THE CORPORATION OF THE TOWN OF GEORGINA

REPORT NO. CS-2018-0046

FOR THE CONSIDERATION OF COUNCIL
DECEMBER 12, 2018

SUBJECT: RELEASE OF 2019 DRAFT OPERATING AND CAPITAL BUDGET AND TEN-YEAR CAPITAL FORECAST

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1. RECOMMENDATION:

1. **That Council receive Report No. CS-2018-0046 prepared by the Corporate Services Department, dated December 12, 2018 respecting Release of the 2019 Draft Operating and Capital Budget and Ten Year Capital Forecast;**

2. **That the Draft 2019 Operating and Capital Budget, Ten Year Capital Forecast, and the Budget Supplementary Information Package be received;**

3. **That Council approve the rental of three sidewalk machines with equipment as described in capital project 19-PRK-1: Fleet Replacements for $120,000 to be funded from the operating budget in account 1-2-1531101-3620.**

2. PURPOSE:

The purpose of this report is to release a draft of the 2019 Operating Budget, Capital Budget and the Ten-Year Capital Forecast. This information is being released in draft, to provide Council and the public with an opportunity to review the material prior to deliberation on January 29, 2019 and final approval on Wednesday, February 13, 2019. Copies of the Draft Budget will be available at the Civic Centre, Library Offices and on the Town's website. January 30, 2019 has also been designated for the continuation of budget deliberation, if needed.

3. EXECUTIVE SUMMARY:

The Draft 2019 Budget proposes a 2.9% tax levy increase for the Town's operating budget, plus an additional discretionary contribution of 1% to capital reserves, in-line with the Long Range Financial Plan recommendations, for a total increase of 3.9% (Town portion). Explanations in this report and the Draft Budget provide a summary of the 2019 Operating Budget, 2019 Capital Budget, the Ten-Year Capital Forecast and cost drivers.

The Draft Operating Budget, currently includes total expenses of $70,498,860 (2018 - $69,380,130), which includes contributions to reserves of $8,652,100 (2018 - $10,209,810). The Draft Operating Budget includes four proposed new permanent full-time positions, two of which are a result of restructuring divisions. The Draft Operating Budget includes four transitional positions, two from temporary full-time to permanent full-time and two from permanent part-time to permanent full-time. Total budgeted salaries at the Town of Georgina, including Georgina Public Libraries, is $33.9 million, which represents 48% of the Town's operating budget. The Town delivers its services using the most efficient use of internal resources, such as salaries, as well as external resources, such as contracted services and consulting.

The 2019 Gross Operating Budget was prepared net of internal divisional revenues. This is a best practice, and for comparative purposes, the 2018 Gross Operating Budget summary was restated in Attachment 2 to be net of internal divisional revenues.

The 2019 Draft Capital Budget is currently $31,841,280, which includes carry forward capital projects of $14,547,930. The budget includes new debt requests of $6,371,000.

4. BACKGROUND:

Council endorsed a process and timetable for the deliberation of the 2019 Operating and Capital Budgets and the Ten-Year Capital Forecast. This schedule identified January 29, 2019 (9:00 a.m.) as a special meeting for budget deliberations and January 30, 2019 (9:00 a.m.), if necessary, with final approval on February 13, 2019 (9:00 a.m.) To allow sufficient time to review and provide feedback on the Draft Budget, staff is releasing copies of the 2019 Draft Budget for Council and public review on December 12, 2018 at 9:00 a.m.

Town management have provided input over the past several months in developing the draft budgets as presented at this time. The process has also involved reviews by the Director of Corporate Services / Treasurer and the Acting CAO.

5. ANALYSIS & OPTIONS:

5.1 General Information

The 2019 Draft Operating Budget currently proposes a 2.9% property tax levy increase, with the option of adding 1% for contribution to capital reserves, for a total proposed increase of 3.9% for the fiscal year 2019. These changes would translate to an average increase of approximately $69 for a 2.9% increase or $89 for a 3.9% increase in property taxes (Town portion only) for a house with an assessed value of $385,810 (new average single-family dwelling assessment for 2019).

The 2019 Operating Budget reflects impacts of assuming a number of new roads, parks, sidewalks, and trails, as well as the base operating costs from 2018. These operational costs are partially funded by the new assessment automatically added to the municipal tax roll. In the fiscal year of 2018, which provides the tax assessment base for 2019 taxation, the Town of Georgina's assessment growth recorded an increase of approximately 1.8% subject to any year-end adjustments from MPAC.

Both the operating and capital budgets reflect the restructuring of Corporate Services based on Council's direction and approval in September 2018 as part of report HR-2018-0003 Executive Resourcing and Re-alignment. The opening base operating budgets for Water and Wastewater have been restated to account for a new, more detailed, general ledger account structure.

5.2 Draft 2019 Capital Budget and the Ten-Year Capital Forecast

The Draft Capital Budget expenditure for new projects in 2019 is approximately $17.3 million ($16.3 million in 2018). The following is the summary of the 2019 Capital Budget funding sources with a 2018 comparison:

Expenditure/Funding Source	Draft 2019 ($)	Final 2018 ($)
Total Capital Expenditure:	17,293,350	16,348,400
Capital Reserves	6,782,190	7,489,350
Federal Gas Tax	2,150,000	1,899,550
Federal/ Provincial Grants	1,382,660	
Development Charges	507,500	27,000
Cash-in-Lieu of Parkland		260,000
Other Revenue	100,000	127,500
Debentures	6,371,000	6,545,000
Total Funding Sources:	17,293,350	16,348,400

Starting last year, there is no longer a direct link of funding capital from the tax levy. Council should be aware that if they were to remove a capital project from the draft budget that is being funded from the Corporate Capital reserve they would have two options:

1. Council could reduce the operating contribution to capital reserves, which would then decrease the tax levy.
2. Council could leave the operating contribution to capital reserves the same, which would not change the tax levy, but it would strengthen the Town's reserves for future capital requirements.

In line with the Town's Tangible Capital Asset Policy, capital requests that are less than $10,000 have been included in the operating budget.

Staff are recommending that the Building Condition Assessment (BCA) capital program be delivered over a two year timespan, with design occurring in year one and construction in year two.

