

REPORT TO: Mayor and Members of Council
FROM: Donna DeFilippis, Treasurer/Director of Finance
DATE: December 5, 2016
REPORT NO: RFD-T-33-16
SUBJECT: 2017 Operating and Capital Budget

OVERVIEW:

- Council is presented with a Draft Base 2017 Operating and Capital Budget (column C of Schedule A) which results in a general tax levy of \$5,612,500, which would result in an approximate decrease of \$16.00 to the Township portion of taxes to an average homeowner. This decrease is a result of assessment growth exceeding the tax levy increase.
- Council is presented with a Second Draft 2017 Operating and Capital Budget (column F of Schedule A) which requires a general tax levy of \$5,896,000 resulting in an approximate increase of \$38.00 to the Township portion of taxes to an average homeowner. The Second Draft 2017 Operating and Capital Budget includes the first-year levy adjustment of \$283,500 for the MURS (Multi-Use Recreational Site) project.
- It is noted that the proposed increase to the general tax levy of \$38.00 equates to a 6.07% tax levy increase; however, after factoring in growth, the effective increase to the tax levy is 3.66%.
- Every \$55,600 of additional expenditure added to this Draft Budget equates to a 1% general tax levy adjustment
- 2017 Capital and Special projects total \$15,082,800

RECOMMENDATION:

1. That, the Treasurer/ Director of Finance Report RFD-T-33-16, regarding the “2017 Operating and Capital Budget”, dated December 5, 2016 be received; and,
2. That, a tax levy of \$5,896,000, which represents a 3.50% increase to West Lincoln taxes for an average residential property owner, be approved; and,
3. That, Service Level Change Request #2, the expansion of Canada Day 2017, be approved and that the special event day be added to the Recreation Budget at a net cost of \$10,000 and that the transfer to the Contingency Reserve be lowered by \$10,000; and,

4. That, Service Level Change Request #3, the hiring of a part-time recreation programmer be added to the Recreation Budget at a cost of \$8,300 and that the transfer to the Contingency Reserve be lowered by \$8,300; and,
5. That the Detailed 2017 Capital Program, attached as Schedule B to this report, totaling \$15,082,800 be approved; and,
6. That, an annual revenue stream not to exceed \$420,000, be allocated towards the debt repayment for the MURS project using Option _____
(Option A: The Gas Tax Grant or Option B: The Community Fund).
7. That, as required by the Ontario Community Infrastructure Fund (OCIF) Formula Component Contribution Agreement, the Treasury Department be authorized to submit Section A of the required Project Report by the deadline of March 31, 2017, indicating that the 2017 funding of \$121,430 be allocated towards the Surface Treatment on South Grimsby Road 5, from the Railway Tracks to Young Street; and,
8. That, the balance of Capital projects for the years 2018 to 2026 as outlined on Schedule C to this report be approved in principle; and,
9. That, tangible capital asset amortization expense estimated at \$2,155,600 and post-employment expenses estimated at \$24,000 be and are hereby excluded from the 2017 Draft Operating and Capital Budget as permitted through regulation 248/09.

ATTACHMENTS:

- **Schedule A** 2017 Budget Summary
- **Schedule B** 2017 Summary of Capital and Special Projects
- **Schedule C** Summary of Ten Year Capital Plans
- **Schedule D** Summary of Reserve Transfers
- **Schedule E** Estimated Reserve Balances as of December 31, 2016

BACKGROUND:

As guidance in preparation of the 2017 Budget, Council provided staff with the direction that expenditure budgets were not to exceed a 3% increase over the approved 2016 Departmental Operating Budgets. The overall 2017 base budget totals \$7,901,200 and represents a 3.32% increase over the 2016 Operating Budget (with one-time items removed). Most Departmental budgets did meet Council's guidance to not exceed a 3% increase. In many cases, where this guidance was not reached, it was the result of adherence to the Reserve Policy. Further explanations are provided within this report.

It is noted that Council is not approving the 2017 Sewer and Water operating budgets at this time. These two operating budgets will be presented for Council's consideration in

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early 2017. These two departments are funded through user fees, and do not impact the tax levy. At the time of 2017 budget preparation, the amounts payable to the Niagara Region for water purchase and sewer treatment have yet to be determined. These amounts are significant costs to the Sewer and Water Departments and further details are required from the Niagara Region in order to produce an accurate budget.

Departmental staff will be available to respond to questions regarding their budget requirements. It is important for Council to realize that every \$55,600 increase or decrease in the tax funded budget equates to a 1% general tax levy adjustment. The increase in the amount needed from the tax base does not directly relate to an increase in taxes on a residential home, but rather it is the increase in the overall tax levy required year over year. Every \$10,000 of expenditure added to this budget will result in an approximate increase of \$1.90 to the property taxes paid by the average residential homeowner. This information should assist Council in understanding the estimated effects of the draft budget as presented and alternatively how adjustments to the amount needed from the tax base impacts the average residential property owner.

