



Municipality of North Grenville

To:	COUNCIL	Meeting Date: 2012/01/12
Subject:	Budget Direction Report	Report No: FIN-001-2021
Prepared by:	Brad Brookman Director of Finance/Treasurer	File No:

RECOMMENDATION

THAT Council:

1. Receive this staff report [FIN-001-2021 "Budget Direction Report"]; and
2. Direct the Chief Administrative Officer and the Director of Finance to present the draft Staff Recommended Budget as part of the community engagement program identified in this report [FIN-001-2021 "Budget Direction Report"] and report back to Council on February 2, 2021, for further consideration.

EXECUTIVE SUMMARY

Purpose

- To present an overview of the 2021 Staff Recommended Budgets for:
 - General Municipal Operations
 - Municipal Water and Wastewater Operations, and
 - Capital Investment
- To obtain direction from Council on management's staff recommended draft budget and identified community engagement program.

Key Findings

- The 2021 Operating budget represents a 'transitional' budget document as we continue our municipal modernization programming commenced in 2020.
- The 2021 Operating budget has been reformatted to be reflective of the organizational structural changes as part of the modernization program with budget reporting categories directly aligning with the operational departments providing/delivering services to our community.
- The realignment of the budget and associated reporting documents will significantly increase both the administrative and fiscal transparency and accountability of our municipal service delivery operations and community capital investment programs.

- In addition to the modernization elements, the proposed 2021 Operating Budget has also been developed in recognition of not only municipal service level and capital investment needs, but the impacts of the unprecedented COVID-19 pandemic on our broader community.
- In recognition of the impacts of the necessary COVID-19 responses/restrictions implemented by the Province and the individual and cumulative economic impact of those restrictions on the community, the staff recommended budget Management is proposing a 0% tax rate increase for 2021.
- The fiscal and budgetary management modernization efforts undertaken by staff over the past number of months have created an environment that can facilitate a 0% tax rate increase for 2021 while maintaining – and in some cases improving – the level of service delivery and implementing a diversified capital investment program for North Grenville.
- Significant improvements in the management and structure of the Municipality designed to reset of the base budget including but not limited to:
 - Modernization of operations across all departments
 - Aligning staff levels and compensation with the current market and at an appropriate level to properly service the growth of the community
 - Improving customer service and service standards
 - Realignment of cost centers to improve planning, execution, and accountability

In December 2020, the Municipality applied for, and was awarded, \$987,000 from the Ministry of Municipal Affairs and Housing Phase 2 ReStart Funding. This funding is to help with COVID-related operating pressures.

Uncertainty imposed by COVID-19, resulted in all levels of government taking steps to help communities recover in 2021. The proposed Budget will assist in the Municipality of North Grenville's recovery.

Financial Implications

- A one-time 0% tax increase will not create a future burden on the Municipality, nor will it require an inflated tax increase in future years due to:
 - ⊖ The strategic use of existing financial reserve balances
 - Improved economic stability in the Municipality allowing continued growth and investment
 - ⊖ Improved project management of capital investment projects.

BACKGROUND

Management approach to the 2021 budget

2020 was a challenging year for the Municipality of North Grenville and its residents. Early steps were taken by Council and staff to prepare for a year of uncertainty and financial hardship. This

proactive approach significantly reduced the impact on the Municipality and improved its ability to provide essential services for the community.

- When developing the budget for 2021, Management considered the following:
 - An increase in the cost of living
 - An increase in the cost of supplies and services
 - A market adjustment for existing staff
 - Appropriate use of existing Reserves representing tax dollars collected in prior years
 - Appropriate levels of staffing to provide service in alignment with the growth rate of the Municipality
 - The effect COVID-19 will continue to have on its taxpayers and the resulting sacrifices, losses, and financial hardship.

It was with this mindset that a budget was prepared to continue to endure through 2021 and provide some relief to its community. A one-time freeze on the tax rate will assist in economic recovery in the coming year.

