
To: Mayor Watters and Members of Council

Report: COR2024-27

Prepared By: Adam McNabb, Managing Director of
Corporate Services & Treasurer

Date: 10 Jun 2024

RE: 2025 Budget Directions

Recommendation:

THAT the Council of the Township of Centre Wellington receive report COR2024-27 dated June 10, 2024 as information.

AND THAT the following direction be provided to staff in the preparation of the 2025 Draft Budget:

1: Maintain a 2025 tax rate increase equal to or less than 4.5% excluding asset and termite management allocations.

2: That staff institute an increase equivalent to a 2% increase in taxation during the 2025 Draft Budget process to generate the required funds to mitigate the funding gap within specific asset types identified in the Township's 2022 Asset Management Plan.

3: That staff institute an increase of \$88,500 to the total levy requirement for the 2025 Draft Budget process to generate the funds required to ensure sufficient Termite Management program funding.

4: Assume 2025 assessment growth equal to 2.5%, to be used to fund budget increases considered to be growth in nature, with assessment growth figures to be updated in November, when received.

5: Increase fees and charges for 2025 by 4.5%, other than where pressure on rates indicates an alternate rate change.

6: Maintain a 3-year funding average of approximately \$1,900,000 in growth related capital projects to be funded by development charges within the Draft Ten Year Capital Forecast.

7: Allocate the following funding to the Draft Capital Budget:

- *\$7,870,000 in combined General Capital Reserve, Canada Community-Building Fund (CCBF), OLG Funds, and Ontario Community Infrastructure Fund (OCIF).*
- *An increase in funding to the tax supported Equipment, Vehicle, and Facility Replacement Reserves to support budgetary needs.*

8: That Council approve the proposed 2025 Budget Schedule.

Summary:

The purpose of this report is to seek Council's direction on the preparation of the Draft 2025 Budget.

Report:

This report has been prepared in sections, with each section outlining an area that staff would like direction from Council on before the 2025 Draft Budget preparation begins. At the bottom of each section there is a staff recommended resolution to be considered by Council. These resolutions have been summarized within the overall report resolution section above.

Inflation

Attachment A to this report outlines historical changes in the Consumer Price Index (CPI) and Non-Residential Building Construction Price Index (NRBCPI). CPI traditionally outlines the increase in costs determined to be more operational in nature. NRBCPI outlines the increase in costs that are more capital in nature. NRBCPI is used by municipalities in Ontario to index development charge fees on an annual basis.

Attachment A illustrates the current year over year increase for CPI of 2.7%, implying that operating related costs incurred now would cost 2.7% more than a year ago. Similarly for NRBCPI, the year over year change of 7.5% implies that capital costs incurred now would cost 7.5% more than a year ago.

The Township's tax supported operating budget includes costs that are operating in nature (most costs), costs that are capital in nature (such as transfers to capital reserves), and costs that are not impacted by inflation (such as debt payments).

As shown in Attachment A, the calculated weighted index for tax supported operating budget purposes is 4.1%. This is a high level analysis, as the Township does have costs deemed operating in nature that change at rates much different than CPI, such as insurance fees.

This indicates that, in the absence of growth, the Township's 2025 tax supported operating budget would have to increase by 4.1% in order to maintain 2024 spending levels.

The following points are also important to consider:

- At the time of writing this report, inflation continues to fluctuate. It is likely that 2025 Township operating costs will stabilize between 2% and 3% for 2025 barring any anomalous economic impacts.
- Two additional alternatives have been provided in Attachment A, using the 3 month and 6 month average CPI increases, which shifts the weighted index to 4.0% and 4.2% respectively.
- Passing a budget with an increase that is lower than the weighted index results in inflationary increases being absorbed within existing funding levels, potentially leading to reduced service levels.
- Passage of budgets with taxation increases substantially less than inflationary pressures will have detrimental impacts to levels of service for residents as costs pressures are absorbed in approved budgets, reducing overall funding available for service provision.