The draft budget document has been prepared to provide a variance-based budget. Summary sheets are found at the front of each department's detailed operating budget. The summary page shows the variance year over year and highlights sources of change. This also shows areas of mitigation and any deferred projects. The summary of variances **will not** always match to the exact dollar difference year over year, as the summary of variances by department is only meant to highlight key changes within the department's operating budget.

2017 Levy Request:

The 2017 Base Budget represents a total expenditure of \$7,901,200 which requires a tax levy of \$5,612,500. This tax levy is a 0.97 % (\$53,870) increase over the 2016 levy and results in a \$16.00 decrease to the lower tier taxes paid by an average homeowner. This decrease is the result of the increase in the general levy (\$53,870) being less than the growth in assessment (\$134,000). Chart 1 below highlights the impact that assessment growth has on the taxes paid.

Chart 1: Impact of Growth on the Tax Levy (without the MURS allocation)

	2017	2016	\$ Change	% Change
General Levy Requirement	\$5,612,500	\$5,558,630	\$ 53,870	0.97%
Less: Assessment Growth	\$ 134,000	\$ -	\$ 134,000	
Net Levy Requirement	\$5,478,500	\$5,558,630	-\$ 80,130	-1.44%
Township Taxes for Average Residential Property	\$ 1,071	\$ 1,087	-\$ 16	-1.47%

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The MURS project was presented to Council at the October 17th Public Works meeting with report RFD PW-37-2016. As outlined in report RFD-PW-37-2016, the MURS project will require three years of tax levy increases with the first increase scheduled for 2017 totalling \$283,500. Once this additional levy is included in the 2017 Draft Budget, the total levy requirement for 2017 becomes \$5,896,000. With the MURS allocation included the tax levy has increased 6.07% (\$337,370) over the 2016 levy. This will result in an overall tax increase of \$38.00 to the lower tier taxes paid by an average homeowner. Chart 2 below highlights the impact of the 2017 tax levy with MURS included. Once assessment growth is factored in, the average residential property owner will see a 3.50% increase to their West Lincoln portion of their taxes.

Chart 2: Impact of Growth on the Tax Levy with MURS allocation included

	2017	2016	\$ Change	% Change
General Levy Requirement with MURS	\$5,896,000	\$5,558,630	\$ 337,370	6.07%
Less: Assessment Growth	\$ 134,000	\$ -	\$ 134,000	
Net Levy Requirement	\$5,762,000	\$5,558,630	\$ 203,370	3.66%
Township Taxes for Average Residential Property	\$ 1,125	\$ 1,087	\$ 38	3.50%

The draft budget presented to Council proposes a general municipal tax levy increase of 6.07% which is an increase in net tax revenue requirements of \$337,370 year over year. This equates to an estimated annual **increase** of approximately **\$38.00** to the West Lincoln portion of taxes for an average assessed home (not including the urban service area levy for sidewalk and streetlights). In 2016, the average home in the urban area paid \$70.00 for streetlight and sidewalk services. The 2017 Draft Budget is indicating that the amount paid for streetlight and sidewalk services for an average homeowner will be \$75.00 annually. This would result in an annual increase in taxes of approximately **\$43.00** for those living in the urban service area. The 2017 budget has a total urban service area levy of \$165,000 compared to a total levy of \$149,800 in 2016. Any changes to the urban sidewalk or urban streetlight budgets will alter this amount.

The Township of West Lincoln will not receive the 2017 assessment roll from MPAC (Municipal Property Assessment Corporation) until the second week of December. The 2017 roll will reflect new values based on 2016 re-assessment that was recently completed by MPAC. The 2017 returned roll will reflect the first year phase in of any property assessment increases. The average first year phase-in increase is 5.25%. This would mean that the average assessed home would rise from \$309,532 to \$325,780 (approximately). If a property owner's assessment increases by the average, there will be no impact to their taxes paid as a result of assessment change.

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In order to complete the analysis for the 2017 Budget, staff used the 2016 roll returned in December 2015 and compared the values to the Current Value Assessment for 2016. Assessment Growth can be calculated comparing these two rolls, as one shows current value assessment at the beginning of 2016 and the other report shows the assessment at the end of the year. The year-end data reflects the increase in assessment due to new builds. Growth has been calculated at \$134,000 or 2.41%.

SERVICE LEVEL CHANGES:

The 2017 Draft Operating Budget was developed based on taking 2016 service levels and making adjustments based on any information which would impact the budget numbers. These adjustments include changes stemming from updated contracts, new benefit costs, inflation and the collective agreement.

The three items listed in Chart 3 are new services that were not part of the 2016 budget and reflect an enhanced level of service from the Municipality. Item 1 below has been included in the 2017 Budget as part of the Crossing Guard budget within Corporate Services. **Items 2 and 3 from the chart were not included in the 2017 budget;** however, recommendation #3 and #4 as contained in this report provide for approval of these two additional items which would add the dollar amounts noted to the operating fund and decrease the transfer to the Contingency Reserve. By doing this, there will be no impact on the tax levy.