5.2.1 Ten-Year Capital Forecast

The Capital Budget this year reflects a revised Ten-Year Capital Forecast. The primary changes relate to Operations and Infrastructure, which now shows details of which roads will be complete within the next five years and what the BCA's are recommending for maintenance per facility. It should be noted that the Ten-Year Capital Forecast is a fluid document that will change each year to reflect updated priorities, economic conditions, health and safety issues, and efficiencies. An example of an efficiency might be to either move a planned road forward or push it back depending on funding sources for the necessary underground infrastructure improvements or to align the construction with a new development.

As highlighted in the BCA's, the Town currently has a backlog of repairs and maintenance relating to its facilities of $23 million. This backlog is not currently reflected in the Ten-Year-Capital Forecast as each year a prioritization exercise by Operations and Infrastructure staff will need to be completed to see what repairs are considered the most urgent. Staff will consider the following when assessing:

- Physical/Structural Condition – The current structural state of the asset resulting from an interaction of usage, age, maintenance, design and manufacturing quality, initial construction management, and operating environment.
- Operational/Process Condition – The current ability of the asset to meet operational requirements now and in the foreseeable future. Process condition is substantially influenced by required levels of service/asset performance, technical obsolescence, operations and maintenance policies and history, and design effectiveness/process efficiency.

- Reliability – the ability of an asset to perform its required function(s) under stated conditions for a specified period; reliability is often considered as —how frequently an asset fails.
- Availability – the percentage of time that an asset is capable of functioning relative to the time that the user expects it to function (conversely, unavailability is the percentage of time that an asset is not able to do its job); availability is largely a function of the frequency of breakdowns and their duration.
- Maintainability – those characteristics of design and installation, which determine the probability that a failed asset can be restored to its normal operable state within a given timeframe using prescribed practices and procedures. Its two main components are serviceability (ease of conducting scheduled inspections and servicing) and reparability (ease of restoring service after a failure).

Furthermore, asset (project) prioritization for 2019 was determined by a combination of probability of failure (PoF) and the consequence of the failure (CoF) on the following corporate streams:

- Social/Community/Organizational
- Economical/Financial
- Environmental

The Town's Ten-Year Capital Forecast will continue to evolve and become more comprehensive over the next five years because of the Municipal Asset Management Planning Regulation 588/17. The Town must meet the following deadlines that have been mandated by the Province over the next five years.

- July 1, 2019: Strategic Asset Management Policy
- July 1, 2021: Asset Management Plan: Phase 1 (Core Assets)
- July 1, 2023: Asset Management Plan: Phase 2 (All Assets)
- July 1, 2024: Asset Management Plan: Phase 3 (Financial Strategy)

A key financial strategy that Council has endorsed as part of the Town's Long Range Financial Plan (LRFP) is to add a 1% infrastructure levy to go towards capital reserves each year. This is on top of the general operating budget increase. Due to the compounding nature of this strategy, choosing not to increase contributions to reserves in 2019 by 1% of the tax levy or $412,000 will result in a loss of approximately $10,000,000 in infrastructure investments over a 25-year timespan.

The updated gross Ten-Year Capital Forecast is now set at approximately $275 million (2018 - $272 million).

5.2.2 Carry Forward Capital Projects

The 2019 Budget includes previously approved capital projects that will not be complete by the end of 2018. As per the capital carry forward policy, adopted by Council in 2018, all projects will have an automatic approval for carryforward to a maximum of two years. Any projects older than two years (2017 and earlier) will need Council's approval to carry the funds forward. Staff are requesting the funding for the following projects that have exceeded the two-year timeframe, to be carried forward to 2019 for the following reasons:

17-PWK-6: Bridge and Culvert Rehabilitation: Project will be substantially completed by yearend with the final report being received in Q1 of 2019.

17-HAL-11: Backflow Preventers: Unexpected staff turnover during 2018 within the Operations and Infrastructure Department has resulted in a delay in delivery of this project. Staff are confident it can be completed in 2019.

17-REC-1: MURC Design: The MURC is a multi-year deliverable that is expected to be completed in late 2021.

15-ITS-5: Enterprise Resource Planning Software: The ERP implementation is a multi-year deliverable. Staff are requesting to carry the funds forward for 2019 and 2020 to finish off the remaining modules.

17-HR-1: HRIS Implementation: Due to a merger of Central Square and Aptean, there has been a delay in the integration of BambooHR with iCity. Now that the merger is complete, staff are confident that this project will be completed in 2019.

5.2.3 Request to Revise Scope of Current Capital Projects

18-REC-3: Keswick Cenotaph Relocation: The recent relocation of the Keswick Cenotaph to the Stephen Leacock Theatre has created a void at the existing parkette at Church St. and The Queensway. The space serves as a gateway and prominent corner within the BIA, and is due for a makeover. The redesign may include the following improvements; improved lighting, increased openness, enhanced site lines, potential shelter for public events, bands, markets, potential public art/wall murals, improvement of a "tired" public space, design site to "push out" the undesirable activities that currently occur. The actual cost of the Cenotaph relocation resulted in approximately $105,000 of the 2018 budget being unspent. As such, no new capital funding is required. Staff time will be utilized in the design and construction administration. Staff are recommending to carry forward only $80,000 of the remaining funds to complete the revised scope described above.

18-ITS-2: Customer Relationship Management (CRM) Solution: In 2018, a project budget for a CRM software was approved for $100,000. The project was put on hold while the Town completed its first IT Strategic Plan. The IT Strategic Plan is recommending that a fit gap analysis be completed to determine what the needs of the municipality are prior to purchasing this software. This will ensure that the Town does not purchase a system greater than what its needs are. Staff are recommending adjusting the scope of this project to use $25,000 of the $100,000 to go towards the fit gap analysis and then use the remaining $75,000 to implement a hosted solution. The ongoing cost of the hosted solution would be included in the 2020 Operating Budget.

5.2.4 Request to Cancel Capital Projects

During the preparation of the 2019 Draft Budget, staff spent a considerable amount of time doing a comprehensive review of all outstanding capital projects. The result of this review has led staff to recommend cancelling the capital projects listed below. The reason for cancellation is listed below for each project. The recommendation is to cancel the below projects and return the funding to its original source. For projects where the original funding source was tax levy, staff are recommending to transfer the funds to the Tax Rate Stabilization Reserve.

17-PWK-5, 17-HAL-8, 18-HAL-1, 17-SEW-1, 17-WAT-4: Diesel Generators: The scope of this project has been revised and a new business case is being presented in the 2019 Draft Budget to retain an engineer to review and design the recommended works in response to the Town's ten-year fuel tank inspections. Staff will report in the 2020 budget with a new scope.

