HALDIMAND COUNTY

Report FIN-02-2019 Budget Guidelines for 2019

For Consideration by Council in Committee on February 26, 2019

OBJECTIVE:

To receive Council approval of the 2019 budget guidelines for the preparation of the 2019 operating and capital budgets for tax supported functions.

RECOMMENDATIONS:

1. THAT Report FIN-02-2019 Budget Guidelines for 2019 be received;
2. AND THAT the following guidelines be approved for the preparation of the 2019 Draft Tax Supported Capital Budget and Forecast:
   - A 1.0% increase in the tax levy to fund the capital requirements for the 2019 Capital Budget; and
   - Capital related expenditures targeted to be at 35% of the total tax levy within the forecast period but at a future date beyond 2019; and
   - Maintain an 80:20 ratio of capital expenditures for replacements/"state of good repair" to new/enhanced projects over the 10 year forecast period, excluding Community Vibrancy Fund projects;
3. AND THAT the following guidelines be approved for preparation of the 2019 Draft Tax Supported Operating Budget:
   - *Annual assessment growth is to be used as follows:*
     1. *firstly for increases in the tax levy to fund the annual capital-related tax supported capital requirements; and*
     2. *secondly to fund growth related impacts and new initiatives/service level enhancements; and*
     3. *lastly, any unutilized annual assessment growth be transferred to the Contingency Reserve to offset future growth related cost increases if necessary; and*
   - *Additional new initiatives for new/enhanced services, beyond available assessment growth, should only be considered during the budget review if the net levy impact can be mitigated on a consolidated, corporate-wide basis and the individual business case provides for offsetting revenue sources, efficiency improvements or cost savings; and*
   - *Funding related to Council approved new initiatives would be considered above and beyond the base budget requirements; and*
   - *A targeted overall increase in the combined municipal and education taxes on an average residential property of **2.00%** for the Tax Supported Operating Budget requirements.*

4. AND THAT, unless approved by a specific Council resolution and until the 2019 tax supported budget is approved by Council, staff are delegated the following purchase authority, subject to the provisions of the County's Procurement Policy:
    - Capital Purchases: Up to the approved budget for the applicable project, conditional on the project being approved by Council in the 2018 Capital Budget, including approved 2019 Capital Forecast Projects for State of Good Repair only;
    - Operating Purchases: Up to 50% of the previous year's base budget expenditures, adjusted for the impacts of one-time expenditures approved in 2018, and excluding any proposed new initiatives or service level changes.

Prepared by: Charmaine Corlis, Treasurer

Respectfully submitted: Mark Merritt, CPA, CA, General Manager of Financial and Data Services

Approved: Donald G. Boyle, Chief Administrative Officer

EXECUTIVE SUMMARY:

The County employs several key financial principles to ensure the budget document is understandable and meets the municipality's needs. These include ensuring the budget(s): are accountable, credible and reliable; manage expectations; are transparent; and meet legislative compliance. The budget cycle is continuous and ever evolving, including the following integral steps: preparation, approval, monitoring and reporting.

Starting in 2015, staff have presented a multi-year operating tax levy projection, along with suggested mitigation measures (if necessary to stabilize the overall annual impacts) that was aligned with the current term of Council. The initial projection covered the years 2015 to 2018 inclusively. Given 2019 is the first budget year for the new term of Council, it is recommended to continue this practice to ensure anticipated tax levy increases are sustainable, predictable and service levels meet the expectations of the end users. As such, staff recommend approval of the 2019 Budget Guidelines, as outlined in this report, to provide the framework for developing proposed tax supported capital and operating budget estimates for presentation to Council.

As well, given that the tax supported capital budget is not scheduled to be approved until March, and the tax supported operating budget is not scheduled to be approved until April, this report recommends that staff are authorized to expend funds for certain capital projects, and up to 50% of the approved 2018 base operating budget.

BACKGROUND:

Section 290(1) of the Municipal Act requires local municipalities to prepare and adopt annual estimates required during the year for the purposes of the municipality, including amounts sufficient to pay all debts of the municipality falling within the year, as well as amounts for any boards, commissions or other local bodies. In addition to these legislative requirements, the adoption of annual budgets provides the basis for prudent fiscal management by identifying expenditures required to match operational short and long term plans.

