



The Corporation of the Municipality of Arran-Elderslie

Staff Report

Council Meeting Date: January 30, 2023

Subject: SRFIN.23.07 2023 Operating and Capital Budget – 2nd Draft

Report from: Tracey Neifer, Treasurer

Appendices: Supporting Schedules

- ✓ Schedule A – Municipal Services by Department
- ✓ Schedule B – Building and By-law Enforcement Services
- ✓ Schedule C – Water, Sewer and Stormwater Services
- ✓ Schedule D – Grant and Donation Requests
- ✓ Schedule E – Capital Budget
- ✓ Schedule F – Summary of Reserves
 - Schedule F.1 – Summary of Transfers from Reserves for Operations
 - Schedule F.2 – Summary of Transfers to Reserves from Operations
 - Schedule F.3 – Summary of Transfers from Reserves for Capital

Recommendation

Be It Resolved that Council hereby,

1. Support staff to continue to refine the Budget to address efficiencies and cost savings; and
2. Direct staff to bring the 3rd Draft Operating and Capital Budget to Council on February 13th, 2023, for review and consideration.

Report Summary

The purpose of this report is to provide Council with the second draft of the 2023 Operating and Capital Budget. The report focuses on the operational and capital changes proposed by the Leadership Team, as well as detailed information regarding the Reserves and Reserve Funds.

Background

The first draft of the 2023 Operating and Capital Budget was presented to Council on January 9th, reflecting a proposed tax rate increase of 6.0%, and with that the budget required further reductions of \$486,536 to achieve a balanced budget. As staff were still in the process of reviewing accounts to find further cost savings and efficiencies, Council passed the following resolution:

Be it resolved that Council hereby,

1. Support staff to continue to refine the Budget to address efficiencies and cost savings; and
2. Direct staff to bring the 2nd Draft Capital and Operating Budget including the Reserve Continuity and Draft Revised Fees and Charges By-Law forward to Council on January 30, 2023, for review and consideration.

The Fees and Charges By-Law has been presented in a separate report, SRFIN.23.06, being presented on January 30, 2023.

Analysis

The first draft of the operating budget reflected that savings of \$486,536 was necessary to provide a balanced budget, assuming a 6% tax rate increase. The Leadership Team, over the past few weeks has reviewed their departmental budgets by looking at the accounts, historical trends, inflationary factors, actual expenditures, staff hours and work capacity. The result of these efforts, while not resulting in a fully balanced operating budget, has achieved a net reduction of \$314,873, leaving further savings to be found of \$171,663. With the changes implemented the overall tax rate increase of 14.22% has been reduced to 8.90%.

The following charts highlight the operating budget by Key Service Area, comparing the changes between the first and second draft operating budget:

	December	2022	2023	2023	2023	Budget	Budget
	2022	Council Approved	Draft 1-Jan 9	Draft 2-Jan 30	Draft Budget Chg	\$	%
	Actuals	2022 Total Budget	2023 Total Budget	2023 Total Budget	Draft 2 to Draft 1	Variance	Variance
MUNICIPAL SERVICES							
GENERAL GOVERNMENT	28,325	263,397	745,748	519,228	-226,520	255,831	97.1%
PROTECTION SERVICES	1,737,992	1,838,677	1,909,785	1,875,728	-34,057	37,051	2.0%
TRANSPORTATION SERVICES	2,667,969	2,464,339	2,666,117	2,728,206	62,089	263,867	10.7%
ENVIRONMENTAL SERVICES	-1,583	27,767	3,921	3,188	-733	-24,579	(88.5%)
HEALTH SERVICES	37,457	45,238	67,558	53,370	-14,188	8,132	18.0%
RECREATION AND CULTURE	658,531	1,122,091	1,204,813	1,158,721	-46,092	36,630	3.3%
PLANNING AND DEVELOPMENT	223,680	268,857	352,664	352,647	-17	83,790	31.2%
Total MUNICIPAL SERVICES	5,352,371	6,030,366	6,950,606	6,691,088	-259,518	660,722	11.0%