ANALYSIS

DRAFT Operating Budget Highlights – 2021 \$22.5M 2020 \$21.8M Increase: \$0.7M

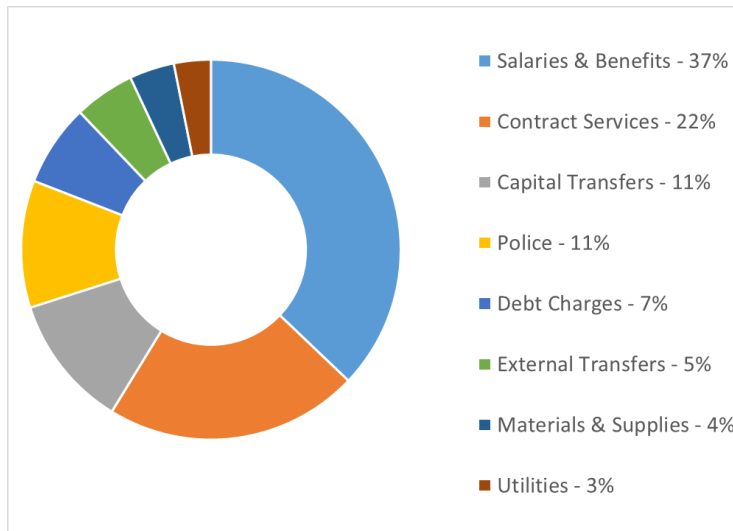
The tax-supported operating budget covers the daily costs of running municipality services, excluding water and sewer services. This also includes the tax levy requests for four local boards. Each board is responsible for preparing and approving its own budget, which they submit for Council approval. These four local boards are:

- North Grenville Public Library Board
- Old Town Kemptville Business Improvement Area Board
- North Grenville Police Services Board
- North Grenville Community Centre

Expenditures

The 2021 operating budget includes an estimated total gross expenditure of \$22.5 million. To deliver a balanced budget, the Municipality considers all other sources of revenue before property taxes, such as user fees, funding transfers from other levels of government, and transfers from reserves. Revenues from these sources account for \$6.5 million in the 2021 operating budget.

The following summary highlights significant expenditures in the operating Budget.



Salaries and Employee Benefits – 2021 \$8.3M 2020 \$7.0M Increase: \$1.3M

The largest portion of North Grenville's operating budget is salaries and benefits, at 37% of expenses. It is represented by the following departments:

- Public Works
- Parks & Recreation
- Administration & Finance/Treasury
- Planning & Development
- Emergency & Protective Services

The total salaries and benefits increase is a direct result of several years of staffing levels not keeping up with the increase in service levels needs commiserate with a high growth municipality. The historic lack of investment in adequate staffing for the municipality resulted in a deterioration of services levels and an inability to provide the required resources to adequately undertake the level of capital investment projects in support of our growing community. The strategic reinvestment in municipal staffing as identified in the proposed budget will serve to correct these deficiencies as we move forward.

The key drivers for the cost increases are:

- market adjustments for staff including the introduction of four new seasoned management staff
- the addition of four new staff to support Administration and
- cost reallocation from the water and wastewater department.

Contract Services – 2021 \$4.9M 2020 \$4.4M Increase: \$0.5M

The Municipality plans to spend approximately \$4.9 million in contract services, which represents 22% of the Municipality's expenses. Contracted services that fall under this category include waste management contract, various insurance programs, technology services, as well as other contracts related to delivering various programs within the municipality.

SERVICE CONTRACT DESCRIPTION	PAYMENT (\$)
Waste Management	1,856,803
Roads	484,495
Insurance	448,497
Software/IT	211,850
Others	1,888,141
TOTAL	4,889,785

Police Services Contract – 2021 \$2.4M 2020 \$2.4M Increase: None

The Municipality's policing contract expenses make up 11% of gross expenditures. Municipalities must always have trained and properly equipped police officers available. North Grenville contracts police service to OPP, which bills the Municipality for service.