17-CEM-2: Pond/Pump House Generators: Scope criteria does not meet the needs that were assessed and validated during an onsite investigation. This project is no longer needed.

17-LNK-1: The Link Exterior Sign, Parking Lot Lighting: The scope of this project has been revised and a new business case is being presented in the 2019 Draft Budget.

18-HAL-2: Sutton Seniors AODA: The current facility no longer accommodates the needs of the club. Staff are recommending as part of 19-REC-4 in the 2019 Draft Budget to re-allocate $50,000 of these funds to go towards leasehold improvements at the Link in order to re-locate the Sutton Seniors/ Club 55.

15-ENG-6, 17-REC-2: Maskinonge River Pedestrian Bridge: With the existing shortfall of $980,380 in funding, it is staff's recommendation, at this time, that the Maskinonge River Pedestrian Bridge project initiative be cancelled, until such time there is sufficient funding available to cover all associated costs.

15-ENG-3: Sidewalk Master Plan/Storm Drainage Improvement Study: Change in scope since 2015. A new request, with a revised scope is included in the 2019 Draft Budget.

17-ITS-6: Civic Centre Telephone System Replacement: The replacement of the telephone system will align with the building of the new Civic Centre.

17-TRS-1: Disposal of Unsold Tax Sale Properties: This will be revisited in 2019 as part of the Deputy CAO's business plan. No funding is necessary, as any realtor fees would be net against the proceeds from the property.

5.3 Debt Financing

The 2019 Capital Budget requires an increase of approximately $6.4 million in new debentures as a source of financing. The below terms, interest rates, and payments are estimates based on the updated Long Range Financial Plan, which takes into account interest rates as current as December 2018. It should be noted that interest rate risk does exist, as the Town cannot lock in an interest rate prior to taking out a debenture, which would not occur until substantial completion of the project.

Project	Year of Request	Estimated Year of Debenture	Total Debenture	Term of Debenture (Years)	Interest Rate	Annual Payment
Dalton Road Watermain	2016	Q1 2019	$6.0M	10	3.3%	$708,000
Pefferlaw Fire Station	2017, 2018, 2019	2020	$4.5M	20	3.5%	$315,000
Civic Centre	2018, 2019	2022	$27.0M	30	3.7%	$1,498,000
Link Phase 2 and 3, Parking	2017, 2018, 2019	2020	$2.8M	20	3.5%	$196,000
West Park	2018	2021	$8.0M	30	3.7%	$444,000
Wexford Pump Upgrade	2018, 2019	2020	$2.0M	20	3.5%	$140,000
Sutton (NWSDA) Community Park Design	2018, 2019	2020	$1.7M	10	3.5%	$203,000
MURC	2017, 2019	2022	$37.8M	20	3.5%	$2,644,000

The Town is required to stay within the provinces annual debt repayment limit (ARL) of 25% of net revenues. The Town has its own internal Corporate Debt Management policy, which has an internal limit of 15% of net revenues (see report CAO-2017-0014). Based on the updated LRFP, which accounts for the current projects listed above, as well as updated interest rates, the Town's ARL would hit a maximum of 13% around the year 2022. This is within the Town's internal maximum threshold of 15% and well within the Provinces maximum of 25% for all municipalities. A sensitivity analysis was completed to see what the Town's ARL limit would be if interest rates were to rise by 1% or 2% between now and the time of completion of the above projects. If rates were to rise by 1%, the Town's ARL would rise to 14%. If rates were to rise by 2%, the Town's ARL would rise to 15%. After 2022, the Town's ARL would continue to drop each year as the Town increases its revenues and reduces its reliance on long-term debt by continuing to implement the infrastructure levy of 1% per year to go towards capital reserves to address future infrastructure needs.

Internal borrowings against the Town reserves as of December 31, 2018 amounts to $3,068,730. This is not officially classified as debt as per the financial statements, but is more for financial planning as Council has approved the internal borrowings and the repayment of those borrowings. Below is a summary of the Town's internal borrowings:

- 481 Lake Drive: $472,770 – reserves being paid back by tax levy. Final payment will occur in 2019.
- The Link: $2,595,960 – reserves being paid back by tax levy and Development Charges (DC). Final payment will occur in 2023.

5.4 Long Range Financial Planning (LRFP)

Recap of the original LRFP issued in December 2016:

Council adopted the LRFP in principle in December of 2016. The model is used as a tool to bring together all studies such as the Asset Management Plans, Roads Study, BCA's, Strategic Plans, DC Background study, and to provide a sustainable solution to funding the future needs of the Municipality and to identify any funding gaps that exist.

The LRFP does not include the following items:

- Inflation
- Service level changes/emergency mitigation
- Collective agreement settlements
- Provincial labour law legislation – The impact of Bill 148 for the Town of Georgina in 2018 was close to $500,000.

The LRFP is subject to the following risk factors:

- Growth estimates may not occur at the same rate as forecast (timing of DC receipts)
- Interest rates may rise
- Capital cost estimates are preliminary
- Useful life term of the capital asset is estimated
- Economic downturn or slow down

In most municipalities, there exist a funding gap between what needs to be completed and available funds. A strategy that the LRFP uses to help reduce this funding gap is to contribute 1% of the previous year's total tax levy to capital reserves each year. Staff have made this recommendation in the 2019 Draft Budget. Other ways that the funding gap can be reduced are; modify the capital program, increase debt, delay capital works, property tax increases, or realign service levels.

