



Financial Services Staff Report

Report Title: Budget Development - 2022
Report Number: F17-2021
Author: Richard Petherick
Meeting Type: Council Meeting
Meeting Date: August 31, 2021
File: F05
Consent Item: No
Final Version: Yes
Reviewed By: SMT
Final Review: Senior Management Team

Recommendation:

That the Council of the Township of Woolwich, considering Report F17-2021 respecting the development of the 2022 Budget:

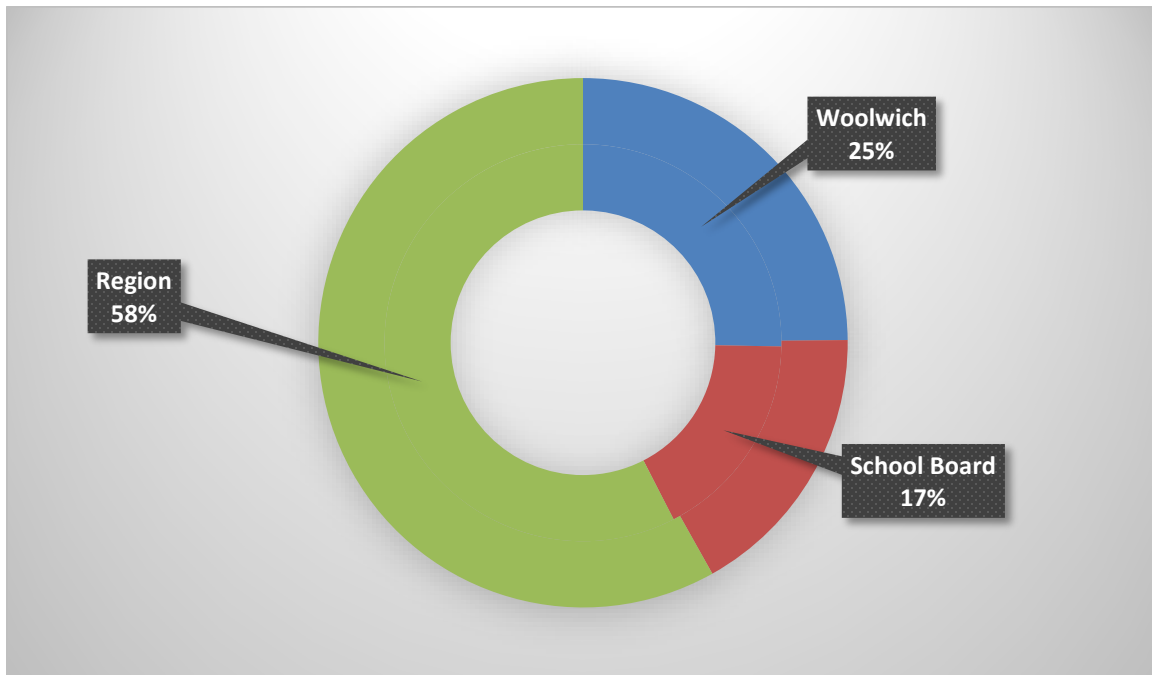
1. Keep existing service levels as provided for in the 2021 Budget and any changes be advanced in the 2022 Budget as per Council's direction;
2. Apply new assessment growth to fund operating and capital budgets, impacted by growth-related costs;
3. Prepare the Draft 2022 Budget with a 2.5% base change target;
4. Directs staff to include 1.50% to continue building the Infrastructure Levy and to include 0.85% for the Climate Action/Green Infrastructure Levy, as approved through report R07-2021, in the Draft 2022 Budget;
5. Endorse the 2021 Budget Schedule attached as Appendix A; and
6. Decide on the final recommendation and direction for the Draft 2022 Budget be brought forward to the Council meeting of September 21, 2021.