Program Materials and Supplies – 2021 \$0.9M 2020 \$1.1M Decrease: \$0.2M

Materials and supplies represent 4% of expenses. Program-related costs are reviewed and adjusted to reflect planned costs for 2020, taking into consideration previous years' actual costs and inflation where appropriate.

Fund Transfers – 2021 \$2.5M 2020 \$3.7M Decrease: \$1.2M

Transfers to reserve funds, represent 11% of expenses including:

- Contribution towards the capital budget
- Contribution towards replacement of equipment
- Contribution to the Reserve Fund used towards the debt payments of capital projects
- Other reserve fund transfers, in accordance with the reserve and reserve fund bylaw

The most significant transfer is the contribution towards the capital budget, representing the amount of tax levy funding that is allocated annually to capital projects based on the 10-year capital budget and forecast. \$3.9 million has been allocated to the capital budget as part of the 2021 operating budget.

External Transfers – 2021 \$1.2M 2020 \$0.9M Increase: \$0.3M

External transfers represent 5% of expenses. \$1.16 million is granted in funding to various organizations. External transfers in excess of \$100,000 include:

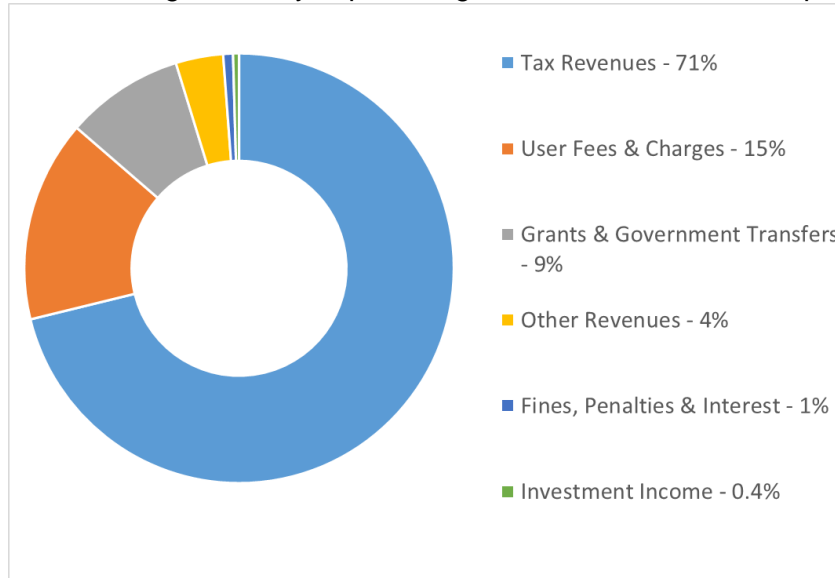
External Funding Description	2021 Budget (\$)
Grant - Kemptville Library	478,115
Community Budget Requests	125,000
CVA - Rideau Valley Consn Authority	104,000
ACCESSIBLE Transit	101,000
Kemptville HOSPITAL - Capital Contribution	100,000

Utilities – 2021 \$0.7M 2020 \$0.7M Increase: None

Utility costs represent 3% of the Municipality's expenses. They are reviewed and adjusted to reflect planned cost for 2021, taking into consideration previous years' actual costs and inflation where appropriate.

DRAFT Revenues

The following summary explains significant revenues in the Operating Budget.



Tax Revenues – 2021 \$16M 2020 \$16M Increase: None

\$16 million in property taxes represents the most significant source of funding for the municipality, generating 71% of the operating budget revenues. This includes \$447K in assessment growth based on analysis of supplementary tax billings issued in 2020 and closed-roll assessment information provided by Municipal Property and Assessment Corporation (MPAC) at the end of the year.

User Fees & Charges – 2021 \$3.4M 2020 \$2.3M Increase: \$1.1M

At \$3.4 million, user fees and charges represent 15% of the total operating budget revenues. These revenues reduce the amount of programming costs subsidized through property tax.

User fees and charges are reviewed annually as part of the budget process. Inflationary adjustments are made to fees directly linked to specific program costs that operate on a full cost recovery basis. Other fee increases are determined after comparing rates to those charged by other municipalities with similar operations and services.

