Council Orientation Budget 101

Budget 101 Overview

1. Financial Sustainability
2. 2023 Municipal Budget Process
3. The Property Tax System
4. Development Charges
5. Investments and Reserves

COUNTY OF Brant Simply Grand

Budget 101

Financial Sustainability

Financial Sustainability Measures and Guidelines

Measures for gauging the County of Brant's Financial Sustainability include a review of whether the level of service is comparable to other similar municipalities, with approximately the same tax effort, the relative health of the local economy and job market, the ability of the municipality to maintain its assets in good condition and the flexibility of the municipality to respond to growth and changing financial pressures.

In 2017, County of Brant Council approved Guidelines for Achieving Financial Sustainability, based on four tenants:

- Debt Management
- Reserve Management
- Annual Budgeting
- Asset Management / Capital Plan

4 Tenants of Financial Guidelines - Debt Management

- The Municipal Act allows a municipality to raise debt only for capital needs – not to fund operating shortfalls.
- The Legislative Annual Repayment Limit is based on prior year's Financial Information Return and is not to be more than 25% of own source revenue being used to service debt.
- In 2017, the County set a guideline for a self-imposed Annual Repayment Limit of 15% of own source revenues.
- At December 31, 2022, approximately 8.7% of the County's own source revenue is used to service debt, however the following debt items have yet to be accounted for:
    - Debenture approved but not yet issued;
    - Capital projects approved for debt funding at partial completion or not started;

Debt Management

- 3 Categories of Debt Financing:
  - Tax supported (growth, replacement, new services / assets)
  - Development Charges or Rate-Based (paid for through Development Charges or recovered through Water / Wastewater rates)
  - Capital Investment (self-funded business ventures - revenues to service debt)
- Approved Debt Management Guidelines
  - Term of debt to not extend beyond the life of the asset – costs shared between current and future taxpayers that benefit from the asset
  - Debt should be incurred when the interest rate to incur debt is lower than the interest earned on invested funds.
  - DC or Rate-Based (paid for through Development Charges or recovered through rates)
  - Investment projects to pay for themselves over time.

4 Tenants of Financial Guidelines - Reserve Management

- 2 Categories:
  - Reserves – money earmarked but not directly allocated to a specific asset. Established primarily to provide "working funds". No revenue/expense itself, only transfers into and out of the fund.
  - Reserve Fund – money specifically segregated and allocated for a specific purpose / asset. Can be obligatory (required by legislation or agreement to be used for a specific purpose) or discretionary (created by Council and can be redesignated by Council).
- Approved Reserve Management Guidelines:
  - Reserves to be used judiciously to manage debt levels / reduce debt issued (spikes in asset replacement cycles, self-borrowing mechanisms)
  - Contributions to and draws from can be "smoothed" to provide predictable impact on tax levy and rates
  - Reserves can be used to protect against non-capital long-term liabilities (economic stability / contingency reserves)

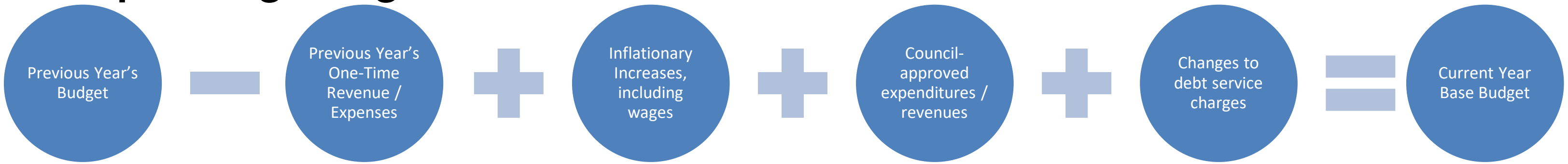
4 Tenants of Financial Guidelines - Annual Budget

- Municipal Budget
  - Operating Budget
    - **Funding Ongoing Day-to-Day Operations**
      - Salaries
      - Wages
      - Utilities
      - Maintenance
      - Supplies
  - Capital Budget
    - **Funding Infrastructure and Assets**
      - Buildings
      - Roads
      - Water/Wastewater Assets
      - Vehicles and Equipment
      - Technology