For the capital budget, costs are projected to be 7.5% higher in 2025 in comparison to 2024. However, staff's approach in establishing the draft Capital Budget is to have detailed estimates completed on most significant capital projects in 2024, so that cost projections are more accurate and based on market values.

The CPI and NRBCPI increases will be updated as new information is released by Statistics Canada throughout the year.

Recommended Resolution: Maintain a 2025 tax rate increase equal to or less than 4.5% excluding asset and termite management allocations..

Other Commitments of Council

Asset Management Planning

As part of the 2022 Asset Management Plan update, Council of the day had endorsed the recommendation that an annual increase be included in future budgets equivalent to a 2% increase to taxation to mitigate the funding gap within specific asset types. This increase was only partially included as part of the 2024 budget as the Township attempted to reduce tax rate increase implications. For 2025, staff are recommending the implementation of the 2% contribution which, net of the anticipated growth contribution to asset management planning, would equate to a tax levy increase on existing residents of 1.375%, or approximately \$263,365. The residual .625% would be funded through a 25% contribution of assessment growth dedicated to asset management initiatives or \$119,711.

Staff are recommending that these funds be made available for contributions to both the General Capital Reserve, and the Replacement reserves as required through the 2025 Draft Budget preparation process.

Recommended Resolution: That staff maintain an increase equivalent to a 2% increase in taxation during the 2025 Draft Budget process to generate the required funds to mitigate the funding gap within specific asset types identified in the Township's 2022 Asset Management Plan.

Termite Management

As part of the 2024 budget deliberation process staff had recommended a termite management program funding allocation of \$240,000; however, part of this proposed increase was offset by a contribution from the OLG allocation to the Economic Development Reserve (\$88,500) to further reduce tax rate increase implications as part of the budget deliberation process. Staff are now recommending that the \$88,500 be reinstated as a contribution from the tax levy requirement for 2025 to ensure appropriate program funding is in place for future years.

Termite Management Program Commitment - \$88,500

Recommended Resolution: That staff instate an increase of \$88,500 to the total levy requirement for the 2025 Draft Budget process to generate the funds required to ensure sufficient Termite Management program funding.

Assessment Growth

Over the past decade the Township has seen numerous new residential and commercial developments which have led to a significant increase in:

- The kilometers of roads, sidewalk, water and wastewater pipes, and the expansion of wastewater treatment facilities and water supply;
- The hectares of open space, storm water management facilities, and the number of sports fields and playgrounds;
- Users for programs and services, including the Victoria Park Seniors Centre, Fire, and recreation related (i.e. swimming);
- Processing of property taxation, by-law enforcement, procurement activities, administration, and customer service requirements; and
- The regulated reporting the Township provides to upper levels of government.

All of these new assets, processing, and reporting requirements need to be maintained and managed. The Township has also experienced a number of Provincial downloads and the introduction of new legislation and regulations. This is expected to continue in the future.

During this same time-frame the Township has seen an increase in assessment growth which is positive, however since 2009 this has been offset by decreases to our OMPF funding.

As the Township continues to grow, existing levels of services and programs will also need to grow to meet the needs of the community and to ensure various Provincial and Federal legislation and regulations are complied with. In addition, there are services and programs which the Township does not currently provide which will need to be explored.

Staff recommend that draft budget preparations proceed with an estimated assessment growth target of 2.5% (approximates the average assessment growth for the 2011 to 2024 budget years). Once actual assessment growth becomes known in early November, the Draft Budget will be adjusted accordingly. Staff also recommend that the growth estimate of 2.5% be applied to proposed increases to the budget that are considered growth in nature. This approach ensures that growth pays for growth.

Using 2.5% for assessment growth, the base taxation levy for 2025 becomes approximately \$19,153,776 making a 1% increase in taxation equal to a \$191,538 increase in taxation levy.