	December	2022	2023	2023	2023	Budget	Budget
	2022	Council Approved	Draft 1-Jan 9	Draft 2-Jan 30	Draft Budget Chg	\$	%
	Actuals	2022 Total Budget	2023 Total Budget	2023 Total Budget	Draft 2 to Draft 1	Variance	Variance
BUILDING & BYLAW ENFORCEMENT SERVICES							
Building	-46,080						#DIV/0!
ByLaw	53,533	49,803	60,261	60,261		10,458	21.0%
Total BUILDING & BYLAW ENFORCEMENT SERVICES	7,453	49,803	60,261	60,261		10,458	21.0%

	December	2022	2023	2023	2023	Budget	Budget
	2022	Council Approved	Draft 1-Jan 9	Draft 2-Jan 30	Draft Budget Chg	\$	%
	Actuals	2022 Total Budget	2023 Total Budget	2023 Total Budget	Draft 2 to Draft 1	Variance	Variance
WATER AND SEWER SERVICES							
SHARED ADMINISTRATION	9,514						#DIV/0!
SEWER	-109,573	1				-1	(100.0%)
WATER	-103,853	-2				2	(100.0%)
STORM	41,928	44,932	55,355		-55,355	-44,932	(100.0%)
Total WATER AND SEWER SERVICES	-161,984	44,931	55,355		-55,355	-44,931	(100.0%)

Municipal Services

The following comments have been provided to explain the changes that have been put forth by the Leadership Team, as well as the financial impact on the budget. The changes identified include both revenue and expenses.

General Government

- **Council** – a review of conferences was completed, and the budget was adjusted to reflect one attendee for Good Roads, AMO and ROMA, previously provided for 2 attendees (-\$4,000).
- **General Services** – the recent change to soft phones through staff computers has identified a reduction in 3 cell phone plans now redundant (-\$720). A budget increase of \$10,000 to provide for AODA Compliance training has been added to the budget. The most notable change is an increase in interest income (+\$221,855). The bank interest rates have climbed throughout 2022 from 0.75% to 4.64%. While not expecting the rates to be maintained at 4.64%, with a review of the monthly bank balance, and assuming the same spending patterns as 2022, interest income has been increased based on an average 3% interest rate for 2023. A small adjustment was made to the transfer from the Community Well Being Reserve which is used to offset the school rental costs, based on the balance available to transfer (-\$4,055).
- **Asset Management/GIS** – there is finishing work to be completed with PSD, but the provision for contracted services has been reduced to reflect the contract position included in the budget that will be able to take on this work (-\$14,000).

Protection Services

- **Conservation Authorities** – the draft budget was received for SVCA and has been adjusted to reflect their report (-\$2,264).
- **Fire Protection** – have deferred two components of training to 2024, Recruit Training and Firefighter 1 Skills (-\$15,571); reduced the regular training courses from 6 days to 4 days for each Station (-\$10,111). Based on discussion at the Chesley and Area Joint Fire Board meeting, have applied the Chesley/Chatsworth shared reserve to help offset some of the costs of mandatory certification (+11,020) which reduces the amount for funds taken from the OPG Reserve (-\$4,111). Tara Station hydro costs appeared high compared to actuals, therefore, have been reduced (-\$2,000).

Transportation Services

- **Roads** – Wages and Benefits is driven by the Salary Plan module of FMW which calculates wages and benefits based on the person, position, rate, hours, and percentage distribution of time spent in each department. Some refinements were made with the departmental distributions which impacted Public Works and Recreation departments (-\$2,455). A reduction was made to the cost of patching materials (-\$5,000). The fuel expenses for 2022 were reviewed and allocated between fuel, clear diesel, and dyed diesel, thus, adjustments were made to align the budget across these three areas and to reflect a budget comparable to 2022 actuals (+\$71,000).
- **Winter Control** – minor adjustments to wages and benefits (-\$16); contracted services have been adjusted to reflect the contract (-\$1,440)

Environmental Services

- **Environmental Programs** - minor adjustments to wages and benefits (+\$615); contracted services have been adjusted to reflect the increase of 4.3% per household (-\$1,348). First draft of the budget used inflationary factor of 6%.

Health Services

- **Physician Recruitment** – finance the net costs with a transfer from the Chesley Clinic Reserve (+\$7,888).
- **Clinics** – adjustment to wages and benefits (-\$11,740). Adjust the transfer to Reserve for the Chesley Clinic (+\$871) and the Paisley Clinic \$+4,569).

