



**Corporate Services Department  
Finance Division**

**Report Number: 2019-37**

**Date: March 25, 2019**

**SUBJECT: 2019 Operating/Capital Budget**

**1) PURPOSE:**

This report is presented to Council for adoption and approval of the 2019 Operating and Capital Budget.

**2) HISTORY, BACKGROUND, COUNCIL POLICY, PRACTICES**

Budget deliberations commenced for the year 2019 with Council receiving the budget package and an overview presentation to the Committee of the Whole of Council on January 21, 2019. The budget was reviewed and discussed in detail by the Committee for consideration of the operating and capital portions of the budget on January 23, February 4 and approved on March 4, 2019.

As it was anticipated that an overall budget increase of 4% to 5% would be projected, departments were requested to bring forth a base level of service budget with inflationary increase at approximately 2.5% for base operations. Staff projected an operating budget increase of 2% to 3% plus the annual capital levy increase of 1.25% to 1.5% and the final Operations Centre debenture levy of 0.81% for an estimated overall levy increase of 4% to 5%.

The 2019 operating budget was presented with a 2.59% operating levy increase for the base level of service, which includes some cost reductions and increased revenues and the separate utility budget for Storm Sewers, thus reducing the tax levy. With the annual capital levy increase of \$257,000 (1.50%), the levy increase amounts to 4.09%. With regard to the new Operations Centre debt, Council approved the funding of the remaining amount of the debenture for \$114,094 (0.67%) in 2019. The proposed levy increase was 4.76%. Council approved the funding of the Operations Centre debt of \$114,094 from existing funds from the matured debt of the Fire Hall, thus reducing the tax levy to 4.09%.

After consideration of staff's new budget requests, Council approved additional staffing and services amounting to \$350,973 as detailed below. Therefore, the final budget proposed has a 6.14% overall levy increase amounting to \$1,051,580, including the annual capital levy increase and additional new debt charges. The estimated average residential property tax increase, with an increased assessment from \$185,605 to \$191,070 (average current value assessment of a single family detached home) would be approximately 5.41% or \$84.62. See attached Schedule B – 2019 Operating Levy Summary.

Discussions between the Committee and staff regarding levels of service, staffing requirements, new services, operating expenditures, capital projects and financing, were considered along with numerous requests from staff.

Council reviewed the listing of unfinanced requests and after deliberation approved the following to be funded from the tax levy:

• Full Time Staffing	\$ 66,082
• Part Time staffing	\$ 61,840
• P&H Lease revenue to reserve	\$ 63,000
• Operations	\$ 36,107
• Marina surplus to reserve	\$ 10,000
• Airport Commission	\$ 6,269
• Canal Days	\$ 48,500
• Fishing Tournaments	\$ 25,000
• Economic Development	\$ 18,000
• Physician Recruitment	\$ 16,175

With the above increases to the budget, the City's net overall levy for 2019 is \$18,167,975 (operating levy of \$15,970,715 and capital levy of \$2,197,260). This amounts to an increase of \$1,051,580 over 2018 or a 6.14% levy increase as per Schedules A and B. With the phased in reassessment increase of properties, the estimated City property tax increase would be 5.41% on an average assessed home valued at \$191,070 or approximately \$84.62. The combined tax increase with the estimated Region tax rates and no change to Education tax rates (unavailable) would be 4.02% or approximately \$124.00, as approved by the Committee of Council. Please note that any reduction in Education tax rates (as in the past years) will lower the tax increase.

At the time of writing this report, the Region has not finalized the tax policies and tax class ratios for 2019 (these are subject to change).

The Ontario Municipal Partnership Fund (OMPF), which is normally announced in December, has not been provided to municipalities to date. It was announced that due to the lateness that the funding would remain virtually the same as in 2018. The City received \$2,786,200 in 2018. With such funding being very volatile, staff recommended, with Committee approval, that the base funding be applied to the tax levy and the balance be applied to fund one-time expenditures, new capital projects and/or the unfunded capital (levy) amortization. As per Schedule C, the amount allocated to the operating tax levy budget remains at the same level as 2018 of \$2,345,900. Committee approved the expenditure of the additional OMPF funds for one-time projects amounting to \$340,300 and \$100,000 allocated to the downtown CIP Phase 1.