A budget is a guide to ensure corporate strategic priorities and departmental business plans are achieved. Annual budget estimates ultimately determine the County's revenue requirements and the impact on taxation and other fees to County residents. Long range financial planning and multi-year budgeting are increasingly becoming best practice at all levels of municipal organizations.

The County currently develops annual budgets for both the rate supported and tax supported operations. The capital and operating requirements are segregated into three (3) separate budget documents for Council deliberations as follows:

1. **Rate Supported (Water and Wastewater)** - Combined Capital (current year plus 9 year capital forecast) and Operating
2. **Tax Supported Capital** (current year plus 9 year capital forecast)
3. **Tax Supported Operating**

An integral part of the budget preparation process is the establishment of budget principles and guidelines which assist the Senior Management Team (SMT) and staff in developing budget estimates that fall within Council's fiscal objectives. The budget preparation process involves each Manager reviewing their operational requirements and service levels to ensure that the needs of the County are being met. Although Council's approval of guidelines has been delayed for 2019, managers utilized past principles when developing their preliminary budget estimates. The 2019 Rate Supported Water and Wastewater Capital Forecast and Operating Budget was based on previously approved budget guidelines. This budget was reviewed and approved by Council on January 24th, 2019.

The budget guidelines set a framework for staff to work within to develop proposed budgets and proposed changes to services/service levels for Council's review. Council has previously approved a multi-year operating budget guideline, aligned with the term of Council. As 2019 represents the first year of a new term of Council, this report will include tax levy projections for the next four years: 2019 to 2022. These guidelines will be updated annually for Council's review and approval.

Typically, this report is presented to Council in late fall, prior to staff's preparation of the coming year's budget estimates for both capital and operations. Due to the Municipal Election in 2018, the report has been delayed for 2019.

ANALYSIS:

The County's budget process has been focused on long term financial planning necessary to support Council's adopted strategic objectives of:

- **Growing our Local Economy by Creating Economic Opportunity** – *Does the expenditure support the strengthening of the economic base of the County? Examples: new infrastructure investment to allow growth, urban re-development, generates assessment growth, retains existing business/industry, tourism enhancement.*

- **Community Vibrancy & Healthy Community** – *Does the expenditure relate to high quality sustainable services that promote the well-being of communities? Does the expenditure contribute to the betterment of the quality of our communities? Does it contribute to a better natural environment or the health of residents?*

- **Corporate Image & Efficient Government** – *Does the expenditure result in a visible, positive image for the County? Does it contribute to more accessible, more efficient or more cost effective local government for our residents?*

Using the above as a strategic focus throughout the budget process provides direction to management and staff when identifying service level needs and implementing the County's key financing/budgetary principles.

The following have been established through prior budget approvals as the underlying principles utilized to develop the Draft Budgets for Council's review:

1. **Three (3) Pillars of Financial Planning**
    a. ***Focus on Sustainability***: The County has adopted several principles to provide and maintain services and infrastructure without resorting to unplanned increases in tax levy/rates or cuts to services. One of the key principles to sustainability is to ensure the County maintains its infrastructure to ensure safe and reliable services. The County has developed asset management plans and conducted condition assessments to plan the timely replacement of existing infrastructure. Pro-active maintenance plans, specific to various types of infrastructure, ensure the assets meet anticipated performance measures and maximize their useful life. A dedicated focus on the "state of good repair" and prioritization of all capital projects based on a standard evaluation criteria, ensures that competing projects are evaluated consistently and the respective merits of these projects can be considered on a corporate basis. Financial principles to ensure services are affordable and meet public expectations include: a dedicated capital levy to meet targeted capital related expenditures; capital replacement reserve fund principles to ensure adequate capital reserves are in place for planned replacements and growth related infrastructure needs ("pay as you go"); and establishing a planned overall tax levy/rate increase covering the term of Council to provide predictability to residents/taxpayers.
    b. ***Protect Against Vulnerability***: Principles have been adopted to assist the County's ability to address vulnerability to external sources of funding or exposure to costs beyond Council's control. The County has developed a Local Service Policy and Development Charge by-law to ensure "growth pays for growth". Council has established a User Fees and Charges Policy to govern the setting of fees based on who benefits, type of services and recovery/subsidy levels. These fees are indexed annually based on increases to underlying costs as well as "full cost recovery" reviews are conducted periodically. Given that Council has limited control over a number of services that the County provides, provisions are made to ensure overall cost controls/reviews are in place to offset unplanned costs in these areas. The County also maximizes external revenues or grants from upper levels of Government to ensure full cost recovery of the applicable services.
    c. ***Maintain Flexibility***: It is also critical to have the flexibility to limit tax levy/rate increases while responsibly issuing debt without impacting service levels or credit rating. The County has established annual debt repayment limits to ensure there is the ability to utilize debt in a planned approach while maintaining the flexibility to issue additional debt for unforeseen costs and future opportunities. The County has also established an Investment Policy and an Investment Committee to maximize investment returns while protecting the underlying principle investment portfolio. The County has also utilized short and long term mitigation strategies to phase in the impacts of lost revenues or increased costs to "smooth" these impacts over several years.
2. **Specific Principles**
    a. ***Annualized Costs***: The development of the County's operating budgets includes the annualized costs of new initiatives or changes in service delivery. This ensures the entire year's costs of these services are considered when evaluating a program or service. This principle also avoids unnecessary levy impacts in future years as these programs or services are fully implemented. Additionally, any potential savings during the initial year of these programs/services can be utilized to offset unfavourable impacts associated with unknown costs/estimates. This principle is conservative and financially protects the interests of the municipality. It also places the accountability for the full financial impact of the initiative on the decision makers at the time of approval.