Worth noting here is, similar to past Township budgets, an allocation will be utilized in the budgeting process that will allocate the assessment growth as follows:

- 50% of assessment growth will be used to fund the tax supported staffing strategy
- 25% of assessment growth will be directed to asset management funding needs (as mentioned above)
- 25% of assessment growth is directed to operations to offset costs associated with the operational impacts of growth

Recommended Resolution: Assume assessment growth equal to 2.5%, to be used to fund budget increases considered to be growth in nature, with assessment growth figures to be updated in November, when received.

Fees & Charges

The Township's Fees and Charges By-law is updated each year in conjunction with the annual budget process. The fees and charges rate increases play a significant role in determining budget estimates for revenues in each department, especially within parks and recreation service areas.

Generally, fees and charges increase at rates close to inflation. In some circumstances, staff recommend deviations from this, due to pressure to either increase rates further or to keep rates more constant due to competitiveness and/or affordability.

Staff propose that the 2025 fees and charges be increased based on the weighted index described in section 1 above. This index recognizes that there is a capital component to the Township's operating budgets. Also, increasing fees and charges at a rate equal to the operating budget increase ensures the tax subsidization that is currently funding a portion of these user fee programs does not increase.

As with previous years, staff would identify where pressure on rates suggests a rate change other than the weighted index.

Recommended Resolution: Increase fees and charges for 2025 by 4.5% other than where pressure on rates indicates an alternate rate change.

Ontario Community Infrastructure Funding (OCIF)

The Township's bridges and major culvert (i.e. structures) budget and forecast is funded from a dedicated capital levy as well as a fixed amount of the Township's allocation of Ontario Community Infrastructure Funding (OCIF), provided by the province (\$1,271,559), the residual amount of OCIF funding is made available for other tax supported infrastructure needs.

As of early June 2024, the Province had not released information on 2025 OCIF funding levels. Historical OCIF funding is provided in Attachment B to this report. As shown, there has been significant change in the Township's OCIF funding since 2021, with the funding envelope for this funding stream having doubled in 2022, but subject to a 15% contraction in 2024 with the introduction of a new calculation methodology.

Staff will assume that 2025 OCIF funding levels will remain consistent with 2024 funding levels (\$2,537,662). When more information is known, it will be communicated to Council in future budget meetings.

Recommended Resolution: No resolution provided. This is provided for Council's information.

Development Charges

Development charges (DC) represent a significant source of funding for the annual capital budget. In the 2024 Budget, DCs represented approximately 12% of capital budget funding. The Township is limited from a cash flow perspective when planning to use DC funding annually.

For the 2024 Capital Budget (and future years in the 2024 capital forecast), an approximate target DC funding amount of \$1.9 million based on a 3-year average was used unless planned agreements with developers provided an acceleration of DC funding for specific projects. This was determined based on anticipated DC proceeds received from developers annually (based on projected development), as well as the projected use of DCs to fund growth related debt.

When DC cash flow is a problem in funding capital projects, a municipality has the ability to either defer growth related capital projects or incur debt to fund these projects. The DC Act allows municipalities to use DCs to fund growth related debt (principal and interest) payments.

It is still too early in the year to project the actual DCs collected from growth in 2024. Staff recommend that the preparation of the 2025 Ten Year Capital Forecast is completed assuming a 3-year average of DCs available of approximately \$1,900,000. The following supports this estimate:

- Growth appears to be continuing; and
- The DC reserve fund balance remained stable in 2023 having declined by only \$130,000.

Recommended Resolution: Maintain a 3-year funding average of approximately \$1,900,000 in growth related capital projects to be funded by development charges within the Draft Ten Year Capital Forecast (unless planned agreements with developers provides for an acceleration of DC funding for specific projects).

Capital Funding

Preliminary funding for the tax supported capital budget can be subdivided into four main sources of funding: Equipment/Vehicle/Facility Replacement Reserve funding, General Capital Reserve, CCBF, OLG funds, and as of 2023, a contribution from the Ontario Community Infrastructure Fund (OCIF) funding. This excludes other tax supported capital items such as bridges and major culverts as they are funded from the residual OCIF funds available, and the Dedicated Capital Levy.

