



Financial Services Staff Report

Report Number: F14-2024
Report Title: Budget Parameters - 2025
Author: Senior Management Team
Meeting Type: Committee of the Whole Meeting
Meeting Date: September 10, 2024
eDocs or File ID: File
Consent Item: No
Final Version: Yes
Reviewed By: Senior Management Team
Final Review: Senior Management Team

Recommendation:

That the Council of the Township of Woolwich, considering Report F14-2024 respecting Budget Parameters - 2025:

1. Supports existing service levels as provided for in the 2024 Budget be reviewed and any recommended service level changes be advanced in the 2025 Budget for discussion with Council;
2. Supports the 2025 Budget be prepared with a 7.5% base change target for the annual operating and capital budget; and
3. Continues to support the concept of special levies above and beyond the base rate change, and that Council sets the amount for the increase to the Infrastructure Levy at 2.5% and 1.0% for the Climate Action Levy for the 2025 Budget.

Background:

This report provides Council a preview into the factors influencing the upcoming budget. It also provides Council the opportunity to provide direction to staff for the preparation of the 2025 budget. This budget year continues to be difficult as staff balance the need to provide effective services while making best efforts to keep the current tax rates at an acceptable level. Senior staff continues to be faced with the important task of projecting these issues and variables in the creation of the draft 2025 budget.

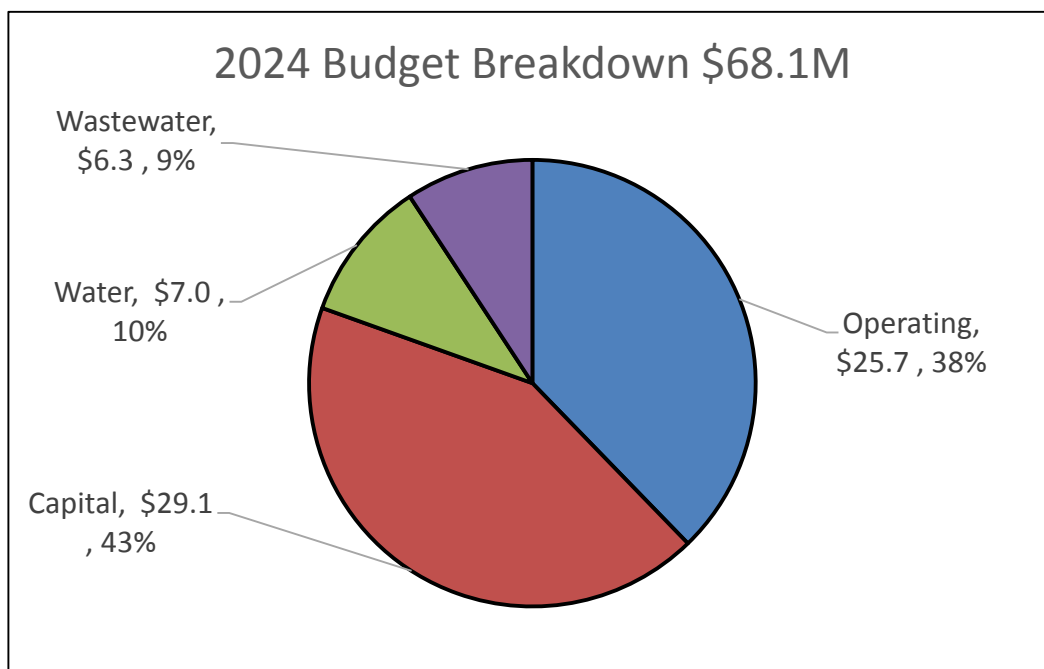
As Council is aware, the Township continues to experience significant growth. The Township is no longer a small Township with predominantly rural areas and modest settlements. Rather, with the growth in the urban settlements of Elmira and Breslau the

municipality has become a strong mix of both urban and rural. As a direct result, we have seen an impact on the budget in terms of the pressures that exist for more traditional urban services, programs and facilities. In turn, this has placed pressure on our stressed human and physical resources to keep up with the higher expectation levels. This places increasing pressure year over year on the municipality's finances.

Unfortunately, the Township like other municipalities in Ontario, must rely on an outdated assessment and tax system to fund our local services and programs. This is why it continues to be important that we support AMO and its efforts on behalf of the 444 municipalities in Ontario to advocate to the Province to develop new fiscal tools and solutions.