If Council so chooses to increase the levy to accommodate these service level changes the estimated annualized impact to the average residential property owner would be \$1.91 for Item 2, \$1.59 for item 3, or \$3.50 if both items are added.

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Chart 3: Service Level Changes

Item	Description	2017 Budget Impact	Included in 2017 Draft Budget
1	Addition of a Crossing Guard: An increase has been made to the Crossing Guard Budget within Corporate Services to provide for the hiring of an additional crossing guard, if deemed necessary. Presently, the intersection of Griffin Street and Canborough Street is being monitored to determine the safety conditions for the students. It may be required to place an additional crossing guard at this intersection.	\$ 8,000	Yes
2	Canada Day Event: In anticipation of the 150 Birthday of Canada in 2017 staff have worked on creating a special Canada Day Event for 2017. The day long event is scheduled to take place in downtown Smithville with events planned for all ages. Nighttime performances are also planned, in addition to Fireworks. The 2017 budget currently has a budget of \$7,800 for Canada Day. Staff has budgeted \$41,000 for this expanded event, and have applied for Region of Niagara Funding of \$23,200. In order to proceed with this expanded celebration, an additional contribution of \$10,000 from the Operating Fund is necessary.	\$ 10,000	NO
3	Hiring of a Part-Time Recreation Programmer: The Recreation Department have reviewed staffing levels and would like the opportunity to hire a new Daytime Recreation Programmer. The role of this new position would be to develop and implement new programming for older adults during the day. This position would also initiate a Recreation Services social media program which is presently lacking. This position would also be used to replace hours currently filled in by various part-time positions. For example, this position would also act as Summer Camp Supervisor.	\$ 8,300	NO

OVERALL 2017 BUDGET OVERVIEW:

Chart 4, below, highlights the overall 2017 budget changes prior to the MURS allocation of \$283,500 being added to the levy. The figures included in Chart 4 are reflective of Column C of Schedule A. Further details regarding significant items are provided within the report.

Chart 4: 2017 Budget Overview

Overall Expenditure Increase:	\$254,170	3.32%
Less Increase to Revenues:		
Increase in Payment in Lieu Taxation	\$23,300	
Increase in OMPF Grant	\$70,800	
Other Revenues	\$91,000	
Net Tax Increase	\$69,070	1.20%
Assessment Growth	\$134,000	2.41%
Net Impact	-\$64,930	

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OPERATING COSTS/COMMITMENTS:

The following section highlights some specific items that impact most departmental operations. Department changes discussed below are reflective of the variance analysis summaries. A review of capital items is contained in a further section of this report, following the operations review.

Labour Costs/Benefits:

Salary and Benefit costs comprise approximately 65% of the total Township Operating Budget. Benefit costs include WSIB, CPP, EI, EHT, OMERS and Group Benefits. Salaries and Benefits increased \$135,702 in 2017 over 2016, representing a 2.75% overall increase.

Hydro/Insurance:

Corporate Insurance is allocated among various departments and has been budgeted for at a 5% increase.

The price for electricity is expected to rise once again in 2017 and is reflected in this budget with an 11.4% increase over the current rates being paid. The increase is applied to current rates, not to the 2016 budgeted amounts. The actual 2016 hydro costs are not as high as budgeted, thus the Township should have savings in this line item for 2016. Thus, 2016 Budget compared to 2017 Budget did not increase by 11.4%; the increase is in relation to actual 2016 costs.

REVENUE:

The following section of the report will review the significant revenue items included in the 2017 Budget.

Ontario Municipal Partnership Fund (OMPF):

The Ontario Municipal Partnership Fund (OMPF) is a significant revenue source for our Township totalling almost 11% of our total 2017 budgeted revenue. In the past, the Township has been faced with a substantial reduction in this grant. In 2009, the grant allocation to our municipality was \$1,154,000, whereas in 2015 it was \$721,600, which equates to a difference of \$432,400. In 2016, the Township received an increase of \$80,000 over the 2015 allocation, with a total grant of \$801,600. This increase was the result of an enhancement made to the Rural Communities Grant portion of the OMPF. This increased funding recognizes the challenges faced by municipalities with a high level of farmlands taxed at the Farm Tax rate.

For 2017, the province has increased the allocation per household for communities eligible for the Rural Communities Grant portion of the OMPF. The per household contribution has risen to \$157 from \$146. This equates to an increase in this grant of \$70,800, for a total grant of \$872,400.