Background:

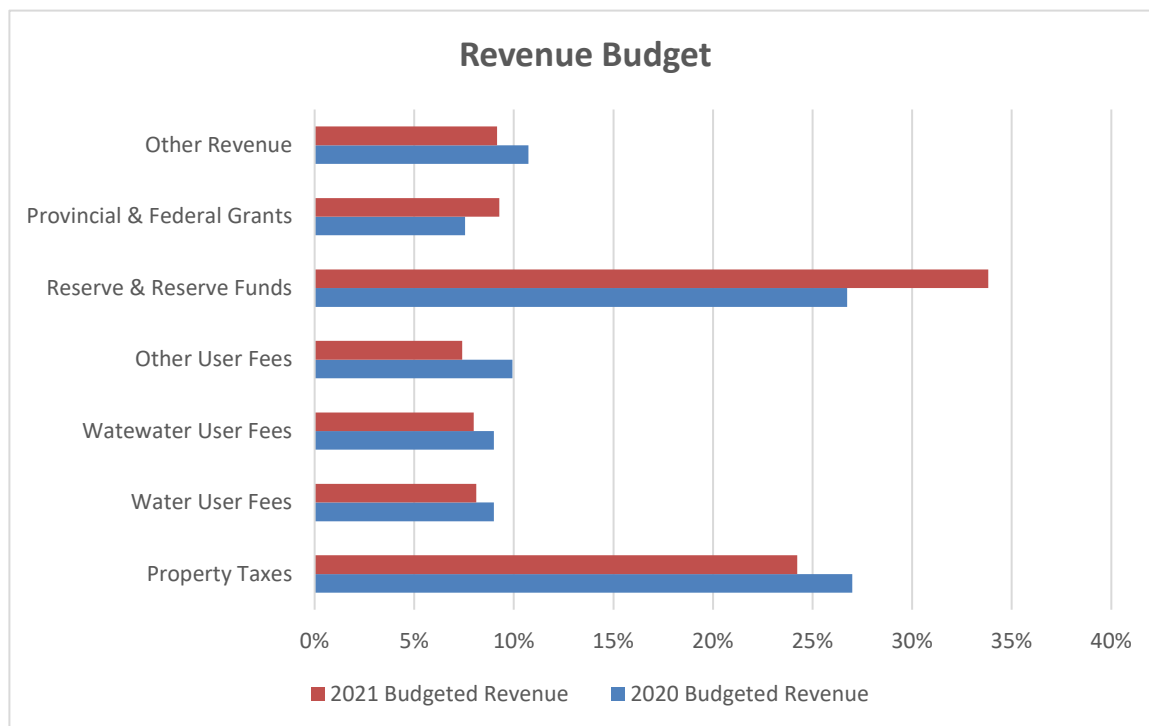
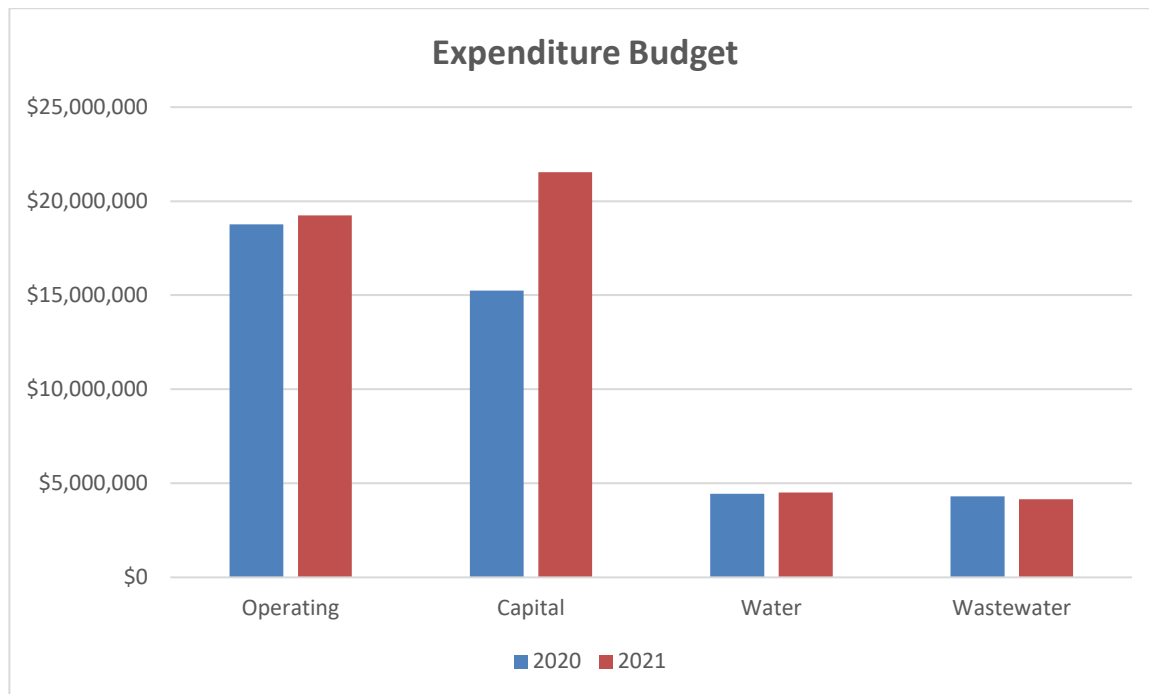
The purpose of this report is to give Council the opportunity to discuss and to provide input and direction to staff concerning the 2022 budget process. There will be many issues and variables affecting the end result. With the current economic uncertainties arising out of the COVID-19 pandemic, budgeting and forecasting continues to be difficult as we need to balance the realities of necessary and effective service levels, based on the strategic direction and priorities as outlined in the Township's Strategic Plan while not causing a significant increase in our current tax rates or a significant decrease in service