In 2012, Council approved a minimum 10-year plan to annually increase the Capital (Levy) Amortization amount by \$100,000 in 2016, \$150,000 in 2017 and \$200,000 in 2018. Continuation of this plan from 2013 to 2018 provided a total capital levy amounting to \$1,940,260. Committee approved an amount for \$257,000 in 2019, which represents a 1.50% increase on the levy to keep up with inflation. The total capital levy for 2019 amounts to \$2,197,260.

The City is eligible to receive \$555,335 in 2019 from the Federal Gas Tax funds program to fund general road resurfacing with \$170,000 allocated to the Downtown CIP Phase 1. Funding from the Ontario Community Infrastructure Fund (OCIF) of \$404,300 (increased from \$259,755 in 2018) is allocated to the Downtown CIP Phase 1 amounting \$324,300 and \$80,000 towards Asset Management. A total of \$3,156,895 is available for capital

projects. While still short of the required \$4,281,049 in amortization to replace capital assets, this helps reduce the capital infrastructure deficit to fund existing capital assets to approximately \$1,124,154. To meet this deficit, Council should continue to levy 1.5% levy increase or approximately \$280,000 each year over the next 4 years to the capital levy.

Council reviewed staff's recommendations for capital replacement projects to be funded from the capital levy (amortization) (included in the base levy requisition), Federal Gas Tax Funds, OCIF funds, grants and reserve funds (see Schedules D, E and F).

The total amount of capital replacement projects in 2019 amounts to \$5,654,095. This is funded through the capital levy of \$2,197,260, allocation of Federal Gas Tax funds of \$575,495 for Roads, OCIF funds of \$324,300 for Downtown CIP Phase 1, a grant application for additional OCIF funds of \$1,176,940 for Downtown CIP Phase 1, other grants and reserve funds for various projects.

Other deferred capital projects approved by the Committee include:

- |  |             |
|--|-------------|
| • Downtown CIP Phase 1 in 2020                   | \$2,028,760 |
| • Bethel Community Centre – furnace 2020         | \$ 16,000   |
| • Fire Self Contained Breathing Apparatus – 2020 | \$ 450,000  |
| • Fire Engine No. 2 – 2021/2022                  | \$ 550,000  |

Committee of Council approved the following:

- Repurpose the matured Fire Hall and Marina debt payments to fund the balance of the Operations Centre debt for \$114,094 and the Fire Self Contained Breathing Apparatus in 2020
- To fund the replacement of Fire Engine No. 2 by way of issuing a new debenture in 2021/2022 and the debt payments to be funded through the matured debt for the City Hall in 2021 and a Fire Vehicle in 2022
- Repurpose the Main St CIP matured debt to fund the balance of the Vale Health & Wellness Centre debt in 2020 to 2023 (subject to other funds being available)
- Funding out of Reserves and Reserve Funds amounting \$1,030,742 and Transfers into Reserves amounting \$911,584 (Schedule G)
- Main St. BIA budget of \$10,000 and Downtown BIA of \$34,333
- Implement a Storm Sewer Utility Budget and removal of the Storm Sewer operations budget from the tax levy in the amount of \$185,425 (Schedule I)
- Established a Storm Sewer flat fee schedule and an operating/capital budget raising approximately \$740,000 annually to fund operations, the current storm sewer debt and establish a storm sewer capital reserve for future infrastructure (Schedules H and I).
- A Roadside Ditching Program be established as a pilot project for 2019 in using internal city staff to perform the work and with the rental of the necessary equipment to be accomplished using the existing budgeted funds for roadside ditching and culvert repairs amounting \$270,810

After detailed discussions on many issues presented, the following were approved for 2019 as per the attached schedules:

- Total operating expenditures of \$25,025,858.
- Total operating revenues/fees/reserves/OMPF of \$9,055,143.
- Net operating levy increase of \$794,580 from 2018 operating levy of \$15,176,135 to \$15,970,715 in 2019.
- Capital levy increase of \$257,000 from \$1,940,260 in 2018 to \$2,197,260.
- Capital expenditures of \$5,654,095 funded from Capital levy amortization of \$2,197,260 (included in net tax levy), Federal Gas Tax funds of \$575,495 for Roads, OCIF funds of \$324,300 for Downtown CIP Phase 1, a grant application for additional OCIF funds of \$1,176,940 for Downtown CIP Phase 1, other grants and reserve funds for various projects.
- Total net tax levy amounts to \$18,167,975 (operating \$15,970,715 and capital \$2,197,260).
- City portion of average residential property tax increase is 5.41% or \$84
- Municipal net tax levy increase is 6.14%.
- Tax rate increase of 2.39%.
- Estimated blended property tax increase is 4.02% or \$124 to average residential property with assessed value of \$191,070 with estimated Region tax rates and no change to Education tax rates (unavailable). Please note that any reduction in Education tax rates (as in the past years) will lower the tax increase. (all rates are subject to changes in Regional Tax Policy and Tax Class Ratios)
- Approval of projects to be financed from Federal Gas Tax Funds and OCIF funds.

### **3) STAFF COMMENTS AND DISCUSSIONS**

The 2019 budget estimates for operations and capital are presented to Council for adoption based on discussions and approvals of the Committee of the Whole of Council. The 2019 budget estimates must be approved by by-law in accordance with Section 290(1) of the Municipal Act, 2001, as amended.

Staff advises that a net levy requirement increase of \$1,051,580 represents a 6.14% increase to the City levy, which includes \$443,607 in operating costs, an additional \$257,000 to the capital levy requirement and \$350,973 in approved staffing and services. With the reassessment values of properties, assessment growth and the levy increase, the residential tax rate will increase by 2.39% from 0.00843103 to 0.00863274.

The final tax rates for the City will be provided to Council in a later report and a by-law prepared in conjunction with the final tax rates for the Region and School Boards. The Regional tax rates (including education rates) and tax class ratios/tax policy are yet to be approved by Regional Council. The report will be presented to Council to pass all tax rates.

In addition, the Downtown BIA has requested a levy of \$34,333 be raised in 2019 (\$34,333 – 2018) and the Main St. BIA has requested a levy of \$10,000 in 2019 (\$10,000 – 2018).

## Ontario Regulation 284/09 – Budget

Historically, municipal budgets have been developed on a cash requirement basis, including the funding of capital projects. Audit requirements have changed to require municipalities to report their tangible capital assets on the balance sheet and amortize the assets over their expected useful life. This results in the financial statements being prepared under the accrual basis of accounting, similar to most private corporations. The new accounting standards, however, do not require that municipal budgets be prepared on the same basis. Staff recommend that the City of Port Colborne continue to prepare budgets on the traditional cash requirement basis, as has been done for 2010 to 2018.

Ontario Regulation 284/09 states that: “In preparing the budget for a year, a municipality or local board may exclude from the estimated expenses described in paragraph 3 of subsection 290(2) of the Municipal Act all or a portion of the following: Amortization expenses and Post-employment benefits expenses.”

Under Ontario Regulation 284/09, to continue budgeting on the cash basis, the municipality shall, before adopting a budget for the year that excludes any of the expenses for amortization or post-employment benefits, report on the excluded expenses and adopt, by resolution, that the 2019 budget has excluded the following non-cash expenses:

- Amortization expenses of tangible capital assets
- Post-employment benefit expenses

As described previously in this report, amortization expenses are estimated to be approximately \$4,281,049 and a portion is excluded as a cost in the 2019 budget. Included in the budget are the cash requirements of \$3,156,895 for capital funding of amortization to fund the purchase of tangible capital assets. The cash requirements for funding the purchase of new assets are lower than the historical amortization expense and, therefore, the difference of \$1,124,154 is not budgeted.