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Prior Year Surplus:

The 2016 Budget included the use of \$589,000 of prior year surplus. This was a significant surplus and Council used the funds to complete various capital works and special projects. On Schedule A attached to this report, Column A includes the prior year surplus and Column B removes the surplus and the associated capital and special projects. Column B is being used for comparative reasons so Council could see how the 2017 departmental budgets are actually changing with one-time items removed. For instance, for Corporate Services, if Column A were used, the 2017 budget looks like a 2.99% decrease compared to the 2016 budget. However, by using Column B, the 2017 corporate service budget reflects a 1.24% increase over 2016 which is an actual true representation as one-time items are removed.

The 2017 Budget assumes a prior year surplus of \$100,000. This surplus is estimated to be comprised of increased revenue from investments and supplementary taxes from 2016.

GENERAL EXPENDITURES:

Contributions to Reserves:

In May 2016, Council approved a Township Reserve and Reserve Fund Policy. This policy established consistent principles, standards and guidelines for the maintenance, management and accounting of reserves and reserve funds. This policy established contribution guidelines to ensure that annual contributions are made to appropriate reserves as outlined in the policy.

The minimum annual contribution outlined in the policy towards the Capital Reserve is \$111,000, or 2% of the prior year tax levy. The actual contribution being made to the Capital Reserve is \$177,300 which is above the minimum contribution. The Capital Reserve is used to finance future Capital needs,

The contribution being made to the Contingency Reserve of \$55,500 represents approximately 1% of the prior year tax levy. The balance in the Contingency reserve as of December 31, 2016 is estimated to be \$613,641 which is above the targeted balance of \$556,000 (10% of previous year tax levy), however, it is recommended that a contribution still be made to this reserve as it used to cover emergency and one-time expenditures that the Township may be faced with during the year but not contemplated during budget preparation.

In addition, the following transfer is being budgeted for which represents the first of three annual contributions towards the new MURS project: **Facility Reserve - \$283,500**, representing approximately 5.1% of prior year tax levy

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Additional reserve transfers are made within specific departmental budgets. **Schedule D** to this report is the summary of Transfers to and from Reserves as presented in the 2017 draft budget. It should be noted that **Schedule D** does not include the budgeted transfers to the Sewer and the Water reserves which will be included with the Sewer and Water budgets when they are presented to Council in early 2017. In 2016, \$111,750 was budgeted as a transfer to the Sewer reserve and \$47,300 as a transfer to the Water Reserve. **Schedule E** provides Council with a summary of estimated reserves as of December 31, 2016.

LIBRARY BOARD:

Under the Ontario's Public Libraries Act (PLA), public libraries in Ontario must be operated under the management and control of a public library board. The Library Board is responsible for the operation of its library system. The Municipality has the role of annually approving the Board's estimates of amounts required for the year. In the case of West Lincoln, the Library CEO prepares the draft budget and the Treasury Department completes certain line items such as utilities, insurance and benefit costs to ensure consistency throughout the entire budget. The Library CEO then presents the completed budget to the Library Board for their approval.

The Draft 2017 Budget is projecting a contribution to the West Lincoln Public Library of \$418,500, which represents an increase of \$12,202 (3.00%) over the 2016 allocation. In general, the Library receives a small amount of funding in provincial grants and the remainder is a municipal contribution. Accounting, payroll, IT services and facilities maintenance are provided by the Township and no allocations are made to the Library budget for the cost of these services.

OPERATING BUDGETS:

The base 2017 Budget represents a 3.32% increase in overall operating expenditures. For the purposes of this report, an explanation of significant variances is provided. Council has been provided departmental variance sheets within the Budget Binder that outline changes in budget year over year for every department.

Planning (pages 35-41):

This department is projecting an increase of \$25,200 or 14.59% over the 2016 budget. Approximately 92% of this increase is attributable to the funding of 2017 special projects (outlined on page 86 of the binder) through the operating fund at an amount of \$23,250.

Recreation and Arena (pages 42-54):

The Recreation/Arena Budgets indicate a 3.74% or \$29,300 increase over the 2016 budget. The breakdown of the Recreation and Arena Budgets can be seen in Chart 5 below:

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Chart 5: Recreation and Arena Budget Comparison

	2017 Budget	2016 Budget	Difference \$	Difference %
Recreation	\$ 409,100	\$ 385,100	\$ 24,000	6.23%
Arena	\$ 403,600	\$ 398,300	\$ 5,300	1.33%
Total	\$ 812,700	\$ 783,400	\$ 29,300	3.74%

The contributing factor to the increase in the recreation budget is the greater amount of municipal contribution allocated towards the Harvest Routes event. In 2016, the total budgeted municipal contribution was \$16,700. In the 2017 budget, the municipal contribution is \$29,200. The 2017 budget reflects the fact that the Regional grant that assisted with funding of this project will no longer be received. The expenses for Harvest Routes have been reduced, however, with the loss of \$24,000 of grant revenue; the municipal contribution has increased by \$12,500 over 2016.

