

# Staff Report to Council

**Title:** 2024 Budget Report

**Report Number:** Financial Services-2023-23

**Director:** Corporate Services

**Manager:** Manager.

**Meeting Date:**

Wednesday, September 27, 2023

**Date to be considered by Council:**

Wednesday, September 27, 2023

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## Recommendation:

That Council receive the 2024 Budget Plan Report for information; and

Further that Council approve the 2024 wage increase using the 12-month July CPI of 3.3% as per Compensation & Benefits Policy HR.03 and the 2024 budget be drafted to incorporate this economic increase accordingly.

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## Executive Summary:

In accordance with Budget Policy FIN.02, this Budget Plan Report is intended to provide preliminary budget information for Council's awareness and to lay out the key factors, assumptions and estimates that may impact the 2024 budget. The report also requests Council's approval to develop the draft 2024 operating budget using an economic wage increase of 3.3%, which represents the 12-month July CPI as per Policy HR.03. This report also provides the 2024 Budget Survey results received from 241 respondents that participated in the survey.

## Strategic Priorities:

D.16-Ensure the Municipality provides value for money and long-term sustainability

## Financial Considerations:

Financial implications will be discussed further during budget deliberations.

## Policy:

Budget Policy FIN.02

Compensation & Benefits Policy HR.03

## **Context and Background Information:**

This Budget Plan Report is prepared annually by the Treasurer and presented to Council in accordance with Budget Policy FIN.02 and includes information on assumptions and estimates impacting the 2024 budget.

The preparation and approval of a municipal budget formalizes the operational requirements for the upcoming year based on the best information available at the time. As with any organization, issues will arise, controllable or uncontrollable, that may require a change from the initial plan.

Key factors/assumptions considered in developing the 2024 budget projections include:

- 1) Inflationary changes (CPI)
- 2) Asset Management and Sustainability of reserve funds
- 3) Federal/Provincial grant funding changes (e.g., OMPF)
- 4) Partnership contributions (Westario Power, Bruce Telecom)
- 5) Wage and benefit related impacts
- 6) Projected debenture payments
- 7) Portion of one-time use of reserve funds in 2023 that were not offset by 2024 reductions;
- 8) Insurance premium increases
- 9) Proposed Service level changes;
- 10) Taxation and affordability levels

**Inflation:** Inflation is a concern for operations and has severely eroded the purchasing power of the Asset Management Plan funding. Inflation had reached its peak of 8.1% in June 2022 and has been trending downwards. The Bank of Canada's July 2023 Monetary Policy Report states that inflation is projected to remain around 3% over the next year and will gradually return to 2% in mid-2025. Staff will continue to monitor inflation and will make financial recommendations accordingly.

The 2024 Consolidated Rates and Fees By-law will be drafted using the 2023 July CPI of 3.3%. The draft by-law will be coming forward to Council in October for consideration and approval.

**Asset Management:** In order to maintain existing service levels, the Municipality will be dependent upon maintaining healthy capital reserve funds in order to provide the remainder of the required lifecycle funding over the forecasted period. The 2022 AMP Financial Strategy states that the Municipality needs to proactively increase the amounts being transferred to capital reserves during the annual budget process. Including growth, the annual increase in the required taxation levy to direct towards capital would be 6.7% (excluding water and wastewater). In 2023, this would have equated to a transfer to the Lifecycle Reserve Fund of \$5,409,500. As the annual contribution to the Lifecycle Reserve Fund was historically determined using the equivalent of a 3% tax rate increase in each budget year, the 2023 Lifecycle Reserve Fund contribution was only \$4,350,000 (a shortfall of \$1,059,500).

The draft 2024 budget will be prepared using a 3% tax rate increase for the contribution to the Lifecycle Reserve Fund unless Council directs otherwise. Using 2023 figures, this would equate to a total contribution of \$4,899,000.

**Federal/Provincial Grants:**

- The Ontario Municipal Partnership Fund (OMPF) grant is projected to remain stable at \$1,234,000.
- The Ontario Community Infrastructure Fund (OCIF) allocation for 2024 has not yet been communicated, however the Ministry of Infrastructure has indicated that year-over-year changes in funding will be limited to +/- 15% of the previous year's allocation (\$1,381,607 - 2023).
- The Canada Community Building Fund (CCBF) is a permanent annual source of infrastructure funding for Canada's municipalities at \$2 billion per year. The fund is allocated on a per capita basis across Canada. Kincardine's 2023 allocation was \$376,908 and is anticipated to remain stable in 2024.

**Partnership Contributions:** Due to uncertainty, the Municipality was advised not to include the Westario Power dividend in its 2023 budget. In June 2023, a dividend was received in the amount of \$53,907 which represents 50% of the previous year's amount. These funds will be transferred to the Lifecycle Reserve Fund. To be conservative, the draft 2024 budget will not include an amount for the Westario Power dividend.

