

2023 Budget Deliberations: Treasurer's Introduction and Overview



January 10, 2023
Finance and Labour Relations Committee

Objectives

- To begin review of the overall draft budget including divisions and local boards as a coordinated process, including those supported fully by user-fees
- Recap highlights from the draft budget package
- Due to the size and complexity, we start with the capital program that is funded from existing reserve funds and current year transfers to reserve funds in the operating budget
- To ask questions to understand what is being requested for 2023
- To make a note of specific items you wish to explore further or that warrant further discussion
- For any changes from the draft budget, motions by Council to ensure everything is captured



Capital Budget

- 105 proposed capital projects totaling \$33,898,290
- Previous budget, there were 109 totaling \$40,285,000
- The primary focus of the City's capital budget is the replacement and rehabilitation of existing assets used in the delivery of City services.
- Brand new initiatives have generally not been financially planned for and will require difficult priority setting by this and future Councils to fund acquisition or construction, and future operating costs.



Capital Budget

Not included in the 10-year Capital plan /forecast

- Financial impacts of Bill 23 (estimates are still being assessed)
- Capital requirements for the Community Hub (to be discussed with expansion requests)
- Industrial Land Expansions
- Road rehabilitation work identified in the asset management plan but not yet captured or staged for timing (to be determined as the asset management plan becomes more refined)
- Some of the long-term debt requirements for capital proposed in the 2023 budget
- Pledged amounts for Stratford General Hospital (\$5 million over 10 years, starting 2024)
- Other strategic initiatives



Capital Reserves & Reserve Funds

Projected balances at the end of 2022

Capital Reserve Funds*	\$47,843,760
*includes capital reserve funds, deferred Grants and development charges	
Annual Contributions (reserves & grants)*	\$13,336,810
*unadjusted for Bill 23 at this time	
2023 Project requirements	\$33,898,290
10-year forecasted projects*	\$372,520,296
*excluding roads in asset management plan not explicitly identified	



Capital Reserves & Reserve Funds

								10-year Forecast (excl add'l roads)
Total Projects (identified and estimated)								372,520,296
Approximate Balance in Capital Reserves @ 2022 estimated - all Includes Deferred Grants and all available DCs								(47,843,760)
Annual Transfers/Funding (Using Proposed 2023 Levels)						\$13,533,681	x 10 years	(135,336,810)
Estimated DCs over next 10 years * unadjusted for Bill 23 impacts at this time								(20,000,000)
Additional Tax Revenues from Growth ** Estimated @1,000,000 per year								(10,000,000)
Available Funding, all sources, 10 year estimate								(213,180,570)
Unfunded /insufficient sources from identified								159,339,726
Annualized Shortfall								15,933,973
Additional projects Currently Unfunded with no funding plan yet *excluding add'l roads								70,762,025
Annualized Shortfall , additional *excluding add'l roads								\$ 7,076,203



Capital Reserves & Reserve Funds

The 2022, 2023 and future budgets are moving the City towards more sustainable asset management funding.

As long-term debt retires some of this capacity is reinvested in capital by increasing transfers to capital reserve funds.

By strategically and consistently increasing the transfers to fund capital projects each year, this gap reduces over time.

If reserve fund transfers stayed at 2022 levels, then the funding of the 10-year forecast is at less than 20%.

By increasing the transfers to reserve funds in 2023, and similarly in the coming years of the term of Council, it is projected that the funding of the 10-year forecast increases to approximately 45%



Long-Term Debt

Borrowing for the following projects was authorized but not drawn in 2022:

	Amount	Principal/Interest (est)
Queen Street Storm	\$15,355,000	\$1,422,806
Britannia Phase II	<u>\$4,685,000</u>	<u>\$332,716</u>
Total authorized	\$20,040,000	\$1,755,522

Debentures will be finalized shortly, and payment requirements were included in the 2022 budget, so there is no additional 2023 impact for these items.

Additional new debt is being proposed in the 2023 draft budget of \$4,100,000 for repairs to City Hall. Payments have not been included in the 2023 budget due to the likely timing being later in 2023 or 2024.