Bridges (pages 68-72):

The 2017 Budget for Bridges is increasing \$97,100 or 353.09% over the 2016 Budget. Included in the 2017 Budget is a transfer of \$55,600 to the Bridge reserve for future Capital Works. This transfer is in line with the Reserve Policy that Council approved early in 2016. In addition, the 2017 Bridge Budget includes a budgeted expenditure of \$40,000 which represents the first annual payment necessary for the debenture repayment related to the replacement of Bridge 12.

Facilities (pages 73-86):

The Facility Budget in 2017 is increasing \$46,500 or 65.59% over the 2016 Budget. A \$55,600 transfer to the Facility Reserve is the reason this budget has increased. This reserve transfer is in keeping with the guidelines outlined in the Township's Reserve Policy. Discussion regarding anticipated capital improvements to Facilities will be discussed further in this report in the Capital section.

Street Light and Sidewalk (pages 87-94):

Both the Street Light and Sidewalk budgets are separated into Urban and Rural. Urban Service Area (USA) tax levies are paid for by ratepayers within the Smithville Urban area only. The cost of providing street lighting and sidewalks in the urban are for 2017 and 2016 are outlined in Chart 6:

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Chart 6: Urban Area Street Light and Sidewalk Budget Comparison

	2017	2016	\$ Change
Street Light Requirement	\$ 98,800	\$ 85,900	\$ 12,900
Sidewalk Requirement	\$ 66,200	\$ 63,900	\$ 2,300
Total Urban Service Budget	\$ 165,000	\$ 149,800	\$ 15,200

Expenditures for the urban service area (USA) have increased by \$15,200 in 2017 over 2016. For a property with an average assessed value of \$309,532; the charge for USA tax increases from \$70.00 (2016) to approximately \$75.00 (2017) which equates to a \$5.00 increase.

The overall 2017 Streetlights Budget is increasing \$19,900 or 15.57% over the 2016 Budget. In 2016, the Township completed a project which saw the conversion of all Township streetlights to LED lights which are more energy efficient. When this project was approved, Council approved financing from the Contingency Reserve, which was to be paid back over six years. The payback amount in 2017 totals \$58,200 which is an increase to the Streetlights Budget. This increase is partially offset by the anticipated savings in Electricity and Maintenance costs totalling \$38,700.

Fuel and Equipment (pages 95-100):

Costs for fuel and equipment repairs are allocated to various departments as indicated on page 95. Included in this budget is a contribution to the Equipment Reserve for \$237,000. This reserve is used to finance future equipment and rolling stock purchases within the Public Works and Recreation Departments.

Drainage (pages 101-102):

This Budget is increasing by \$7,900 or 14.58%. The Township shares a Drainage Superintendent with the Township of Wainfleet. A new Drainage Superintendent was hired in the fall of 2016 and will be shared between the Township of West Lincoln and the Township of Wainfleet. It was necessary to budget additional funds in 2017 for the services of a consultant to act as Drainage Superintendent until the individual on staff fully qualifies as a Drainage Superintendent in March 2017. This additional cost is driving the increase in this departmental budget.

The actual maintenance and construction of drains are not a direct cost to the Township. The property owner that benefits from the drainage works is charged for the cost in accordance with the Drainage Act. In 2017, we are budgeting \$6,300 for anticipated maintenance on drains within the municipality that are on Township owned property.

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Water/Sewer:

Both the Water and Sewer Department budgets are self-funding, meaning that all costs are off-set by user fees and not property taxes. Staff will present the 2017 Water and Sewer Budgets for Council's consideration in early 2017. Staff is still awaiting the Niagara Region to approve their 2017 Water and Wastewater By-Laws which impact the costs the Township must pay for Treatment. This budget has no impact on the tax levy, as it is funded through user fees.

CAPITAL AND SPECIAL PROJECT BUDGETS:

The 2017 Capital Program has been summarized in **Schedule "B"** which is attached to this report and is also found on page 7 of the Draft Budget Book. All funding sources have been outlined in this schedule. Detailed ten year plans are included in the Draft Budget Book under the relevant sections (page numbers indicated in parentheses): Corporate Services (17), Cemetery (24), Fire (29), Parks and Trails (45-46), Roads (61-63), Bridges (70), Facilities (75-76), Sidewalks (91-92), Equipment (97-98), Storm Sewers (103), Sanitary Sewers/Wastewater (104), and Water (105-106). **Schedule C** to this report provides a summary of the ten year capital plans and related financing

Corporate Services:

The Corporate Services Department is requesting \$80,000 in capital works and special projects. Of this \$80,000, \$12,000 is being funded from the operating fund. As directed by Council at the October 17, 2016 Public Works meeting the 2014 Development Charge Background Study will be re-opened in 2017 to take into account the MURS project and other growth related items not included in the 2014 Study. \$60,000 is anticipated to be spent on Information Technology (IT) with the most significant item being \$50,000 for a new solution to our storage system. Our current storage solution is old and at capacity. The use of technology is becoming more entwined in all aspects of municipal activity. Both the Clerks Department and the Building Department are in great need of additional electronic storage space as files and data become digitalized. As part of the requirement for additional space is a result of technology being adopted by the Building Department, the Building Department Reserve is being used as a funding source.