Annual Budget

- Typical schedule is initial presentations in November with deliberation / approvals in December, except following an election year.
- Includes 2 Components: Base Operating Budget and Capital Budget

Base Operating Budget



- Revenues – User fees increased based on analysis and market conditions, tax levy revenues related to new assessment and growth.
- Expenses – Known increases in cost of equipment, services, etc. and estimated costs based on inflation and market conditions. Growth expenses related to new assets, services and staff approved in previous year.

4 Tenants of Financial Guidelines - Capital Budget / Asset Management

- Five-Year Forecast based on projects identified in previous years' forecasts, Council-approved projects and asset updates / replacements based on the Asset Management Plan.
- 2017 Guidelines called for incremental increases in capital spending, achieving $9M / year by 2018 and increasing in accordance with inflation each year thereafter. In 2022, $12,284,871M was allocated to the capital budget, which was a one-time 0% increase over 2021 capital funding.
- Asset Management Plan for core assets to be completed this spring to direct future spending levels and allocation thereof, with plan for remaining assets to follow in the second quarter of 2023.
- The recommended funding levels of the asset management plan will form part of the County's Financial Plan and Updated Guidelines.

Budget 101

2023 Municipal Budget Process

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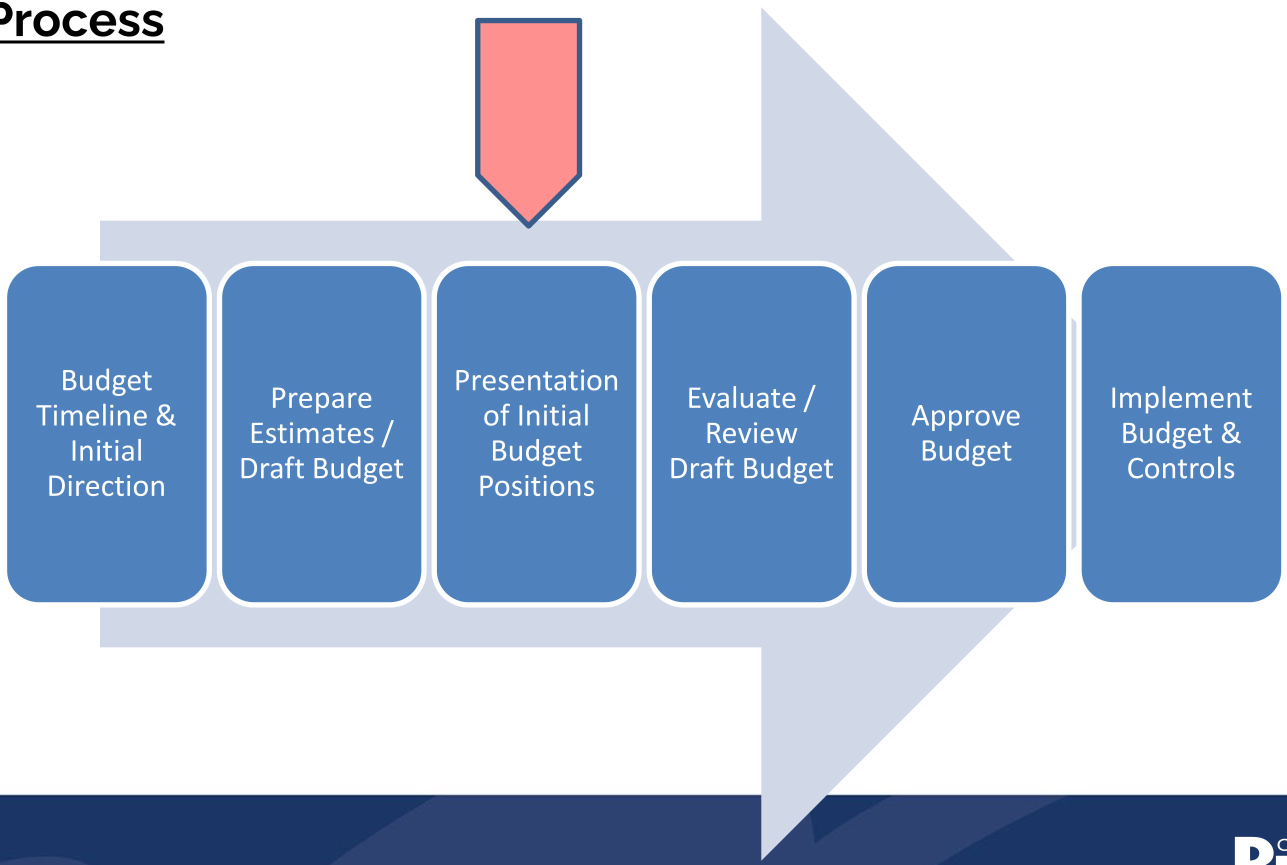
2023 Budget: Starting Point and Council Direction