The Bruce Telecom dividend continues to be \$500,000. The 2023 budget allocated 50% of the dividend to the operating budget in order to reduce the tax rate by 1.37%. As per Section 5.4.2 of the Budget Policy, these one-time revenues should not be used to fund ongoing expenditures and therefore the 2024 budget will allocate the full dividend towards capital expenditures.

**Wages and Benefits:** The Compensation and Benefits Policy HR.03 was adopted by Council in August 2023. The policy proposes that annual economic increases in compensation for employees will be adjusted annually for inflation using the July to July CPI Rates, subject to maximum and minimum rates of 4% and 1% respectively. The annual increase will be approved by Council in advance of the budget process.

The Federal 12-month July CPI rate is 3.3%. Staff is requesting Council's approval to set the 2024 wage increase to 3.3% and draft the 2024 budget accordingly. The financial impact of this would be ~ \$275,000, which equates to a tax rate increase of 1.5% (using 2023 financial data). Should Council approve this wage increase, the 2024 budget would be drafted accordingly.

In addition, effective October 1, 2023 the Ontario minimum wage will be increasing by \$1.05/hour from \$15.50/hour to \$16.55/hour. The financial impact for 2024 has been estimated to be \$27,000, which equates to a tax rate increase of 0.15%.

**Debenture Payments:** Total debt servicing costs for 2024 are estimated at \$1,651,200 and are included in the operating budget. The external borrowing by-law for the Queen Street reconstruction project has been executed and the debenture by-law will be brought back to

Council upon completion of the project. The first year of debt servicing costs was included in the 2023 operating budget, and therefore the 2024 budgetary impact will be minimal. The breakdown of the 2024 debt servicing costs is as follows:

MAC Renovations	\$200,700
Fire Rescue Vehicle	\$ 37,000
Queen Street Bridge	\$167,500
Streetlights	\$146,000
Huron Terrace	\$760,000
Queen Street Big Dig	<u>\$340,000</u>
	<b>\$1,651,200</b>

**Reversal of 2023 One-time Funds:** The impact of one-time use of grants and reserve funds in the 2023 budget includes the following:

Description	Funding Source	Amount	Tax Rate %
50% BT Dividend to Operating	BT Dividend	\$250,000	1.37%
Nurse Practitioner/Physician Incentives	Contingency Reserve	\$155,200	0.85%
School Resource Officer	OCLIF Grant	\$27,000	0.15%
One-time transfer from Reserve Fund to decrease tax rate	Tax Mitigation RF	\$30,000	0.16%
<b>Total Impact</b>		<b>\$462,200</b>	<b>2.53%</b>

The 2024 budget will be adversely impacted by the one-time use of grants/reserve funds that were not offset by 2024 reductions in costs or service levels. Making up the shortfall of \$462,200 will necessitate a ~ 2.53% tax rate increase in 2024 (using 2023 financial data). Utilizing reserves to keep taxes artificially low without a plan to make-up the contribution in the future will negatively impact the Municipality's financial position in the long run. It is unsustainable and artificial as the savings for this amount must be found in future years.

**Insurance Premium Increases:** Insurance premiums are estimated to increase by 15%. Total insurance premiums amount to \$593,000 in 2023, which included \$43,000 for the cyber insurance policy. A 15% projected premium increase would result in a budgetary impact of ~ \$90,000 (0.5% tax rate impact).

**One-Time 2023 Operating Cost Reductions:** There were several temporary operating cost reductions that were made to reduce the tax rate in 2023, which were intended to be added back in the 2024 budget. This included the following:

- 1) Tourism Students: The 2023 budget eliminated 2 tourism students to achieve cost savings of \$25,000. Adding these 2 student positions back into the 2024 budget would add ~ 0.13% to the municipal tax rate.
- 2) By-law enforcement: The 2023 budget eliminated 1 seasonal by-law enforcement officer to achieve cost savings of \$26,000. Adding this back would add ~ 0.14% to the municipal tax rate.
- 3) Horticulture student: The 2023 budget eliminated 1 seasonal horticulture student to achieve cost savings of \$11,000. Adding this position back into the 2024 budget would add ~0.06% to the municipal tax rate.
- 4) Reduction to several program budgets, including office supplies, beach signage, building maintenance, columbarium design, dog park improvements, grass cutting reductions, youth archery, tree canopy, and cleaning services. Combined, this resulted in cost savings of \$80,000. Adding these costs back to the 2024 budget would add 0.44% to the municipal tax rate.

The total cost of these 2023 one-time reductions amount to \$142,000, which if added back to the 2024 budget would be equivalent to a 0.77% tax rate increase.

