

The Corporation of the City of Kawartha Lakes
Council Report

Report Number CORP2017-030

Date: December 13th, 2017
Time: 9:00 a.m.
Place: Council Chambers

Ward Community Identifier: All Wards

Subject: Proposed 2018 Tax-Supported and Water and Wastewater Operating Budgets

Author Name and Title: Carolyn Daynes, City Treasurer and Adam Found, Manager of Corporate Assets

Recommendation(s):

RESOLVED THAT Report CORP2017-030, **Proposed 2018 Tax-Supported and Water and Wastewater Operating Budgets**, be received;

THAT the 2018 Tax-Supported Operating Budget, attached as Appendix A to Report CORP2017-030, be adopted;

THAT the 2018 Water and Wastewater Operating Budget, attached as Appendix B to Report CORP2017-030, be adopted;

THAT the transfers to and from reserves identified in Appendix C to Report CORP2017-030 be approved for the 2017 Tax Supported Operating Budget;

THAT the transfers to and from reserves identified in Appendix D to Report CORP2017-030 be approved for the 2017 Water and Wastewater Operating Budget; and

THAT the 2016 tax-supported deficit remaining of \$393,358 be funded from the 2017 surplus in land sales.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

At the Council meeting of July 11th, 2017, Council adopted the following resolution:

CR2017-644

Moved By Councillor Veale

Seconded By Councillor Miller

RESOLVED THAT Report CORP2017-020, **10-Year Financial Plan**, be received;

THAT the 10-Year Financial Plan, attached as Appendix B to Report CORP2017-020, be adopted as a guiding framework for future operating and capital budgets and the transition to long-term financial sustainability;

THAT a transitional increase in tax-supported debenture funding of \$25,000,000 be approved for the purpose of implementing the 10-Year Financial Plan, and be maintained and reported on separately from other debt until it is retired;

THAT the capital projects identified in Appendix C to Report CORP2017-020 be financed by this debenture whereby the resulting displaced tax levy and reserve financing is transferred to the Capital Reserve or another reserve as may be required; and

THAT the tax-supported Infrastructure Levy be collapsed into the General Tax Levy and the water and wastewater Infrastructure Levies be collapsed into their respective fixed user fees.

The proposed 2018 tax-supported and water and wastewater operating budgets, attached hereto as Appendix A and Appendix B, respectively, are the first to be developed within the framework set by this direction of Council. More generally, they are the first to be developed in alignment with a Corporate Strategic Plan, Asset Management Plan and Long-Term Financial Plan. Reflecting this direction and the capital budgets adopted by Council on October 31st, 2017, this report brings forward proposed 2018 operating budgets for consideration and approval by Council.

Rationale:

Based on the 2017 Asset Management Plan and the City's overall financial circumstances, the 10-Year Financial Plan provides a framework that guides the City's transition toward long-term asset and financial sustainability. Within this framework, Council adopted 2018 tax-supported and water/wastewater capital budgets on October 31st, 2017, taking a significant step toward this goal. Within the same framework, the next step is for Council to adopt corresponding

operating budgets, with deliberations set for December 13th, 2017 (and December 14th, 2017 if necessary).

The 10-Year Financial Plan addresses significant 2018-2019 non-inflationary operating pressures on the tax-supported side by spreading the aggregate tax-related impact over several years. This is facilitated by reweighting capital budget reliance away from the tax levy and toward the capital reserve on a transitional basis. As discussed in Council Report ENG2017-026, this reliance is phased out over several years as sustainable capital expenditure and tax levy support are phased in, after which the capital reserve is replenished to a sustainable level by the end of the planning horizon.

As a natural part of the budget development process, staff is tracking updates to the 10-Year Financial Plan. New operating initiatives, pressures and efficiencies identified by staff and Council, such as the increase in calcium chloride application on gravel roads, are being incorporated into the plan. The plan has been able to accommodate these adjustments within the originally-forecasted tax and user rate increases, reflecting the plan's flexibility and its overriding objective to provide for a prudent, stable and affordable path toward sustainability. Given the short- and long-term financial impacts of budget decisions, it is the intention of staff to update Council on the long-term financial plan annually after the adoption of budgets by Council.