levels.

The following chart shows the breakdown of Municipal taxes and gives the perspective as to the impact Township property tax has on our residents. The chart reflects the actual breakdown of taxes for 2021.



In 2021, the Township budgeted for total expenditures amounting to approximately \$49.46 million. The following is a breakdown for budgeted expenditures and revenues for 2020 and 2021.



Comments:

Service Levels

With the continuation of the COVID-19 pandemic, service levels in some areas, recreation and community programming in particular, have been extremely difficult to maintain, which has made managing revenues and appropriate staffing levels quite difficult. As part of this budget development report if Council has thoughts of any service

level adjustments it would be imperative that a discussion with staff occur at this stage of the budget process. This way staff has the opportunity to investigate the potential ramifications of any amendments to the Township's current service delivery model. Anytime Council considers the level of service that is delivered to the residents of Woolwich it is imperative to ask these questions:

- What does Council consider to be the Township's Core Service Activities?
- Currently, what services are really important to the residents of Woolwich?

In previous budget deliberations Council has directed staff to maintain, at a minimum, existing service levels when setting the budget priorities. To date Council has not approved any decrease in service levels in any area however as Woolwich continues to grow it is becoming more difficult to maintain these service levels without adding additional funding. In staff's opinion, any increase in funding should first come from new tax assessment before any potential increase in the general tax levy. In addition, staff continuously reviews our service delivery models for potential budget and operational efficiencies.