Equipment, Vehicle, and Facility Replacement Funding from the Operating Budget

The majority of funding for the equipment, vehicle, and facility replacement schedules included in the budget comes from the vehicle, equipment, and facility replacement reserves. These reserves are funded annually through contributions from the operating budget.

Based on the 2024 approved budget, contributions from the tax supported operating budget to equipment, vehicle, and facility replacement reserves will require an increase again in 2025 as these items continue to be heavily impacted by supply and inflationary factors. As part of the annual budget work, staff will be reviewing the equipment, vehicle, and facility replacement requirements for 2025 and beyond to finalize the required 2025 tax supported operating contribution.

General Capital Reserve

The General Capital Reserve balance available for the 2025 budget consists of two main sources:

- The existing balance in the reserve as follows:

Existing Balance	\$2,227,000
Less: Minimum Balance	(\$1,250,000)
Total	\$977,000

- A \$1,023,000 contribution from the tax supported operating budget to the General Capital Reserve that is currently included in the 2025 base tax levy (inclusive of the asset management contribution instated in 2024).

Therefore the total amount potentially available to fund the 2025 tax supported capital budget from the General Capital Reserve is \$2,000,000, and staff recommend that these funds be included as a source of funding for the 2025 Draft Capital Budget. Also worth noting is that a contribution from the capital levy proposed as part of the recommendations stemming from the Township's 2022 Asset Management Plan, and subsequently endorsed by Council of the day, is also being contemplated as part of this direction setting process.

Canada Community-Building Fund (CCBF)

The estimated amount of CCBF funding available is approximately \$1,770,000. This is comprised of the following amounts:

- The 2025 allocation per the Municipal Funding Agreement with the Association of Municipalities Ontario (AMO), and
- Unused CCBF funds available due to cancelled projects, and favorable variances from completed CCBF funded capital projects, and interest earned on the reserve funds totalling approximately \$751,700.

Staff recommend that \$1,770,000 of CCBF funding be included as a source of funding for the 2025 Draft Capital Budget.

OLG Funds

OLG funds for use in the 2025 Budget come from proceeds received during the 2024 calendar year. As part of the 2024 Budget, Council approved an OLG Proceeds Allocation Policy that distributes these funds as follows:

- Township Capital (90%);
- Community Impact Grant (4%);
- Economic Development (3%); and
- Heritage (3%).

Staff's current high-level estimate of 2024 OLG proceeds is as follows:

1st quarter - actual received	\$ 667,741
2nd quarter	\$ 780,000
3rd quarter	\$ 800,000
4th quarter	\$ 652,259
Total	\$2,900,000

For reference, the OLG Funds received in recent past are as follows:

2018: 2,353,150
2019: 2,740,529
2020: 820,015
2021: 1,205,365
2022: 2,790,022
2023: 2,990,430

As more information on OLG proceeds is known, the estimated 2024 OLG proceeds will be updated.

In addition to 2024 OLG proceeds, there are other OLG funds available for use in the 2025 Budget that were unused in prior years. Combining the current OLG Proceeds Allocation Policy, the estimated 2024 OLG proceeds, and the unused OLG funds from prior year, the following distribution is provided:

	2024 Proceeds	Unused	Total
Township Capital	\$2,610,000	\$ 220,900	\$2,830,900
Community Impact Grants	\$ 116,000	\$ 56,800	\$ 172,800
Heritage	\$ 87,000	\$ 94,300	\$ 181,300
Economic Development	\$ 87,000	-	\$ 87,000
Total	\$2,900,000	\$372,000	\$3,272,000

The unused portion of funds is already committed to each category and is sitting in applicable reserve funds for use.

For initial 2025 Budget preparations, staff recommend that \$2,800,000 of OLG funds be included as a source of funding for Township capital projects in the 2025 Draft Budget, and that staff bring a subsequent report in the fall to review the forward looking allocation policy.