Recreation and Culture

- **Administrative** - adjustment to wages and benefits (-\$26,804). Part of the adjustment to wages in Recreation was a review of student hours paid in 2022, and the hours budgeted for 2023 were reduced to reflect actual hours. Pavilion rental revenue was increased based on actuals (+\$700). With AODA requirements becoming effective January 1, 2025, additional expense was added to allow for an update on the Accessibility Master Plan (+\$20,000). The budget includes Phase 2 of the Building Condition Assessments as part of

preparing for Asset Management. A transfer from reserve has been recorded to finance these costs (+\$30,000).

- **Ball Fields** - adjustment to wages and benefits (-\$5,488). Materials and supplies were adjusted based on 2022 actuals (-\$700). Ballfield rental revenue was adjusted based on a review of actuals for 2022 (+500).
- **Arenas** - adjustment to wages and benefits (+\$33,915). Materials and supplies, and hydro accounts were reviewed, and adjustments made to reflect 2022 actuals (-\$21,200). Ice rental revenues were increased to reflect 2022 actuals (+\$6,500).
- **Libraries** - adjustment to wages and benefits (-\$3,133).
- **Programs** - adjustment to wages and benefits (-\$3,982). Revenue collected for Insurance fees was adjusted to reflect 2022 actuals (+\$1,000).

Planning and Development

- **Economic Development** - adjustment to wages and benefits (-\$17).

Building & By-law Enforcement Services

As the Building Department is self-funded through permit fees and reserves, any changes to the operating budget do not appear in **Schedule B**. Upon a review of 2022 results for permit fees and expectations for 2023, the budget for permit fees was increased by \$10,000 to \$160,000. As a result, the transfer from Reserve was reduced by \$10,000.

No changes have been proposed for By-Law Enforcement and Animal Control.

Water and Sewer Services

Storm

The first draft of the operating budget had presented the departments, catch basins and ditches as being financed by taxation. After Council discussion, it was clear that there is the intent to investigate the implementation of stormwater user fees to finance these costs. As a temporary measure, the net cost of operations for 2023 have been financed by a temporary transfer from the Water Reserve, which will be repaid by the collection of stormwater user fees.

- Storm Water – Catch Basins - \$27,355
- Storm Water – Ditches - \$28,000

No changes have been proposed for Water and Sewer Services.

Grant and Donation Requests

Two amendments have been made to the Grant and Donation Requests, as noted in **Schedule D**, which now totals \$38,129, before financial and facility commitments. The amendments included Paisley Blues Festival (\$2,500) and Arran Tara Elementary School Grade 8 Students (\$415).

Capital Budget

The 1st Draft of the Capital Budget has been reviewed, and the following chart reflects:

- Project deferrals and/or costing updates.
- The separation of Reserves to show:
 - 2022 Approved Reserve – these funds were approved as part of the 2022 budget cycle and relates to capital projects that were not completed in 2022 and are carried forward to 2023:
 - Municipal Services \$1,696,763
 - Sewer and Water Services \$968,834
 - 2023 New Reserve Requests – these are additional funds requested to cover updated costs for 2022 projects or is for new 2023 initiatives pending adoption of the Capital Budget
 - Municipal Services \$3,348,171
 - Sewer and Water Services \$1,829,113

The detailed listing of capital projects is included in the **Schedule E**

The changes are reflected in two areas, Fire Protection Services and Recreation and Culture.

Capital Budget Summary - 2nd Draft

Municipal Services

Key Service Area	LTD Budget	Unspent Budget Carry-forward	2023 Expenses	2023 Capital Requests	Grants	Donations	2022 Approved Reserve	2023 New Reserve Requests	2024 Expenses
General Government	\$ 349,533	\$ 209,555	\$ 89,860	\$ 299,415	\$ 120,169	\$ -	\$ 90,902	\$ 88,344	\$ 10,000
Fire Protection Services	\$ 15,000	\$ -	\$ 704,455	\$ 704,455	\$ -	\$ 54,772	\$ -	\$ 649,683	\$ 2,056,950
Transportation Services	\$ 2,130,237	\$ 1,842,825	\$ 2,462,241	\$ 4,305,066	\$ 1,036,700	\$ 50,000	\$ 1,323,022	\$ 1,895,344	\$ 298,734
Environmental Services	\$ 8,000	\$ -	\$ 180,000	\$ 180,000	\$ -	\$ -	\$ -	\$ 180,000	\$ -
Recreation and Culture	\$ 1,134,063	\$ 538,126	\$ 641,500	\$ 1,179,626	\$ 468,653	\$ 97,100	\$ 273,373	\$ 340,500	\$ 426,500
Health Services	\$ 55,000	\$ 37,516	\$ 194,300	\$ 231,816	\$ 28,050	\$ -	\$ 9,466	\$ 194,300	\$ 30,000
	\$ 3,691,833	\$ 2,628,022	\$ 4,272,356	\$ 6,900,378	\$ 1,653,572	\$201,872	\$ 1,696,763	\$ 3,348,171	\$ 2,822,184