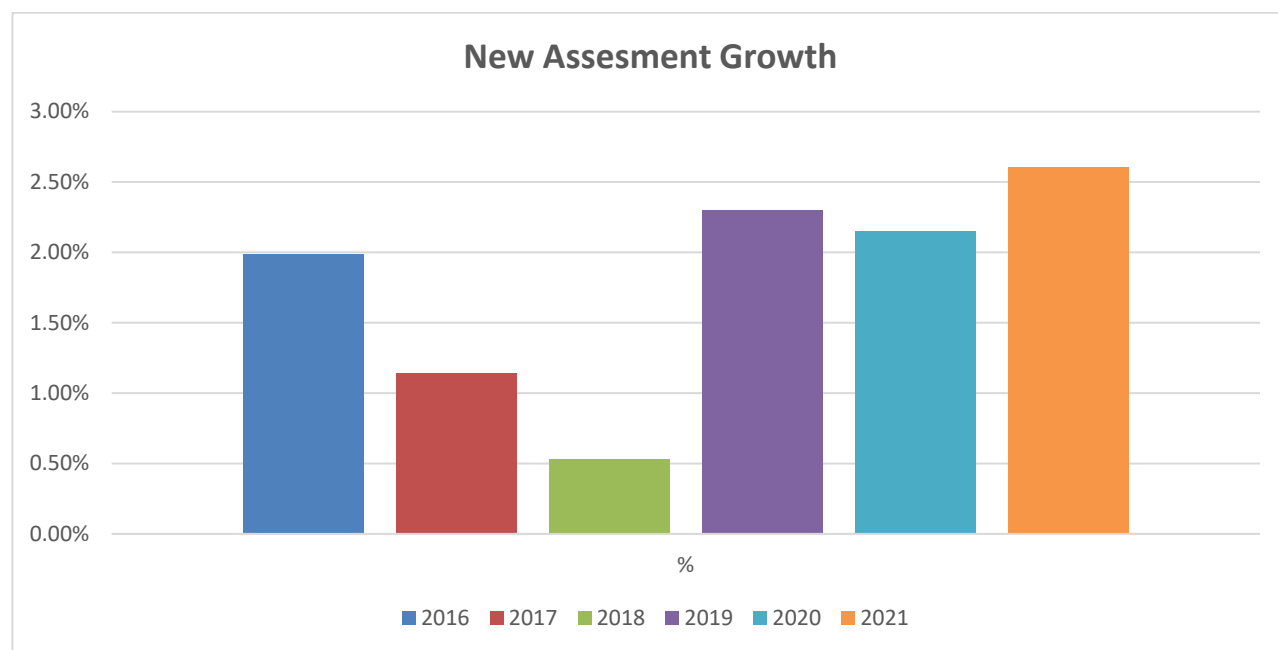
Growth

As Council can appreciate growth increases the Township's asset inventory of parklands, roads, sidewalks, sewers and watermain to be maintained and also increases the demands for recreation programs, fire services and corporate administration. Some costs increase proportionately with growth such as the cost of energy for streetlights. Other increases resemble step costs, such as the potential need to recruit full time staff such as development inspectors, operations staff, etc., in response to a high level of new subdivision activity.

Assessment growth in this context relates to "new" assessment in the Township (i.e., new construction) and differs from the impact of re-assessments, which are revenue neutral and do not translate into additional funds for the Township. It should also be mentioned that any increase in new assessment growth can have other benefits, if available, such as the mitigation of any tax rate increase plus it may allow for funds to be directed into both general and specific programs.

The adage that "growth should pay for itself" can be very complicated. Within new developments the developer pays for the installation of all the hard infrastructure (i.e. roads, sidewalks, streetlights, water, wastewater and storm sewer, and stormwater management facilities, etc.) that is necessary for residents to live there. This however is only the initial capital cost. The flipside of the equation is the long-term operating, maintenance and future replacement costs. As with any community, these new residents also require services like, snow clearing, fire services, recreation services and other ongoing operation costs. These costs are paid through the various operating budgets which are covered in part by the tax levy. As a result, if the Township is to maintain service levels, budgets must be increased to provide sufficient resources to respond to the demands of growth and to continue to provide current service levels.

The Township's recent new assessment growth statistics including the percentage and the corresponding dollar amount are as follows:



As was communicated through the quarterly reports so far in 2021, MPAC (Municipal Property Assessment Corporation) informed staff earlier this year about 200 residential houses on properties that were missed being picked up in previous years. These properties combined with additional residential and commercial property assessment growth staff is predicting new assessment growth to be between 3% and 4% going into the 2022 Budget. As 2021 progresses, new assessment growth will be further refined as MPAC continues to pick up growth.

With the growth Woolwich has been and will continue to experience, we are feeling the pressures of trying to keep up with service levels and infrastructure renewal. Therefore, staff recommends that new assessment growth be applied to fund operating and capital budgets to address the impacts of growth pressures.