b. **Assessment Growth:** As development occurs within the County, new assessment is generated which results in additional tax revenues (all other factors being equal). The revenues generated from this assessment growth can be used to offset other tax levy impacts (i.e. growth related costs, expenditures related to new initiatives/service enhancements, increases in capital infrastructure needs, etc.). Annual budget guidelines will identify the most effective use of this additional revenue source. This principle helps to alleviate the burden of additional costs, due to growth or new infrastructure, on the existing tax payers.

c. **Education Tax Room**: During service delivery realignment in 1998, the Province downloaded several services to the municipal sector under the premise that there would be offsetting revenues to ensure this "realignment" was revenue neutral to the municipalities. Although this premise has been contested in recent years, the Province has advocated that the use of "Education Tax Room" is one such revenue tool to offset costs downloaded to municipalities. "Education Tax Room" is created from property tax revenues when the Province maintains or reduces the education tax rate in a given year. This provides "room" for the municipality to offset additional revenue requirements through reduced education levies and overall reduced tax rates as a percentage of the property owner's total tax bill.

Based on the aforementioned principles, the following instructions and guidelines are proposed for Council's approval for the applicable budget(s) as outlined below.

A. 2019 Draft Tax Supported Capital Budget and Forecast to 2028

The Capital Budget process has evolved over the years to focus on strategic objectives and long term financial planning. A multi-year approach has better managed tax levy impacts while striving to meet specific financial objectives. These principles provide the basis for a long range financing plan to meet the anticipated replacement of the County's current infrastructure. Similar principles have been implemented and are continually refined by municipalities of all sizes to effectively plan for the timing and financial requirements associated with their infrastructure needs.

It is commonly accepted that there is a significant infrastructure deficit in the Province and across Canada. As a result, a planned approach to address this deficit will identify future needs and the associated financing sources to fund these needs. While this long range funding plan is being developed and refined, the County has implemented a scoring system that is aligned with the Council approved three strategic pillars in order to evaluate proposed initiatives relative to one another. In addition, proposed capital projects are segregated into two categories: projects falling into "replacement/state of good repair" or "enhanced/new initiative". This segregation of projects allows better management of existing infrastructure to ensure timely repairs and maintenance are undertaken and the appropriate resources are allocated to these needs.

Although municipalities are required to adopt a "balanced budget" (i.e. fully funding 100% of anticipated operating and capital costs), the Municipal Act allows municipalities to exclude estimates from annual budgets for expenses related to the amortization of capital assets. The County's current budgeting principles for the Capital Budget are premised on a "long range financing approach". As there is no direct relationship between the amortization of capital assets and the financing requirements associated with the replacement of existing infrastructure needs, there are limited impacts on budgeting for capital expenditures in 2019. For annual audited financial reporting purposes, the Capital Budget, as approved by Council, is converted to meet the Public Sector Accounting Board (PSAB) reporting requirements with details provided within the annual audited financial statements.

