

Staff Report to Council

Title: 2025 Budget Plan Report

Report Number: Financial Services-2024-18

Director: Corporate Services

Manager: Manager.

Meeting Date:

Wednesday, September 25, 2024

Date to be considered by Council:

Wednesday, September 25, 2024

Recommendation:

That Council receive the 2025 Budget Plan Report for information; and

Further that Council approve the 2025 wage increase using the 12-month July CPI of 2.5% as per HR.03 - Compensation & Benefits Policy and the 2025 budget be drafted to incorporate this economic increase accordingly; and

Further that Council provide direction on the maximum 2025 property tax rate increase, inclusive of the annual Asset Management funding requirement of 3%; and

Further that Council direct staff on any proposed service level reductions or expansions for 2025.

Executive Summary:

In accordance with FIN.02 - Budget Policy, 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 2025 budget. The report also requests Council's approval to develop the draft 2025 operating budget using an economic wage increase of 2.5%, which represents the 12-month July CPI as per Policy HR.03. This report also provides the 2025 Budget Survey results received from 126 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:

FIN.02 - Budget Policy

HR.03 - Compensation & Benefits Policy

Context and Background Information:

This Budget Plan Report is prepared annually by the Treasurer and presented to Council in accordance with FIN.02 - Budget Policy and includes information on assumptions and estimates impacting the 2025 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 2025 budget projections include:

- Inflationary changes (CPI)
- Asset Management and Sustainability of reserve funds
- Federal/Provincial grant funding changes (e.g., OMPF)
- Partnership contributions (i.e. Westario Power)
- Compensation and benefit related impacts
- Projected debenture payments
- Insurance premium increases
- Taxation and affordability levels
- Proposed Service level changes
- Funding from proponent of Bruce C Project is provided to the municipality to ensure that costs related to municipal capacity to engage and expert advice to undertake reviews/peer reviews
- Portion of one-time use of reserve funds in 2024 that were not offset by 2025 reductions;

Inflation: Inflation remains a concern for operations, however inflationary pressures have come down since 2023/2024. The Bank of Canada's April 2024 Monetary Policy Report states that inflation is projected to decrease to below 2.5% in the second half of 2024 and return to target inflation levels of 2% in 2025. Staff will continue to monitor inflation and will make financial recommendations accordingly.

The 2025 Consolidated Rates and Fees By-law will be drafted using the 2024 July CPI of 2.5%. 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 2024, this would have equated to a transfer to the Lifecycle Reserve Fund of ~\$5,908,000. 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 2024 budget did not include an increased contribution to this fund and therefore the contribution remained at the 2023 level of \$4,350,000 (a shortfall of \$1,558,000). This means that the Municipality is currently funding only 39% of the annual funding requirement. The cumulative impact of these shortfalls is even greater and will only continue to expand the annual infrastructure deficit.

The draft 2025 budget will be prepared using a 3% tax rate increase for the contribution to the Lifecycle Reserve Fund unless Council directs otherwise. Using 2024 figures, this would equate to a total contribution of \$4,950,000 (an increase of \$600,000).

Report Financial Services-2024-17 provides additional information on the progress of the Asset Management Plan and accompanying financial strategy.

Federal/Provincial Grants:

- The Ontario Municipal Partnership Fund (OMPF) grant is projected to remain relatively stable at \$1,065,600.
- The Ontario Community Infrastructure Fund (OCIF) allocation for 2025 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 (\$1,525,121 - 2024).
- 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 2024 allocation was \$385,707. The funding allocations for 2025 – 2028 are as follows:
 - 2025 = \$401,779
 - 2026 = \$401,779
 - 2027 = \$417,850
 - 2028 = \$417,850

Partnership Contributions:

- **Westario Power:** The Municipality included \$53,907 in dividends issued by Westario Power in its 2024 operating budget. The Municipality's budget policy indicates that earnings such as dividends should only be used to fund non-recurring expenditures or services, however these funds were allocated to the 2024 operating budget in order to reduce the tax rate. If these earnings will be excluded from the 2025 operating budget and instead directed to capital or reserve funds, this will have an estimated unfavourable tax rate impact of 0.27% (using 2024 figures).

- **Bruce Telecom:** In another effort to reduce the tax rate, the 2024 operating budget included \$250,000 of the Bruce Telecom dividend, with the remaining \$250,000 directed towards the capital budget. In 2024, the Municipality sold Bruce Telecom and invested the proceeds of the sale through the creation of a Legacy Fund.

The Legacy Fund Investment Policy stipulates how the interest earnings shall be utilized. The Policy requires these earnings to be used towards the cost of major capital or infrastructure projects, therefore there will be no contribution made to the operating budget. The tax rate impact of the reversal of the 2024 \$250,000 contribution to the operating budget equates to a 1.27% tax rate impact for 2025.