Comments:

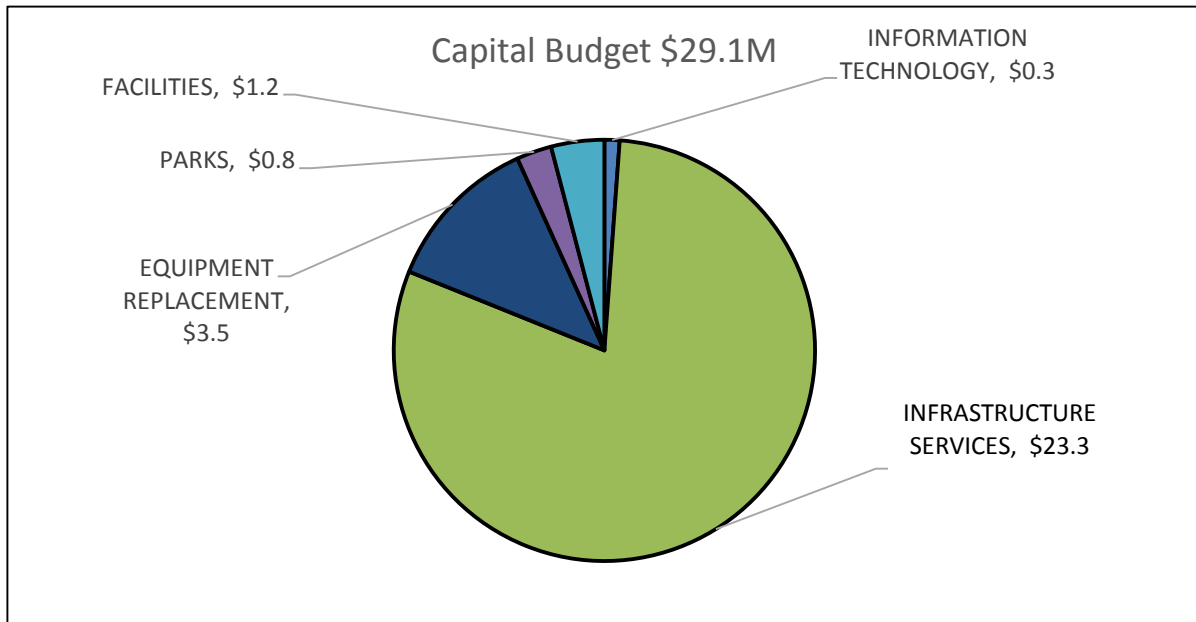
In 2024, the Township's budgeted total expenditures of approximately \$68.1 million are broken down between operating, capital and water and wastewater.



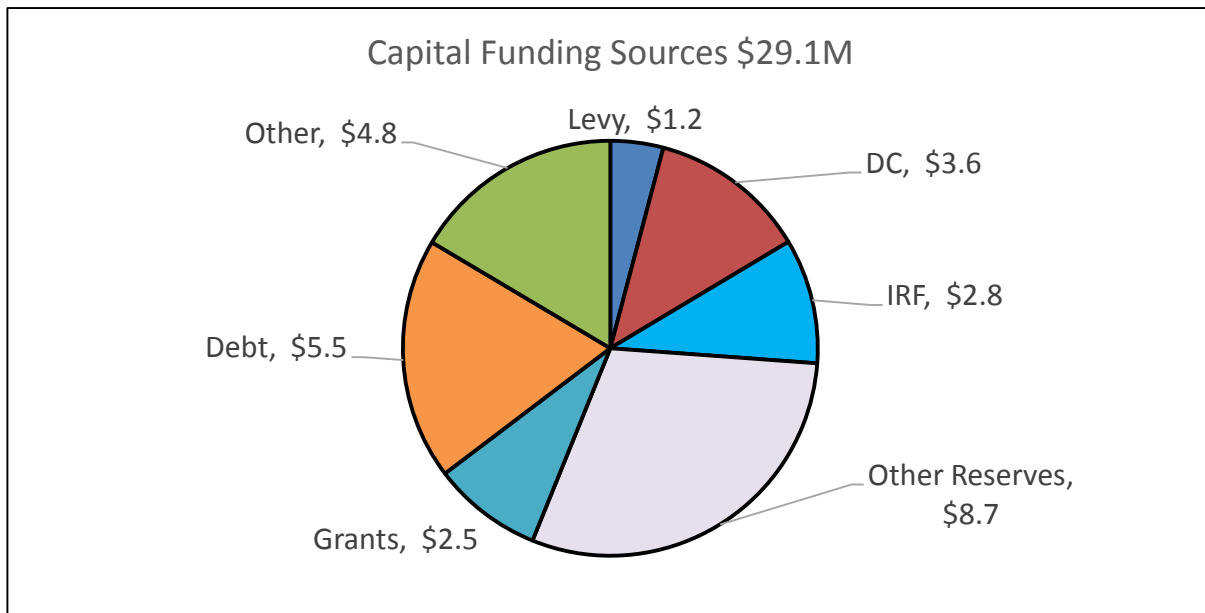
The operating budget is funded primarily from the property tax levy, but also receives some revenues directly from user fees and smaller government grants.

Capital Budget

The total capital budget is \$29.1 million with infrastructure services accounting for almost 80% of the capital budget.



Capital costs are funded from a larger variety of sources which includes senior government grants, tax levy, and reserves and reserve funds. The capital funding breakdown can be seen below:



Most of the funding comes from reserve and reserve funds including development charges. Current reserves are insufficient to fund the full capital program and as a result \$5.5 million was approved to be debt funded. This debt has not yet been issued at the time of the writing of this report.