Inflation

It is fair to comment that over the last number of months the state of the global economy has largely been influenced by the COVID-19 pandemic. The predicted toll on the Canadian Consumer Price Index (CPI) is expected to be a year over year average of 2.6% in 2021. Not surprising with economies opening up there has been a pent-up demand for goods and services. This in conjunction with supply issues has driven prices upwards.

With the current state of the Canadian economy a number of leading economists are projecting the Canadian CPI to be between 2.0% and 2.5% in 2022. Staff are therefore recommending that the 2021 Budget be prepared with a base rate change of 2.5%.

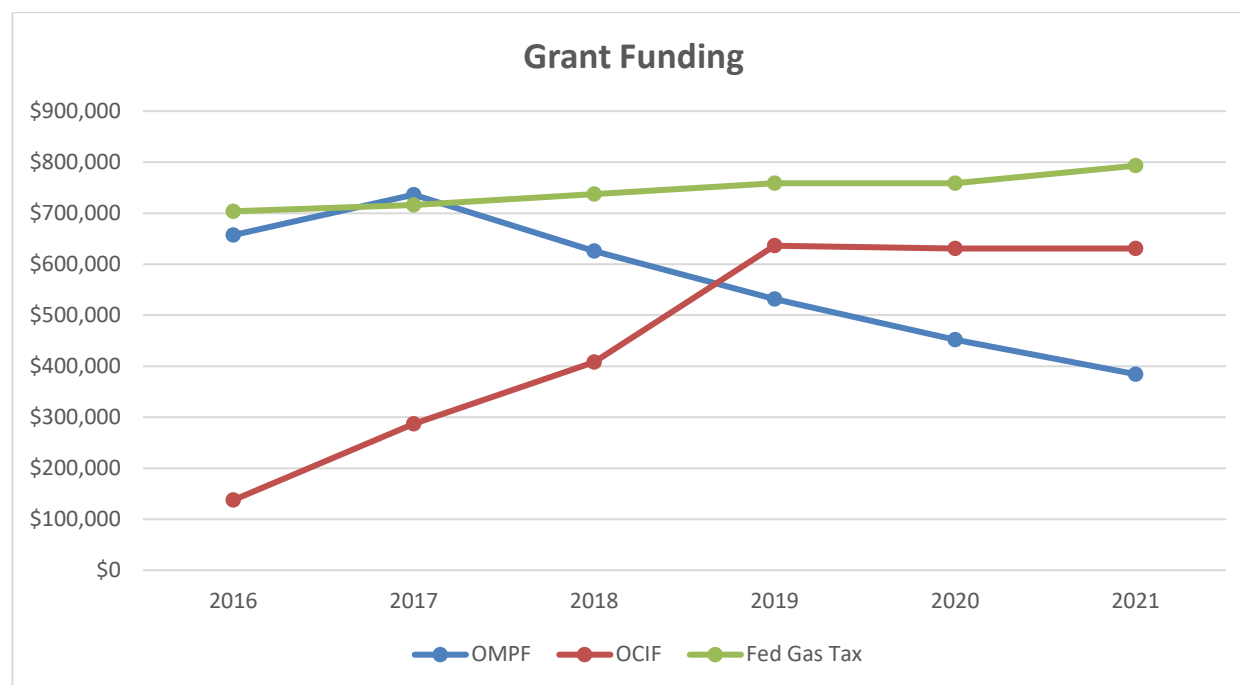
While it is understandable for Council to consider keeping the base rate change as low as possible, downward pressure will have an impact on the Township's ability to maintain existing service levels, which is a challenge in and of itself, with expected escalation in price for goods and services. As staff, our goal is to balance the expectations of residents and Council with fiscal realities. As a municipal government, we have certain duties to ensure a healthy and safe environment for our residents to live, work and play.

Provincial & Federal Grants

Opportunities for grants from higher levels of government have the potential to significantly enhance Township programs. The Township receives three annual grants from the Provincial and Federal Governments – OMPF (Ontario Municipal Partnership Fund), OCIF (Ontario Community Infrastructure Fund) and Federal Gas Tax.