In August, the Municipality received the Working Capital Escrow amount of \$500,000 under the Share Purchase Agreement, which includes \$6,788 in interest earned while the funds were held in trust. The Municipality also received a further \$26,745 as a purchase price adjustment. An additional \$1,000,000 continues to be held in Indemnity Escrow until 12-18 months following closing. Some legal expenses continue to be incurred on this transaction, which will be deducted from the net proceeds of the sale.

Currently, the Municipality is following the one-year Transition Plan for the Legacy Fund as outlined in the Policy. Investment holdings as at August 31st are as outlined in the attached schedule.

The Legacy Fund Investment Policy stipulates that the first capital contribution transfer from the fund shall occur one year from the date of the inception of the Fund, which is deemed to be 30 days from the date that monies are received from the sale of BT. The deemed inception date is May 3, 2024. The amount of the first transfer to capital to be considered shall be \$500,000.

As the investments are currently being made using a phased-in transitional approach and the investment asset mix has not yet fully been transitioned to, Council should refrain from making any decisions regarding the use of investment earnings until at least one full year has lapsed and the investment performance has been reviewed by the Legacy Fund Advisory Committee.

Compensation and Benefits:

- **Economic Adjustments:** The HR.03 - Compensation and Benefits 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 thresholds 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 2.5%. Staff is requesting Council's approval to set the 2025 wage increase to 2.5% and draft the 2025 budget accordingly. The financial impact of this would be ~ \$225,000, which equates to a tax rate increase of 1.125% (using 2024 financial data). Should Council approve this wage increase, the 2025 budget would be drafted accordingly.

- Ontario's general minimum wage is increasing by 4% from \$16.55/hr to \$17.20/hr effective October 1, 2024, and from \$15.60/hr to \$16.55/hr for students (6%).

- Beginning in 2024, an additional maximum pensionable earnings (CPP2) was introduced for earnings up to \$73,200. In 2025, the CPP2 ceiling is estimated to increase by 14% over the first earnings ceiling (\$79,400), resulting in additional annual employer contributions of \$388 per qualifying employee. The estimated impact of the additional employer contributions portion from 2025 in comparison to 2024 amounts to \$10,000.
- **Market Study:** The Municipality is in the process of completing a market study, in alignment with HR.03 - Compensation & Benefits Policy, to review and assess compensation related to a selected comparator group. Council will receive a final report and recommendations for the implementation of the market study results in the fall of 2024. The report will include the financial impacts for the 2025 budget as a result of implementation of the findings. A market study is initiated every four (4) years.
- **New Staffing Requests:** The 2025 Budget Plan Report includes a summary of New Staffing Requests that are being put forward for Council's consideration for the 2025 budget. The justifications for each proposed new position have been provided, along with the list of duties and responsibilities of the position, and financial implications. The new staffing requests can be discussed in further detail during the 2025 budget deliberations process. Staffing required to support Bruce C Project is anticipated to be supported by the project proponent.

Debenture Payments: Total debt servicing costs for 2025 are estimated at \$1,628,200 and are included in the operating budget. The breakdown of the 2025 debt servicing costs is as follows:

MAC Renovations	\$200,700
Fire Rescue Vehicle	\$ 37,000
Queen Street Bridge	\$167,500
LED Streetlights	\$112,000
Huron Terrace Forcemain	\$741,000
Queen Street Big Dig	<u>\$370,000</u>
	\$1,628,200

- **Streetlights:** The Municipality's repayments under the LED Streetlights Program with RTE Energy Solutions is ending in September 2025 upon completion of the 10-year term. This results in budgetary savings of \$34,000.
- **Fire Rescue Vehicle:** The 10-year debenture for the Fire Rescue Vehicle is ending in 2025. The financial benefit will be realized in 2026 in the amount of \$37,000.
- **MAC Renovations:** The 10-year debenture for the renovations at the Municipal Administration Centre is ending in 2025. The financial benefit will be realized in 2026 in the amount of \$200,700.
- **New Debt:** The 2025 budget will also include a new debenture payment for the Highway 9/21 Business Park development. As previously reported to Council in Report Development Services-2024-18, the existing Floating Rate Capital Loan through

Infrastructure Ontario which was used to pay for the extension of water, sanitary and stormwater servicing at the Business Park is expiring.

The total approved borrowing was \$4,250,000 with \$2,626,000 in advancements made, inclusive of the \$800,000 MTO Intersection upgrades at Hwy 21/Kincardine Ave. This loan will be converted to a debenture in November 2024, and the loan payments will begin to be repaid in 2025. Unless the Municipality collects the Area-Specific Development Charges (ASDC), the repayment of the debenture will have undesirable financial implications for the 2025 operating budget.

