



Financial Services

Prepared for	Council-in-Committee	Report No.	CS-17-2015
Agenda Date	September 21, 2015	File No.	230101

Subject	
	2016 BUDGET PLANNING AND TIMETABLE

Recommendations	
<u>THAT</u>	Council receives for information the 2016 Budget Forecast as explained in Report No. CS-17-2015 and quantified in Appendix "1" and "2", and further
<u>THAT</u>	Council approves the proposed 2016 Budget Timetable as per Appendix "3".

Relation to Council's 2015-2018 Corporate Strategic Plan	
Priority:	Not applicable
Goal:	Not applicable
Initiative:	Not applicable

List of Stakeholders	
	<ul style="list-style-type: none">• Mayor & Council• Fort Erie ratepayers• Municipal Staff• Fort Erie Agencies, Boards and Committees

Prepared by:	Approved by:
<i>Original signed</i>	<i>Original signed</i>
Jonathan Janzen, CPA, CA Director of Financial Services	Tom Kuchyt, CET Chief Administrative Officer

Purpose of Report

The purpose of this report is to inform Council of items that were identified and estimated in the 2015 forecast for 2016 and, through discussion with senior staff, newly identified priorities, challenges and opportunities that will impact the preparation of the 2016 budget. It also proposes a timetable for presentation and approval of the budget.

Analysis

The Budget Policy requires the Director of Financial Services to prepare guidelines to be used by Departments, Agencies, Boards and Committees in preparing budgets for Council's review taking into account the strategic plan priorities, the current economic climate, provincially mandated requirements, as well as changes in collective agreements and other legislated commitments.

It is important to establish guidelines to ensure:

- Contractual obligations and inflationary adjustments are considered.
- Appropriate resources are allocated to Council's strategic priorities.
- A holistic approach to budget preparation with all parties understanding opportunities and challenges.
- Sufficient resources are available in the long-term for infrastructure renewal and growth.

The 2016 Budget will include a General Levy Operating Budget for the current year and two year forecast (2017 to 2018), a Water and Wastewater Budget for the current year and five year forecast (2017 to 2021), and a Capital Budget for the current year and ten year forecast (2017 to 2026).

This document identifies the impact of items as forecast in the 2015 budget for the 2016 year. A multi-year financial plan is used to assist in forecasting the future impact of items known at the time of budget preparation including impact of any long term financial strategies.

The 2016 Forecast will be reviewed in detail by staff over the coming months and updated. This report provides a high level summary of the most significant items impacting the budget as obtained through preliminary discussions with the senior management team. It is intended to provide Council with an information update only.

TIMETABLE

The proposed 2016 Budget preparation timetable is included as Appendix "3". Council-in-Budget Committee meetings are scheduled to take place on Wednesday evenings beginning at 5:30 PM. The meeting dates will be advertised in the Times once approved by Council. The content of each session may be altered if necessary and more meeting dates may be added depending on progress of the deliberations.

The budget timetable for 2016 will begin with the review of the Capital Budget and ten year forecast in November with the Water and Wastewater Budget to follow in

December. Approval of the Town's Water and Wastewater rate by-law in January will ensure the January billing incorporates the Region's new rates in an effort to smooth the impact on Town customers. The Region has scheduled the approval of their rate by-law for October 29, 2015. The General Levy Budget will be considered in January which will allow departmental managers the benefit of substantially all of the unaudited 2015 actual operating results to assist with planning for 2016.

BUDGET ASSUMPTIONS

The 2016 Operating Budget will be prepared using the following high level assumptions:

- Continuous delivery of 2015 base level of services.
- Cost of current service levels will be impacted by inflation. According to Statistics Canada, July 2015 Ontario consumers paid 1.5% more for goods and services than in July 2014. The overall direction provided to staff is that expenses subject to inflationary pressures should be limited to this 1.5% increase where possible. The Niagara Region bases their budget guidelines on the Bank of Canada's Core Consumer Price Index (CPI) increase, which excludes eight of the most volatile components, and estimated the rate at 2.0%. Actual results to date show this increase at 2.4%. The Region estimated 2016 assessment growth at 1.0% and ultimately set overall 2016 rate guidance to 1.0% percent which, net of assessment growth, is zero percent.
- The current union collective agreement, entered early in 2014 and expiring at the end of 2016, includes negotiated annual wage increases of 2%. Health benefit premiums, employment insurance, CPP and OMERS rates will primarily be released in the fall and are expected to increase around 2% as well.
- One-time items included in the 2015 budget will be removed from the 2016 budget (e.g., by-election, Communities-in-Bloom, organizational review, FELRC grant, Niagara Community Foundation grant).
- Supplemental base budget items added in 2015 will remain in 2016 (e.g., tax write-offs, wages and infrastructure reserve contributions).