Sewer and Water Services

Sewer	\$ 180,420	\$ 111,555	\$ 764,573	\$ 876,128	\$ -	\$ -	\$ 111,555	\$ 764,573	\$ -
Water	\$ 807,600	\$ 688,518	\$ 1,255,687	\$ 1,944,205	\$ 312,386	\$ -	\$ 657,279	\$ 1,064,540	\$ 638,000
Stormwater	\$ 200,000	\$ 200,000	\$ 370,000	\$ 570,000	\$ 280,000	\$ -	\$ 200,000	\$ -	\$ -
	\$ 1,188,020	\$ 1,000,073	\$ 2,390,260	\$ 3,390,333	\$ 592,386	\$ -	\$ 968,834	\$ 1,829,113	\$ 638,000

Total Capital Budget

2023 Capital 2nd Draft	\$ 4,879,853	\$ 3,628,095	\$ 6,662,616	\$ 10,290,711	\$ 2,245,958	\$201,872	\$ 2,665,597	\$ 5,177,284	\$ 3,460,184
2023 Capital 1st Draft	\$ 4,879,853	\$ 3,628,095	\$ 8,673,566	\$ 12,301,661	\$ 3,255,458	\$207,100	\$ 2,665,597	\$ 6,045,289	\$ 1,483,234
Change to Capital Budget	\$ -	\$ -	-\$ 2,010,950	-\$ 2,010,950	-\$ 1,009,500	-\$ 5,228	\$ -	-\$ 868,005	\$ 1,976,950

Fire Protection Services

The following changes have been made:

- 23-FIRE-0003 FLEET – Fire Chief Response Unit – updated costing information has reduced the expected cost from \$71,000 to \$65,000. In addition, as the Unit would be cost shared between the three Fire Stations, a donation has been set up to reflect the portion to be collected from the Municipality of Chatsworth for their respective share of the Chesley and Area Joint Fire Board.
- 23-FIRE-0008 EQUIP – Recruit Bunker Gear – deferred some of the gear to 2024 \$37,450, leaving \$10,000 for 2023.
- 23-FIRE-0011 EQUIP – SCBA – there has been no change to the costing of this project, however the financing has been corrected as well as setting up the portion to be collected from the Municipality of Chatsworth.
- 23-FIRE-0007 EQUIP – Radios – project has been deferred to 2024, \$9,500
- 22-FIRE-0004 BLDG – Paisley Fire Hall – the budget for 2023 has been reduced to \$310,000 to reflect the cost for site prep, and water and sewer extension of service; with the building construction proposed for 2024, \$2,000,000. Changes have been made based on a recent meeting of the Paisley Fire Sub-Committee. Another meeting is set for February, with a report to follow for Council consideration.
- 23-FIRE-0002 EQUIP – E Hydraulic Ram – updated to reflect new costing information, thus reduced from \$18,000 to \$15,000.

Recreation and Culture

The following changes have been made:

- 23-RECC-0019 – PARKS – Chesley Skate Park Equipment Replacement of \$55,000 has been deferred to 2024.
- 23-RECC-0020 – PARKS – Paisley Playground Equipment Replacement of \$70,000 has been deferred to 2024.
- 23-RECC-0023 – PARKS – Tara Main Park Redevelopment of \$50,000 has been deferred to 2024, with an additional cost of \$25,000 added to the project.
- 23-RECC-0017 – BLDG – Tara Arena Storage Building, \$30,000 has been deferred to 2024.

