

2022 Budget Deliberations: Treasurer's Progress Review



January 17, 2022
Finance and Labour Relations Committee

Today's Objectives

- To continue Council discussions around the 2022 draft budget, starting with the 2022 capital plan and 10-year forecast.
- To ask questions to understand what is being requested for 2022
- To commence deliberations & discuss the relative merits of the proposed projects as they relate to the delivery of services
- To review changes that impact the draft budget and proposed levy increase that have occurred since the December 14th, 2021 meeting
- Based on discussions, to understand the financial implications and impacts to the service, internally and externally, of making changes



Overall Levy Pressures

- As reviewed at the last meeting, and in the report presented at this meeting, it will take significant ideas to make significant changes especially if sustainability is kept at the forefront of decision making
- Historically, staff are asked for input and opinion on what those changes 'should' be but ultimately staff are seeking direction as to what service should be impacted
- Therefore, staff have presented the budget based on current policy, previous direction and established service levels, with the respectful request that Council consider the impact that timing of the capital projects has to the services provided to residents.



Overall Levy Pressures

- We saw in the staff report presented earlier, that with the proposed changes, the overall levy increase over 2021 is at 7.9% excluding expansion requests, a reduction from the initial figure of 8.6% increase.
- Incoming information changes daily that impact estimates so staff are doing their best job to respond to those changes.
- They include things like
 - receiving actual costing versus estimates (such as insurance)
 - Departments continuing to look for additional revenues or identify any other expenses
 - Departments considering asset replacement timing, not just based on useful life dates, but on actual condition, and looking at whether replacement has to happen now or later
 - Provincial announcements around initiatives
 - Provincial responses to Covid



Overall Levy Pressures

- Budgets represent the best estimates based on the known information at the time they are prepared and are never going to be perfect or exact
- As has been previously identified, Stratford has gone through a 10-year period of very low/no tax rate increases and this finds us in a catching-up phase this year and future budget cycles
 - We saw this in 2021, when several assets required immediate attention, but sufficient funding was not previously reserved and borrowing was required to fund these
 - We continue to see it in 2022, when the costs relating to this borrowing are being recognized, but when we also need to look to financing current and future asset replacements



Overall Levy Pressures

- Strategies to try and manage the levy increase that simply defer the impacts of current and previous decisions are not recommended by staff
- These include 'gapping' certain costs that have been included in the budget as an annual expense, but where the effect may not be fully realized in 2022, such as salaries for new positions, or debenture payments not yet incurred
- The reason these are not used as levy-control strategies is because they have the effect of pushing the impacts of current or previous decisions into future budget years, where there will continue to be factors not even yet known
- This strategy can be considered in times where future costs are expected to be minimal, but we have seen cost pressures mounting for municipal governments everywhere, due to asset management directives, downloading and collective agreements to name a few



Overall Levy Pressures

- Regarding capital programs and asset management, budget discussions often focus on questions like 'what if this project or that is deferred to a future year? Or 'does this project have to be done in the current year?'
- In some cases, deferring something for a year or two is possible without much impact to service levels – but it's important to consider the risks and the implications of those risks that are considered carefully before draft budgets are presented:
 - If risk of asset failure (breakdown) would be catastrophic to the service delivery
 - Catastrophic can mean to individual ratepayers, safety of staff or residents or inability to continue the service altogether due to financial constraints (limited reserves, limited borrowing capacity or as we have recently experienced, supply chain problems getting things due to Covid)



Overall Levy Pressures

- Where costs of repair/maintenance are approaching or exceeding costs of replacement
- Where reduced service might result in community dissatisfaction and complaints
- Increased future costs of capital due to inflationary impacts in future years
- Worsening the infrastructure gap /pressures for next and future years



Tax Supported Operating Budget

Additional proposed adjustments to those in the report recently received:

viii)	(153,907)	Reduction in draft Police budget (drops from 5.1% to 3.8% increase over previous)	-0.2%
vix)	150,000	Reductions in Community Services Revenues for January-Covid Related*	0.2%
x)	152,000	Employee Benefit Increase above initial estimate	0.2%
xi)	(150,000)	Impact of DC revenue transferred to include interest portion	-0.2%
xii)	(181,000)	Impact of DC revenue on Proposed transfers to reserves	-0.3%
	(182,907)	Additional Changes from Staff Report	-0.3%



Tax Supported Operating Budget

Preliminary Net Budget (Levy) Increase \$6,683,132 10.5%

After Mitigating Adjustments (\$1.200,000) \$5,483,132 8.6%

After Reflecting Latest updates in Report and in this Presentation 7.7%

After 'blending' estimated education tax rates, and looking at estimated growth, expected residential tax rate increase approximately 5.0%

Estimated \$19.94/month (\$239.33 annual) increase on a home assessed at \$350,000*



Tax Supported Operating Budget

Base budget still contains some assumptions and estimates that could require adjustments as we move through deliberations (these will be tracked further).

Examples of items that still might change :

- Recurring grant funding that has not been confirmed
- New direction from Council, Expansion Requests, or Other



Capital Budget

Reminder only, that these items are NOT included in the 10-year Capital plan /forecast

- Renewable natural gas (RNG) initiative
- Community Hub (but seed funding currently in reserves while awaiting grant funding announcements)
- Industrial Land Expansion and the costs to service that are not collectible through DCs
- Other new facilities or strategic initiatives
- Other capital items identified in the asset management plan but not yet captured or staged for timing (to be determined)



Capital Reserves & Reserve Funds

Reminder of Projected balances at the end of 2021

Capital Reserve Funds (all)	\$27,944,240
Deferred Grants (all)	\$2,823,710
DCs (all-noting not all available for 2022 use)	<u>\$12,218,960</u>
Available for use – Capital	\$42,986,940
Current amount of the total levy for capital (this is a \$493,930 increase over 2021 if proposed changes in this presentation are approved)	\$7,238,610
2022 Projects	\$39,951,000
10-year forecasted projects	\$268,514,518
Average annual deficit in funding capital	\$9 million



Next Steps

- Council consideration of further amendments to the draft budget as identified in this presentation (a further net decrease of \$182,907)
- Deliberations today, January 17, 2022, and continuing on January 25 and 31, as required.
- Start with a review of the 10-year forecast, and then a closer look at capital assets by division, then moving into the operating budgets by division
- Final Council approval by by-law anticipated February 14, 2022 (staff recommendation).
- Early approval of the 2022 budget will allow staff to get RFPs and tenders out early to secure best pricing and selection from bidders.



Questions

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