Updates made to the LRFP during the 2019 Draft Budget

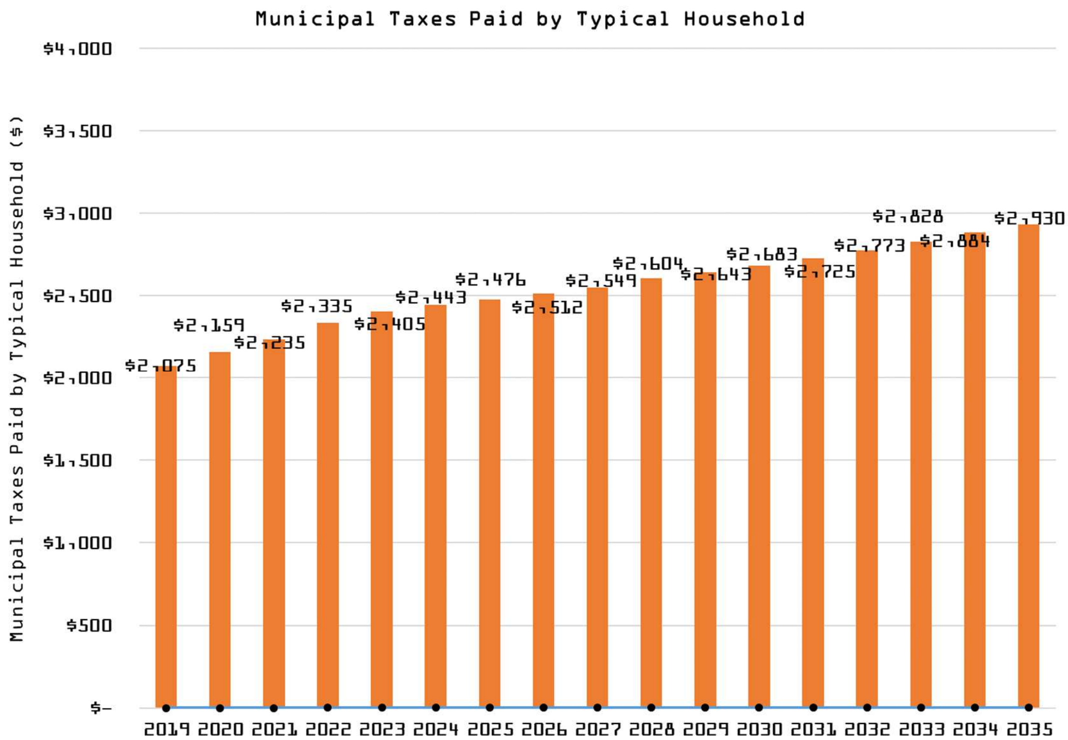
Below is a list of significant updates made to the LRFP since the previous year's budget:

- Interest rates on 30-year loans in December 2018 were 3.4%. Currently they are 3.7%.
- The MURC has been moved from 2020 to 2021 and an escalation factor of 5% per year has been included.
- The cost of the Pefferlaw Fire Station was adjusted to $4.5M.
- The Link renovation was updated from $1.8M to $2.8M to include the current year budget request for parking improvements.

What was the impact of these adjustments on the future tax levy?

In December 2017, as reported in the 2018 Budget, the LRFP forecasted tax levy increases of 3.6% in 2019, 3.7% in 2020, and 4.0% in 2021. The plan is currently showing 4.0% in 2020, 3.5% in 2021, and 4.5% in 2022. The estimate for 2021 has decreased due to the timing of when the long-term debt stated above will be taken out. The above forecast includes the 1% infrastructure levy, but excludes any service level increases. After 2022, the annual forecasted tax levy increase drops to 1.5% to 2.0% for each of the next ten years. The primary driver for the increases over the next three years is due to long-term debt. As forecasted this year, and in the prior year's budget, it will be difficult to deliver a budget in line with inflation over the next 3 years due to rising interest rates.

Updated LRFP forecast of municipal taxes paid by a typical household:



Applying Assessment Growth to Growth Related Expenditures:

Starting in the 2018 Budget, the Town of Georgina changed the way the Operating Budget is reflected. Operating cost drivers are now reflected in separate columns, one of which is Growth. Staff are actively trying to ensure that assessment growth is directly applied to expenditures caused by growth. In 2019, staff are taking a fiscally proactive approach to planning for future growth related operating expenditures. With the approval of the 2016 Development Charge study, two major facilities are planned to be built in the near future that will require significant operating costs as it relates to staffing.

Multi-Use Recreation Centre (MURC)

The estimated opening date for the MURC is late 2021. The operating expenditures are currently expected to be in the range of $1 million per year, which includes approximately $350,000 in staffing expenditures related to the Library portion. For the past several years, the Town has set aside $683,000 per year to go towards the 10% non-development charge related portion of the MURC expenditure. This has resulted in $4.2 million being set aside for the MURC. In 2019, staff are recommending to reallocate $183,000 of the $683,000 contribution to go towards reserving for the operating start-up costs. In 2020 and 2021, staff will allocate $200,000 of assessment growth each year to build the tax base and tax rate stabilization reserve to ensure a smooth transition when the MURC opens.

South Keswick Fire Station

The South Keswick Fire Station that is planned to be constructed in 2023 will need to be staffed with 20 full-time firefighters at a total cost of $1.6 million in 2024 with a phase in to $2.7 million by 2028. As per the 2016 Development Charge study, the capital expenditure of the Fire Station will be funded with 77% coming from development charges and 23% from the tax base. Knowing the Town has plans to open this Fire Station, it would be financially prudent to begin to assign a proportion of the annual assessment growth, in proportion to the growth allocations, to the Tax Rate Stabilization Reserve. Therefore, building up the tax base and reserve to ensure a smooth tax increase year-over-year rather than a substantial increase at the time the Station opens. Staff are recommending a plan to set aside $150,000 of assessment growth in the 2019 Budget and then an additional 0.5% of the tax levy, from assessment growth, each year thereafter. This would result in allocating an even distribution of annual assessment growth to Fire Services to ensure the Town does not experience large tax fluctuations at the time the Station opens.

Planning for Future Growth

The next Development Charge (DC) update will be occurring in 2021. To ensure growth pays for growth, whenever possible, it is recommended that the Town undertake growth related studies that will feed into the DC update. These studies will ensure that enough information is available in 2021 to complete a comprehensive Development Charge study that will ensure the Town is collecting the appropriate amount of development charges. Staff are recommending that a Sanitary Sewer Model/Master Plan (100% DC eligible) and a Bicycle and Pedestrian Active Transportation Master Plan (50% DC eligible) be completed in 2019 even though they are not included in the current DC Background Study. To ensure we have adequate information to feed into the next DC study in 2021, staff are recommending that Council pass a resolution requesting the costs be recovered through the next DC update. Staff will make this recommendation in the final budget report.

Investing in Technology – A Financial Plan

Staff will be presenting the Town’s first IT Strategic Plan to Council in early January. The two areas of focus will be to elevate the importance of technology and leverage technology to modernize business practices. The plan calls for the delivery of over

50 projects/actions over the next five years. To achieve this, the plan highlights a number of capital requests and staffing requests. In the non-program budget, staff have re-allocated $200,000 from a general contribution to the Corporate Capital reserve to an IT Specific Capital contribution to the Corporate Capital reserve. The contribution will continue to go into the same reserve, but the change in contribution reflects the Town's need for greater investment in information technology. On top of this capital investment, the Town's IT Division is significantly understaffed when compared to municipalities of similar size. Our IT division reflects only 1.3% of total Town staffing. This should be more in the range of 3% to 5%. During each year's budget process, staff will allocate a portion of new assessment dollars to IT staffing to ensure we can close the gap.