The OMPF is the only significant operating grant the Township receives and over the last four years the Province has cut this grant by 15% each year. This has created an accumulated loss of \$352,000 in grant funding. Staff are expecting that the Township will experience another 15% reduction in 2022 resulting in a further \$57,660 in lost grant funding. Unless the Province makes changes to the OMPF allocation system, it is expected that these decreases will continue for another three years, at which point the Township will be at the Province's stated base funding for Woolwich.

Both the OCIF and Federal Gas Tax are infrastructure related grants that are used directly for capital related works or projects that support capital works (i.e. Asset Management Planning). While the Federal Gas Tax Grant is expected to remain the same as 2021's allocation, it will increase \$35,000 in 2023. The future payments under the OCIF are unknown at this time as the Province has indicated that it still will be reviewing the OCIF program. Woolwich Council has long advocated the Province for predictable and sustainable grant funding, it will be great to see this advocacy work become successful.



The Township has recently been successful in a number of grant applications including funding under the ICIP (Investing in Canada Infrastructure Program) Rural & Northern Stream for the rehabilitation of the Glasgow Street Bridge in Conestogo, the Community, Culture and Recreation Stream for the Refrigeration Plant replacement at the Woolwich Memorial Centre and the Green Stream for the rehabilitation of the Weigel Stormwater Management Drain.

Special Levies

Infrastructure Levy

Since 2012, Council has approved an Infrastructure Levy in the range of 0.5% to 2.5%, due to financial impacts from COVID, Council opted to forgo a further increase in 2021 and the cumulative amount of \$1.15 million being transferred into the Infrastructure Reserve Fund still remains.

The Infrastructure Levy was implemented to assist the Township with addressing our infrastructure deficit. As of the end of 2019 the Township owns and maintains approximately \$189 million (net book value) in assets that encompasses such things as roads, bridges, facilities, parks, water, wastewater, fire, information technology, vehicles, etc. The monies raised through the Infrastructure Levy has allowed the Township to replace or extend the useful lives of our assets at a greater rate than we otherwise would have been able to.

Staff recommend that Council include an additional 1.5% in the Draft 2022 Budget to specifically be used for the continued implementation of an Infrastructure Levy. Adding 1.5% would translate into close to \$176,000 of additional funding for the Township's infrastructure replacement and renewal programs.

Climate Action/Green Infrastructure Levy

As Council will recall a Greening Infrastructure Levy was first introduced in 2019 with \$53,000 being directed for such activities as tree plantings. Through the 2020 Budget Council added an additional \$40,000 (0.38%) and these funds are being directed to a specific Reserve Fund, similar to the Infrastructure Reserve Fund.

Through report R07-2021, Council approved the inclusion of \$100,000 in the 2022 Budget to be used to achieve the Township's goal to reduce Green House Gas (GHG) emissions 50% by 2030. It was also Council's intention that this \$100,000 would be above and beyond any other tax levies in the 2022 Budget. The inclusion of \$100,000 works out to be a 0.85% tax levy increase in 2022.

As part of the 2022 Budget staff will need to present and recommend, for Council's consideration, programs, activities, strategies and resources for implementing the very aggressive and ambitious goal of reducing the Township's GHG 50% by 2030.

Other 2022 Budget Pressures

There are a number of items that Council should be aware of as we enter the 2022 budget process. While these items are not inclusive of all the issues the Township is facing, staff feel they are of some significance. The following are just a few issues staff will be investigating through the 2022 budget process:

- Need or requirement to install multi-modal, bike lanes, or similar, to encourage and support active transportation.
- Appropriate use of debentures to support long-term capital plans.
- Pressures with maintaining certain legislative requirements due to growth and finite resources (i.e. financial and human capital).
- Implementing any recommendations resulting from the Outdoor Recreation Amenities Master Plan.
- Increased costs related to the increase in parklands due to new subdivisions.
- Works supporting affordable housing in Woolwich.
- Maintaining current capital investment, particularly in Infrastructure Services, is not sustainable with existing staffing levels or revenue streams.
- Downloading of the Environmental Compliance Approvals process from the Province, notable for storm water and wastewater, and the related impact on staff resources.
- Impact of services and programs related to diversity, inclusion, and indigenous reconciliation.
- Potential resources for pandemic recovery efforts.