The present value of post-employment obligations is estimated at \$6,137,200 with annual net benefit expense estimated at \$541,000 and are excluded as a cost in the 2019 budget. The budget contains \$294,000 for the current year’s post-employment benefit expense for the retired employees eligible for this expense. The difference of \$247,000 is not budgeted.

### **4) OPTIONS AND FINANCIAL CONSIDERATIONS:**

#### **a) Do nothing.**

This is not an option as budget estimates must be provided and approved by Council for the 2019 year as per the Municipal Act.

## **b) Other Options**

- i. Council may change and establish new budget estimates.
- ii. The proposed 2019 budget for operating and capital purposes establishes the City's spending requirements for this year. The 2019 operating budget was presented with a 2.59% operating levy increase of \$443,607 for the base level of service. With the annual capital levy increase of \$257,000 (1.50%) and additional staffing/services of \$350,973, the budget proposed a 6.14% overall levy increase amounting to \$1,051,580.

With the above increases, the City's net overall levy for 2019 is \$18,167,975 (Operating levy of \$15,970,715 and Capital levy of \$2,197,260). This amounts to an increase of \$1,051,580 over 2018 or a 6.14% levy increase.

The estimated average residential property tax increase for the City portion, with an increased assessment from \$185,605 to \$191,070 (average current value assessment of a single family detached home) would be approximately 5.41% or \$84.62. The combined tax increase with the estimated Region tax rates and no change to Education tax rates (unavailable) would be 4.02% or approximately \$124.00, as approved by the Committee of Council. Please note that any reduction in Education tax rates (as in the past years) will lower the tax increase.

To implement a Storm Sewer Utility Budget and removal of the Storm Sewer operations budget from the tax levy in the amount of \$185,425. The Storm Sewer budget to be funded through an established flat fee schedule to include an operating/capital budget raising approximately \$740,000 annually to fund operations, the current storm sewer debt and establish a storm sewer capital reserve for future infrastructure.

## **5) COMPLIANCE WITH STRATEGIC PLAN INITIATIVES**

Not applicable.

## **6) ATTACHMENTS**

- Schedule A – 2019 Budget Worksheet Summary
- Schedule B – 2019 Summary of Operating Budget Changes
- Schedule C - Ontario Municipal Partnership Fund (OMPF)
- Schedule D – Other Grants
- Schedule E – Federal Gas Tax Revenues
- Schedule F – Funds Transferred to Capital Projects (Capital Levy)
- Schedule G – Reserves and Reserve Funds
- Schedule H – Storm Sewer Fees Schedule
- Schedule I – Storm Sewer Budget and Capital Funding
- Schedule J – Estimated Residential Property Tax Change

## 7) RECOMMENDATION

That the Corporate Services Department, Finance Division Report 2019-37 be approved; and

That Council confirm and approve, that in compliance with Ontario regulation 284/09, the 2019 budget was developed using the cash basis and has excluded the following accrual expenses: a portion of the amortization expense which amounts to approximately \$1,124,154 and the amount of post-employment benefits expense which amounts to approximately \$247,000.

That the 2019 Budget be approved as presented with the City's net overall levy for 2019 at \$18,167,975 (Operating levy of \$15,970,715 and Capital levy of \$2,197,260).

That the operating expenditures of \$25,025,858 operating revenues/fees/reserves/OMPF funds of \$9,055,143 and capital expenditures of \$5,654,095 with capital revenues from reserves/grants of \$3,456,835 be approved.

That the Storm Sewer budget be approved to be funded through an established flat fee schedule to include an operating/capital budget raising approximately \$740,800 annually to fund operations, the current storm sewer debt and establish a storm sewer capital reserve for future infrastructure.

That the Mayor and City Clerk be authorized to execute the appropriate By-law for the budget estimates for all sums required for the operations for the year 2019.

## 8) SIGNATURES

Prepared on March 12, 2019 by:

Reviewed and Respectfully Submitted:



Peter Senese  
Director of Corporate Services

C. Scott Luey  
Chief Administrative Officer