On July 26, 2022, County of Brant Council approved the following budget directions:

- Staff prepare an operating budget which maintains the current level of service;
- Staff prepare a five-year capital forecast to fund maintenance and/or replacement of existing assets and infrastructure;
- Staff prepare decision packages for any proposed increase or change in level of service or purchase / construction of new assets;
- $360,000 to be allocated at a special grants meeting in 2023.

Budget Process



2023 Budget: Meeting Schedule

On November 22, 2022, County of Brant Council approved the following budget meeting schedule:

- January 12 – Municipal Budget 101 and Departmental Presentations – 9am;
- January 18 – External Agency Presentations / Paramedic Services Budget Deliberation – 6pm;
- February 2 – Budget Deliberations & Decision Packages – 9am;
- Additional meetings, if required;
- Budget ratification proposed for Council meeting of February 28

Operating Budget: Inputs

Capital Budget

Capital Budget projects are funded on a five (5) year forecast basis, although only the current-year expenditures are specifically approved in any budget year. These projects are categorized as follows:

- Tax-Supported Capital – projects required for maintenance / replacement of existing assets.
- Development Charges Capital – projects funded to support growth in the municipality, as detailed in the Development Charges Background Study and By-law. Each project has a tax-supported “benefit to existing” component to be funded by the capital levy.
- Investment Capital – projects intended to result in revenue, with a business plan and cost-recovery model to service debt and/or provide positive return on investment.

Decision Packages

The County of Brant Budget Process involves the preparation of base Operating and Capital Budgets, as required to maintain the existing level of service. Any new projects, enhanced or new services, new capital assets and any new staff positions are considered through the submission of "Decision Packages".

These Decision Packages contain detailed information about the need identified, the current and future-year impacts of the decision, the benefit and the consequences of not funding.

Water / Wastewater Rate-Supported Budgets

County of Brant Water and Wastewater systems are wholly rate-supported services, with all operating and capital costs recuperated through the rate structure. As such, these services have no tax levy impact. Although they form part of the municipal budget, their rate structure is established and monitored through a financial plan (2019) and rate study (2021).

The Budget Challenge

Expenses

- Rationalize expenses related to service offerings and the needs of the community

Non-Tax Revenue

- Maximize and balance the use of non-tax revenues, while maintaining a financially solvent organization

Property Tax Levy

- Achieve a property tax levy that funds the balance of the organization's expenses, while keeping property taxes at a level that ensures growth, prosperity and community investment

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The Property Tax System

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The Property Tax System

The Municipal Property Tax System is regulated by The Municipal Act and The Assessment Act and bases the amount of taxes to be paid on the estimated market value of property owned within its geographic boundary.

Assessment – Properties are assessed based on “current value”*, as determined by the Municipal Property Assessment Corporation (MPAC). It has been determined that there will be no assessment update for 2023 municipal budgeting purposes. The current value assessments used were last updated in 2016.

