HALDIMAND COUNTY

Report CS-FI-01-2018 Budget Guidelines - 2018

For Consideration by Council in Committee on February 6, 2018

OBJECTIVE:

To receive Council approval of the 2018 budget guidelines for the preparation of the 2018 operating and capital budgets for tax supported functions.

RECOMMENDATIONS:

1. THAT Report CS-FI-01-2018 Budget Guidelines – 2018 be received;
2. AND THAT the following guidelines be approved for the preparation of the 2018 Draft Tax Supported Capital Budget and Forecast:
   - A 1.0% increase in the tax levy to fund the capital requirements for the 2018 Capital Budget, offset firstly from assessment growth, and secondly, in the event assessment growth is insufficient and Council deems it appropriate, from an additional increase in the Municipal Tax Rate;
   - Capital related expenditures targeted to be at 35% of the total tax levy within the forecast period but at a future date beyond 2018; 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 2018 Draft Tax Supported Operating Budget:
   - A 0% guideline for developing the base budget for controllable expenditures (i.e. materials, supplies, services, etc.) with the ability to reallocate funds within a Division's base budget for supplies and services while still remaining within the 0% guideline;
   - A target increase in the combined municipal and education taxes on an average residential property of 1.5%, after assessment growth, for the Tax Supported Operating Budget requirements;
   - New Initiatives for new/enhanced services should only be considered during the budget review if the net levy impact can be mitigated on a consolidated, corporate wide basis;

4. AND THAT, unless approved by a specific Council resolution and until the 2018 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 2017 Capital Budget, including approved 2018 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 2017, and excluding any proposed new initiatives or service level changes.

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Respectfully submitted: Karen General, CPA, CGA, General Manager of Corporate Services

Approved: Donald G. Boyle, Chief Administrative Officer

EXECUTIVE SUMMARY:

Staff recommend approval of the 2018 Budget Guidelines, as outlined in this report, to provide the framework for developing proposed capital and operating budget estimates for presentation to Council in line with fiscal expectations. As well, given that the tax supported capital budget is not scheduled to be approved until February, and the tax supported operating budget is not scheduled to be approved until March, this report recommends that staff are authorized to expend funds for certain capital projects, and up to 50% of the approved 2017 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:

Rate Supported (Water and Wastewater)

Capital and Operating: Capital *(current year plus 9 year capital forecast)* and Operating Budget

Tax Supported

Capital: Tax Supported Capital Budget *(current year plus 9 year capital forecast)*

Operating: Tax Supported Operating Budget

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 2018, managers utilized past approaches when developing their budgets. The 2018 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 December 7th, 2017.

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. As Council has previously approved a multi-year operating budget guideline, this report will update the information based on current issues and drivers. Typically, this report is presented to Council in the fall, prior to staff's preparation of the coming year's budget estimates for both capital and operations.

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 a long range financial plan that is sustainable.

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.

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

1. **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 the program/service. This principle also avoids unnecessary levy impacts in future years as these programs/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.

2. **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.

3. **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. costs of new initiatives, increases in capital infrastructure needs, etc.). Annual budget guidelines will determine 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.

4. **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.

5. **Prioritization Criteria:** Haldimand County has adopted a Capital Budget development process that is aligned with the County's three strategic pillars while maintaining a "state of good repair" of existing County infrastructure. As part of this process, all capital projects submitted by various departments are prioritized utilizing standard evaluation criteria. This process ensures that competing projects are evaluated consistently and the respective merits of these projects can be considered on a corporate basis.

6. **Capital Financing Principles:** For several years, Capital Financing Principles have been utilized/adopted by Council to develop a long range, sustainable financial plan. These principles provide for specific criteria to determine the application of various funding sources for proposed capital replacements or new infrastructure needs. As well, any project requiring debt financing will also include a budget for temporary financing, and legal fees related to debt issuance, funded from the applicable reserve/reserve fund.

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. 2018 Draft Tax Supported Capital Budget and Forecast to 2027

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 fundamental 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.

During 2016 and 2017, the County initiated further Asset Management Plans related to the non-core infrastructure such as facilities, fleet, machinery and equipment, parks and solid waste management. It is anticipated that the financing strategy that will result from these plans may impact future capital budgets. Staff anticipate presenting this Asset Management Plan to Council in early 2018.