Reserves

Included in the Operating and Capital Budgets are transfers to and from Reserves. The following chart provides an overview of those transactions:

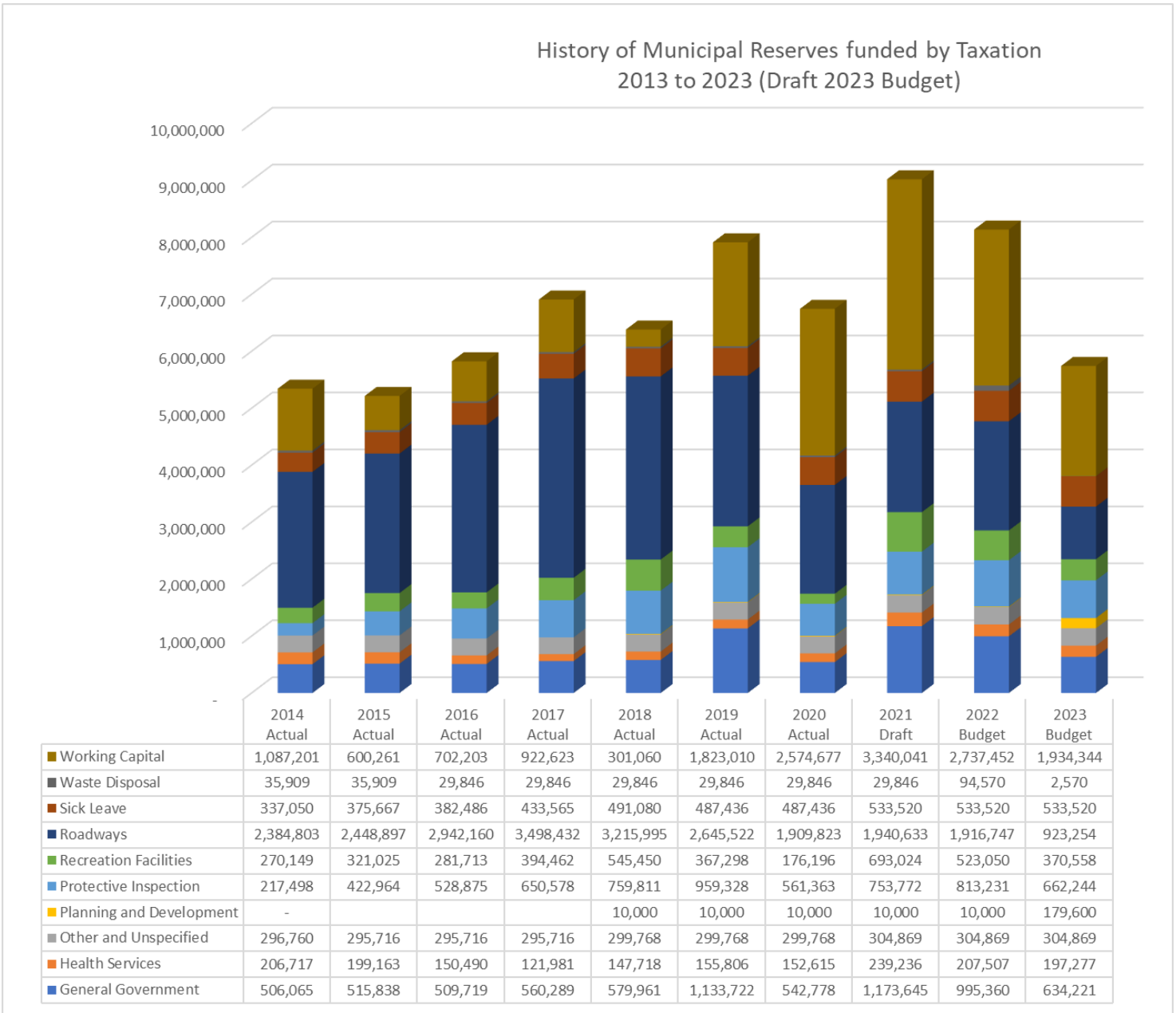
Continuity of Reserves - as per Budget			
	2023 - Budget - Jan. 30th		
	Municipal Services	Building Services	Water & Sewer Services
Balance, beginning of year (N.1)	8,136,305.69	279,595.19	10,936,480.52
2022 Est. YE Adjustments (N.2)	323,255.00	-	-
	8,459,560.69	279,595.19	10,936,480.52
Transfer to Operating	(201,742.00)	(57,184.00)	(420,676.00)
Transfer to Operating - Water			
Transfer from Operating	1,741,071.00	-	2,075,915.00
For Municipal Services (GIS/AM)		(5,000.00)	(20,000.00)
	1,539,329.00	(62,184.00)	1,635,239.00
Transfer to Capital - New Funds Requested	(3,378,171.00)	-	(1,799,113.00)
** does not include 2022 approved capital projects being completed in 2023			
	(3,378,171.00)	-	(1,799,113.00)
Balance, end of year	6,620,718.69	217,411.19	10,772,606.52
AE Water/Sewer			117,432.77
Water			7,644,133.50
Sewer			3,011,040.25
			10,772,606.52