The following guidelines are recommended to Council to guide the development of the 2019 Draft Tax Supported Capital Budget and Forecast:

- *A 1.0% increase in the tax levy to fund the capital requirements for the 2019 Capital Budget; and*
- *Capital related expenditures targeted to be at 35% of the total tax levy within the forecast period but at a future date beyond 2019; and*
- *Maintain an 80:20 ratio of capital expenditures for replacements/"state of good repair" to new/enhanced projects over the 10 year forecast period.*

With regards to any new/enhanced capital projects, staff will be required to identify the related operating budget impact resulting from expanding the County's asset base. In some cases, additional ongoing costs will need to be added to the annual operating budget due to maintenance, staffing, insurance, utilities, etc. of the new asset.

It should also be noted that the County's current capital replacement reserves are for the purpose of replacing/maintaining current assets, not for enhancements or acquiring new assets. As a result, with the exception of Development Charges for growth related infrastructure, there is no dedicated source of funding for capital asset enhancements unless it is taken from the pool of funds needed to replace existing infrastructure. The impact on the ongoing tax levy from enhancing the asset base will need to be identified in order for Council to make an informed decision prior to approving such projects. Additional contributions to reserves may be required in order to ensure sufficient funds are available for replacement of the asset at the end of its useful life.

Council has continually supported a multi-year plan to increase the funding for capital related expenditures. The intent of this plan was to develop predictable annual levy increases whereby the target of 35% of the annual tax levy could be allocated to capital related expenditures. Although the capital related percentage increase in the total levy has changed over the years (ranging from a high of 1.5% to a low of 0.25% percentage points), Council has recognized the importance of addressing the infrastructure deficit related to the County's capital assets. Council will see that the Draft 2019 Tax Supported Capital Budget and Forecast, continues to include a multi-year plan that provides for annual 1.0% increases in the total tax levy related to capital financing to meet the target levels indicated above. As a result, a 1.0% increase in the tax levy related to capital financing is also included for 2019 as a key budget guideline.

With the completion of the first phase of tangible capital asset reporting/management, an inventory of existing assets is available based on PSAB reporting principles. Although this is not a complete asset inventory (as smaller dollar items are not capitalized for reporting purposes), it does provide a basis to evaluate future replacement costs in relation to current capital funding. During 2013 and 2014, the County completed an asset management plan for core infrastructure categories of roads, bridges/culverts, stormwater management, water and wastewater. In June 2018, Staff presented to Council a draft asset management plan for the asset categories not included in the 2014 edition, which included buildings, machinery and equipment, land improvements, and vehicles. The intent is to continually update/refine these asset management plans with more timely/accurate information to better understand any deficiencies in the County's current long term financing strategy for infrastructure replacements. The plan is intended to provide a sound basis for financial planning and asset management/maintenance practices, including annual reporting.

Moreover, beginning January 1, 2019, the Province has passed new legislation that will require all municipalities to adopt a service based asset management plan for all assets. Under this new legislation, every municipality will be required to prepare a strategic comprehensive asset management policy that includes a plan to maintain core infrastructure, defines levels of service and make the plan publicly accessible with updates at least every 5 years. These requirements will be phased in over several years with the first requirements of a Strategic Asset Management Policy required by July 1, 2019 and the remaining provisions implemented in future years with all components fully implemented by July 1, 2024.

B. 2019 Draft Tax Supported Operating Budget

Starting in 2015, staff have presented a multi-year operating tax levy projection, along with suggested mitigation measures (if necessary to stabilize the overall annual impacts) that was aligned with the current term of Council. As such, the initial projection covered the years 2015 to 2018 inclusively. Given 2019 is the first budget year for the new term of Council, it is recommended to continue this practice to ensure anticipated tax levy increases are sustainable, predictable and service levels meet the expectations of the end users.

Budgetary Constraints/Economic Impacts

It is important to consider the effect of external factors on the budget principles/guidelines on an annual basis. As some factors that effect the annual budget are either beyond Council's control or are influenced by more Provincial/global impacts.