Tax Ratios – In Ontario, the tax system is structured so that a residential property bears a lower tax burden than non-residential properties. This is achieved through tax ratios, with all property classes being assigned a ratio in relation to the residential property class, which is assigned a tax ratio of “1”. The Municipality has some limited ability to adjust tax ratios, and these are presented for Council’s review on a regular basis.

*current value – anticipated value if sold on the open market by a willing seller to a same category willing buyer

The Property Tax System

Expenses − Non-Tax Revenue = Property Tax Levy

Property Tax Levy ÷ Total Weighted Assessment = Tax Rate

Tax Rate* × Assessed Value of Property = The Tax Bill

* = Tax rate based on property class ratio

The Property Tax System – A Comparison:

- $20,000 Total Expenses / $10,000 Non-Tax Revenue
- 10 Residential Properties assessed at $100,000 each / Tax Ratio = 1.0
- 2 Agricultural Properties assessed at $200,000 each / Tax Ratio = 0.24
- 1 Industrial Property assessed at $250,000 / Tax Ratio = 2

Expenses – Non-Tax Revenue = Property Tax Levy
$20,000 - $10,000 = $10,000 Property Tax Levy to be raised

Weighted Assessment:
Total Property Class Assessment x Ratio = Weighted Property Class Assessment
10 Residential properties = 1,000,000 x 1.0 = $1,000,000
2 Agricultural properties = 400,000 x 0.24 = $96,000
1 Industrial property = $250,000 x 2 = $500,000

Total Weighted Property Assessment = 1,596,000

The Property Tax System – A Comparison …continued:

Total Weighted Property Assessment = 1,596,000

Property Tax Levy / Total Weighted Assessment = Tax Rate

$10,000 / $1,596,000 = 0.00626 = Tax Rate

Tax Rate (by ratio) x Current Value Assessment = Tax Bill:

Residential ($100,000 value) = 0.00626 x 1 x $100,000 = $623

Agricultural ($200,000 value) = 0.00626 x 0.24 x $200,000 = $300

Industrial ($250,000 value) = 0.00626 x 2 x $250,000 = $3,134

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Development Charges

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Development Charges Legislation

Development Charges (DCs) are a legislated municipal tool intended to allow municipalities to recover some of the capital costs attributed to development and growth in the community.

Before a by-law is passed to collect Development Charges, a Background Study is completed, which considers growth projections, infrastructure required to accommodate this growth and specifically allocates which portion of each eligible capital cost is attributable to growth and which percentage serves as a benefit to existing ratepayers.

The County of Brant completed an update to its Development Charges By-law in August, 2019, as amended December, 2021.

Impact of Changes in Development Charges Legislation

- Phase-In of Development Charges over first 4 years of approval – because this provision only applies to DC By-laws passed after January 1, 2022, there is no expected impact on the 2023 Budget, however, there will be a significant impact when the next update is completed. (2023 Budget Impact = $0)
- Affordable & Attainable Housing Exemptions - applies to housing priced at no more than 80% of the average price (yet to be defined) – impact of $41,550 per single / semi-detached unit, $26,766 for other multiple units. At this time there are no known projects applying for this status – no estimated impact in 2023, but likely impacts in 2024 and beyond (2023 Estimated Budget Impact = $0).

Impact of Changes in Development Charges Legislation

- Discount for Purpose-Built Rental Housing (15% - 25% discount, depending on unit types - $4,015 - $6,892 discount per unit). At this time there are no known projects applying for this status – no estimated impact in 2023, but likely impacts in 2024 and beyond (2023 Estimated Budget Impact = $0).
- Mandatory Allocation of DC Reserves for Priority Services – administrative review (2023 Estimated Budget Impact - $0).
- Removal of Housing as a service DCs can be collected for (2023 Estimated Budget Impact =$2,497 per unit in uncollected charges = $720,000)
- The Trillium Way Affordable Housing Project, with a total cost of approximately $15M, has a funding plan based on $4.1M being funded from reserves. This funding plan will have to be further reviewed / revised to reflect the shortfall in Development Charges for this project.