N.1 - opening balance based on 2022 budgeted transfers, final adjustments for 2022 have not been completed

N.2 - includes the transfer to reserve for land sales and Efficiency Funds deferred to 2023 project completion

More detailed information regarding the use of the Reserves is provided in the attached **Schedule F**.

The following chart depicts the projected reserve balance on December 31, 2023 based on the Operating and Capital Budget. The sufficiency of the reserves will be assessed as part of the long-term capital plan and financing strategy. In addition, a Reserve and Reserve Fund Policy is planned for 2023 to identify the purpose, dollar threshold and source of funding for each reserve or reserve category.

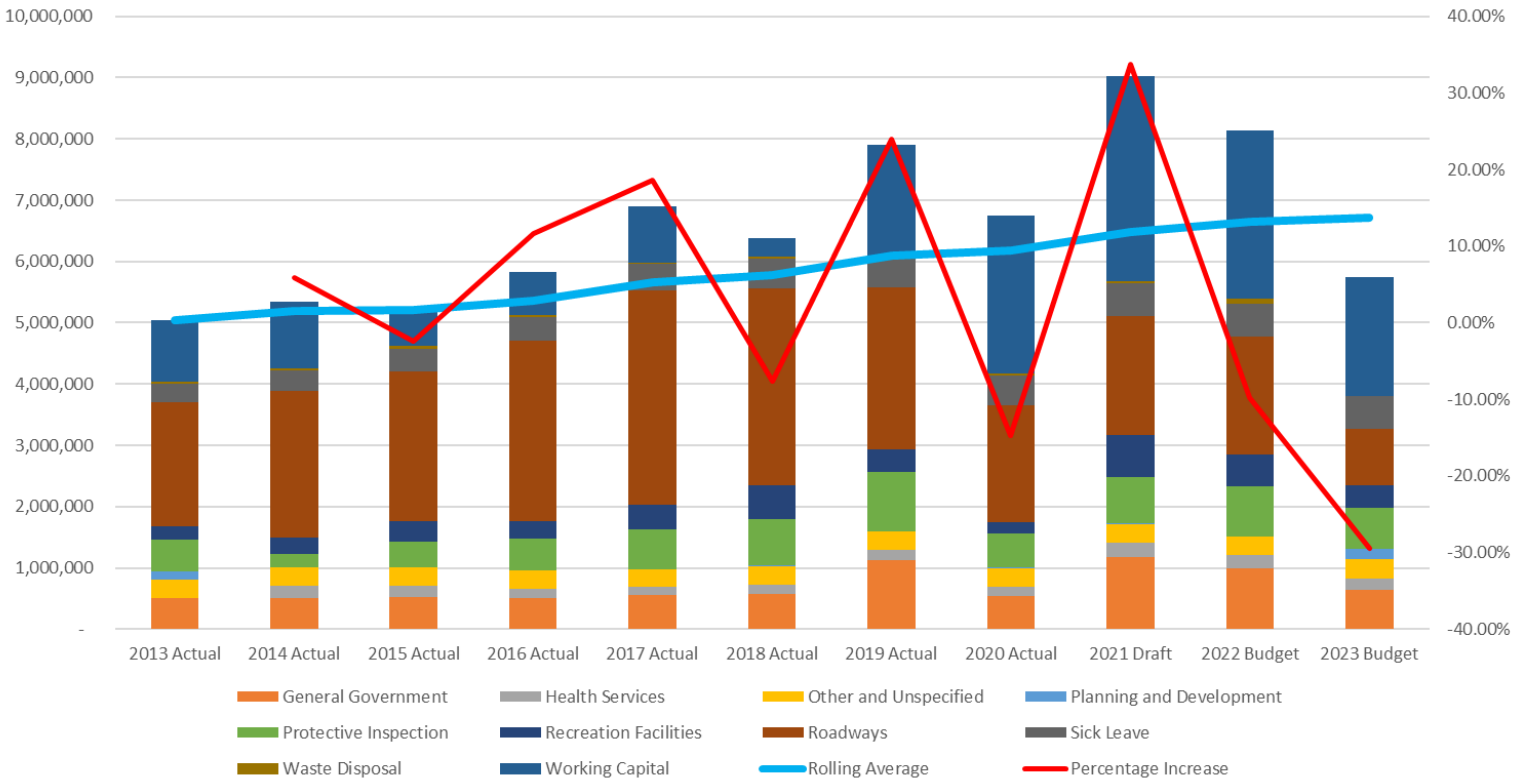