Bridges and Major Culverts

As previously mentioned, the Township's bridges and major culvert (i.e. structures) budget and forecast is funded from a dedicated capital levy as well as a fixed amount of the Township's allocation of Ontario Community Infrastructure Funding (OCIF), provided by the province (\$1,271,559).

For the purposes of the 2025 Draft Budget, the following funds will be dedicated for utilization in the Township's bridge and major culvert plan:

Dedicated Capital Levy - \$1,658,173
OCIF - \$1,271,559

Summary of Funds

The sum of the above recommended amounts for funding the 2025 Tax Supported Capital Budget (excluding bridges and culverts) totals \$7,870,000 and is summarized below (with 3 prior years of actual funding for comparison purposes):

	2025 Prelim	2024 Actual	2023 Actual	2022 Actual
General Capital Reserve	\$2,000,000	\$2,287,649	\$1,089,550	\$2,135,650
CCBF	\$1,770,000	\$1,070,000	\$1,145,000	\$1,886,500
OLG Funds	\$2,800,000	\$2,954,000	\$2,200,000	\$1,077,900
OCIF	\$1,300,000	\$1,701,000	\$2,961,000	\$0
Total	\$7,870,000	\$8,012,649	\$7,395,550	\$5,100,050

In addition, an increase is recommended for the tax supported equipment, vehicle, and facility replacement reserve schedules (from the operating budget), which will be refined and confirmed through the creation of the 2025 Draft Budget.

2025 Budget Timeline

A budget timeline has been developed by staff for the 2025 budget process. Please refer to Attachment C to this report.

The objectives of the proposed schedule are to:

- Seek budget approval from Council before the end of 2024. This allows the procurement process for 2025 budget items to begin early in January 2025, which provides a competitive advantage in seeking bids on tenders, proposals and quotations;
- Provide members of Council opportunities early in the process to provide overall direction on the budget as a whole as well as key impact areas;
- Allow for sufficient public consultation; and
- Provide opportunity for Fall 2024 tendering to both inform the 2025 Budget, and potentially leverage vendor capacity, and advantageous market pricing.

Key aspects of the proposed schedule:

Budget Directions Report & Discussion (June 10, 2024)

This meeting allows for discussion between Council and Township staff regarding the overall direction of the 2025 Budget. Resolutions passed by Council will be used as a basis for initiating the budget creation process.

Preliminary Capital Budget Review (September 19, 2024)

This meeting provides Council with a preliminary look at the 2025 Draft Capital Budget, and seeks Council's pre-approval for items in the 2025 Draft Capital Budget earmarked

for Fall 2024 tendering. Any direction provided by Council will be used to finalize the Draft Capital Budget and initiate the 10-year capital forecast.

Public Input through Connect CW (October 1 to 31, 2024)

Public input is proposed to be requested from the public via Connect CW from October 1, 2024 to October 31, 2024. The purpose is to seek public input on key areas within the 2025 Budget. Public input will be used in developing the Draft Budget.

Budget Impacts Report & Discussion (November 5, 2024)

This meeting allows for a more detailed discussion between Council and Township staff regarding key/significant impact areas affecting the 2025 Budget (based on what is known as of late September 2024). Resolutions passed by Council will be used in developing and further refining the Draft Budget. In addition, budget delegations will be heard at this meeting, allowing members of the public to provide comments on budget development.

Budget Deliberations (December 3, and 5, 2024)

The Draft Budget Book is proposed to be released to Council and members of the public on November 22, 2024. Budget deliberations are proposed for December 3, 2024, December 5, 2024 (if needed). Budget delegations will be heard at the December 3rd meeting, allowing for comments from members of the public on the Draft Budget.

Budget Approval (December 16, 2024)

Budget approval is proposed for the Council meeting on December 16, 2024.

Recommended Resolution: *That Council approve the proposed 2025 Budget Timeline.*

Financial Implications:

The financial impacts of the 2025 Budget will be determined at a later date.