Cemetery:

The Cemetery Department has one Capital Project totalling \$3,000 funded through the Cemetery Reserve for the continuation of setting up the Township's cemetery plans onto GIS (Geographic Information Systems).

Fire Department:

The Fire Department is requesting \$417,000 for Capital Works in 2017. The purchase of new SCBA (Self-Contained Breathing Apparatus) equipment for \$400,000 is the largest expenditure item.

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Planning:

The Planning Department is requesting to spend \$55,000 on special projects as outlined on page 38. \$23,250 of this anticipated expenditure is being financed through the Operating Fund.

Parks and Trails:

The Parks and Trails 2017 Capital Budget is \$324,000 as outlined on page 46. The largest project is the North Creek Trail, from Streamside Park to the MURS facility. This trail is planned to link from Streamside Park to the MURS facility through the use of gravel and paved surfaces (sidewalks).

Roads and Bridge Construction:

The total requested amount for Road work in the 2016 Budget is \$341,000. The largest road project is Surface Treatment on South Grimsby Road 5 from the railway tracks to Young Street. Also included in the Road capital budget is surface treatment on a portion of Campden Road and Stoney Creek Townline Road. Finally, the provision of replacing boulevard trees impacted by the Emerald Ash Borer is budgeted at \$50,000.

\$918,200 of Bridge Capital is being proposed in the 2017 Capital Budget. The largest project is the repair of the Boyle Road Bridge from East Chippawa in West Lincoln to River Road in Wainfleet, at a budgeted cost of \$788,200. This bridge is shared with the Township of Wainfleet. The \$788,200 represents the gross cost. Staff have applied for funding under OCIF (Ontario Community Infrastructure Fund) for 90% of the financing. Staff is optimistic that the funding will be approved as joint projects with other municipalities receive higher points at the time of application review.

Facilities:

The 2017 Facility Capital Budget is a total of \$12,405,100 as outlined on page 76. The MURS facility is the largest project and is discussed later in this report. \$131,500 of work is planned at the Township office for painting and carpet replacement and the addition of cubicles. This is being funded through the Capital Reserve. Over the years of 2009 to 2011, a total of \$190,000 was transferred to the Capital Reserve in order to finance future repairs and upgrades at the Townhall. In 2016, the first step in the Township upgrades included a new service counter.

Sidewalks:

Sidewalk reconstruction and streetscaping on Station Street totalling \$350,500 is planned for 2017.

Equipment:

Only \$52,000 in equipment purchases are budgeted for in 2017. Council is reminded that the \$400,000 grader replacement originally scheduled for 2017 had to be expedited to 2016 due to the condition of the existing equipment.

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Sanitary Sewer and Water:

There are no sanitary sewer capital works planned for 2017. \$137,000 of water capital works are planned, with the most significant being the water main replacement design for West Street from South Grimsby Road 5 to Wade Road, with construction planned for 2018. Staff is also continuing with its planned water meter replacement program of \$50,000. The replacement of old water meters reduces water revenue losses resulting from uncalibrated meters. The new meters take advantage of better technology that allow for radio reads, which increases the accuracy and effectiveness of the quarterly water readings.

MULTI-USE RECREATIONAL SITE (MURS)

At the October 2016 Public Works meeting, report PW-37-2016 was approved by Council which outlined key points regarding the MURS project. The \$23.6 million project requires three years of adjustments to the tax levy. The first-year increase is \$283,500 which represents 5.1% of the prior year levy. Tax increases of 5.1% in 2018 and 5% in 2019 will also be necessary. For 2017, the amount of \$283,500 will be transferred to the Facility Reserve and will be used when the first debenture payment is due in 2018.

The proposed financing of the MURS project which was outlined in report PW-37-2016 includes the use of an annual revenue source of \$420,000 to be used to offset the annual debenture repayment. The use of this annual revenue source would commence in 2018 to coincide with the first annual debenture repayment. It is requested that Council allocate either the annual Gas Tax Grant or the Community Fund as the annual revenue source of \$420,000 that is required for the financing of this project. This financing summary (Chart 7) indicates that the full \$420,000 will not be required each year.

The MURS project has a total construction cost of \$23,622,000. Approximately 45% of this cost will be recovered from Development Charges, with estimated revenue of \$10,700,000. In addition, fundraising of \$1,000,000 and reserves of \$139,200 are additional revenue sources, resulting in a **net cost of approximately \$11,800,000.**

It should be noted that Estimated Development Charges used in the financing summary (Chart 7) is based on the 2014 Development Charge Background Study using 55 “new builds”, which is conservative given that in 2016 revenue has been collected on 121 units to date. The rates used are also based on the 2014 Background Study which did not include the MURS project. Once the MURS project costs are included in a new background study the charges will be higher, resulting in a higher level of revenue.