As part of a discussion, staff appreciated Council's request for a long-term financial framework for the capital budget, staff would note that the former Acting Director of Finance commenced some financial analysis prior to the completion of his contract.

Specifically, he undertook work related to the financial sustainability of our asset management plan. The current Director of Finance will have more to say under a separate report about this work and the amount of work that will be required to develop a framework to adequately address the Township's long term financial sustainability needs.

Service Levels

As part of the budget process, Senior Management Team (SMT) reviews the Township's service levels through the lens of the Strategic Plan. As the 10-year strategic plan was recently adopted by Council we can use this to set corporate priorities and guide budget discussions. Departmental business plans can then be developed based on corporate priorities, and any adjustments will be reflected in the budget. Budgets are a critical tool to resource the delivery of business plans. For the upcoming budget year, staff are recommending that if Council wishes to change an existing service level, that any recommended changes be made in advance of Council budget deliberations.

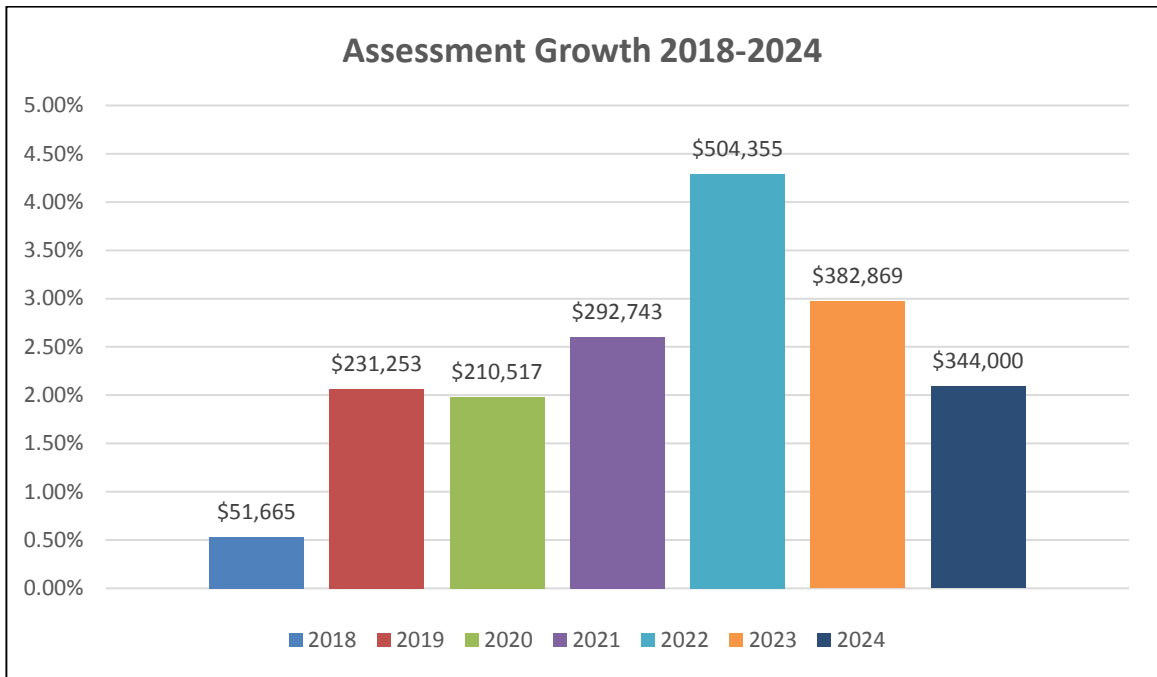
Growth

The population in the Township of Woolwich is expected to grow to 51,204 people and 17,395 households by 2051. This growth will almost double the 2021 recorded population. The majority of the growth will be accommodated in greenfield areas, within the urban settlement areas, through the development of new subdivisions. These subdivisions will add additional demand for programs, services, equipment and long-term maintenance costs for such things as roads, trails, facilities and other infrastructure.

The Township adheres to a growth should pay for growth philosophy. Where the financial burden of new growth should not be borne by existing residents where possible. To the extent possible the Township relies on development charges to fund the infrastructure needs of growth and assessment growth to cover operating needs. However future replacement costs of development funded assets must be eventually shouldered by the tax base. Also, there is not a one-to-one relationship between increased service need and assessment. This puts pressure on the Township to maintain service levels to respond to the demands of growth and to continue to provide services and programs to new residents.

Staff are projecting new assessment growth for 2024 to be approximately 2.09% which translates into an additional \$334,000 in property tax revenue. This number will be updated and staff will report back as part of the 2025 draft budget on final projections.

The Township's recent new assessment growth statistics are outlined in the graph below:



Additional Levies

Infrastructure Levy

The Infrastructure Levy was first introduced in 2012. The Infrastructure Levy was introduced as a means to aid in addressing the Township’s infrastructure deficit. It also allows us to leverage funding from senior levels of government funds available by allowing for cost sharing when new grants become available.