General Levy Operating Budget

The 2016 general levy forecast that was prepared in 2015 included a slight budget increase of 0.07% as per Appendix "1". The 2016 Forecast included the following:

Revenues:

- A decrease of \$152,800 in grant revenue due to one-time Regional funding and a potential decline in the Ontario Municipal Partnership Fund (OMPF) grant, of which only 80% of the 2015 amount is guaranteed.
- Increases in other revenues of \$53,241.

Expenses:

- Wages and benefits increase of \$194,978.
- Decrease in materials and supplies, including utilities and fuel, of \$19,433.
- All other base budget expenditures were forecast with a combined increase of \$75,385. This is a particular area of focus for staff in their detailed review of the

forecast. The focus will be compliance with existing obligations and maintaining inflationary increases below the estimated CPI increase of 1.5%.

- The Library and EDTC grant increases of \$27,779 and \$9,155 respectively as included in the 2016 forecast last year. A decrease in other grants of \$14,856. This is net of the \$250,000 change to the Fort Erie Live Racing Consortium grant for 2016, the final year.

Last year's guidelines report was presented in December and therefore had greater information to identify changes to base budget. However, preliminary estimates of items that were not included in the forecast but will affect the above base budget total an increase of \$71,250 or 0.31% and are as follows:

TABLE 1 – Estimated 2016 Base Budget Changes

Increase in vacancy rebates	\$25,000
MTO Community Transportation Pilot cancelled - net cost	(3,750)
Increase to volunteer firefighter training/response rate	50,000
TOTAL BASE BUDGET CHANGES	\$71,250

Base changes will be reviewed using actual operating results and further refined over the coming months, however, the initial amounts identified above push the base budget increase to 0.38%.

The 2016 tax roll will be delivered in December and will incorporate any assessment growth for new development that was assessed in 2015. The tax rate and Town's proportionate share for each property class determines the amount of taxation revenue that is generated by the assessment growth. Assessment growth has not been factored into preliminary estimates as it cannot be quantified until the tax roll is received and analyzed. A separate report will be presented to Council at the time of the General Levy Operating Budget similar to past practice. Some past years have benefited from larger growth to offset cost increases (e.g., \$191,000 in 2014), however this has eroded in more recent years to become more nominal (e.g., \$26,979 in 2015) and staff are expecting low growth again for 2016. Report No. CS-23-2014 provided background on some of these changes and demonstrated that the current annual budget of \$175,000 has been insufficient for each of the last six years in funding the tax write-offs and tax reduction programs.

The following supplementary budget items have been previously identified and will be brought forward for Council consideration. It is important that the Town consider sustainable strategies to fund potential increases in costs. The use of one-time or temporary funding sources such as the rate stabilization reserve only defers the burden on the taxpayer. The impact of using the rate stabilization reserve is similar to the 2007-2011 budget challenge of eliminating the Town's reliance on slot revenues. A strategic capital reserve contribution initiative is expected to be brought forward to Council this fall as part of adopting the updated Asset Management Plan. This will guide the supplemental amount that is included below based on prior discussions.

TABLE 2 – Estimated 2016 Supplementary Budget Requests

Increase tax write-off and tax reduction programs	\$42,000
Cemetery management software	35,000
Asset Management Plan strategic Capital Reserve increase	600,000
TOTAL SUPPLEMENTARY REQUESTS	\$677,000

The above represents a 2.92% increase in the budget. Other supplementary items may yet be included such as funding for a full-time drainage engineer, costs to refurbish and relocate the existing Town communications tower, increases to physician recruitment funding, Canada Day fireworks, Emerald Ash Borer tree removal costs, and additional Habitat for Humanity contributions. It is expected that any salary surplus identified through the organizational review will be considered in relation to staffing levels, such as the Communications Coordinator position that was previously brought to Council.