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 in 2018. For annual audited financial reporting purposes, the Capital Budget, as approved by Council, is converted to meet the 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 2018 Draft Tax Supported Capital Budget and Forecast:

- *A 1.0% increase in the tax levy to fund the capital requirements for the 2018 Capital Budget, offset firstly from assessment growth, and secondly, in the event assessment growth is insufficient and Council deems it appropriate, from an additional increase in the Municipal Tax Rate;*
- *Capital related expenditures targeted to be at 35% of the total tax levy within the forecast period but at a future date beyond 2018; 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 in the front half of the forecasted period. 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 2018 Approved 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 2018 as a key budget guideline.

The recommended 1.0% levy increase for capital financing is anticipated to be funded first from assessment growth and, secondly, from a tax rate increase if assessment growth is insufficient. Assessment Growth has historically averaged approximately 1% per annum (net of one-time assessment growth from wind turbines, major non-residential developments less reductions from write-offs, appeals, etc.). However, given the anticipated sustained residential developments planned over the next 10 years, staff are anticipating increased annual assessment growth. As a result, the budget guidelines for 2018 have included a projected assessment growth of 1.5%.

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. With the assistance of a Provincial grant in 2013, staff have used this information, in conjunction with asset condition information where available, to develop a comprehensive Asset Management Plan for a select group of core infrastructure assets: roads, bridges, storm water management, water and wastewater. The first draft report was presented to Council in the spring of 2014, indicating significant funding deficits in the areas of roads, bridges and water. The Plan was subsequently updated in late 2014, revealing a substantial reduction in the previously identified deficit, although further review of these figures is required. The intent is to continually update/refine this asset management plan with more timely/accurate information to better understand any deficiencies in the County's current long term financing strategy for infrastructure replacements. Using the principles developed in the first draft of the asset management plan, additional asset categories will be added over time. Refinements to the plan, to meet Federal Gas Tax requirements, began in 2016. The plan is intended to provide a sound basis for financial planning and asset management/maintenance practices, including annual reporting.

Moreover, beginning January 1, 2018, 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 effective July 1, 2019 with the remaining provision implemented in futures years and all components to be fully implemented by July 1, 2024.

B. 2018 Draft Tax Supported Operating Budget

Budgetary Constraints/Economic Impacts

Starting in 2015, staff presented a multi-year operating tax levy projection, along with suggested mitigation measures to stabilize the overall annual impacts that was aligned with the current term of Council. Last year's projections for the 2018 taxation year identified a targeted overall tax impact of 2.5%, with the following major drivers/impacts anticipated:

- Inflationary adjustment of 2%;
- Capital levy enhancement of $620,000;
- Phasing out the impact of reduced OPG property taxation realized in 2016; and
- Phasing out the one-time 2015 transfer of Hydro Divestiture investment income.

The 2017 Tax Supported Operating Budget recommended removal of the phasing out of the Hydro Divestiture investment income, therefore eliminating the 2018 impact. As well, staff recommended an increase ($273,000) for higher Workers' Compensation liabilities due to legislation covering post traumatic stress disorder (PTSD) for emergency workers and presumptive liability for volunteer firefighters, with the assumption that an additional increase of $275,000 would be required in 2018. The 2018 amount has subsequently been revised to $110,000.

As part of the proposed 2018 operating budget guidelines, staff have reviewed and updated these projections as noted in Attachment #1.

Several financial pressures influence the draft budgets presented to Council and limit the County's ability to mitigate the potential financial effects on the levy. To some degree, some of these factors are beyond Council's control. Several municipal programs are mandated by the Province or provided by Norfolk County on our behalf, Local Boards or Agencies with Haldimand Council having limited ability to control their operations. Although many of these services were downloaded in 1998 as a "revenue neutral" impact on municipalities, it has been widely advocated by local municipal governments that there is currently a significant funding gap. The Province has responded to that criticism by gradually uploading the funding responsibility for some social assistance programs as well as prisoner transfer costs. 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 2017 Tax Supported Operating Budget, these uncontrollable services accounted for approximately 29**%** 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, unpredictable grant allocations from senior levels of government, and the assessment reductions at the Nanticoke Thermal Generating Station (OPG) 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. In future years, as some of the underlying issues are resolved, a more predictable budget can be developed.