Investment Income – 2021 \$0.1M 2020 \$0.1M Increase: None

Investment income totaling \$100,000 represents 0.4% of operating budget revenues. The most significant portion of investment income is derived from the Municipality's operating investment portfolio.

Fines, Penalties & Interest – 2021 \$0.2M 2020 \$0.4M Decrease: \$0.2M

A total of \$166K in fines, penalties and interest make up 1% of the operating budget revenues. These are additional revenues that are used to lower the property taxes raised on the tax-supported operating budget. Most of this revenue is from parking enforcement and penalties and interest on taxation revenue. This has been toned down for 2021 due to the pandemic when compared with prior years. Applications for interest and penalties forgiveness were received, reviewed, and approved in 2020 and more are still being reviewed on a case-by-case basis.

Grants and Government Transfers – 2021 \$2.0M 2020 \$2.2M Decrease: \$0.2M

The Municipality of North Grenville receives grants and government transfers in the amount of \$1.9 million which represents 9% of the total operating budget revenues. The Province of Ontario is in the process of phasing out Ontario Municipal Partnership Fund (OMPF) grant funding for municipalities. The Municipality has received notification regarding the 2021 provincial grant allocations which is a funding of \$1.029 million. The Municipality also receives \$950K in provincial funding for the Gas Tax, OCIF, Waste diversion & RED provincial programs.

Other Revenues – 2021 \$0.5M 2020 \$0.5M Increase: None

Other revenues represent 3% of the total operating budget revenues and include lease agreement revenues and other contributions for a total amount of \$803K.

COVID-19 Impact – 2021

The impact of COVID-19 will continue to create uncertainty through much of 2021. Management has considered the effects of decreased user fees and increased product and service costs when developing the draft budget. In December 2020, the Municipality applied for, and was awarded, \$987,000 from the Ministry of Municipal Affairs and Housing Phase 2 ReStart Funding. This funding is to help with COVID-related operating pressures. \$87,000 is specific funding for 2021. Any unapplied funds in 2020 will be available for use in 2021.

DRAFT Capital Budget Highlights – 2021 \$9.9M 2020 \$8.1M Increase: \$1.8M

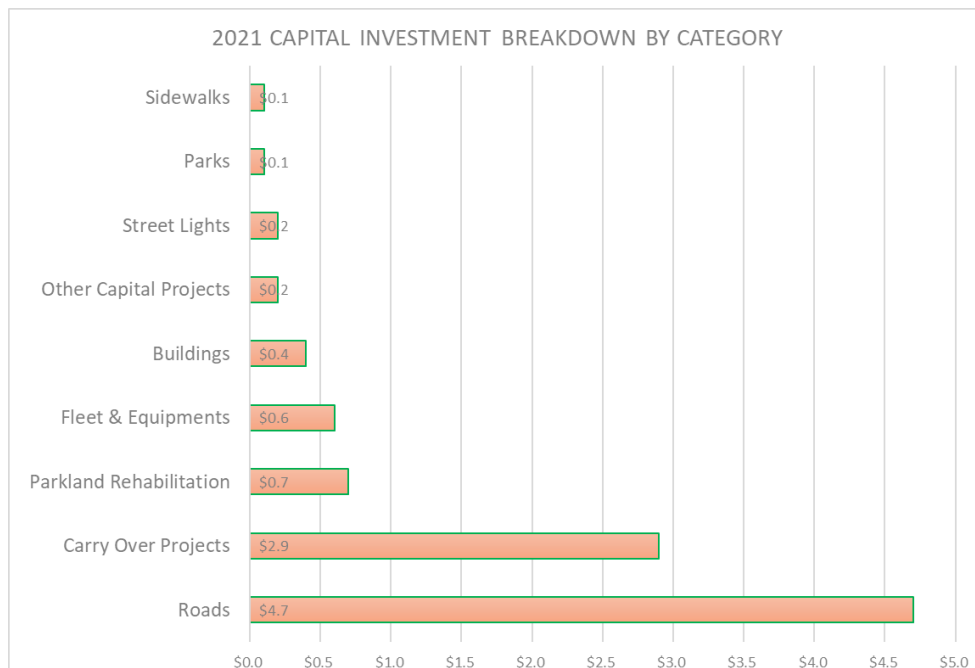
As outlined in the CAO report to Council in September 2020, COVID-19 introduced restrictions and limitations on our operations due to the declaration of a state of emergency and direction from the Province. This significantly impacted the provision of some services and resulted in delays of municipal capital projects. Management recommended several risk mitigation steps including delaying the following specific capital projects:

Exterior Lights	17,600
Tanker #1	410,000
Wellington Rd Reserve	100,000
Defer 2 Half Tons	90,000
Engineering Development Fees	35,000
Spatial Analysis	110,000
Armoury Change of Use	150,000
Maplewood Soffit, Eave and Coppula repair	24,190
Maplewood Concrete Repairs	10,000
Maplewood Steel Railing	5,000
Rotary Park - Retaining Wall Repair	14,940
	966,730

This proactive approach, supported by Council, allowed the Municipality to bear the impact of COVID-19.

Management will be developing a new capital planning process which will be introduced in 2021. The new planning process will be structured to comply with Bill 588 and be designed to increase the accountability and transparency of our business planning and budget process.

The total Draft capital budget of \$9.9 million is allocated across the following categories:



The 2021 capital investment plan includes significant investment to support the growth of the Municipality. A large portion of the roads expenditure (\$2.6M) is resulting from the Municipality's 2021 share of the 3-year CR43 expansion (Total direct cost: \$6.8M + related capital expenditures of \$458,000 outlined in the water and wastewater projects section below).

The predominant funding source for growth investments is development charges (DCs). DCs are used to fund projects that support growth and intensification in the Municipality. The Municipality is currently completing a development charge study, with an update to the Municipality's development charge bylaw and rates expected in May 2021.

The draft capital budget includes no additional debt funding however the significant investments in the CR43 expansion and water and wastewater projects will require debt financing in future years. This will be assessed in 2021.

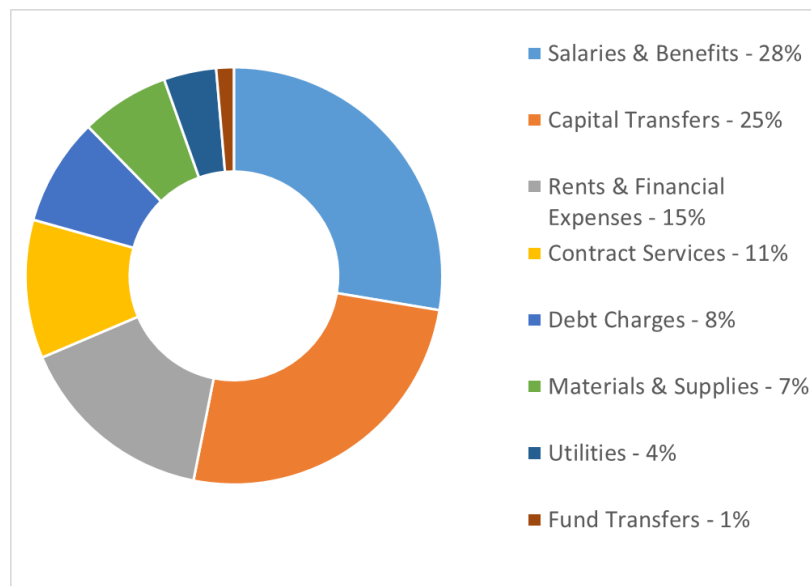
DRAFT Water & Wastewater Budget Highlights – 2021 \$4.5M 2020 \$4.7M Decrease: \$0.2M

The water and wastewater budget determines the Municipality's water and wastewater rates, paid on North Grenville water bills. The budget covers the daily costs of running the water and wastewater utilities, including the processing of clean water and wastewater treatment from the Municipality of North Grenville. It is legislated that Water & Wastewater operating funds must be self-funded. Therefore, the operations and capital funding requirements must come from capital development charges, user fees and specified grants and contributions.

