



Municipality of Port Hope

56 Queen Street
Port Hope, ON
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REPORT TO: Finance Committee
FROM: David Baxter, Director, Finance
SUBJECT: 2022 Budget Development Initiation
DATE: October 5, 2021

RECOMMENDATION:

That Finance Committee consider identifying the following regarding the 2022 Budget:

- any specific items for community consultation
- any other considerations for discussion or inclusion
- a target municipal levy increase to existing taxpayers; and

That Committee provide guidance to staff regarding the above at the next Committee of the Whole meeting on October 19, 2021.

BACKGROUND:

Staff have begun preparation of the 2022 operating and capital budgets which will be established with consideration to the 2013 Strategic Financial Plan and 2019 Strategic Plan.

The timing plan for the 2022 budget development is:

- Mid-August to Late-September – Department Budget development
- Late-September to Mid-October – Department Budget review and consolidation
- October – Finance Committee to provide budget guidance
- Late October/Early November – Senior Management Team review
- Late-November – Budget package finalization and early release for review
- Mid-December – Finance Committee review (Special Meeting)
- Late-December – Council approval

This will accomplish the standing direction of Committee to complete the Budget in December to enable staff to implement the budget in a timely manner and be able to achieve improved pricing by tendering projects earlier.

In order to identify in advance the initial potential 2022 Municipal budget base changes, attached as Appendix 'A' is a first look at the 2022 budget base for context and discussion of Committee. This document is provided for consideration before providing specific guidance regarding the budget. At this time, the summary is for awareness purposes to identify opportunities and challenges – not a recommended plan.

It is recommended that Committee take time to consider the impacts and provide initial direction on what significant strategic items should be included and not included in the budget at the October 19th Finance Committee meeting. The direction may also include phasing in one or more significant items to mitigate the financial impact, while starting to make some progress on some of the strategic initiatives that have been deferred from previous budgets.

The first consideration for the 2022 Budget is the potential impacts of the objectives and priorities outlined in the Strategic Plan. Consistent with the Strategic Plan, the 2022 budget will dedicate any increase in tax levy generated from growth in assessment to increase funding for capital infrastructure to reduce the infrastructure funding deficit.

Being able to sustain an increased funding level for rural road resurfacing will be a priority for these funds in 2022, as well as reconstruction of Walton Street, Rose Glen Road and Victoria Street. Other capital requirements include the Town Park Recreation Centre expansion, and potentially a municipal contribution for Lent Lane development pending grant funding outcome. These projects are just a few notable highlights among other infrastructure asset management requirements.

A debt plan is being developed to align with the 10-year utilities financial plan to assist in meeting unfunded capital requirements. These are important steps aligned with our Strategic Financial Plan and Asset Management Plan, as part of a multi-year effort to address the municipality's capital requirements. By dedicating an amount equivalent to the net growth in the tax base, there will be no net increase to the tax levy for existing taxpayers.

In 2019 Council approved updated Development Charges to support the Infrastructure Sustainability priority in the Strategic Plan. As part of the Development Charges By-law (63/2019) an exemption for the non-utility related charge was included for industrial properties which is required to be funded by the Municipality. Council passed Resolution 59/2019 to have the estimated Municipal exemption contribution be included in the Municipal Budget. The exemption requirement is estimated at \$1.3M over the first 5 years. That requires an annual contribution of \$250,000. This was deferred in the 2020 Budget, and \$89,000 was included in the 2021 Budget. While a \$250,000 contribution plus funds to catch-up from prior budgets would be ideal to include in the budget, the 2022 budget model includes a minimal \$11,000 increase to bring the annual amount to \$100,000. This continues a phased approach, which meets the needs of exemptions incurred so far.

The Municipality will be responsible for ongoing risk management measures, monitoring and maintenance at four industrial sites once the Port Hope Area Initiative remediation is completed. The preliminary estimated post remediation cost for risk management measures for the four (4) industrial sites combined is \$800,000, over the first five (5) year period, and then \$10,000 annually thereafter. From a financial planning perspective, it would be prudent to begin putting money in a reserve to address this cost plus any additional work that is required at the expense of the Municipality related to the contaminated site remediation. Consistent with the Strategic Plan mission statement to be environmentally responsible, this is a significant environmental improvement for the community. Annual funding from levy could be achieved in a phased approach. \$100,000 has been included in the 2022 budget model for consideration

Council has also previously indicated the desire to consider an annual contribution to the Community Improvement Plan funding, which is also included in Appendix 'A', along with a provision for general inflationary increases to the base budget.