The following summarizes known base operating budget drivers that will have tax levy impacts in 2018:

Positive issues:

- Continued uploading of social services (contingent on Norfolk County not reallocating the levy savings to increased program expenditures)
- Assessment growth
- Projected education tax room
- Increase in the OMPF grant
- Reduced Policing costs

Negative issues:

- Reduced property tax revenues from closure of Nanticoke OPG
- 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
- Annual deficits in relief time in land ambulance and response calls for fire operations
- Impacts of Bill 148 Fair Workplaces, Better Jobs Act, 2017 (current and future 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 2018 Economic Forecast, Canada's annualized rate of change in key financial areas is projected as follows:

Annualized Rate of Change	***2014 Actual***	***2015 Actual***	***2016 Actual***	***2017 Actual***	***2018 Forecast***	***2019 Forecast***
Gross Domestic Product	2.6%	1.0%	1.4%	3.0%	**2.5%**	**1.5%**
Residential Construction	2.7%	3.8%	3.3%	2.5%	**(0.4)%**	**(1.9)%**
Unemployment Rate	6.9%	6.9%	7.0%	6.4%	**5.8%**	**5.8%**
Inflation	1.9%	1.1%	1.4%	1.6%	**2.3%**	**2.1%**
Prime Lending rate	Bank of Canada - currently at 3.20% (major banks = 3.45%)					

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, 2018, represents the second 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, in the first half of 2018, to outline these impacts and potential effects on tax policy decisions. Given every year will require a "phase-in" of assessment increases, staff will be required to calculate the "Notional Tax Rate". This represents the required tax rate based on the 2018 returned assessment roll to generate the same tax levy requirement approved by Council for 2017. This "Notional Tax Rate" will be compared to the required tax rate to generate the necessary tax levy when presenting the proposed Municipal and Total Tax Rates for 2018.

<u>Projected 2015 – 2018 Budget Drivers</u>

As noted, Attachment #1 reflects an update to projected major operating tax levy drivers for 2018. For 2019, staff intend on bringing a multi-year plan forward to the newly elected Council, outlining the targeted increases, for the term of Council 2019 to 2022.

The current known major drivers are as follows:

- *<u>Reduced OPG taxation impacts</u>*: When the Nanticoke thermal generating station was permanently idled at the end of 2013, the related property tax assessments were also expected to be negatively impacted. In 2015, Haldimand, OPG and MPAC settled the remaining period of the long standing assessment appeal (namely, taxation years 2013 through 2016 inclusive). The result was a significant reduction to the ongoing assessed value of this plant due to obsolescence and non-use. As staff have been phasing in the expected impact of this closure for several years, the additional loss of revenue that affected the 2016 tax levy impact was only $855,000 or 1.5%. This impact was phased in over three years to smooth the levy impact, through use of some of the surplus tax allowance funds that currently exist (used $586,000 of the allowance in 2016, resulting in a net impact of $269,000, and an additional $293,000 impact in both 2017 and 2018). It is anticipated that future years, starting in 2018, will also have assessment reductions as demolition of the majority of the above ground structures occur at the facility. As there is still uncertainty regarding the future assessment of this facility, the impacts of the OPG re-development will need to be monitored to ensure impacts are managed responsibly.
- *<u>Use of Hydro "Dividend"/Investment Proceeds:</u>* Council used the 2014 Haldimand Hydro dividend (estimated to be $750,000) to directly mitigate some of the 2015 tax levy requirement. This impacted the subsequent year's tax levy given that it was a one-time source of revenue. In approving the 2016 budget, Council adopted a three year phase-out of this one time source of revenue until such time as a policy was approved regarding the use of investment income from the Hydro Divestiture Fund. The 2017 Tax Supported Operating Budget recommended removal of the phasing out of the Hydro Divestiture investment income, resulting in a $500,000 impact in 2017 and eliminated the anticipated 2018 impact.
- *<u>Workers' Compensation Liabilities:</u>* the 2017 Tax Supported Operating budget included a staff recommended increase of $273,000 for higher Workers Compensation liabilities due to legislation covering post traumatic stress disorder (PTSD) for emergency workers and presumptive liability for volunteer firefighters, with the assumption that an additional increase of $275,000 would be required in 2018. The 2018 amount has subsequently been revised to $110,000 with planned future monitoring/impacts.