Staff has worked extensively over the past several months to develop proposed 2018 operating budgets that align with the 10-Year Financial Plan, support the approved 2018 capital budgets and most effectively address the City's ongoing and anticipated operating and capital needs. The following operating budget highlights are worth mentioning:¹

Proposed 2018 Tax-Supported Operating Budget Highlights

- Management of \$5.5M in various non-inflationary operating pressures, including \$2.1M to address underfunding of winter control and calcium chloride application and \$221,200 for OMPF grant reduction
- Incorporation of the \$2.9M annual repayment of the \$25M transitional debenture issued to facilitate the 10-Year Financial Plan
- Retirement of the \$393,358 remaining of the 2016 operating deficit with proceeds from the sale of surplus municipal property in 2017 (currently, land sales total \$1,135,695 with a budget of \$640,000, generating a surplus of 495,695)

¹ As compared to the CAO's cover letter to Council dated November 10th, 2017, these highlights have been revised to reflect the City Treasurer's memo to Council dated November 14th, 2017 and the unanticipated reduction in the Ontario Municipal Partnership Fund (OMPF) grant.

- Relief of \$541,000 due to operational efficiencies in various areas
- Relief of \$1.3M due to finalization of the Ontario Works upload and unanticipated savings in other areas
- Contribution of \$2.6M to the capital reserve
- Full implementation of the Council-approved Non-Emergency Fleet Policy, with all capital replacement revenue (\$3.1M in 2018) going to the Public Works Fleet Reserve
- Completion of Phase 1 of 2 of building the sustainable annual contribution to the Fire Fleet Reserve (\$1.1M in 2018 and \$1.8M planned for 2019 onward, subject to inflationary increases)
- Tax increase of 3.9% as compared to the originally forecasted 4.5% in the 10-Year Financial Plan

Proposed 2018 Water/Wastewater Operating Budget Highlights

- Contributions of \$1.3M and \$1.1M to the water and wastewater capital reserves, respectively
- User rate increase of 3.0% as compared to the originally-forecasted 4.0% in the 10-Year Financial Plan

Common to both proposed operating budgets is accelerated contributions to capital reserves as compared with the 10-Year Financial Plan, providing greater security and flexibility than was originally anticipated.

Other Alternatives Considered:

As the proposed 2018 operating budgets align with the 10-Year Financial Plan and best meet the City's operating needs and service levels, staff is recommending Council adopt these budgets.

Subsequent to the original release of the proposed 2018 operating budgets on November 10th, 2017, two unanticipated developments occurred:

1. Human Services Revision: In a memo to Council dated November 14th, 2017 the City Treasurer advised of an increase of \$209,900 in tax support required for the 2018 Human Services program.
2. Ontario Municipal Partnership Fund (OMPF) Reduction: On November 20th, 2017, the Ontario Ministry of Finance advised that the City's OMPF grant will be reduced by \$221,200 in 2018.

Together, these unanticipated developments result in \$431,100 of increased pressure on the tax levy, raising the projected tax increase from 3.5% to 3.9%. The proposed 2018 tax-supported operating budget attached to this report reflects these latest developments.

Furthermore, Appendix F to this report contains extractions for the Proposed 2018 Operating Budget identified to date by Council or councillors to be brought forward as decision units for budget deliberations.

Financial/Operation Impacts:

The 10-Year Financial Plan sets out the expected financial impacts of aligning future operating and capital budgets with the municipal service levels established by Council and/or legislation. Since the proposed operating budgets align with this plan, the related financial impacts have already been accounted for. A summary of reserves and reserve funds, showing 2017 balances and 2018 approved capital-related and proposed operating-related transfers, is attached as Appendix E.

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

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

- Goal 1 – A Vibrant and Growing Economy: An effective operating budget helps support municipal services that are essential for a prosperous and growing economy.
- Goal 2 – An Exceptional Quality of Life: An effective operating budget helps support municipal services that are essential for the quality of life of residents.
- Goal 3 – A Healthy Environment: An effective operating budget helps support municipal services that are essential for a healthy environment.

Consultations:

Senior Management Team

Attachments:

Appendix A: Proposed 2018 Tax-Supported Operating Budget



Proposed 2018
Tax-Supported Operat

Appendix B: Proposed 2018 Water and Wastewater Operating Budget



Proposed 2018
Water and Wastewat

Appendix C: Transfers to and from Reserves for 2018 Tax-Supported Operating Budget



Transfers to and
from Reserves for 20

Appendix D: Transfers to and from Reserves for 2018 Water and Wastewater Operating Budget



Transfers to and
from Reserves for 20

Appendix E: Reserve and Reserve Fund Summary: 2017 Balances and 2018 Budget Impact



Reserve and
Reserve Fund Summa

Appendix F: Extractions for Proposed 2018 Operating Budget



Extractions and
Decision Units for Pro

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Department Head: Ron Taylor, CAO and Acting Director of Corporate Services