023:

	2023 Budget	2022 Budget
User Fees	22,770,336	22,259,518
Development Charge Reserve Revenue	1,626,079	1,645,996
Other Revenue	222,950	211,500
Total Revenue	24,619,365	24,117,014
Wages and Benefits	1,892,573	1,858,549
Materials	1,212,250	1,130,150
Contracted Services	9,335,850	9,013,213
Principle and Interest on Long Term Debt	6,115,757	6,558,017
Transfer to Infrastructure Reserves	4,500,000	4,150,000
Inter-functional Charges	1,559,935	1,407,085
Total Expenses	24,619,365	24,117,014
Net Surplus/Deficit	-	-

2023 Proposed Water and Wastewater Capital Budget

As shown in Appendix D, the Proposed 2023 Water and Wastewater Capital Budget totals \$5.2 million in expenditure, which is financed almost entirely by the Water and Sewer Infrastructure Reserves. By contrast, the 2022 version of this budget saw \$9.7 million in expenditure financed \$6.5 million by reserves and \$3.2 million by debenture. Capital work for 2023 has been scaled back as a one-time measure to enable Engineering staff to catch up on existing water and wastewater capital projects. Staff have had to manage several unusually significant capital projects over the last few years including the Lindsay Water and Pollution Control Plant (\$22.4 million), the Water and Wastewater Master Plan and the replacement of water and sewer mains in conjunction with downtown revitalization projects in Lindsay and Fenelon Falls. A number of these projects are still ongoing.

As stated above, the proposed 3% user rate increase supports the transfers to the Water and Sewer Infrastructure Reserves which in turn support proposed 2023 capital projects and potentially unanticipated capital needs (e.g. emergencies, provincial orders etc.) which may arise.

Other Matters:

Coboconk Wharf

On February 14th, 2023 Council opted to add, with a budget of \$600,000 financed by debenture, the rehabilitation of the Coboconk Wharf to the Piers, Docks and Wharfs capital project in the 2023 Tax Supported Capital Budget.

CR2023-105

Moved By Councillor Yeo

Seconded By Councillor Joyce

That the Coboconk Wharf Project, in the amount of \$600,000.00, be included in the Proposed 2023 Tax-Supported Capital Budget, to be funded by debenture.

Carried

This project was appropriately accelerated in order to be implemented in advance of, and to complement, future Ministry of Transportation capital works. Traditionally, projects like this have been funded through capital reserve(s) when planned in a given year. Having considered the matter further, staff have determined that debenture financing is not preferred for this type of project. As a result, staff are of the view that the project should instead be financed by the Capital Contingency Reserve as that would better align with the project's scope. Therefore, staff have included a recommendation to that effect within this report.

Blue Box Grant Funding

The 2023 Blue Box grant is money paid to participating communities for operating the Blue Box recycling program. This amount of the grant is determined through information received from municipalities and recycling associations on costs and amount of materials collected through the Blue Box Program. Waste Management had included \$1,400,000 as an estimate for this grant revenue in the 2023 City Operating Budget. The allocations for the 2023 grant were released in late January 2023 and the City of Kawartha Lakes is to receive \$1,902,392 in funding as opposed to the \$1,400,000 estimated in the budget. This equates to an additional \$502,392 in revenue for the Waste Management division. Staff recommend that this increase in revenue be transferred to the Capital Contingency Reserve committed to Waste Management. The City operating budget has achieved the Long Range Financial Plan goal of a 3% tax

levy without this revenue and therefore a reserve transfer is recommended. This will be used for future operating and capital expenses in the Waste Management Division as the Province moves towards the extended Producer Responsibility Framework and away from the Blue Box Program.

Decision Units

Decision units related to the 2023 operating budget are attached hereto as Appendix E. These are specific items forwarded to budget deliberations by Council resolution.

Other Alternatives Considered:

As the four proposed budgets tabled by this report align with the LTFP, staff are not recommending any amendments to them at this time. However, Council may choose to adopt one or more decision units or otherwise amend any of the proposed budgets during deliberations.

Alignment to Strategic Priorities

The recommendations of this report align with the following goals of the Corporate Strategic Plan:

- Goal 1 – A Vibrant and Growing Economy: Effective budgets help support municipal services essential for a prosperous and growing economy.
- Goal 2 – An Exceptional Quality of Life: Effective budgets help support municipal services essential for the quality of life of residents.
- Goal 3 – A Healthy Environment: Effective budgets help support municipal services essential for a healthy environment and provision of clean water.

Financial/Operation Impacts:

The proposed 2023 budgets are aligned with the LTFP in that they propose a 3% general tax levy increase, a 1.5% special tax levy increase dedicated to capital needs and a 3% increase to water and wastewater user rates. Among other things, these revenues support baseline operating needs, special projects and contributions to reserves. Other financial implications of the proposed budgets are indicated therein.

Consultations:

Senior Management Team

Manager of Corporate Assets

Attachments:

Appendix A – 2023 Proposed Tax Supported Operating Budget



CORP2023-001
Appendix A Propose

Appendix B – 2023 Proposed Special Projects Budget



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Appendix B 2023 Prc

Appendix C – 2023 Proposed Water and Wastewater Operating Budget



CORP2023-001
Appendix C Propose

Appendix D – 2023 Proposed Water and Wastewater Capital Budget



CORP2023-001
Appendix D Propose

Appendix E – 2023 Operating Budget Decision Units
To be provided separately and with amended agenda.

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