Long-Term Debt

Current maximum debt repayment thresholds are prescribed by the Ministry of Municipal Affairs and Housing

Simply stated, the maximum annual repayments for any municipality is 25% of their own-source revenues.

For Stratford, this maximum annual payment is currently approximately \$15.8 million

This translates into a total debt load of approximately \$238 million (the current debt approved is approximately \$73.8 million)

So, there is some room to borrow but with borrowing comes the annual repayment impact on the tax levy, so it needs to be carefully balanced with use of the reserve funds and other funding sources



To Defer or Not to Defer

- Based on the funding shortfalls identified, there are very few benefits to deferring a capital project to a future year, and some of the risks include:
 - Risk of unplanned failure (equipment, roads, facilities) resulting in unplanned costs as well as likely service interruption
 - Increased future costs of capital due to rising inflation
 - Worsening the infrastructure gap for next and future years
 - Reducing future capacity and discretionary spending for community or Council initiatives
- Unknown pressures might arise in a future year, further eroding flexibility such as the following examples:
 - Surprise unfunded/underfunded capital needs for things previously deferred (older fuel tanks, significant building repairs, etc)
 - Once all assets from the asset management plan are incorporated into the forecast, the pressures may be further increased



Tax Supported Operating Budget

Preliminary Net Budget (Levy) Increase \$3,956,217

5.80%

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

3.55%

OR

Estimated \$14.87/month (\$178.40 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 (to be tracked from the original draft budget documents).

Examples of items that have changed/might change:

- Insurance premiums on renewal (current estimate of 10% increase)
- Benefit program on renewal (current estimate of 2% increase)
- Recurring grant funding that has not been confirmed
- New direction from Council, Expansion Requests, or Other



Tax Supported Operating Budget

Draft budget **does not** include:

- Proposed expansion requests provided in budget package amounting to \$1,098,615, or an additional 1.61% on the net levy increase
- Sufficient reserve transfers to adequately fund the 10-year capital forecast and strategic asset management plan that was adopted in 2021
 - Strategies for implementing this will be required over several years



Tax-Supported Operating Budget

The draft budget proposed consists of several significant impacts:

210,000	Wage amounts 'gapped' in 2022 budget (50% and 75% of expansion salaries)	0.31%
1,296,113	Change in FT Wages	1.90%
132,918	Change in PT Wages including parallel	0.19%
598,097	Chg in Benefit (Increase) includes new offer of OMERS for PT	0.88%
179,900	Phase in Britannia II long-term debt (50%)	0.26%
3,345,781	Increase in transfers to Reserve funds-10-year capital	4.90%
(1,704,336)	Reduction in long-term debt payments	-2.50%
1,397,744	Inflationary Impacts and Other unitemized	2.05%
(1,500,000)	Use of Tax Stabilization Reserves (prior surpluses) to mitigate increased costs	-2.20%
		0.00%
3,956,217	Starting Increase to Net Levy Draft Budget	5.80%

Each percentage on the tax levy equates to approximately \$682,000; a 1% reduction in the levy increase would translate into an estimated annual reduction of \$29 per year, or \$2.41 per month for an average residence.



Tax Supported Operating Budget

Since developing the draft budget package, new information is available and staff are recommending amendments as follows (motion):

3,956,217	Starting Increase to Net Levy Draft Budget	5.80%
Post Draft Budget Amendments		
3,560	Chg to Stratford share of police budget due to minor adjustment to St. Mary's calc	0.01%
(109,118)	Carry over funding for Transit, unspent in 2022 that will occur in 2023 -no net impact	-0.16%
109,118	Carry over operating costs for Transit, unspent in 2022, that will occur in 2023-no net impa	0.16%
410,920	Remove amount entered for amortization in Housing-no net impact	0.60%
(410,920)	Remove amount entered for amortization in Housing-no net impact	-0.60%
(4,716)	Adj to MPAC (final received post-release)	-0.01%
22,041	Adj to insurance premiums (original estimate 12% increase, actual 16%)	0.03%
10,217	Increase to UTRCA based on draft budget submission received post-release	0.01%
142,719	Adj re: benefits renewal information prorated April-December 2023 (actual 10%)	0.21%
173,821	Revisions to Draft Budget Figures due to updates	0.25%
4,130,038	Revised Increase to draft budget	6.05%