As with last year's budget, all supplementary requests will be supported with a "Supplementary Budget Request" form in order to fully inform Council of the nature of the request and benefit to the Town. Capital Project worksheets will include an estimate of the associated operating budget impacts in accordance with Council's Strategic Plan objective B1.3 to "*Ensure infrastructure reserves match requirements*" and thereby provide an allocation of operating funds for asset maintenance.

There are many other risks and opportunities that the Town will continue to monitor and evaluate such as litigation matters and fuel and electricity costs driven by market conditions.

Water and Wastewater Operating Budget

The water and wastewater forecast for 2016 was prepared in accordance with the sustainability assumptions of the water license financial plan prepared to comply with the requirements of the *Safe Drinking Water Act*. Items impacting the budget are noted in Appendix "2" and the combined budget forecast of 2.95% includes the following:

- The most significant impact on the budget are the adjustments related to the Region's reconciliation and adjustment methodology for billing of wastewater treatment costs, which change from a \$353,490 credit in 2015 to a \$935,000 charge in 2016. This is higher than the \$750,000 charge forecasted in 2015. This \$1.3 million change will partially be funded by Rate Stabilization Reserve contributions. This strategy mitigates significant rate increases by using past treatment savings that Council transferred to the Wastewater Rate Stabilization Reserve. The long term rate implications will be presented at the Water & Wastewater Budget Meeting. 2015 water operations are again trending to a deficit and the 2017 treatment cost forecast, based on actual flows to date, is for an additional charge of \$550,000. This highlights the continuing pressures on the utility rates and that the current strategy with reliance on rate stabilization balances is not sustainable.
- The Region is proposing a budget increase of 2.0%, excluding customer growth. However, the Town's proportionate share of total Regional wastewater costs

increased 1.4% for 2016 and the preliminary estimate is a \$1.6 million increase in combined treatment costs, exclusive of Rate Stabilization Reserve funding.

- Decrease in revenues of \$45,600, including the removal of \$30,000 for the WaterSmart Regional grant.
- An overall decrease in expenses of \$116,000, including an increase in wages and benefits as per general assumptions noted above, a decrease in material and supplies, and an increase in program support charges including insurance and facility costs.
- Decrease in debt charges of \$95,709, the maturing portion of which is to be reallocated to the Water and Wastewater Infrastructure Reserves consistent with the Town's Reserve Policy.
- The Asset Management Plan (AMP) has identified the need for strategic capital reserve increases for both the levy and the utility rate. A \$100,000 contribution from each of the water and wastewater areas has been estimated until the AMP financing strategy has been adopted. A \$600,796 transfer was made from the Watermain Capital Reserve in 2014 to fund the deficit of water operations.
- No changes to the Water Emergency Relief Fund (\$15,000), Seniors Utility Rebate Fund (\$21,000) and transfers to the Rate Stabilization Reserves.
- Wastewater Rate Stabilization Reserves were identified in the 2015 budget as part of the strategy to stabilize rates and a contribution of \$190,000 was forecasted for 2016. Based on the long-term pressures of the increases to the Town's proportionate share of the treatment costs, the contribution is expected to be reduced to \$100,000.

Part of the rate setting strategy analyzes the proportion of revenues coming from base charges versus volumetric charges and consumption trends. While fixed costs of the utility are higher than variable costs, the provincial trend is to lower base rates. Any recommendation to change the base would require an offset in the volumetric rate. Care must be taken when establishing the rates that each of the water and wastewater systems are individually financially self-sustaining.

The Region's budget and water rates are scheduled to be recommended to the Budget Review Committee on October 29, 2015. The rates will again be presented November 12, 2015 in advance of the Town's December presentation.

Capital Budget

The budget timetable proposes that the capital budget and ten year forecast be considered November 4 to allow staff to move forward with planning the year's infrastructure renewal. History has shown that tendering projects early in the year and in advance of the heavy construction season nets the Town more favourable pricing.

The 2016 capital forecast submitted in 2015 included a total of 46 projects for a total budget of \$10.8 million. The forecast relied primarily on transfers out of Town reserves of \$8.4 million. The 2016 General Levy and Water and Wastewater Base Budget allocation into the reserves is \$7.68 million inclusive of the \$400,000 increase approved

in 2015. The 2015 base increase was apportioned using the Reserve Policy funding gap analysis with the greatest allocation going to Roads, Facilities and Storm Reserves.