Level of Influence: Premised on accountability and control over expenditures, budget development is focused on the controllable expenditures vs. uncontrollable/limited control expenditures. Several services and related costs are provincially mandated or controlled by other Boards and, to some extent, are beyond the control of Council and staff. Other costs are predetermined by past decisions (i.e. debt repayment costs) and, as such, the County is legally bound to specific costs. Given these constraints, the budget is developed with a focus on "controllable expenditures". These expenditures include the materials, supplies and services that the County has "control/influence" over their level of use and, ultimately, the associated cost of these items. Given the lack of control over certain Provincially mandated programs, the impacts associated with these programs will often need to be offset by reductions in controllable areas to meet targeted levy increases.

The "uncontrollable" services funded by property taxes include: Education property taxes, Ontario Municipal Partnership Funds grant (OMPF), Public Health, Social Assistance, Child Care, Social Housing, Policing (through OPP contract), Conservation Authorities (Long Point, Grand River and Niagara Peninsula Conservation Authorities) and the Municipal Property Assessment Corporation (MPAC). Based on the approved 2018 Tax Supported Operating Budget, these uncontrollable services accounted for approximately 27**%** of the average municipal residential tax bill in Haldimand County.

In addition to these external impacts, the County has several unique factors to be considered. The pace of new development, local economic impacts, shared services agreements with Norfolk and unpredictable grant allocations from senior levels of government all substantially impact the budget requirements for future years. Due to the uncertainty and uncontrollable nature of these financially significant items, a consistent budgeting approach has been utilized until these issues are resolved. During budget preparation, strategies have been evaluated to phase-out/offset these uncertainties while mitigating the overall tax impacts.

The following summarizes known base operating budget drivers that will have tax levy impacts in 2019 and beyond:

Positive issues:

- Assessment growth;
- Projected education tax room.

Negative issues:

- Reduced/uncertain funding from Province government;
- Impact of decisions by upper levels of Government on current operations and program delivery;

- Economic adjustments to employee compensation, including wages, statutory and non-statutory employee benefits;
- WSIB self insurance impacts related to PTSD claims and presumptive liability for firefighters.

Economic Impacts: The anticipated economic conditions have been considered when developing the proposed budget guidelines. The financial pressures currently being faced on a global, national and provincial basis will undoubtedly have impacts on the local economy. Based on the National Bank's January 2019 Economic Forecast, Canada's annualized rate of change in key financial areas is projected as follows:

Annualized Rate of Change	*2016 Actual*	*2017 Actual*	*2018 Actual*	*2019 Forecast*
Gross Domestic Product	1.1%	3.0%	2.1%	**1.8%**
Residential Construction	3.5%	2.4%	(0.7%)	**(1.1%)**
Unemployment Rate	7.0%	6.3%	5.8%	**5.7%**
Inflation	1.4%	1.6%	2.2%	**1.7%**
Bank of Canada Prime Lending rate	Currently at 3.95% (major banks = 3.95%)			

In 2009, the Province initiated a mandatory 4-year reassessment cycle. As a result, any assessment increases will be phased-in over the four year cycle and decreases will take effect immediately. The current phase-in cycle is based on a January 1, 2016 valuation date. The coming taxation year, 2019, represents the third year of the phased-in increases resulting from the 2016 reassessment. As is the case with any reassessment adjustments, there are potential tax impacts on specific properties within a tax class, as well as shifts between classes. Staff will present a separate report to Council, at the February 26th Council-in-Committee meeting, to outline these impacts and potential effects on tax policy decisions.

Projected 2019 – 2022 Targeted Overall Residential Tax Increases

As noted above, staff recommend that Council approve a multi-year tax levy plan to align with the term of Council. Attachment #1 to this report outlines the proposed targeted increases for the term of Council, 2019 to 2022, based on the following parameters.

Base Operating Budget Guidelines

The "Base Budget" is the cost, net of revenues from user fees and other sources, of providing the same levels of service approved by Council in the prior year. Given the known base budget drivers and impact on the levy, there are no recommended provisions for growth in the level of service. Any recommended change in level/delivery method of service will be presented as a "New/Enhanced Initiative" in the 2019 Draft Tax Supported Operating Budget.

The following instructions were provided to staff when developing the base operating budget for 2019:

- 0% guideline for developing the base budget for controllable operating expenditures – materials, supplies, services, etc.
- Ability to reallocate funds within a Division's base budget for supplies and services while still remaining within the 0% guideline.
- One time expenditures approved in the 2018 budget have been removed so as not to be considered in the "Base Budget".
- Review and adjustment of user fees and service charges to maintain relative recovery percentage in relation to the associated costs.
- Review of whether budgets can be reduced, based on actual needs, efficiencies or decreased costs, etc.