Just over \$1.96 million annually is being directed to the Infrastructure Reserve Fund. To help address the infrastructure deficit and to make sure we are addressing Provincial downloading, and to build upon previous years, staff are recommending that Council consider adding an additional 2.5% or \$400,000 to \$2.36 million annually.

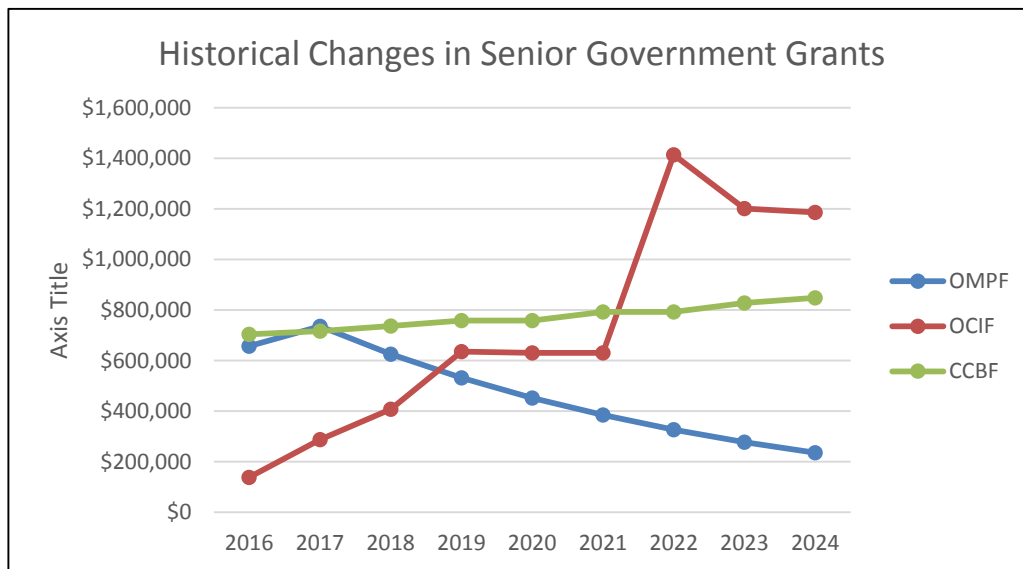
While the establishment of the infrastructure levy has certainly aided the municipality in addressing our infrastructure deficit, it is important to reflect on the fact that at the time of the completion of the roads and bridges needs studies back in 2012 it was noted that a levy of between 3-4% per year was needed. Staff do appreciate though that the thinking at the time was that it was not financially feasible for the Township to address the deficit alone. It should be noted that previous Council approval have not stayed consistent over the last number of years. We would need the help of our senior level government partners. Unfortunately, much more is still needed from the Federal and Provincial governments, as current funding programs do not provide the level of funding required to address all of the municipal infrastructure deficits.

Climate Action/Greening Levy

The Township instituted a Climate Action/Greening Levy in 2019. As of 2024, an annual allocation of \$336,000 is included in the Recreation & Community Services Budget. Council’s endorsement of “50 by 30” and “80 by 50”, whereby the Township will cut greenhouse gas emissions 50% by 2030 and 80% by 2050 will result in the need for additional funding once an implementation plan has been developed for the municipal actions required in the Transform-WR Strategy. Last year’s creation of a sustainability coordinator will assist with meeting these objectives

Staff recommend that Council consider adding an additional 1.0% to the Draft 2025 Budget. With the inclusion of an additional 1.0%, the annual transfer would increase \$160,000 to approximately \$496,000 annually. A new staff resource was added in June 2024 and this resource will be used to develop an implementation plan to utilize this climate action / greening funding.

Provincial & Federal Grants



Ontario Municipal Partnership Fund (OMPF)

The Township annually receives an unconditional operating grant from the Province called the Ontario Municipal Partnership Fund (OMPF). This grant program is designed to assist northern and rural municipalities. In 2018 the Township’s OMPF payment started decreasing by 15% increments every year. The Township’s current OMPF allocation of \$236,200 in 2024 is a cumulative \$500,000 decrease since 2017.

Ontario Community Infrastructure Fund (OCIF)

Since 2015, the Township has been receiving annual funding from the Province under the OCIF formula-based funding program. At the start of the grant program the Township received only received \$137,620 but that figure increased to \$1,413,990 in 2022. The

Township saw a 15% (\$212,098) decrease to \$1,201,892 in 2023 and a further decrease in 2024 to \$1,185,858. Over the next five years it is still expected that OCIF funding could increase, but this will be dependent on future provincial budgets. In recent years OCIF has mainly been used as a funding source for the Township's resurfacing and maintenance paving Programs. It is unknown at this time what the Township's 2024 OCIF allocation will be, however staff will report back to Council through the Draft 2024 Budget report.