The 2016 budget is guided by the 2014 Development Charge Background study that was approved March 31, 2014. The initial Asset Management Plan was approved by Council in principle on February 17, 2015 and provides a framework for 2016 budget assumptions. It will be further developed and presented later this fall.

The Ontario Community Infrastructure Fund (OCIF) Formula-based Component grant was announced in 2014 and will continue to provide \$272,595 to the Town for 2016 and 2017. The grant is designed for capital projects and capital maintenance for the renewal, rehabilitation and replacement of core infrastructure assets.

Development Charge Reserve and Cash-In-Lieu of Parkland Reserve receipts for the year continue to be impacted by economic growth and are expected to be below budget for 2015. These reserves were forecasted to provide \$1.2 million in capital funding in 2016 and insufficient levels create difficulty in delivering base level capital services and ability to respond to in year budget variances and/or emergencies. The addition of further capital assets to the Town's inventory creates financial obligations for maintenance, replacement and renewal that the Town must weigh with the level of financial resources.

Financial/Staffing Implications

Any 2016 staff complement changes will be considered during the budget process, such as the Communications Coordinator position.

Policies Affecting Proposal

By-law No. 90-2015 adopted Council's 2015-2018 Corporate Strategic Plan.

Budget Policy By-law No. 127-09, as amended, governs preparation of the budget.

User Fee By-law No. 040-09, as amended, governs the adjustment of user fees.

Reserve Policy By-law No. 93-12, as amended, identifies the targets and strategies to be incorporated into the budget preparation.

Comments from Relevant Departments/Community and Corporate Partners

The budget guidelines have been prepared in collaboration with the CAO, Directors and Board senior staff.

Alternatives

This information report signifies the beginning of the budget process. Over the next several weeks staff will continue their intensive review to incorporate new information regarding the cost of continuing with the current level of service delivery. Alternatives

will be presented as part of the detailed budget preparation and presentation to Council for consideration.

Conclusion

This report is prepared based on preliminary discussions with senior management and staff on the opportunities and risks for the 2016 budget. The detailed budget preparation will refine the above estimates and provide additional explanation for Council's consideration in accordance with the timetable included in Appendix "3".

The budget process to be conducted over the next three months will look at all cost containment measures and opportunities for enhanced revenues to mitigate the estimated increases without impeding the delivery of the current level of services provided to the public.

Attachments

Appendix "1" – 2016 General Levy Budget Planning
Appendix "2" – 2016 Water and Wastewater Budget Planning
Appendix "3" – 2016 Budget Timetable

**Appendix "1" to Administrative Report No. CS-17-2015
Corporation of the Town of Fort Erie
2016 General Levy Budget Planning**

	General Levy Budget	% Impact on General Levy Budget
	(1)	(2)
2015 GENERAL LEVY	\$ 23,195,234	
BASE BUDGET		
Revenue (increases)/decreases		
Decrease in grants	\$ 152,800	0.66%
Other revenues	\$ (53,241)	(0.23%)
	\$ 99,559	0.43%
Expense increases/(decreases)		
Debt principal & interest charges	\$ 34,716	0.15%
Wages & benefits	\$ 194,978	0.84%
Materials & services	\$ (19,433)	(0.08%)
Base budget expenditure increases	\$ 75,385	0.33%
Grants & partnership programs	\$ (14,856)	(0.06%)
Fort Erie Public Library grant	\$ 27,779	0.12%
Fort Erie EDTC grant	\$ 9,155	0.04%
	\$ 307,724	1.33%
2015 One-time items removed		
By-election (By-law No. 12-2015)	\$ (40,609)	(0.18%)
Fort Erie Waterfront Strategy	\$ (75,000)	(0.32%)
Fort Erie Waterfront Strategy - DC & Parkland Reserve	\$ 75,000	0.32%
Communities-in-Bloom: International competition	\$ (18,000)	(0.08%)
DSBN GFESS theatre contribution	\$ (250,000)	(1.08%)
DSBN GFESS theatre - General Levy Rate Stabilization		
Reserve funding	\$ 250,000	1.08%
Accessibility Advisory Committee Parapan Community	\$ (5,000)	(0.02%)
Third-party review of management/non-union salaries	\$ (40,000)	(0.17%)
Third-party organizational review	\$ (25,000)	(0.11%)
Kinsmen pool operating assistance	\$ (10,000)	(0.04%)
Kinsmen pool operating assistance - Facilities	\$ 10,000	0.04%
Fort Erie Live Racing Consortium (FELRC) grant - net	\$ (250,000)	(1.08%)
Niagara Community Foundation	\$ (12,500)	(0.05%)
	\$ (391,109)	(1.69%)
TOTAL Base Budget Increase	\$ 16,174	0.07%
2016 General Levy as per Forecast	\$ 23,211,408	0.07%
TABLE 1 - Est. 2016 Base Budget Changes	\$ 71,250	0.31%
	\$ 23,532,658	0.38%
TABLE 2 - Est. 2016 Supplementary Budget Requests	\$ 677,000	2.92%
	\$ 24,209,658	3.30%