5.5 Draft 2018 Operating Budget

5.5.1 Budget Summary:

For the 2019 fiscal year, the Operating Budget stands at $70.5 million. This will be funded by Property Taxes of $42.5 million, Water and Wastewater rates of $14.4 million, User Fees and Other revenues of $13.1 million and draws from reserves of $0.5 million. Included in the reserve draws is a funding re-allocation of $175,000 for the Head, Special Capital Initiatives. This position was previously funded from the tax levy; however, it has been transferred to be funded from reserves as part of the capital projects that the position will be overseeing. The tax levy funds have been re-allocated to fund the Parks and Facility Division restructure, which requires the approval of an additional manager. Please refer to staffing SR-FAC-1: Manager of Parks Development and Operations.

Existing service levels form the basis for development of the 2019 Operating Budget. Staff have gone through, line-by-line, of every Operating Budget within their departments. The starting budget for 2019 is equal to the final approved budget from 2018. The reason why it is more prudent to start with last year's base budget, rather than last year's actuals, is that historical performance does not necessarily provide a good guideline for future performance/needs. Starting your budget based on actuals can also create a spend it or lose it culture, which has no benefit to the Town or its residents. Therefore, rather than just using a year-to-date for comparison, staff have completed trend analysis by looking at the prior five years of actuals as well as existing service levels and what is required in 2019 to maintain those service levels. By doing a line-by-line trend analysis, staff were able to identify $188,000 in savings. These savings are identified in the "other" column of the operating budget.

When the 2019 budget process began back in August, the most current Ontario CPI figure available was July 2018, which was 3.0%. To be consistent year-over-year, going forward, staff will continue to quote a July CPI at budget time, as this is the most current information available at the start of budget preparation.

As per budget guidelines, the net base budget increase including inflation, growth, legislated/mandatory and other adjustments resulted in a 2.1% tax levy increase. When added to the value of service level and new initiative changes of 0.8%, and an increased contribution to Capital Reserve of 1.0%, the total tax levy increase adds up to 3.9%.

Below is an additional breakdown of what is driving the 3.9% increase:

Driver	**Percentage Inc./(Dec.)**	**Comments**
Growth	(0.6%)	Assessment growth is 1.8%. The majority of assessment growth was allocated to current and future growth related operating expenditures. Remaining growth related revenue is due to engineering fees and planning fees.
Service Level/ New Initiatives	0.8%	An increase of 0.8% relates to new operating and staffing initiatives that are creating an increase in service level.
Contractual/ Legislative	2.4%	An increase of 0.5% relates to salary annualizations from 2018 approved positions. 0.8% relates to an increase in payroll costs. 0.3% relates to salary step increases. 0.3% relates to a reduction in overhead being transferred to the Building Division, as per Bill 124. Remaining relates to miscellaneous contractual/legislative adjustments.
Inflationary	1.3%	Includes CUPE/Non-Union/Fire salary increases and other miscellaneous inflationary adjustments.
Other	(1.0%)	0.25% relates to an increase in supplemental taxes. 0.25% relates to an increase in interest and penalty. 0.4% relates to a funding re-allocation for the Head, Special Capital Initiatives position. The remaining relates to miscellaneous adjustments and efficiency savings.
Capital Contribution (Optional)	1.0%	As outlined in this report, Council have been provided the option to increase the contribution to Capital Reserve by 1% of the tax levy to assist in closing the infrastructure funding gap.
Total:	3.9%	

Creating Value and Efficiencies

As part of the 2019 Budget process, staff are looking to issue a multi-year roads contract (2 years). Staff are anticipating that the Town will achieve a better price by securing a $6.3M multi-year contract opposed to a $3.1M single year contract. Staff will include this as a recommendation in the final budget report for Council's consideration.

Another area where staff attempt to create efficiencies is by allowing a developer to complete a development related capital project and issuing DC credits for doing so. Staff will be including a recommendation in the final budget report to single source with a developer to install the Queensway multi-use path as described in 19-ENG-2. This will create efficiencies, as the developer will have all the equipment, material and machines to construct the rest of the sidewalk on the Queensway South fronting the subdivision as well as the sidewalks within the subdivision. The portion of sidewalk fronting the commercial property will only be a small addition to a larger amount of work. This will provide savings by joining part of a larger contract as well as not paying additional costs for mobilization and demobilization of equipment. The developer has already completed the design of the mutli-use path on behalf of the Town. The Town has peer reviewed the design and is satisfied with the design. The developer is willing to construct the improvements as part of the subdivision work if compensated for those works.

5.5.2. Discretionary Reserve Contributions:

In 2017, the Town of Georgina consolidated over 100 discretionary reserves into 25 reserves. Below is an explanation of what some of the major reserves are used for.

Tax Rate Stabilization Reserve

The primary purpose of this reserve account is to stabilize the tax increases year-over-year. The 2019 Draft Budget proposes financial strategies to allocate some of the assessment growth to this reserve account to start to plan for future growth related operating expenditures that will not occur for the next three to five years. Without this reserve, the assessment growth that should go towards growth related operating expenditures would end up being absorbed in the current operating expenditures. By setting a portion of it aside each year, we will not need to do a large tax increase when these growth related operating expenditures occur, but rather the tax increase will remain stable.The Town also contributes to this reserve for estimates relating to expired collective agreements.

A secondary purpose is to provide a reserve to fund unexpected projects that may come up outside of budget. Throughout the year, Council and only Council, has the authority, by Council Resolution, to fund unexpected one time projects that were not identified during the budget. Usually the recommended funding source for these projects would be the Tax Rate Stabilization Reserve, if sufficient funds exist.

Reserve contributions and draws relating to stabilization reserves will vary year-over-year and are dependent on a number of factors, such as, growth, contingencies, and timing of labour negotiations.

Corporate Capital Reserve

As described during last year's budget, capital projects are no longer funded directly from the tax levy. Contributions are made from the Operating Budget into the Corporate Capital reserve and then draws are made from the Corporate Capital reserve for new capital requests and/or studies.

Draws relating to the Corporate Capital reserve will vary each year depending on current and future capital needs.