Taxes and Tax Rates

- A budget or levy increase does not translate exactly into the same increase to tax rates.
- The relationship between the budget / levy requirement and the tax rates for each property classification is complex and consists of several factors
- It factors in ratios and shifts of assessment between property class types, increases in assessments, from both market value perspectives and actual new growth.
- To arrive at the 'blended' or combined impact to a property owner, the education rate is also factored in.
- Even when all the variables are known, the impact to each individual taxpayer can be different based on their property type and factors that affect their assessed values



Taxes and Tax Rates

	Starting Net Levy Budget in Dollars	Levy Increase in Dollars	Levy Increase % over Prior	Estimated Resulting Local Tax Rate	Estimated Education Rate	Estimated Total Tax Rate	Estimated Increase in Local Tax Rate	Estimated Increase in Total Tax Rate	Estimated Total Taxes on \$350,000 home
2023 Proposed	\$ 68,264,126	\$ 3,956,217	5.80%	0.01333362	0.00153	0.01486362	3.88%	3.55%	\$ 5,202.27
2022	\$ 64,714,288	\$ 3,549,838	5.59%	0.01283590	0.00153	0.01435390	5.70%	4.98%	\$ 5,023.87
2021	\$ 63,457,399	\$ 1,256,889	2.02%	0.01214359	0.00153	0.01367359	1.38%	1.22%	\$ 4,785.76
2020	\$ 62,200,510	\$ 2,980,290	5.03%	0.01197832	0.00153	0.01350832	-0.40%	-0.94%	\$ 4,727.91
2019	\$ 59,220,220	\$ 2,543,141	4.49%	0.01202594	0.00161	0.01363594	-0.31%	-0.93%	\$ 4,772.58
2018	\$ 56,677,079	\$ 1,613,217	2.93%	0.01206350	0.00170	0.01376350	-1.41%	-1.88%	\$ 4,817.23
2017	\$ 55,063,862	\$ 1,677,924	3.14%	0.01223654	0.00179	0.01402654	0.71%	-0.02%	\$ 4,909.29
2016	\$ 53,385,938	\$ 2,095,327	4.09%	0.01214987	0.00188	0.01402987	0.54%	-0.04%	\$ 4,910.45
2015	\$ 51,290,611	\$ 1,915,714	3.88%	0.01208509	0.00195	0.01403509	0.34%	-0.28%	\$ 4,912.28
2014	\$ 49,374,897	\$ 2,818,542	6.05%	0.01204462	0.00203	0.01407462	-0.68%	-1.21%	\$ 4,926.12

Cumulative increase to combined total tax rates over 10 years from above	5.61%
Cumulative increase to total taxes payable over 10 years due to tax rate increases	\$ 276.15
Change in total taxes payable compared to 2022	\$ 178.40
Monthly impact estimated in 2023 on average home valued at \$350,000	\$ 14.87



Qualitative Considerations

- The draft budget for 2023 positions the City positively to focus on asset management renewals and replacements and to prioritize infrastructure planning.
- The City is well-positioned for growth with continuing development; increases in the taxable assessment base allows the rising costs of services to be spread across more properties and property types (not just residential)
- Green initiatives continue to assist in reducing the City's environmental footprint, improving sustainability
- Even with a tax increase as proposed, Stratford tax rates remain in the mid-range compared to similar sized cities with similar tax base
- Stratford remains a desirable tourist destination, which brings people and retail spending to the area, supporting our residents and business owners



Qualitative Considerations

- Services supported by non-core infrastructure (current and future) need to be critically reviewed for initial costs, as well as life-cycle costs and sustainability.
- Tax rate increases are unavoidable, particularly in environments of rising inflation, even if specific services were to be reduced or eliminated (costs to exit services or contracts would also need to be considered).
- It's not only the operating costs/tax levy that need to be considered, but the assets that are used in delivering that service – and what the near-term pressures are for those assets.
- Tough conversations must continue around what strategic priorities are affordable and sustainable.



Questions

?