Additionally, as indicated above, some of the County services are beyond the control of Council and, as such, the levy impacts may not be at the discretion of Council. These impacts will be specifically identified in the budget document and form a component of the overall base budget requirements. Given the fact that Council has limited control over these impacts, to meet the overall base budget requirements, reductions in other ”controllable” base budgets may be necessary to offset these impacts. Base budget impacts can fluctuate year to year depending on the specific circumstances – past term of Council base budget increases fluctuated from 3.25% to 1.20%. The intent is to limit the average base budget impacts to align with annual inflation, recognizing that some underlying services can have greater than inflationary increases on an annual basis.

In an effort to maximize the impact of user fees in relation to the associated actual costs, similar to previous years, staff provided a separate report on user fees for Council's approval before the review of the Draft 2019 Tax Supported Operating Budget. This report was approved by Council on November 5th, 2018 and included a comprehensive review of fees and charges. Most fees were indexed by 2.25% to reflect the estimated increase of the underlying associated costs. From a timing perspective, given the scheduled date of the 2019 Tax Supported Operating Budget review, this allows for the new rates to take effect at the beginning of the calendar year, avoiding unnecessary annualized revenue shortfalls (i.e. delays in implementing fees in the past have resulted in calendar year revenue shortfalls).

Use of Assessment Growth and New/Enhanced Operating Initiatives Guidelines

As previously noted, as development occurs within the County, new assessment is generated which results in additional tax revenues (all other factors being equal). The revenues generated from this assessment growth can be used to offset other tax levy impacts (i.e. growth related costs, expenditures related to new initiatives/service enhancements, increases in capital infrastructure needs, etc.). Annually, the budget guidelines have established principles to guide the use of anticipated assessment growth.

Historically, assessment growth has averaged approximately 1% annually up to and including 2017. Given the consistent principle of increasing the annual capital-related levy by 1.0%, growth has traditionally been allocated to this principle, with any deficiencies funded from other levy sources. However, given the anticipated sustained residential developments planned over the next 10 years, staff are anticipating increased annual assessment growth. The assessment growth in 2018 increased to approximately 2.3% and 2019 is anticipated to be similar. It should be noted that at the on-set of subdivision development, the conversion of the lands and the initial uptake on lots can skew the annual assessment growth impacts.

Given the limited impacts of increased development in the past two years and the anomalies noted therein, staff have attempted to determine what the most likely average annual assessment growth will be over the next four years. Based on this analysis, the budget guidelines for 2019 to 2022 have included a projected annual assessment growth of 2.0%. It should be noted that individual years may fluctuate above and below the target of 2.0%.

The base budget impacts presented above, do not include any “New/Enhanced Initiatives” to fund improvements to current operating budget service levels, additional/new services, or growth in the level of service. Given the anticipated increased annual assessment growth, the following principles are recommended for use of annual assessment growth:

- firstly for increases in the tax levy to fund the annual capital-related tax supported capital requirements, currently established at 1.0%; and
- secondly to fund growth related impacts and new initiatives/service level enhancements; and
- lastly, any unutilized annual assessment growth be transferred to the Contingency Reserve to offset future growth related cost increases if necessary.

These principles and proposed uses will provide the ability to fund growth related costs from growth related revenues, which aligns with one of Council's underlying financial principles, as well as establishing a funding source to provide for improvements to current operating budget service levels and additional/new services.

An annual assessment shift and growth report will be presented to Council in late February, based on the returned roll that will provide further details on the actual assessment growth prior to the review of the 2019 Draft Tax Supported Operating budget.

In the event that sufficient assessment growth is not available, additional new initiatives/service enhancements can be brought forward provided they have a zero net levy impact on a consolidated, corporate basis. As a result, these initiatives should be accommodated through additional offsetting revenue sources or by modifying current service levels or delivery to generate the required levy savings. Although a specific new initiative may have a net levy impact in 2019, corporately, recommendations may be proposed to mitigate these impacts (i.e. through other efficiencies/savings/offsetting revenues). All new initiatives for enhanced programs or services proposed during the operating budget review require a standardized cost justification, business plan, or cost-benefit analysis and will be identified individually.