Chart 7 below outlines the annual debt re-payment requirements based on the issuance of a 30 year serial debenture of \$20,284,562 at a rate of 3.12%, in early 2018. Three revenue streams: development charges, the arena building fund and the annual revenue contribution of \$420,000 are used to off-set the debt repayment. The result is the net cost – Column E. In all years, the net cost is less than the \$888,500 that is in the tax levy.

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The amount exceeding the tax levy will be available to cover operating costs related to the new services provided at the MURS facility.

An index rate of 1.5% has been used for Development Charge increases and an index rate of 1% has been used for increases to the Arena Building Fund. The Arena Building Fund was established in 2005 and is financed through allocations from arena user rates.

Chart 7: MURS – Multi-Use Recreational Site – Financing Summary

	Column A	Column B	Column C	Column D	Column E	Column F	Column G
					Column A less Columns B, C, D		Column E less Column F
Year	Debt Repayment	Estimated Development Charges	Estimated Arena Building Fund	Annual Revenue Source	Net Cost	Levy in Base	Available for Operations
2018	\$ 653,648	\$ 95,973	\$ 8,500	\$ 420,000	\$ 129,175	\$ 581,448	
2019	\$ 1,291,547	\$ 97,413	\$ 8,585	\$ 420,000	\$ 765,549	\$ 888,500	\$ 122,951
2020	\$ 1,273,774	\$ 98,874	\$ 8,671	\$ 420,000	\$ 746,229	\$ 888,500	\$ 142,271
2021	\$ 1,251,118	\$ 100,357	\$ 8,758	\$ 420,000	\$ 722,003	\$ 888,500	\$ 166,497
2022	\$ 1,233,027	\$ 101,863	\$ 8,845	\$ 420,000	\$ 702,319	\$ 888,500	\$ 186,181
2023	\$ 1,208,839	\$ 103,391	\$ 8,934	\$ 400,000	\$ 696,515	\$ 888,500	\$ 191,985
2024	\$ 1,186,327	\$ 104,941	\$ 9,023	\$ 400,000	\$ 672,363	\$ 888,500	\$ 216,137
2025	\$ 1,166,676	\$ 106,516	\$ 9,113	\$ 400,000	\$ 651,047	\$ 888,500	\$ 237,453
2026	\$ 1,145,580	\$ 108,113	\$ 9,204	\$ 400,000	\$ 628,263	\$ 888,500	\$ 260,237
2027	\$ 1,124,542	\$ 109,735	\$ 9,296	\$ 400,000	\$ 605,511	\$ 888,500	\$ 282,989
2028	\$ 1,106,914	\$ 111,381	\$ 9,389	\$ 380,000	\$ 606,144	\$ 888,500	\$ 282,356
2029	\$ 1,081,136	\$ 113,052	\$ 9,483	\$ 380,000	\$ 578,602	\$ 888,500	\$ 309,898
2030	\$ 1,060,127	\$ 114,747	\$ 9,578	\$ 380,000	\$ 555,802	\$ 888,500	\$ 332,698
2031	\$ 1,040,100	\$ 116,469	\$ 9,674	\$ 380,000	\$ 533,958	\$ 888,500	\$ 354,542
2032	\$ 1,019,929	\$ 118,216	\$ 9,771	\$ 380,000	\$ 511,943	\$ 888,500	\$ 376,557
2033	\$ 999,700	\$ 119,989	\$ 9,868	\$ 360,000	\$ 509,843	\$ 888,500	\$ 378,657
2034	\$ 976,784	\$ 121,789	\$ 9,967	\$ 360,000	\$ 485,028	\$ 888,500	\$ 403,472
2035	\$ 954,908	\$ 123,616	\$ 10,067	\$ 360,000	\$ 461,225	\$ 888,500	\$ 427,275
2036	\$ 934,592	\$ 125,470	\$ 10,167	\$ 360,000	\$ 438,955	\$ 888,500	\$ 449,545
2037	\$ 913,524	\$ 127,352	\$ 10,269	\$ 360,000	\$ 415,904	\$ 888,500	\$ 472,596
2038	\$ 892,487	\$ 129,262	\$ 10,372	\$ -	\$ 752,853	\$ 888,500	\$ 135,647
2039	\$ 872,431	\$ 131,201	\$ 10,475	\$ -	\$ 730,755	\$ 888,500	\$ 157,745
2040	\$ 850,208	\$ 133,169	\$ 10,580	\$ -	\$ 706,459	\$ 888,500	\$ 182,041
2041	\$ 828,708	\$ 135,167	\$ 10,686	\$ -	\$ 682,855	\$ 888,500	\$ 205,645
2042	\$ 808,045	\$ 137,194	\$ 10,793	\$ -	\$ 660,058	\$ 888,500	\$ 228,442
2043	\$ 786,949	\$ 139,252	\$ 10,901	\$ -	\$ 636,796	\$ 888,500	\$ 251,704
2044	\$ 765,824	\$ 141,341	\$ 11,010	\$ -	\$ 613,474	\$ 888,500	\$ 275,026
2045	\$ 745,133	\$ 143,461	\$ 11,120	\$ -	\$ 590,552	\$ 888,500	\$ 297,948
2046	\$ 723,488	\$ 145,613	\$ 11,231	\$ -	\$ 566,644	\$ 888,500	\$ 321,856
2047	\$ 702,479	\$ 147,797	\$ 11,343	\$ -	\$ 543,338	\$ 888,500	\$ 345,162
2048	\$ 343,394	\$ 150,014	\$ 11,457	\$ -	\$ 181,923	\$ 888,500	\$ 706,577