Repair and Replacement Reserves

The Town has repair and replacement reserves related to facilities, fleet/equipment, roads, parks, and water/wastewater infrastructure. Any repair or replacement related to these items would be funded from these reserves if they were previously reserved for.

Draws relating to repair and replacement reserves will vary each year depending on replacement schedules and prioritization of asset replacements.

Breakdown of Reserve Contributions:

Over the next three years, as the Town comes into compliance with Regulation 588/17 for Asset Management, the below reserve contribution allocations will be updated and revised to reflect the most current information based on updated asset management plans.

Discretionary Reserve	**2019 Contribution**	**2018 Contribution**
Corporate Capital/ New Infrastructure	$988,100[1]	$1,846,170[1]
Land Acquisition Reserve	$250,000[1]	$0

Tax Rate Stabilization Reserve	$1,336,070[2]	$714,000[2]
Facilities – Repair & Replacement	$1,202,940[3]	$1,333,840[3]
Fleet & Equipment – Repair & Replacement	$1,682,800[4]	$1,841,800[4]
Roads – Repair & Replacement	$1,400,000[5]	$2,291,490[5]
Parks – Repair & Replacement	$160,000[3]	$60,000[3]
Elections Reserve	$75,000	$115,000
Keswick Cemetery Reserve	$6,800	$6,800
Water – Fleet & Equipment – Repair & Replacement	$31,450	$31,450
Wastewater – Fleet & Equipment – Repair & Replacement	$31,450	$31,450
Water – Infrastructure – Repair & Replacement	$348,740[6]	$898,070[6]
Wastewater – Infrastructure – Repair & Replacement	$96,490	$33,030
Water – Willow Beach Debenture	$144,770	$144,780
Wastewater – Willow Beach Debenture	$217,150	$217,160
Library Staffing Reserve	$16,000	$0
Total Contributions:	**$7,987,760**	**$9,096,590**

1. As shown in the Parks budget, $465,000 has been re-allocated to the operating budget because of the EAB Program being shown under the operating budget instead of the capital budget. $250,000 has been re-allocated from the MURC contribution to go towards a new Land Acquisition Reserve. $183,070 has been re-allocated from the MURC capital contribution to go towards the future MURC staffing expenses and is shown in the Tax Rate Stabilization Reserve. As well, at the request of the Accessibility Committee, $10,000 has been moved to an operating budget line for minor expenditures. Any major expenditures would be run through the capital budget during budget time.
2. The contribution to the Tax Rate Stabilization reserve includes contributions for the following items: Firefighter/CUPE/Non-Union collective bargaining estimates, job evaluations and pay equity adjustments, potential legal claims

and insurance deductibles, and the MURC and South Keswick Fire Station Staffing contributions.

3. To better reflect future expenditures, a $100,000 contribution was transferred from the Facility Repair and Replacement Reserve contributions to the Parks Repair and Replacement Reserve contributions. Remaining reduction relates to a Library reserve contribution that was made for a specific project in 2018.
4. This reserve contribution has been reduced to reflect two service process changes. As per 19-PRK-1, the Town will be renting sidewalk machines instead of purchasing. As per NI-PWK-3, the Town will be contracting two plow routes instead of purchasing two tandems. The contributions that would have gone towards replacement of assets has been transferred to the operating budget to fund the contract/rental of the assets.
5. The reserve contribution to Roads in 2018 included the Ontario Community Infrastructure Fund (OCIF) grant of $891,490. The grant received in 2019 is $1,382,660 and is being directly applied to the Roads Maintenance Plan in 19-PWK-13. Going forward, this grant will be shown through the Capital Budget, rather than a contribution to reserves through the Operating Budget.
6. This reserve contribution is used to balance the Water budget to ensure it is self-funded. The reduction in 2019 relates to the annual cost of the Dalton Road Watermain debt that will be issued in 2019.

5.5.3 Water and Wastewater Rates:

The proposed Water and Wastewater consumption ($/m^3) rates for the Town are $2.60 and $2.76, respectively. This represents a proposed 8.8% increase for Water and a proposed 5.7% increase for Wastewater.

The proposed Water and Wastewater fixed charge ($/month) rates for the Town are $3.25 and $2.94, respectively. This represents a proposed 9.1% increase for Water and a proposed 6.1% increase for Wastewater.

The above rates encompass the proposed York Region increase of 9% for Water and Wastewater rates. 57% of the Town’s Water and Wastewater budget relates to payments made to York Region.

5.5.4 Rates and User Fees:

User fee rates have been updated to reflect each user fee by-law. The most substantial increase related to the Planning user fees, which were adopted by Council on September 19, 2018.

5.5.5 Proposed New Staffing

A summary of new position requests is listed below. It is broken down into new positions, new positions due to restructures, transitional positions, and Library positions. The cost of the positions have been prorated for 2019 based on expected hire date. All other payroll costs are approximately 30% of the salary. Full-annualized expense is shown below under column 2020 Annualized. In addition to the below positions, included in the 2019 Base Budget is the Executive Assistant to the CAO (Q1 funded) and Senior Financial Analyst (Q3 funded), which were approved as part of report HR-2018-0003 Executive Resourcing and Re-Alignment. The impact of these approvals are shown on page 339 and 356 of the Supplemental Budget Book.

2019 Staffing Summary

		2019			2020
New Positions		**Salary**	**Payroll Costs**	**Total**	**Annualized**
Corporate Services				-	-
SR-ITS-1	Senior Business Applications Analyst (PFT)	91,000	27,300	118,300	120,080
Office of the Deputy CAO				-	-
SR-CLK-1	Records and Information Management Clerk (PFT)	31,000	9,300	40,300	81,810
Total Salaries and All Other Payroll Costs - Permanent Full-Time		**122,000**	**36,600**	**158,600**	**201,890**
Restructuring Positions					
Operations & Infrastructure					
SR-FAC-1	Manager of Parks Development and Operations (PF	105,000	31,500	136,500	138,550
Corporate Services					
SR-TRS-1	Tax & Revenue Supervisor (PFT)	80,800	24,240	105,040	106,610
Total Salaries and All Other Payroll Costs - Permanent Full-Time		**185,800**	**55,740**	**241,540**	**245,160**
Transitional Positions					
Operations & Infrastructure					
SR-PWK-1	Fleet Capital Admin: Temp to Permanent	57,500	27,250	84,750	86,020
Fire & Rescue Services				-	-
SR-FIR-1	PPT Admin to PFT	19,560	5,870	25,430	25,810
Human Resources				-	-
SR-HR-1	Program Manager, OD & Recruitment: Contract to	112,000	33,600	145,600	147,780
Office of the Deputy CAO					
SR-MLE-1	PPT MLEO 1 to PFT MLEO 1	9,430	2,830	12,260	12,440
Total Salaries and All Other Payroll Costs - Permanent Full-Time		**198,490**	**69,550**	**268,040**	**272,050**
Georgina Public Library Board					
SR-LIB-1	Sutton Staff Gap (Hours)	11,700	2,580	14,280	14,500
SR-LIB-2	CYS (Hours)	16,000	3,500	19,500	19,790
Total Salaries and All Other Payroll Costs - Contract/Part-Time		**27,700**	**6,080**	**33,780**	**34,290**
Total Salaries		**533,990**	**167,970**	**701,960**	**753,390**