As denoted in Attachment #1, as a result of these updated projections of major budget drivers, the anticipated municipal levy impact (before assessment growth and Education Tax Room) is projected at **3.4%** in 2018. This includes phasing in the impacts of the OPG assessment appeal over 3 years, a projected increase related to workers' compensation liabilities, increases related to Bill 148 (for minimum wage impacts only), and anticipated new initiatives due to planned major residential developments.

After factoring in assessment growth and Education tax room, the overall residential tax impact is projected to be **1.5%.** Some of the most notable assumptions contained in this analysis are as follows:

- Stelco continues to fully operate in Haldimand County with no loss of tax revenue and no indication of large assessment appeals in the future;
- OPG Nanticoke's closure/re-development and resulting loss of taxation revenue is offset through a combination of levy increase and use of the tax allowance (this <u>excludes</u> any future reduction to assessment based on changes to buildings/lands at the current location – this will require monitoring/analysis of future impacts);

- Assessment Growth has historically averaged approximately 1% per annum (net of one-time assessment growth from wind turbines, major non-residential developments less reductions from write-offs, appeals, etc.). However, given the anticipated sustained residential developments planned over the next 10 years, staff are anticipating increased annual assessment growth. As a result, the budget guidelines for 2018 have included a projected assessment growth of 1.5%. Similar to previous years, assessment growth is recommended to be utilized; firstly for increases in the tax levy to fund the 2018 tax supported capital requirements, and secondly for new initiatives/service level enhancements. 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 2018 Draft Tax Supported Operating budget.;
- Education Tax Room is generated annually and municipalities are allowed to utilize this to offset own cost increases.

As previously noted, the target overall Residential tax rate increase was set at an annual target of 2.5% over the term of Council (2015 to 2018). Based on the above analysis (and detailed in Attachment #1), staff recommend establishing the target <u>base</u> budget tax rate increase at **<u>1.50%</u>** for 2018, which is in line with the 2017 actual tax increase and 1.0% less than the annual average of approximately 2.5% over the past 5 years (2013 to 2017 inclusive). Detailed budget drivers will be refined as staff delve further into preparation of the 2018 budgets. As a result, any required mitigation measures will be presented to Council with the 2018 Draft Tax Supported Operating Budget.

Given the constraints outlined above and the continued “long-range, strategic direction”, Managers have been given instructions in preparing the 2018 budgets, segregated into “Base Budget” and “New/Enhanced Initiatives”, as follows:

<u>Base Operating Budget Guidelines</u>

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 2018 Draft Tax Supported Operating Budget.

The following instructions were provided to staff when developing the base operating budget for 2018:

- 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 2017 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. Any of these impacts should be considered over and above the base budget requirements and in addition to the total tax levy increase included in the proposed guidelines. These impacts on the total tax levy will be identified during Council’s budget deliberations.

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 2018 Tax Supported Operating Budget. This report was presented to Council on December 5th, 2017 and included a comprehensive review of fees and charges. From a timing perspective, given the scheduled date of the 2018 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).

New/Enhanced Operating Initiatives Guidelines

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 level of service. The "New Initiatives" include Council Pre-Approved Initiatives as well as New Initiatives proposed by various Departments/Divisions through the budget process.

It is proposed that all New Initiatives, as supported by a business case, should 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 2018, 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.

Summary – 2018 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 2018 Tax Supported Operating Budget:

- *A 0% guideline for developing the base budget for controllable expenditures (i.e. materials, supplies, services, etc.) with the ability to reallocate funds within a Division's base budget for supplies and services while still remaining within the 0% guideline;*
- *A target increase in the combined municipal and education taxes on an average residential property of 1.5%, after assessment growth, for the Tax Supported Operating Budget requirements;*
- *New Initiatives for new/enhanced services 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. Funding related to Council approved new initiatives would be considered above and beyond the base budget requirements.*

To summarize, as a guideline for preparation of the 2018 Tax Supported Operating Budget, Staff propose an increase in the total residential tax bill of **1.50%** over the approved 2017 notional tax rate for all tax supported services. 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 1.5%.

Despite a lower targeted tax increase, Staff will be carefully reviewing 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 2018 Draft Tax Supported Operating Budget in line with these guidelines, there are many significant cost implications that are beyond the County's control and it may not be possible to achieve such a target without a review of 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 2018 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 2017 Capital Budget, including the 2018 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 2017 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 2018 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 2018 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 Levy Impacts for 2018, based on an Average Residential Property