For preliminary budget discussions the Consumer Price Index (CPI) rate of 3.3% in 2021 thus far is used as an indication of annual cost increases however it is noted that municipal cost increases are typically greater than CPI due to the type of costs incurred by the Municipality. However, in order to try to accommodate the strategic considerations identified above, a reduced provision for cost escalation of 2% has been included in the 2022 budget model. Since budget amounts pertaining to the Police and Library need to come from their respective Boards, at this time the same 2% has been used as an indication that there will likely be some increase in base funding required. It is noted that the increases required for the general Municipal and local Board budgets may require an increase greater than what is provided for within 2% resulting in a greater demand on the tax levy than modelled.

It is important to note that Appendix 'A' is not a recommendation of staff, it is established to develop an awareness of the competing priorities for Committee to consider and provide guidance. Receiving direction in the early stages of budget development will make the process much more efficient and support a draft budget being brought forward that is aligned with Committee's expectations.

There will be additional operational costs (for example, the 2022 election or the cost of maintaining newly acquired property) and savings which will be identified through the draft budget process. The draft budget will be based on providing the same level of service as the prior year, with any changes already approved incorporated in the draft budget. Any additional service level changes being considered will be presented to Finance Committee for direction.

Once Committee has provided initial guidance, staff will then proceed with the establishment of the 2022 budget in full detail. It is suggested that Council representatives on the external Boards funded by the Municipality (Animal Control, GRCA, Physician Recruitment, HBIA, Police and Library) communicate to the external

Boards the Municipal direction and work to achieve a budget within each local Board that aligns with the Municipal Budget.

RESOURCE IMPLICATIONS:

A 1% increase to the levy generates approximately \$210,000 and results in the taxpayer of a typical home (assessed by MPAC at \$265,000 using a valuation date of January 2016) paying an additional \$23 in property tax. Ultimately the impact to the rural and urban area tax levies will be dependent on the phasing in, and application of special services.

CONCLUSION:

Staff are requesting Committee's guidance on the Strategic Plan and other initiative items being considered in the 2022 Budget in order to have direction on what items should be included and excluded in order to have a roadmap to a tax increase that is acceptable for the Committee from which to build the 2022 draft budget on.

Respectfully submitted,

David Baxter, CPA, CMA
Director, Finance

Appendix "A"

Anticipated 2022 Municipal Levy Considerations **Material Amounts for Context in Establishing Budget Direction**

	\$ Levy Impact Inc (Dec)	% Levy Impact	
2021 Levy Requirement (before LLRW)	21,035,217		note 1% = approx \$210,000
Strategic Considerations			
Development Charge Exemption Contribution	11,000	0.1%	Resolution 59/2019
Post Remediation Reserve Contribution	100,000	0.5%	
Community Improvement Plan Annual Contribution	100,000	0.5%	
Total Strategic Considerations	211,000	1.0%	
Base Budget Impacts			
Provision of 2% for inflationary increases	421,000	2.0%	
Municipal before External Boards and Service Level Changes	632,000	3.0%	
External Board Departments			
Police	113,000	0.5%	placeholder 2% net budget increase
Library	15,000	0.1%	
Total before Contingency	760,000	3.6%	
Contingencies			
General Contingency Fund	-	0.0%	Currently \$20,000
Total Levy Change for Existing Taxpayers*	760,000	3.6%	
Estimated Amount paid from New Taxpayers (Net Growth)	(210,000)	-1.0%	Community Strategic Plan
Annual Increase in Capital Spending/Reserve contribution	210,000	1.0%	
Municipal Levy Change for Existing Taxpayers	760,000	3.6%	

* Does not include any Service Level Change Recommendations

This is not the recommendation of staff, simply an awareness of the potential
impact of challenges and opportunities known at this time