This chart includes a rolling average of the reserve balance and a reflection on the percentage increase year over year.

History of Municipal Reserves funded by Taxation

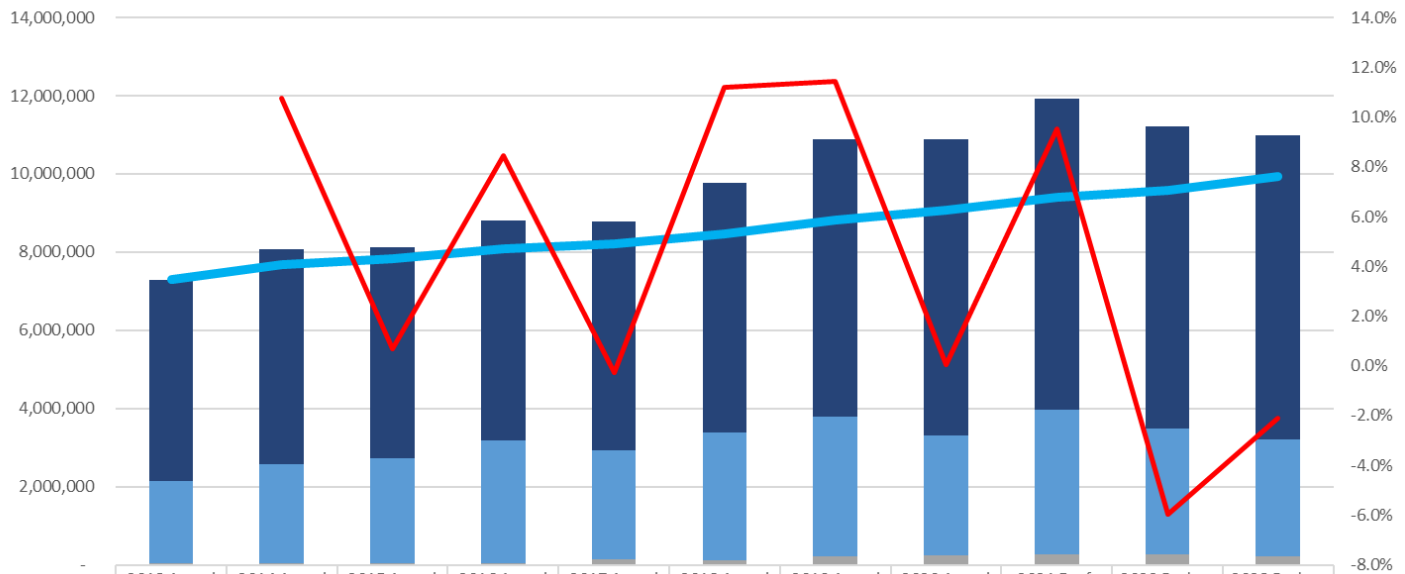
(Includes MMAH Efficiency Modernization Funds, 2019)

2013 to 2023 (Draft 2023 Budget)



A similar chart, but looking at the Sewer and Water Services, as well as the Building Permits. The Water and Sewer Reserves continue to increase with the annual increases to the user fees being applied. Reflecting on the Asset Management Plan, it was advised that we continue to maintain the increase as per the Financial Plans. The sufficiency of the Reserves will be further reviewed with the long-term capital plan and financing strategy.