**Taxation and Affordability:** As a result of the above-mentioned factors, the 2024 operating budget will have a baseline starting increase of \$1,494,200 that would require additional tax dollars to fund. The following chart illustrates the estimated 2024 tax rate impact, as well as the impact on the 2024 tax levy:

Description	\$ Amount	Tax Rate Impact*	Tax Levy Impact
2023 One-Time Funds	\$ 462,200	2.53%	2.13%
AMP Increased Contribution	\$ 549,000	3.00%	2.53%
Wages - Economic Adjustments	\$ 302,000	1.65%	1.39%
Insurance Premiums	\$ 90,000	0.49%	0.41%
One-time 2023 operating cost reductions	\$ 142,000	0.78%	0.65%
MCR property taxes directed to operating budget	-\$ 51,000	-0.28%	-0.24%
<b>Total preliminary budgetary impacts</b>	<b>\$ 1,494,200</b>	<b>8.17%</b>	<b>6.89%</b>

\* using 2023 budgetary data

The above chart notes a favourable impact of \$51,000 from property taxes generated from the MCR building located on the former OPF lands. In previous budget years, the annual tax revenue generated from this site was directed towards the internal loan repayment for servicing work on these lands. The internal loan will be fully repaid in 2024 and therefore going forward, the annual tax revenue will be redirected back to the operating budget.

While there may be operating cost reductions and the addition of non-tax revenues in other areas that will offset these impacts, this report is to provide awareness to Council and the public that additional tax dollars will be necessary in order to fund municipal operations in a sustainable manner.

**Property Assessment Update:** The Ontario government filed [Regulation 261/23](#) under the Assessment Act to extend the current property assessment cycle and the valuation date of

January 1, 2016 through to the end of the 2024 taxation year. Therefore, municipalities will continue to calculate property taxes using 2016 property values.

The government also announced its intention to conduct a review of the property taxation and assessment system focusing on fairness, equity and economic competitiveness. Property reassessment will be deferred until this work has been completed.

**Budget Survey:** Staff launched a Budget Survey to solicit feedback from the public on the 2024 Municipal Budget, including value for money for municipal tax dollars and service levels. The annual budget survey has been launched to gather feedback from ratepayers on spending and priorities for the 2024 municipal budget. The budget survey was open on August 10<sup>th</sup> until September 7<sup>th</sup>. The survey was posted on the Municipal webpage and on social media, and was also advertised in Kincardine newspapers.

In total, there were 241 respondents, which is a 26% increase from 191 respondents in 2022.

The complete survey results have been included as an attachment to this report, however below are some highlights:

**Respondent information:**

- Ward 1 – 73% (176 responses)
- Ward 2 – 17% (40 responses)
- Ward 3 – 10% (25 responses)

When asked about the Municipality’s levels of service, the overall responses supported the provision of existing service levels being maintained. Of the responses across all departments, the majority of respondents indicated that they supported maintaining existing services:

Service	Reduced	Maintained	Enhanced	Unsure	Does not matter
Corporate Services	15%	38%	16%	27%	3%
Fire & Emergency Services	4%	69%	19%	7%	1%
Operations	12%	55%	27%	5%	1%
Waste Management	14%	53%	30%	3%	0%
Community Services	15%	44%	31%	3%	0%
Health Services	10%	40%	44%	5%	2%
Strategic Initiatives	30%	44%	16%	9%	1%
Planning Services	16%	47%	16%	19%	3%

Infrastructure Investment (AMP)	13%	56%	19%	11%	1%
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The survey also asked respondents to provide one item or project that they would like to see addressed in the 2024 budget. The most predominant themes were:

- Roads and related infrastructure (i.e. Bruce Ave)
- Housing
- Healthcare
- Beaches, park and trail improvements
- Arena and recreation upgrades

**Consultation Overview:**

The key stakeholders include ratepayers and residents of the Municipality of Kincardine that enjoy the services provided by the Municipality. A budget survey was conducted to obtain feedback from members of the public and input into the 2024 budget.

The Chief Administrative Officer was consulted on the estimates and assumptions used to draft this budget report.

**Origin:**

Budget Policy FIN.02

**Implementation Considerations:**

The 2024 Budget will follow the process outlined in Budget Policy FIN.02. The 2024 draft budget will be presented to Council in December 2023, followed by Council deliberations. The final budget is anticipated to be approved and adopted in February 2024.

The proposed budget meeting dates are as follows:

- First budget meeting                      December 18, 2023
- Second budget meeting                    January 15, 2024
- Third budget meeting                      January 29, 2024
- Budget adoption                            February 12, 2024

**Risk Analysis:**

This budget report has been prepared using current estimates and assumptions at the time of writing this report. There are financial risks that may arise throughout the budget process as more information becomes available, or as new Provincial and/or Federal legislation is enacted, which may result in changes to estimates and taxation levy requirements.

**Attachments:** Budget Process Flowchart; 2024 Budget Survey Results

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**Submitted by:** Roxana Baumann