5.5.6 Georgina Public Library:

The Library Board has requested a grant from the Town for $2,389,050, which represents an increase of 3.8% compared to 2018. The grant is broken into two components; the traditional grant related to payment for goods and services purchased by the Library and a grant for in-kind services provided by the Town. When combined, the traditional Town grant and the in-kind grant reflect the contributions from the Town to support the Library services.

5.6 Departmental Highlights

The departmental highlights are included in their respective business plans within the 2019 Draft Budget as supplied by the Acting CAO and Directors.

5.7 Ontario Regulation 284/09 Budget Matters

Effective January 1, 2009, PSAB 3150, full accrual basis of accounting, required municipalities to record the costs of tangible capital assets and related amortization expense on their annual financial statements. It was recognized however, that since Section 209 of the Municipal Act requires preparation of balanced budgets, including all expenditures and revenue, a requirement to include amortization expense in the municipal budget would directly increase property taxes. As a result, the Province passed Ontario Regulation 284/09, which allows municipalities to exclude annual amortization expense, as well as post-employment liability and landfill closure expenses from their annual budgets. The regulation imposes reporting requirements to inform Council about the excluded expenses and an analysis of the estimated impact on future Tangible Capital Asset (TCA) funding requirements. For 2011 and subsequent budget years, and prior to adopting the annual budget, Ontario Regulation 284/09 requires municipalities to prepare a report for Council if all or a portion of the following expenses are excluded from the budget:

1. Amortization expenses

2. Post-employment benefit expenses

Similar to all other levels of government, the Town will continue to present the operating and capital budget on a non-PSAB basis as allowed under Provincial regulation. As such, this is to confirm that the above-referenced expenses were excluded from the 2019 Budget.

6. FINANCIAL AND BUDGETARY IMPACT

The 2019 Draft Operating Budget is currently proposing a property tax increase of 2.9% with the option of adding 1% additional contribution to capital reserves which would bring the increase to 3.9% for the fiscal year of 2019. This translates into a Town increase of approximately $69 per household at a 2.9% increase, or $89 per household at the optional 3.9% increase on the Town's average house with an assessed value of $385,810 (average single family dwelling assessment for 2019).

It is also important to note that province-wide re-assessment completed in 2016 included a provision for phase-in of the assessment increase over four years, starting in 2017 and continuing until 2020 (last year of phase-in), while decreases in assessment were fully recognized and implemented in 2017. The 2018 taxation year represents the third year of new assessment changes/phase-in. It is important to remember the phase-in of assessment in this year and future years may result in different tax increases for different property owners. The Town's taxation is one of three (3) types of property taxes paid by the property owners. In addition to the local municipality, the taxes also consist of Regional and Education tax levies. The Regional and Education tax levies for 2019 are not currently known at this time.

It is important to recognize that overall tax increases for the average household may vary from what is presented here, depending upon changes in individual property assessment for the year 2018.

Included in the 2019 Budget are two business cases related to the total budgets for the MURC ($42,141,000) and Civic Centre ($26,966,400). Staff are recommending that Council approve the overall budgets as stated within the business cases and have staff include the necessary annual cash flow requirements related to the multi-year projects within each annual budget from 2019 to 2022.

As part of the 2019 Budget process, Council approved that items requiring advancement ahead of final budget approval were to be brought forward on December 12th.

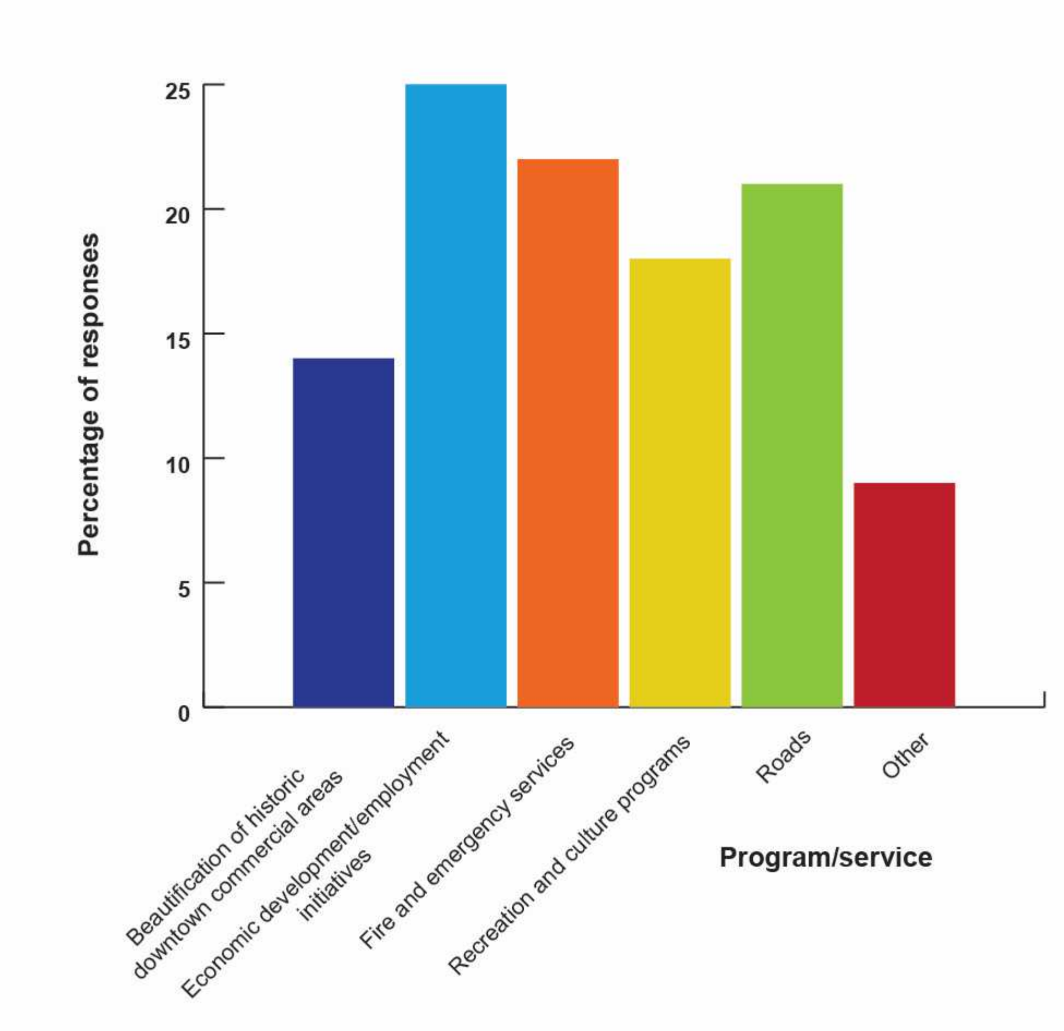
Staff are recommending that Council approve the rental of three sidewalk machines with equipment as described in Capital Project 19-PRK-1: Fleet Replacements for $120,000 to be funded from the operating budget in account 1-2-1531101-3620.