**Appendix "2" to Administrative Report No. CS-17-2015
 Corporation of the Town of Fort Erie
 2016 Water and Wastewater Budget Planning**

	Water & Wastewater budget	% Impact on budget
2015 Water & Wastewater Budget	\$ 16,515,303	
<u>Revenue (increases)/decreases</u>		
Grants - WaterSmart	\$ 30,000	0.18%
Miscellaneous Revenue	\$ 15,600	0.09%
	\$ 45,600	0.28%
<u>Expense increases/(decreases)</u>		
Town Expenses		
Wages & benefits	\$ 37,124	0.22%
Materials & Supplies	\$ (297,581)	(1.80%)
Program support	\$ 3,237	0.02%
Debt Charges - maturing	\$ (80,499)	0.02%
Debt Charges - non-maturing	\$ (15,210)	(0.49%)
Decrease in transfer from DC	\$ 236,915	1.43%
	\$ (116,014)	(0.70%)
Regional Treatment Costs		
Regional Budget increase	\$ 173,102	1.05%
Regional proportionate share adjustments	\$ 103,660	0.63%
Regional increase in 3-yr wastewater charge - forecasted	\$ 1,103,490	6.68%
Regional increase in 3-yr wastewater charge - actual	\$ 185,000	1.12%
	\$ 1,565,252	9.48%
<u>Supplemental budget</u>		
Allocation from Rate Stabilization Reserves - forecasted	\$ (1,103,490)	(6.68%)
Allocation from Rate Stabilization Reserves - actual	\$ (185,000)	(1.12%)
Allocation to Infrastructure reserve - repurposed debt	\$ 80,499	0.49%
Allocation to Infrastructure reserve	\$ 200,000	1.21%
	\$ (1,007,991)	(6.10%)
TOTAL Water & Wastewater Budget increase/(decrease) for 2016	\$ 486,847	2.95%
TOTAL Water & Wastewater Budget for 2016	\$ 17,002,150	

**APPENDIX “3” TO ADMINISTRATIVE REPORT NO. CS-17-2015
CORPORATION OF THE TOWN OF FORT ERIE
2016 BUDGET TIMETABLE**

Procedure	Meeting Date
Budget Timetable and Guidelines to Council Meeting	Monday, September 21, 2015
Council-in-Budget Committee #1 <ul style="list-style-type: none"> • Capital Budget and Forecast 	Wednesday, November 4, 2015
Capital Budget By-law to Council Meeting	Monday, November 23, 2015
Council-in-Budget Committee #2 <ul style="list-style-type: none"> • Water and Wastewater Operating Budget • User Fee Analysis 	Wednesday, December 2, 2015
Council-in-Budget Committee #3 <ul style="list-style-type: none"> • Library • EDTC 	Wednesday, January 13, 2016
Water and Wastewater Budget & Rates By-law to Council Meeting	Monday, January 18, 2016
Council-in-Budget Committee #4 <ul style="list-style-type: none"> • General Levy Operating Budget • Assessment Analysis 	Wednesday, January 27, 2016
<i>Council-in-Budget Committee #5 (If required)</i>	<i>Wednesday, February 3, 2016</i>
General Levy Budget By-law to Council Meeting	Monday, February 22, 2016

The meetings will be held in Council chambers beginning at 5:30 p.m.