ONTARIO REGULATION 284/09 REQUIRED REPORTING:

As a municipality, the Township is required to follow the accounting standards established by the Public Sector Accounting Board (PSAB). The PSAB standards do not require municipal budgets be prepared on a fully accrual basis. The Township of West Lincoln, like most Ontario Municipalities, continues to prepare budgets on a cash

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basis. A key outcome of the annual budget is a tax rate. The tax rate is based on annual cash requirements and therefore does not include the PSAB requirements around accrual accounting and accounting for “non-financial assets and liabilities”

Ontario Regulation 284/09 allows a municipality to exclude from its annual budget estimated expenses related to the following:

- i. Amortization expenses
- ii. Post-Employment Benefit Expenses
- iii. Solid waste landfill closure and post-closure expenses – N/A to our Township

The regulation however does require that the municipality report on the impact of these excluded costs. In particular, reporting is required to estimate the impact on the accumulated surplus and the impact on the future tangible capital asset funding requirements from resulting from the exclusion of any of the expenses listed above.

- i. **Amortization Expense:**
Amortization expense represents the reduction in the economic benefits realized by the Township’s Tangible Capital Assets during the fiscal period. Amortization expense should not be used to determine the impairment of an asset; however, it is a good tool to predict the future annual financial commitment required for asset rehabilitation or replacement. The 2017 Draft Operating and Capital Budget excludes \$2,155,600 of estimated amortization expense, which would reduce the Township’s accumulated surplus. The 2017 Budget does include total transfers to reserves relating to Tangible Capital Assets of \$1,100,700. It should also be noted that the 2016 Budget includes \$14,930,300 in recommended Tangible Capital Asset Investments. These investments are treated as expenditure in the 2017 Budget; however, in accrual accounting they are Tangible Capital Additions and are not expensed, resulting in an increase to the accumulated surplus.
- ii. **Post-employment Benefits:**
Post-employment benefits are non-pension benefits provided to employees after retirement. The 2017 Draft Operating and Capital budget excludes an estimated \$24,000 of post-employment benefits expense which has the impact of decreasing the accumulated surplus. The 2017 budget does include the current year’s post-employment benefit costs paid out to current eligible retired employees totalling \$22,475.

Impact on Accumulated Surplus:

The accumulated surplus shown in the Township’s Financial Statements represents the net resources available to provide future services. It does not represent surplus cash. The Township’s accumulated surplus as calculated using PSAB policies was \$70.2 million as of December 31, 2015. The closing balance as of December 31, 2016 is not

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yet available. Chart 8 below outlines the estimated impact of excluding the above two expenses:

Chart 8: Impact of Excluding Amortization and Post-Employment Benefits on the Accumulated Surplus

	2017 Estimate
Tangible Capital Asset Amortization	\$ 2,155,600
Post-Employment Benefits	\$ 24,000
Total Decrease to Accumulated Surplus	\$ 2,179,600
Investment in Tangible Capital Assets	\$ 14,930,300
Net Transfers From Reserves	\$ 354,800
Total Increase to Accumulated Surplus	\$ 15,285,100
Net Increase in Accumulated Surplus	\$ 13,105,500

FINANCIAL IMPLICATIONS:

The Budget is the guiding financial management tool for the year 2017. It sets departmental spending and revenue guidelines; additionally, budget status is reported back to Council to convey financial results. The 2017 proposed Draft Budget reflects a 6.07% general tax levy increase. This equates to an increase to the West Lincoln portion of property taxes for the average residential homeowner of 3.5% or \$38.00 annually.

INTER-DEPARTMENTAL COMMENTS:

Department Heads have all been involved in the creation of their own budget documents. Department Heads worked with their staff to send in initial budget plans which have undergone some change through meetings with the Treasurer and CAO to get to the final draft document as presented to Council.

CONCLUSION:

It is concluded that the 2017 Operating and Capital Budget be approved as presented.

Prepared by:

Approved by:

Donna DeFilippis, CPA,CA
Treasurer/Director of Finance

Chris Carter
CAO

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