7. PUBLIC CONSULTATION AND NOTICE REQUIREMENTS:

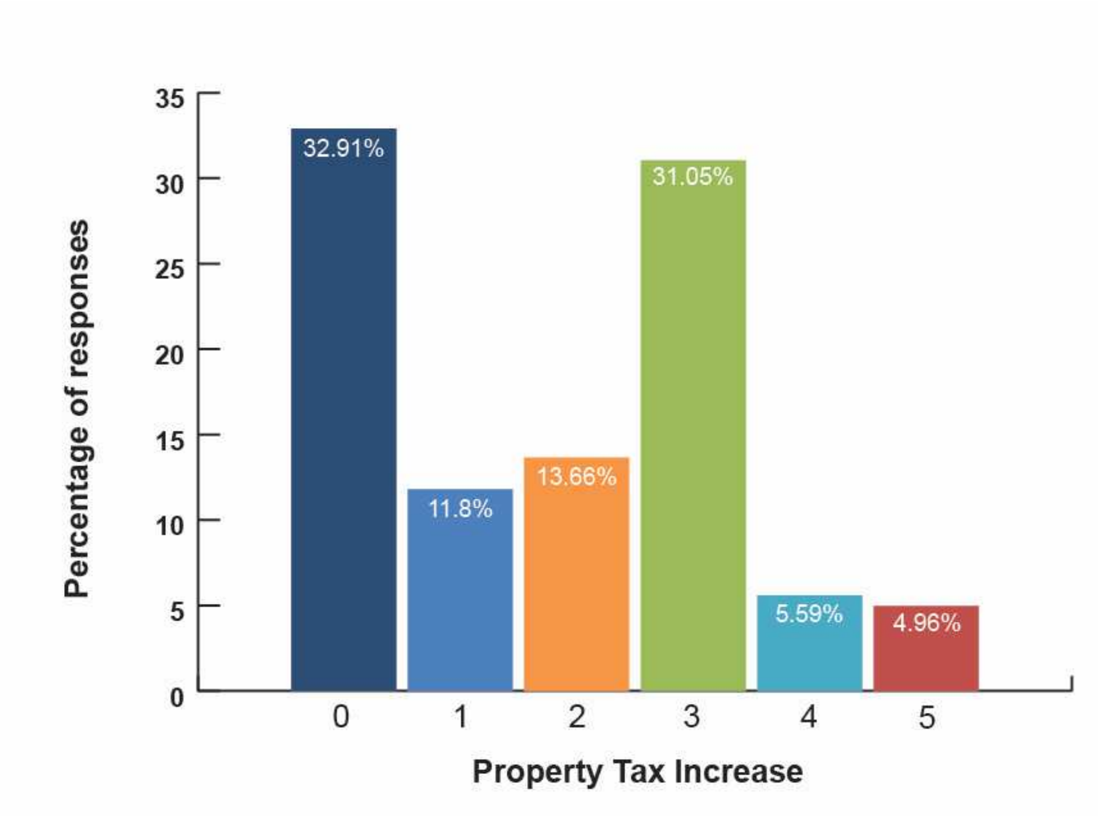
As per Council's direction, staff provided a number of opportunities to promote public engagement and receive taxpayers input into the 2019 budget process. These opportunities included:

1. Budget survey – 199 responses received (200 received in 2018)
2. An email address to email comments - Budget@Georgina.ca
3. Five "Budget Chats" public consultation sessions which were attended by the Director of Corporate Services / Treasurer and Acting CAO.

Based on the survey, the chart below represents a summary of where respondents would like to see their tax dollars spent.



The chart below represents a summary of what respondents feel an acceptable property tax increase would be. You can see that 33% would like to see a zero percent tax increase; however, 31% of respondents agree that a 3% increase is acceptable.



A summary of comments from the Budget Chats, the surveys, the budget email submissions, Councillor, Boards, Committees, and Groups comments have been included as Attachment 1 – Budget Comments.

Council will have the opportunity between the release of the draft budget on December 12th and Council deliberations on January 29/30th to review and discuss all requests.

8. CONCLUSION:

At the end of last year's budget process, staff made a commitment to continually improve the budget each year. Some of the items improved during 2019 include:

- Expanded ten-year capital program
- Two year roads contract
- New executive summary
- New business plan format
- Improved budget report
- More financial planning around growth
- Expenditures are shown net of internal revenues/expenses – best practice – See attachment 3 for a restatement of the 2018 Gross Expenditure summary to use as a comparison when looking at the 2019 Budget.
- Increased focus on long term planning
- Line by line operating review and trend analysis resulted in reductions of $188,000.

This report recommends that Council receive the 2019 Draft Operating and Capital Budgets, and the 10 Year Capital Forecast for review.

Prepared by:	Approved by:
______________________________	______________________________
Rob Wheater, CPA, CA Director of Corporate Services / Treasurer	Dave Reddon Chief Administrative Officer (Acting)

Attachment 1: Budget Comments
Attachment 2: 2018 Gross Operating Expenditures - Restated