Consultation:

This report was prepared in consultation with:

- Township Senior Management Team
- Mark Bradey, Manager of Finance & Deputy Treasurer

Attachments:

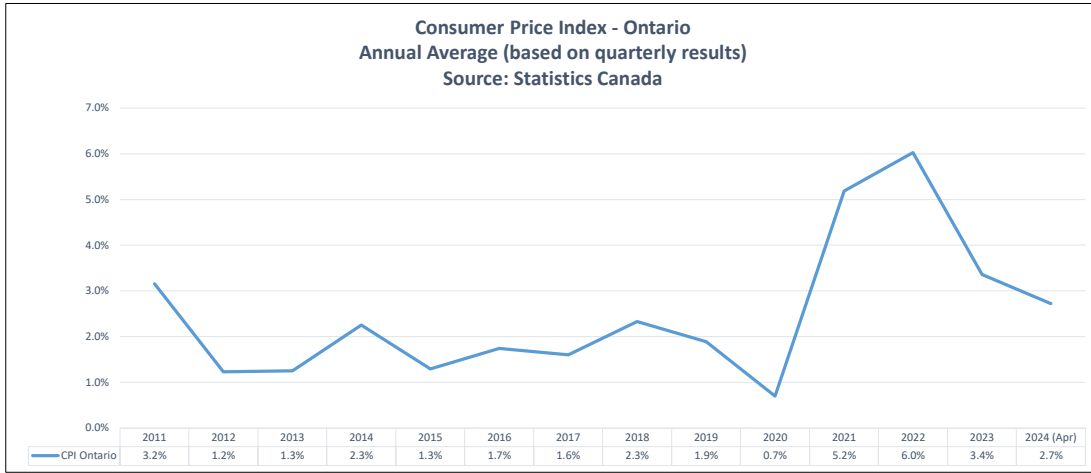
- [Attachment A - Inflation](#)
- [Attachment B - Historical OCIF Funding](#)
- [Attachment C - Proposed 2025 Budget Timeline](#)

Approved By:

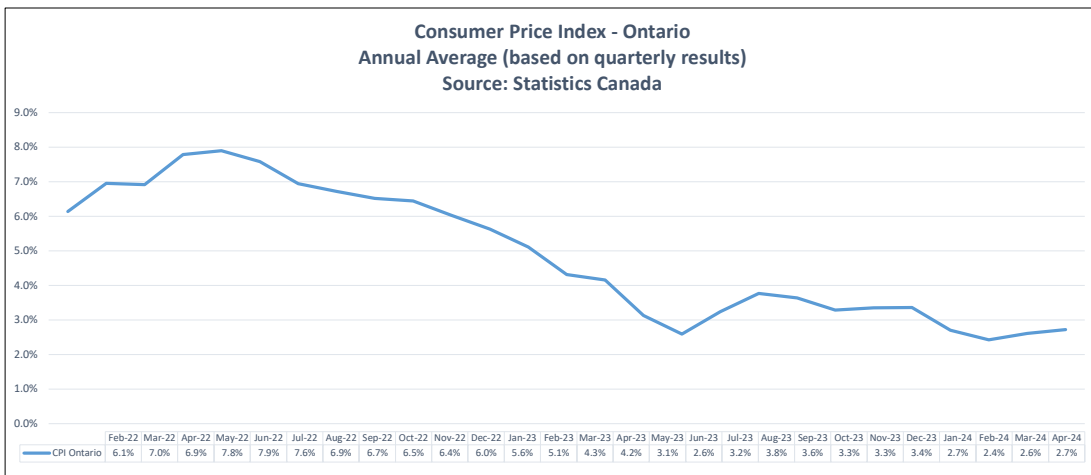
Dan Wilson, Chief Administrative Officer