Impact of Changes in Development Charges Legislation

- Removal of "certain" studies from DC Eligibility – awaiting regulations / clarification on which studies are no longer eligible – estimated total cost of studies contained in the DC Background Study =$1,200,000
- Removal of land costs for certain services – awaiting regulations / clarification on which land costs are no longer eligible – because these costs are built into the various projects, a firm figure of additional costs will be presented once the regulations are released.
- Ontario Lands Tribunal Awarding Costs – 2023 Budget Impact partly offset by additional staff approved by Council in December. No funds budgeted at this time for a decision to award costs issued against the municipality. (Estimated 2023 Budget impact = $0)

Budget 101

Investments and Reserves

Municipal Investments

The County of Brant invests with two investment firms:

Brant County Power Sale Reserve invested with ONE Investment (operated by LAS/AMO and MFOA (Municipal Finance Officers Association)

- Reserve Balance and original investment $32M
- Market value November 2022 $37.5M – interest is reinvested; market value was significantly impacted by the downturn in the economy but is rebounding
- Council approved Policy for investment and use of interest:
    - ➢ Hold the original investment in perpetuity while making indexed annual contributions from investment earnings towards capital needs;
    - ➢ In 2022 some of the capital share of the earnings was reallocated to operating to offset debenture servicing

Municipal Investments

Sale of BCP Investment Committee – to review and advise on investments

- Meets as needed.
- Item for consideration in 2023 - moving funds for better returns, lower service fees, easier management.

RBC Dominion Securities holds County investments for

- Cemetery trust funds for perpetual care
- Operating funds – to make best advantage of positive cashflow
- Donations of shares – recent fundraising campaign have received donations of shares which municipalities are unable to hold and must be liquidated

Municipal Reserves

The County holds reserves and reserve funds for different purposes and with different funding sources. Following are examples,

Specific Purpose Reserves:

- Contingency / Rate Stabilization Reserve – to fund emergency or unforeseen capital projects and also to be used to smooth tax levy changes
- Departmental Capital Reserves – each department has a capital reserve; Any unspent funding at the end of a project is contributed to the appropriate departments capital reserve for use in funding future capital projects
- Fleet Reserve – internal fleet rental rates include funds for the replacement of vehicles
- Property Reserve – used for selling or buying property
- Election Reserve – annual transfers to the reserve help to smooth the costs associated with the 4 year election cycle
- Insurance Reserve – created when a significant savings was realized in insurance costs; allocated annually to mitigate insurance increases
- Ambulance Reserves – to smooth operating impact to the cost shared service of equipment and vehicle replacements

Municipal Reserves

Policy Driven Reserves

- John Noble Home Capital Reserve – receives an annual contribution plus transfer from the JNH annual operating surplus if realized or used to fund their annual operating deficit, if needed; used for County-share of capital replacements.
- Brant County Health Unit Capital Reserve – transfer from the BCHU annual operating surplus, if realized or used to fund their annual operating deficit, if needed; used for County-share of capital projects, when requested.
- Affordable Housing – funded by transfer of 25% of net revenue from County land sales used to fund affordable housing projects.

Self Supporting Division Reserve Funds

- Building, Development Engineering - Permit fees set to cover complete cost, allowing funding to be used over the time of the process
- Water, Wastewater, Russell Heights – User fees and rental rates set to cover current operating costs as well as future replacement of infrastructure

Municipal Reserves

Legacy Reserve Funds

- Financing Reserve – setup for cashflow and internal borrowing
- BCP sale Reserve fund – investment and allocation of interest of the Brant County Power sale proceeds

Obligatory Reserves

- Federal & Provincial grants that may be used over multiple years are required to be setup as obligatory reserves and must earn interest
- Development Charges are received into each reserve fund for each service category and allocated to the capital projects included in the DC Background Study.
- If unspent, these reserves are required to be repaid to the provider.

<u>2023 Budget Team</u>

- Heather Mifflin, Director of Finance, Treasurer
- Heather Bailey, Manager of Accounting & Budgets
- Vanessa Graves, Senior Accountant
- Dustin van Engen, Senior Accountant