The average annual household water utility bill for 2021, including both water and sewer, is \$1,141.44 based on an average consumption of 144 cubic meters. This represents an annual decrease of \$80.28 or 6.6% over 2020. Of this, 30.25% is for the treatment and distribution of water and 69.75% is for the collection and treatment of sewer by the Municipality of North Grenville. This cost is passed down through the Municipality's water bill. The municipality bills every two months which translates into a or a charge of \$190.24 for 24 cubic meters every billing cycle resulting in an average bi-monthly bill decrease of \$13.38.

The 2021 water utility operating budget includes gross expenditures of \$4,530,700. The budget is balanced so that revenues equal expenses as required through provincial legislation.

Operating Expenses – 2021 \$4.5M 2020 \$4.7M Decrease: \$0.2M



DRAFT Operating Costs (Excluding Capital Transfer, Contract Services and Debt Charges) 2021 \$2.5M 2020 \$2.1M Increase: \$0.4M

Operating costs are primarily to support the ongoing operation, maintenance and repairs of the Municipality's water and wastewater infrastructure. Significant operating costs in the water & wastewater budget include:

- Salaries and benefits (28% of expenses)
- Rents and financial expenses (15% of water utility expenses)
- Materials and supplies (7% of expenses)
- Utilities (4% of expenses)

Capital Transfers – 2020 \$1.2M 2021 \$1.2M Increase: None

A portion of water utility bills is used to support major rehabilitation and replacement of water and wastewater infrastructure, represented by the fund transfers expense category (25% of expenses). These transfers are based on the water and wastewater long-range financial plan, with the objective of full sustainability. The transfers are used for the water and wastewater capital investment plan in the Municipality's capital budget. Transfer to reserves declines significantly in 2022 and 2023 due to the large capital project requirements discussed above.

Contract Services – 2020 \$0.5M 2021 \$0.5M Increase: None

Contract services represent 11% of expenses. Contract services include water and wastewater engineering and design as well as meter reading and professional services in the water and wastewater planning and maintenance program.

Debt Charges - 2020 \$0.4M 2021 \$0.4M Increase: None

The Municipality's decision to debt finance balances several key considerations when determining whether projects should be funded from a pay-as-you-go approach versus debt financing. These considerations include:

- The opportunity cost of using resources that could be deployed elsewhere
- The requirement to manage, maintain and develop infrastructure over time
- The cost and timing of capital investment
- Applicability of benefits to future taxpayers requiring current investment with repayment through debt financing

The water & wastewater debt payments for 2021 are for the following approved capital projects:

PROJECT YEAR	PROJECT DESCRIPTION	DEBT PAYMENTS
2011	East Quad – Installation of Sanitary Sewer	\$194,290
2011	<u>Kernahan</u> – Phase 2 expansion of reservoir	49,233
2017	Digester – rehabilitation at sewage plant.	68,389
2017	Water Main Looping – CR 19 & 24	65,944
	TOTAL 2021 DEBT PAYMENTS	\$377,856

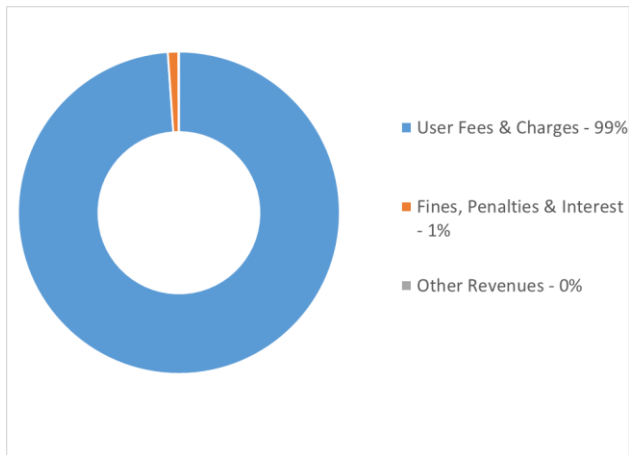
Major development projects are funded projects that MNG collects through development charges (DC's). Our model of 'growth pays for growth' does not expect existing users to pay for future capital expansion.