Canada Community Building Fund (CCBF)

The Township has been receiving CCBF (formally known as the Federal Gas Tax), since 2006. The Township receives federal funding under this program to support the capital budget. This program is currently managed by AMO (Association of Municipalities Ontario). The CCBF program allows municipalities to carry over funds for up to five years which ensures municipalities have the flexibility to direct funding towards desired projects. The Township is receiving \$848,852 in 2024. The CCBF agreement was extended in 2024 and was presented to Council in June

Housing Accelerator Fund (HAF)

In February 2024, the Township was advised by the Canadian Mortgage and Housing Corporation that our Housing Accelerator Fund (HAF) application for funding in the amount of \$6.72 million was approved and initial advance of \$1.68 million was received. The Township is expecting three (3) additional installments which are conditional on initiatives in the application being achieved and housing targets met.

User Fees & Charges

The review of fees and charges is a part of the annual budget process and helps to determine overall revenue projections. This review ensures that the Township's fees and charges are developed using a user pay philosophy. This user pay concept will be developed in a future user fee policy presented and approved by Council. Revenue generated through user fees will help reduce the levy required by the Township. Staff will bring a report, for Council's consideration regarding changes to user fees and charges in October/November 2024.

Staffing Costs

During the 2023 budget process, staff presented report A01-2023 outlining the phased implementation plan for the 2022 pay equity and market studies. The implementation plan is being phased in over four years, with 2023 being year one of the plan and ending in 2026. For the 2025 Budget the next phase will have close to a 1% impact to the general levy.

In 2024, Ontario introduced increases to the minimum wage from \$16.55 per hour to \$17.20 per hour. This represents a 3.9 percent increase and will put additional operating pressure primarily on the Recreation and Community Services budget.

The existing collective agreement will expire in 2025, and a new bargaining process will occur in late 2024 and early 2025. It is unknown at this time what the potential financial impact will be but there will likely be increases to staffing costs.

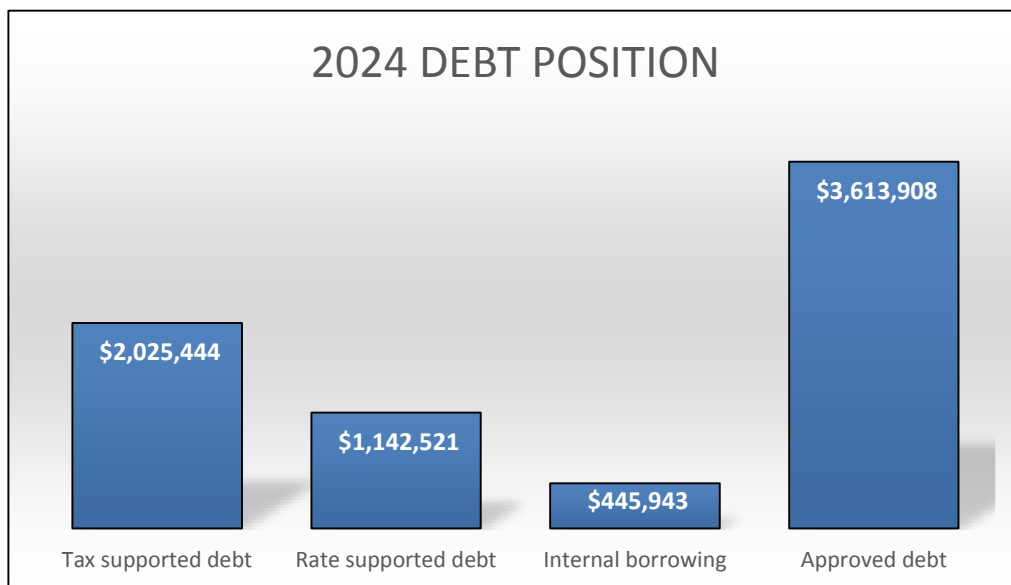
Senior staff annually reviews staffing forecasts for the coming five-year timeframe. The need for staffing is viewed through the lens based on growth pressures being faced by the Township, current and/or proposed legislative changes and potential service enhancements. It is important to note that while each department continues to have a need for additional staffing resources a lens of affordability is considered when finalizing the draft budget. As in previous budgets, any proposed staff additions will have an increase in staffing request form included in the draft 2025 budget package which outlines the purpose and justification for the staffing request.

Debt

With the need to accommodate capital renewal projects one of the budget pressures the Township faces is the need to issue debt as part of Woolwich’s long-term financing strategy. Debt is an important capital financing tool which can spread out the cost of an asset more evenly along its useful life.

As of the end of 2024, the Township will have approximately \$3.6M in approved but not issued debt. The current debt burden is below both our internal and externally imposed debt limits however, due to very low capital reserve fund balances debt will likely be required in future years to support our capital infrastructure program.

There is currently no debt policy in place in the Township which would outline the appropriate uses of debt and more clearly defined policy limits. Staff are currently working on developing such a debt policy for the Township and will present more information in fall 2024 and in advance of the 2025 budget deliberations.