Attachment A - Inflation Tables

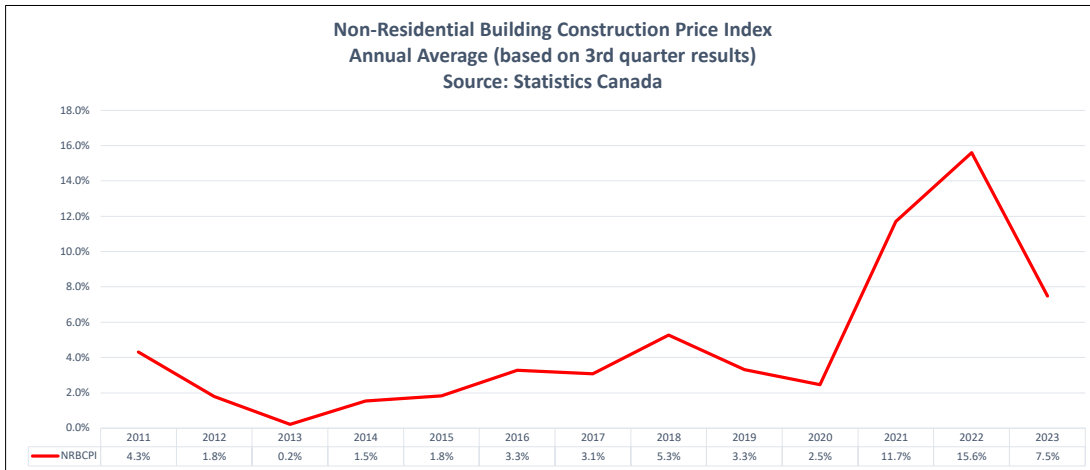
Graph 1: Year Over Year Change in CPI Annually



Graph 2: Year Over Year Change in CPI Monthly



Graph 3: Year Over Year Change in NRBCPI Annually



* 2023 NRBCPI Year Over Year at January 2023

Table 1: Township Weighted Budget Index

Revised Based on 3 Month Average CPI of 2.6%

Based on Graph Data

Description	2024 Net Expenditures	Inflation Factor
Operating Costs	\$ 27,127,084	2.7%
Capital Transfers-Internal	5,016,973	7.5%
Capital Transfers-External	6,868,440	7.5%
Debt Payments (net)	323,189	0.0%
Total Net Expenditures	\$ 39,335,686	4.1%

Weighted Index

Description	2024 Net Expenditures	Inflation Factor
Operating Costs	\$ 27,127,084	2.6%
Capital Transfers-Internal	5,016,973	7.5%
Capital Transfers-External	6,868,440	7.5%
Debt Payments (net)	323,189	0.0%
Total Net Expenditures	\$ 39,335,686	4.0%