Revenues - 2021 \$4.5M 2020 \$4.7M Decrease: \$0.2M

The Municipal water and wastewater services do not rely on municipal property taxes. The Municipality does charge user fees for use of these systems to remain sustainable. New water and wastewater rates were approved by Council in 2020 to ensure the full cost recovery of the water and wastewater systems. The Municipality charges a "single combined" charge for water and wastewater services. This charge includes a monthly base charge with an additional consumptive charge. The base charge is differentiated by meter size and the consumptive charge is structured with an increasing block rate.

The operating budget is funded through the following sources:

- User fees
- Penalties and interest
- Transfers from reserve funds



User fees represent 99% of the funding, paid through the water utility bill and other fees charged on a cost recovery basis for services.

Fines, penalties, and interest are charged on overdue payments represent 1% of total funding. A portion of the water bill is used for reserve funds for sustainable planning on the Municipality's water and wastewater assets. Future budget years include a draw of \$289,000 from the water and wastewater reserve funds. This future requirement will be reassessed in 2021.

WPCP Expansion \$2.6M

The MNG Environmental Study Report outlined a 2-stage development process for expansion of the WPCP. The first phase would occur from 2020 to 2023. Phase 1 was to provide equalization storage and attenuate peak flows with a cost of approximately \$20.7 million. The second stage will take place between 2025 and 2028 and provide increased treatment capacity for the 20-year outlook of the study. The cost for the second phase is estimated to be approximately \$9.5 million. This project is eligible to be paid for through development charges, however, alternate funding through debt financing will be required to support this project until sufficient development charges are collected.

Based on increased development within the urban service area, capacity at the WPCP has become limited leading to a capacity allocation process for all new development. Managing development has caused for interest to complete the expansion as one phase to speed up the timeline for additional treatment capacity. It would also provide some cost savings by not having two separate tender and construction contracts.

Preliminary and detailed design for all expansion work was awarded to JL Richards & Associates for approximately \$1.0 million between 2020 and 2021. We are currently completing the preliminary design. It is anticipated to have a detailed design and tender completed in Fall 2021.

County Road 43 - \$0.5M

The impact on the Water and Wastewater 2021 budget from the CR43 expansion is \$457,868 consisting of:

- CR 43 Bridge Crossing - \$338,455
- CR 43 Piping - \$119,413

Strategic Alignment

Strategic Focus Area 3: Collaborative Leadership (Goal 4: Fiscal Responsibility)

- Outcome: Responsibly manage the resources and tax base of North Grenville in a transparent manner.

COMMENTS

None.

EXISTING POLICY/BY-LAW

Municipal Act, 2001, s.290 which requires the passage of a yearly budget

By-Law 106-16 – Budget & Financial Controls Policy By-Law

FINANCIAL IMPACT

This item has been identified in the current budget: Yes ☐ No ☐ N/A ☒

This item is within the budgeted amount: Yes ☐ No ☐ N/A ☒

Staffing implications, as they relate to implementing Council's decision on this matter, are limited to the existing staff complement and applicable administrative policies as approved by Council.

PUBLIC INPUT

Public input will be requested through community engagement on January 27th and 28th, 2021

INTERNAL/EXTERNAL CONSULTATION

Management engaged in budgeting and planning program beginning in September 2020.

CONCLUSION

Management requests that Council receive the DRAFT recommended Budget for community input on January 27th and 28th, 2021.

SIGNATURE

Prepared by:

Name: Brad Brookman

Title: Director of Finance/Treasurer

Submitted for

Council consideration by:

Name: Gary Dyke

Title: Chief Administrative Officer

ATTACHMENTS

- 2021 Draft Budget Tables