Projected Inflation

A major concern over the past few years has been the high inflationary environment, reaching a 40-year high peak in mid-2022. The most important thing to understand with inflation is that it is cumulative. For example, inflation reducing from 8% to 2% does not mean a decrease in prices, but rather the rate of price increase has slowed. In the above example, this would mean over a 10% overall price increase (8%+2%).

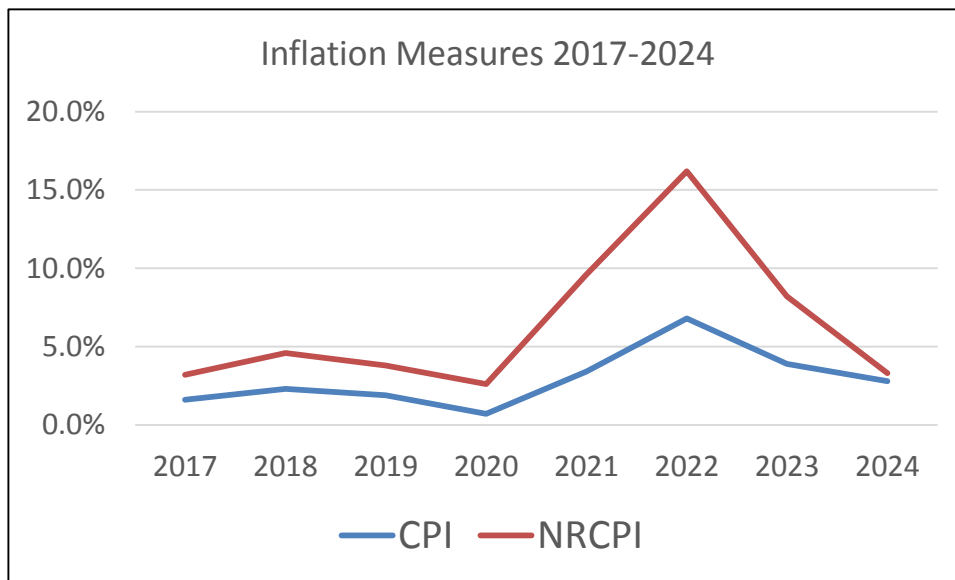
CPI (Consumer Price Index)

CPI measures the price change in a basket of goods for a typical household. The latest monetary policy report from July 2024, the Bank of Canada notes that high interest rates were working to bring inflation down. Interest rates have been cut twice by 0.25% each and the overnight target rate now stands at 4.25% (as of September 2024) down from 5.0% prior to June 2024. The bank suggests that inflation projection will be 2.5% in 2024 and will return to its 2% target by mid-2025.

NRCPI (Non-residential construction price index)

While CPI measures consumer price changes it does not accurately reflect the capital work the Township undertakes. Non-residential construction price index (NRCPI) measures the costs of construction for non residential buildings. This measure or a similar construction price index is a better measure of the projected price changes in our capital costs.

While CPI has been very high in recent years, NRCPI has trended even higher reaching an annual rate of 16.2% in 2022. In other words, simply inflating capital transfers by CPI for capital costs will not be sufficient to meet the cost challenges of the capital program. The chart below outlines this difference:



Additional Significant Budget Pressures

- Senior government funding uncertainty – related to the lack of predictable reliable grant funding from senior levels of government. Responsibility for asset maintenance and other services continue to be downloaded.
- Costs of growth to support housing. Growth does not fully pay for growth, and the burden of supporting growth and affordable housing is being increasingly borne by existing residents.
- Economic development – need for attraction and retention of business investment to reduce the reliance on residential taxpayers. This issue also impacts water and wastewater revenues and residential rates.
- Elmira Downtown Core Plan – As the Township continues to look at revitalizing the Elmira Downtown Core area, future budgets will need to include funding for the continued implementation of this Plan.
- Works related to Climate Change and Sustainability
- Recreation & Community Services is undertaking a Parks and Recreation Master Plan, with anticipated completion in the fall of 2024.
- Staff are working to implement the Administrative Monetary Penalty System (AMPS) for by-law offences with a business case provided in 2023 and implementation expected mid-year 2024.
- With the ever-changing digital environment and with the experienced and expected growth, maintaining, replacing, and expanding the Township's Information Technology (IT) infrastructure is extremely important. The IT infrastructure that staff utilizes to complete their daily work is under ever-present threat of cyber-attacks.
- Planning responsibilities - The Township is waiting for proclamation of Bill 23, for the Region of Waterloo, which will transfer planning responsibilities of the Region to the local municipalities. These additional responsibilities will result in additional work for the Township and additional staffing needs to accommodate the workload.
- Breslau Planning – The Township is working to complete the Breslau Secondary Plan which will plan for the long term phased growth in Breslau. In order to accommodate growth, there will be required infrastructure and recreational needs to service the growing population in the area. This will include purchase of land for a future recreational complex and upfront servicing costs to allow land to be developed.
- The Township is not immune to the housing crisis and while we do not see large-scale homeless encampments that large cities do, staff are dealing with rural homeless issues.