Revised Based on 6 Month Average CPI of 2.9%

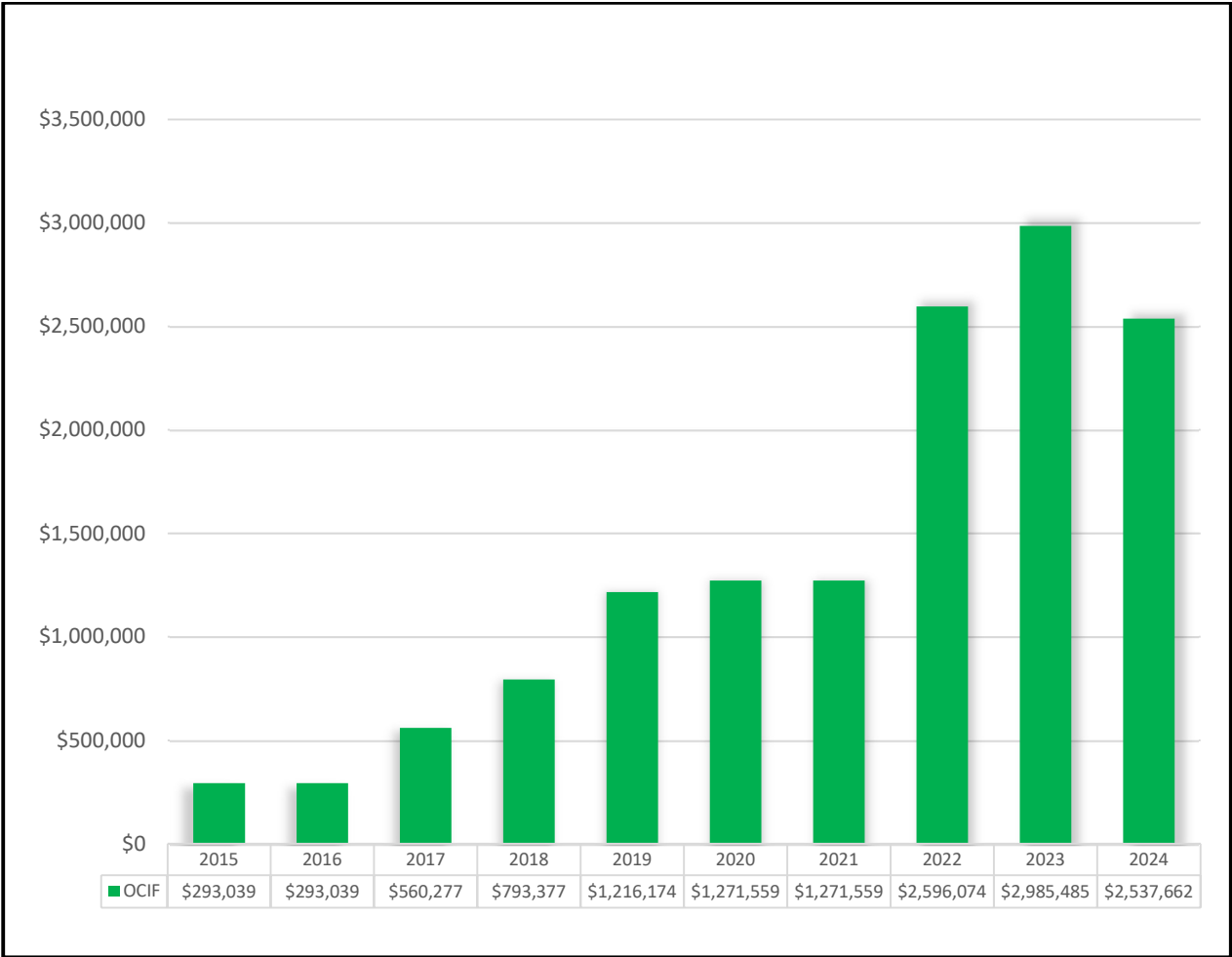
Description	2024 Net Expenditures	Inflation Factor
Operating Costs	\$ 27,127,084	3.5%
Capital Transfers-Internal	5,016,973	7.5%
Capital Transfers-External	6,868,440	7.5%
Debt Payments (net)	323,189	0.0%
Total Net Expenditures	\$ 39,335,686	4.7%

Description	2024 Net Expenditures	Inflation Factor
Operating Costs	\$ 27,127,084	2.9%
Capital Transfers-Internal	5,016,973	7.5%
Capital Transfers-External	6,868,440	7.5%
Debt Payments (net)	323,189	0.0%
Total Net Expenditures	\$ 39,335,686	4.2%

Attachment B

Township of Centre Wellington

Historical OCIF Funding



Attachment C

2025 Budget

Proposed Timeline

Date	Timing	Description
June 10, 2024	Council 1pm	Budget Directions Report & Discussion <i>(includes approval of the 2025 Budget Timeline)</i>
September 19, 2024	Council 2pm	2025 Preliminary Capital Budget Review
October 1, 2024		Public Input Information Released to the Public <i>(through Connect CW)</i>
October 31, 2024		Public Input Information Closes
November 5, 2024	C.O.W. 9am	Budget Impacts Report & Discussion <i>(Budget Delegations after the meeting)</i>
November 22, 2024		Draft 2025 Budget Book Available
December 3 and 5, 2024	C.O.W. 9am	Budget Deliberations <i>(Budget Delegations after the December 3rd meeting)</i>
December 16, 2024	Council 2pm	Budget Approval