A 5-year debenture with a current interest rate through Infrastructure Ontario of 3.64% amounts to an annual debenture payment of \$584,000. The current cost allocation between the tax-supported, water and sewer rate funded budgets are 60%, 30% and 10% respectively. Therefore, the tax-supported impact of this new debenture payment amounts to ~ \$350,000, with a tax rate impact of 1.75%.

Reversal of 2024 One-time Funds: The impact of one-time use of grants and reserve funds in the 2024 budget includes the following:

Description	Funding Source	Amount	Tax Rate %
50% BT Dividend to Operating	Dividend	\$250,000	1.25%
Nurse Practitioner/Physician Incentives	Contingency Reserve	\$235,200	1.18%
Westario Power Dividend to Operating	Dividend	\$53,907	0.27%
Total Impact		\$539,107	2.7%

The 2025 budget will be adversely impacted by the one-time use of grants/reserve funds that were not offset by 2025 reductions in costs or service levels. Making up the shortfall of \$539,107 will necessitate a ~ 2.7% tax rate increase in 2025 (using 2024 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 8%. Total insurance premiums amount to \$597,000 in 2024, which included \$40,200 for the cyber insurance policy. An 8% projected premium increase would result in a budgetary impact of ~ \$47,800 (0.24% tax rate impact).

Taxation and Affordability: As a result of the above-mentioned factors, the 2025 operating budget will have a baseline starting increase of \$1,633,907 that would require additional tax dollars to fund. This translates to a starting 2025 tax rate increase of 8.17%.

The following chart illustrates the estimated 2025 tax rate impact, as well as the impact on the 2025 tax levy:

Description	Operating Budget Impact (\$)	Tax Rate Impact*	Tax Levy Impact
AMP 3% Annual Increased Contribution	\$600,000	3.0%	2.58%
2024 Reversal of One-Time Funds	\$539,107	2.7%	2.3%
New Debenture – Hwy 9/21 Business Park	\$350,000	1.75%	1.5%
Wages – Economic Adjustments	\$225,000	1.125%	0.97%
Insurance Premiums	\$47,800	0.24%	0.20%
MCR property taxes directed to operating budget	-\$94,000	-0.51%	-0.4%
Streetlight Loan Repayment	-\$34,000	-0.17%	-0.15%
<i>Market Study</i>	<i>TBD</i>	<i>TBD</i>	<i>TBD</i>
Total preliminary budgetary impacts	\$1,633,907	8.17%	7.0%

The above chart notes a favourable impact of \$94,000 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 has been 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 is conducting 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 2025 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 2025 municipal budget. The budget survey was open on July

31st until August 23rd. The survey was posted on the Municipal webpage and on social media and was also advertised in Kincardine newspapers.

In total, there were 126 respondents, which is a 48% decrease from 241 respondents in 2023.

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

Respondent information:

- Ward 1 – 60% (75 responses)
- Ward 2 – 25% (32 responses)
- Ward 3 – 10% (12 responses)
- Other – 6% (7 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	Reduce	Maintain	Enhance	Unsure	Does not matter
Corporate Services & By-law Enforcement	23%	37%	17%	17%	6%
Fire & Emergency, Policing Services	1%	67%	20%	12%	1%
Operations	13%	56%	18%	13%	0%
Waste Management	12%	50%	31%	7%	0%
Community Services	13%	42%	35%	10%	0%
Health Services & Physician Recruitment	9%	38%	40%	12%	1%
Strategic Initiatives	36%	41%	9%	11%	0%
Planning Services & GIS	24%	38%	11%	21%	2%
Infrastructure Investment (AMP)	17%	60%	10%	9%	0%

The survey also asked respondents to provide one item or project that they would like to see addressed in the 2025 budget. The most predominant themes were:

- Improved maintenance of existing assets including trails, roads, parks, waterfront, etc.
- Upgrades to community centres including pool, arenas, track
- Expansion of recycling collection, garbage pickup, landfills, and the former reuse centre

The survey responses have been attached to this report for further information.

Consultation Overview:

The key stakeholders include ratepayers and residents of the Municipality of Kincardine that receive the services provided by the Municipality. A budget survey was conducted to obtain feedback from members of the public and input into the 2025 budget.

The CAO was consulted on the estimates and assumptions used to draft this budget report.

Origin:

FIN.02 - Budget Policy

Implementation Considerations:

The 2025 Budget will follow the process outlined in FIN.02 - Budget Policy. The 2025 draft budget will be presented to Council in December 2024, followed by Council deliberations. The final budget is anticipated to be approved and adopted in February 2025.

The proposed budget meeting dates are as follows:

- First budget meeting December 10, 2024, 9:00 am – 2:00 pm
- Second budget meeting January 13, 2025, 9:00 am – 2:00 pm
- Third budget meeting January 27, 2025, 9:00 am – 2:00 pm
- Budget adoption February 12, 2025

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: New Staffing Requests
 2025 Budget Survey Results
 BT Legacy Fund Holdings

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