New initiatives, approved by Council prior to budget review, are considered above and beyond the base budget requirements and should contemplate additional levy funding.

Mitigation Measures

One of the principles of maintaining financial flexibility is to introduce "mitigation" measures to plan and phase-in anticipated budget impacts. In previous years, the County has utilized short and long term mitigation strategies to phase-in the impacts of loss revenues or increased costs to "smooth" these impacts over several years. At this time there are no mitigation measures carried over from previous years nor are staff recommending any new mitigation measures at this time.

Offsetting Education Tax Room

Education Tax Room is generated annually when the Province sets the Education Tax rates (typically at reduced rates due to increased annual assessment). Municipalities are allowed to utilize this reduction to offset their municipal budget impacts. Based on the targeted overall tax levy impact and estimated Education rates, the Education Tax Room should provide relief of approximately 0.5% on the overall tax levy.

Summary – 2019 Tax Supported Operating Budget Guidelines:

Based on the preceding discussions, it is proposed that Council approve the following guidelines for staff's preparation of the 2019 Tax Supported Operating Budget:

- *Annual assessment growth is to be used as follows:*
  - *firstly for increases in the tax levy to fund the annual capital-related tax supported capital requirements; and*
  - *secondly to fund growth related impacts and new initiatives/service level enhancements; and*
  - *lastly, any unutilized annual assessment growth be transferred to the Contingency Reserve to offset future growth related cost increases if necessary; and*
- *Additional new Initiatives for new/enhanced services, beyond available assessment growth, should only be considered during the budget review if the net levy impact can be mitigated on a consolidated, corporate wide basis and the individual business case provides for offsetting revenue sources, efficiency improvements or cost savings; and*
- *Funding related to Council approved new initiatives would be considered above and beyond the base budget requirements; and*
- *A targeted overall increase in the combined municipal and education taxes on an average residential property of **2.00%** for the Tax Supported Operating Budget requirements.*

To summarize, as a guideline for preparation of the 2019 Tax Supported Operating Budget, staff propose an increase in the total average residential tax bill of **2.00%** over the approved 2018 level for all tax supported services (details included in Attachment #1 to this report). The proposed increase is to cover the change in base operating budgets as a result of: inflationary cost for goods and services; utility rate increases; changes in salary, wage and employee benefit costs; contracted services price adjustments; and net of any increase/decrease in service charges and user fees revenue for base services. This is net of the levy impacts of base budget drivers, capital levies, assessment growth and educational tax room. It should also be noted that the proposed increase would be at the corporate level and does not automatically mean every Division's base budget increases by 2.0%.

Staff will continue to carefully review the cost of existing services and financial strategies in order to identify efficiencies or opportunities. As outlined above, while Staff will attempt to produce a 2019 Draft Tax Supported Operating Budget in line with these guidelines, there are many potential cost implications that are beyond the County's control and it may not be possible to achieve such a target without a review of current service levels. As a decision to reduce service levels rests with Council, the proposed budget delivered by staff will be based on maintaining current service levels.

Delegated Authority Based on Timing of Budget Approval:

Due to the timing of Council's review of the 2019 budgets, a recommendation has been included in this report that delegates authority to management to make certain expenditures. The recommended authority is as follows:

- Capital Purchases: Up to the approved budget for the applicable project, conditional on the project being approved by Council in the 2018 Capital Budget, including the 2019 Capital Forecast Projects for State of Good Repair only;

- Operating Costs: Up to 50% of the previous year's base budget expenditures, adjusted for the impacts of one-time expenditures approved in 2018 and excluding any proposed new initiatives or service level changes.

This approval is consistent with past years' direction from Council. All expenditures are still subject to the provisions of the County's Procurement Policy.

FINANCIAL/LEGAL IMPLICATIONS:

All aspects of this report have an impact on the 2019 Draft Tax Supported Operating Budget being prepared by staff for Council's consideration. The guidelines, once approved by Council, will be utilized in the development of the respective budgets.

STAKEHOLDER IMPACTS:

Participation and cooperation of all Departments is necessary in the preparation of the 2019 Draft Budgets and in meeting the budget guidelines as outlined in this report.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. Projected Tax Levy Impacts for 2019 to 2022 - Based on an Average Residential Property