2022 Budget Timeline

The Township of Woolwich pursues a fairly aggressive budget timeline, with approval occurring early in the new year. Early budget approval is a trend that many municipalities

have adopted. The Senior Management Team is supportive of the approved budget schedule for 2022, seeking Council's final budget approval in February 2022, dependant on Council's finalized meeting schedule.

Early budget approval is beneficial to the Township for the following reasons:

- It provides departments with more time to achieve financial targets;
- It may result in more favourable tender pricing if procurement can happen sooner;
- It reduces reliance on prior year's "numbers" as basis for budget – facilitates base budget approach to constructing estimates; and
- It encourages proactive management by requiring staff to forecast this year's results in order to plan next year's budget.

No budget is prepared with full knowledge of potential future impacts. At best, the preparation of a budget is the formalization of operational expectations for the following year based on the best information currently available.

Staff recommends Council endorse the 2022 Budget Schedule as outlined in Appendix A.

Interdepartmental Impacts:

The preliminary 2022 Budget process and direction given by Council apply to all departments.

Financial Impacts:

The recommendations arising from this report will impact the development of the Draft 2022 Budget, which will translate into acceptable tax rate increases for 2022.

Strategic Plan Impacts:

The budget process enables Council to achieve its Corporate Strategic Plan in the areas of Fiscally Responsible and Best Managed and Governed Municipality, by allocating appropriate resources.

Conclusion:

The Township of Woolwich has established a reputation and credibility for maintaining a strong financial position by making fiscally responsible decisions on behalf of its ratepayers. A comprehensive and efficient budget process is integral to this position.

This report is intended to prompt discussion in order to generate preliminary guidelines for the development of the Draft 2022 Budget. The recommendations contained in this report seek to address the priorities resulting from growth and development of the Township, while at the same time maintaining tax rate increases at an acceptable level.

Attachments:

Appendix A – 2022 Budget Schedule

“Appendix A”**2022 BUDGET SCHEDULE**

2022 Budget Discussion and Direction with Council	August 31, 2021
Budget worksheets issued to departments for preparation along with “Budget Call” document outlining guidelines and issues. Finance will include preliminary estimates for staffing costs, reserve transfers, and overhead allocations	July 2021
Departments start preliminary preparation of their 2022 budget requirements	August 2021
Preliminary 2022 Capital Discussion (Meeting)	September 23, 2021
Departments to submit completed operating budget worksheets and staffing justification sheets to Finance	September 24, 2021
Finance to provide operating budget drafts to departments for review	October 1, 2021
Finance to review operating budgets with departments – meetings will occur (if required)	October 2-8, 2021
Draft operating budget brought forward to SMT (Meeting #1)	October 7, 2021
Draft operating budget brought forward to SMT (Meeting #2)	October 26, 2021
Draft department business plan (2022) submitted to CAO - <i>Review of business plan will occur at subsequent SMT meetings</i>	November 12, 2021
Departments to submit completed capital project request and capital project prioritization worksheets to Finance. FIRM DEADLINE, NO EXTENTIONS WILL BE GIVEN	November 12, 2021

Draft budget brought forward to SMT and review of business plans (Meeting #3)	November 17, 2021
2022 Budget Report Issued to SMT	December 6, 2021
Discussion of Water & Wastewater Budget Report at SMT	December 20, 2021
2022 Budget Packages Issued to Council	December 22, 2021
2022 Budget Report presented to Council	January 11, 2022
Budget deliberations at Council – Infrastructure Services Operating & Capital, and Development Services Operating	January 11, 2022
Budget deliberations at Council – Recreation & Community Services Operating & Capital and Fire Operating & Capital	January 13, 2022
Budget deliberations at Council – CAO, Corporate Services, Council and Finance	January 18, 2022
Budget deliberations at Council – General discussions	January 20, 2022
2022 Water & Wastewater Budget Discussion at Committee of the Whole	January 25, 2022