Other Budget Information

Council requested that staff prepare cumulative property tax impact information when presenting the 2025 Budget Parameters report. As such, the tables below show the

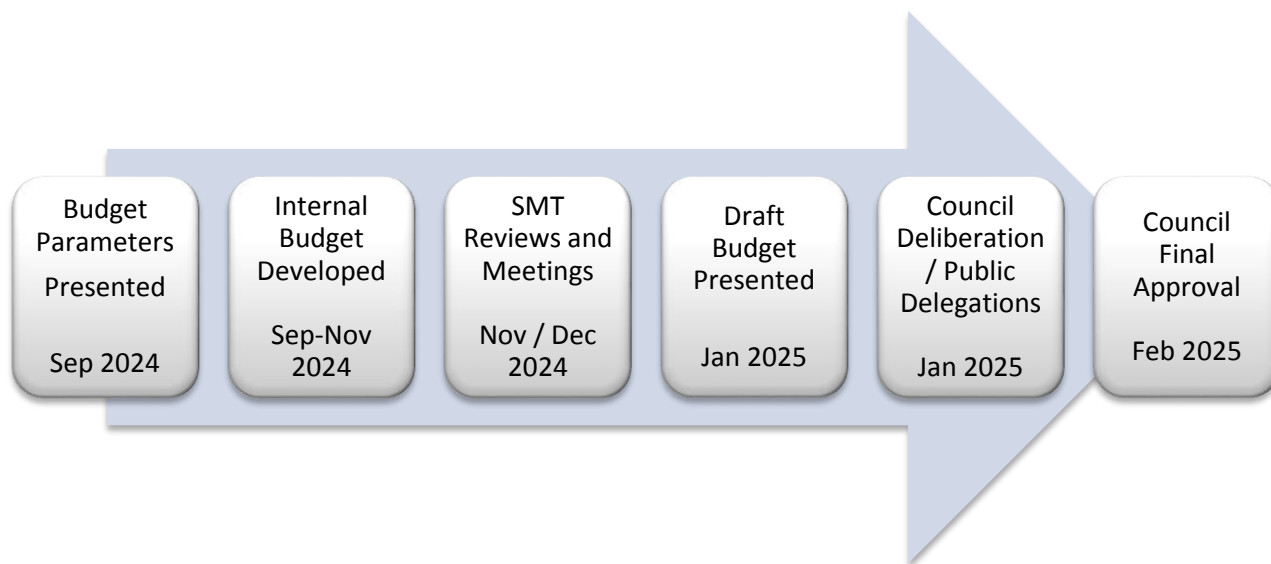
impact of a 7.5% tax rate increase on the Township's rate, impact scenarios for a Regional increase of either 6% or 10%. The estimate for the education rate will remain static as the Province has not changed this rate since 2020. It should also be noted that changes to the Region's rate varies depending on various factors such as transit, library, and police service budget changes. *For illustrative and simplistic purposes only, the Regional rate increase is assumed at a 6% and a 10% increase.*

	Scenario #1		Scenario #2	
	Proposed Increase	Projected Increase per household	Proposed Increase	Projected Increase per household
Woolwich – Base	7.5%	\$89.67	7.5%	\$89.67
- Infrastructure Levy	2.5%	\$28.99	2.5%	\$28.99
- Climate Action Levy	1.0%	\$11.60	1.0%	\$11.60
Region	6.0%	\$158.72	10.0%	\$264.54
School Board	0%	\$0.00	0%	\$0.00
		<u>\$286.28</u>		<u>\$392.10</u>

**Based on an Average residential assessment of \$418,000*

Budget Timeline

The Township of Woolwich will be pursuing a budget timeline with approval occurring in the first quarter of 2025. Earlier budget adoption is becoming a municipal best practice. SMT has outlined the following budget timeline for 2025 budget, seeking Council's final budget approval in February 2025. More details can be found in attachment 1 – Draft 2025 Budget Schedule.



Public Consultation

After considering the 2024 Budget Feedback Report C08-2024, Council directed staff to "...provide online engagement for public consultation as outlined in the report, with a paper-based alternative offered to those who need it."

Further to this direction, Clerks and Finance staff reached out to other nearby municipalities for inspiration on the types of questions to ask for online budget engagement. Staff drafted budget consultation questions based on sample questions provided by Cambridge but more succinct and to the point. Draft 2025 budget consultation questions are set out in attachment 2 for Council's consideration.

Interdepartmental Impacts:

The preliminary 2025 Budget process guidelines adopted by Council apply to all departments.

Financial Impacts:

The recommendations arising from this report will impact the development of the 2025 Budget and impact tax rate increases for 2025. Staff will also be evaluating the existing rates in place for water and wastewater incorporating recommendations from the recent

water and wastewater rate study. Any proposed adjustments will be brought forward in a separate report to Council for consideration.

Community Strategic Plan Impacts:

- Provide effective and open leadership: *We will guide with transparency and empathy, fostering a culture of trust and collaboration*

The budget process enables Council to achieve its corporate strategic plan focus of effective and open leadership by transparency in the allocation of tax and rate dollars.

Conclusion:

This report is intended to prompt discussion to generate preliminary guidelines for the development of the 2025 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:

1. 2025 Budget Schedule
2. Draft 2024 Budget Consultation Questions

Attachment 1 - Draft 2025 Budget Schedule

2024 Budget Packages Published Online	December 31, 2024
Budget Report presented to Council Budget Presentations Operating & Capital – IS and RCS	January 7, 2025 Full Day
Budget Presentations Operating & Capital – CAO, COR, Council, DS, Finance and Fire	January 9, 2025 Full Day
Special Council (Budget Break Week) New this year	January 14, 2025
Budget Delegations, Deliberations and Additional Requests	January 21, 2025
Council Budget Deliberations	January 23, 2024 Full Day
Water and Wastewater Budget Discussion (at Committee of the Whole)	February 4, 2025
Final Report and Voting on the Budget (at Regular Council)	February 18, 2025

Attachment 2 - Draft 2025 Budget Consultation Questions

Page 1

Help shape Woolwich Township's 2025 budget by letting us know what is important to you.

1. How would you rate the overall value of services you get for your tax dollars?
 - Very Good
 - Good
 - Fair
 - Poor
 - Very Poor
 - Not sure

2. For the following list, what are your top 3 priorities?
 - Affordable Housing
 - Art, Culture and Community Events
 - By-law and Parking Compliance
 - Economic Development & Tourism
 - Communication and Customer Service (access to staff, online services, engagement)
 - Environment and Sustainability
 - Fire Services
 - Infrastructure (roads, bridges, facilities, playgrounds, etc.)
 - Planned Development (planning, zoning and building)
 - Parks and Trails
 - Recreation programs (swimming, sports, summer camps, etc.)
 - Roads and Winter Maintenance
 - Traffic, Transportation and Parking
 - Water and Wastewater

3. For the following list, what are your bottom 3 priorities?
 - Affordable Housing
 - Art, Culture & Community Events
 - By-law and Parking Compliance
 - Economic Development & Tourism
 - Communication and Customer Service (access to staff, online services, engagement)
 - Environment and Sustainability
 - Fire Services
 - Infrastructure (roads, bridges, facilities, playgrounds, stormwater, etc.)
 - Planned Development (planning, zoning and building)

- Parks and Trails
 - Recreation programs (swimming, sports, summer camps, etc.)
 - Roads and Winter Maintenance
 - Traffic, Transportation and Parking
 - Water and Wastewater
4. The infrastructure levy was established in 2012 to increase funding for infrastructure like roads, bridges, stormwater, facilities, playgrounds, vehicles, equipment and technology upgrades. How important is it for you to continue putting money away for infrastructure?
- Very Important
 - Important
 - Neutral
 - Somewhat Important
 - Not Important
5. The Township established a climate action/greening levy in 2019 for initiatives like tree planting, electric vehicle charging, building upgrades and other sustainability initiatives included in the TransformWR strategy that will make the Township more climate friendly. How important is it for you to continue putting money away for climate and greening initiatives?
- Very Important
 - Important
 - Neutral
 - Somewhat Important
 - Not Important
6. The Township charges user fees to keep taxes low and cover the cost of providing some services to residents (swimming lessons, ice fees, room rentals, building permit fees, etc.). How do you feel about user fees and taxes:
- Fees are too high, taxes should increase to reduce user fees
 - User fees are about right
 - Taxes are too high, fees should be increased to reduce taxes
 - Not sure
7. When setting the budget, the Township tries to balance taxes and service levels. How should the Township set the annual tax increase for 2025?
- Limit the tax rate increase, even if services decline
 - Set a tax rate increase that maintains existing services
 - Increase taxes to provide more or improve services
 - Not sure

Page 2

Understanding who you are will help us understand who took part in this survey.

8. Which of the following statements describes your relationship to the Township of Woolwich? Please select all that apply.

- Resident
- Operate a business
- Live nearby and use municipal services (e.g., recreation facilities)
- None of the above

9. Which Settlement do you live in:

- Bloomingdale
- Breslau
- Conestogo
- Elmira
- Floradale
- Heidleberg
- Maryhill
- St. Jacobs
- West Montrose
- Winterbourne
- Rural or other settlement

10. The Township provides programs and services to all ages. Please indicate your age range.

- Under 18 years of age
- 19-34 years of age
- 35-49 years of age
- 50-64 years of age
- 65-79 years of age
- 80+ years of age
- Prefer not to say

Page 3

11. Do you have any other thoughts you would like Council to know as they deliberate on the budget?

Open ended

Thank you! We appreciate your input into the priorities for the Woolwich Township 2025 Budget. Information collected from the budget survey will help to understand Township services are valued and which services are important for residents.