History of Reserves funded by User Fees
(Building, Water & Sewer)
2013 to 2023 (Draft 2023 Budget)



	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Draft	2022 Budget	2023 Budget
Waterworks	5,149,526	5,490,944	5,406,588	5,621,487	5,858,300	6,375,192	7,104,591	7,582,708	7,956,481	7,718,769	7761566.27
Sanitary Sewers	2,107,759	2,550,226	2,688,359	3,158,376	2,796,272	3,283,510	3,570,148	3,070,696	3,689,781	3,217,711	3011040.25
Building Permits	30,000	30,000	30,000	30,000	132,011	113,146	212,700	237,537	279,821	279,595	207411.19
Rolling Average	7,287,286	7,679,228	7,827,801	8,073,317	8,215,970	8,475,283	8,819,877	9,078,760	9,395,129	9,577,224	9,946,497
Percentage Increase		10.76%	0.67%	8.43%	-0.26%	11.21%	11.42%	0.03%	9.50%	-5.95%	-2.10%

Building Permits Sanitary Sewers Waterworks Rolling Average Percentage Increase

Reserve Funds

An MFOA discussion paper issued in December 2021 stated that “A reserve or reserve fund is money set aside for specific purpose or use. While Ontario legislation requires municipalities to establish certain reserve funds in certain circumstances, Council has the discretion to establish reserves and reserve funds for any purpose for which they have the authority to spend.”

Reserve funds established at the discretion of Council are referred to as Discretionary Reserve Funds. Obligatory Reserve Funds, however, are created when senior government statute or agreement requires that revenue received for special purposes be segregated from the general revenues of the municipality.

There is additional administrative work required to maintain reserve funds as they have separate interest-bearing bank accounts. It is the recommendation of this report that the Discretionary Reserve Funds be closed out and that funds be contributed to the corresponding reserve accounts. Funds held in Reserves require Council approval for staff to access the funds, which holds the intent of the Discretionary Reserve Funds.

Municipality of Arran-Elderslie Summary of Reserve Funds As at December 31, 2022 (Draft)				
Discretionary Reserve Funds				
03-3016	Community Well Being			6,723.10
03-3012	Paisley LACAC			21,831.58
03-3005	Paisley Parks			1,726.77
03-3007	Paisley Museum			13,160.06
	Total			43,441.51
Obligatory Reserve Funds				
03-3008	Paisley Parks Subdiv - Rentrag			23,169.71
03-3010	Arran Parkland			5,729.25
03-3014	Gas Tax/CCBF		**	414,552.62
03-3017	Mainstreet Revitalization			1.04
03-3015	OCIF		**	1,053,137.07
	Total			1,496,589.69
	Total Reserve Funds			1,540,031.20
	** Requires year-end adjustments			

Review of the accounts has identified the following about the Reserve Funds.

Community Well Being – the fund was established in 2015 with a deposit of \$400,000 from the Nuclear Waste Management Organization. Funds have been used to support the Natural Gas project, Chesley Ball Diamond, Electronic Signs, Allenford Playground, and the Paisley School Room Rental. This fund will be fully spent in 2023 as the municipality wraps up the Paisley School Room Rental Agreement.

Paisley LACAC – Local Architectural Conservation Advisory Committee – staff have been in contact with members of the original committee and have been advised that the funds were intended for the preservation of the Paisley Hose Tower, and that there had been discussion about making the building a “fire museum”. The funds began pre-2003.

Paisley Parks – the funds began pre-2003 and continues to earn interest monthly. The funds have not been spent from 2003 to current.

Paisley Museum – the funds began pre-2003 with activity since being referenced to the Museum department.

Paisley Parks Subdivision Rentrag – the funds began pre-2003 and continue to earn interest monthly. The funds have not been spent from 2003 to current.

Arran Parkland – the funds began pre-2003 with a contribution of \$400 in 2004 and then no further activity, other than interest, until 2021 with the contributions for parkland dedication.

Gas Tax (CCBF) – is used to manage the annual payments received for Gas Tax, and track the expenses as identified within the annual Capital Budget. In 2022, the annual allocation was \$215,758.19 and for 2023 is \$225,138.98. The current balance has not been adjusted to reflect 2022 capital spending.

OCIF – Ontario Community Infrastructure Fund – is used to manage the annual payments received and to track the expenses as identified within the annual Capital Budget. In 2022, the annual allocation was \$665,851 and for 2023 is \$765,729. The current balance has not been adjusted to reflect 2022 capital spending.

Link to Strategic/Master Plan

6.4 Leading Financial Management

Accessibility Master Plan

Financial Plans, Sewer, and Water

Fire Master Plan

Recreation Master Plan

Financial Impacts/Source of Funding/Link to Procurement Policy

The municipal budget for operations in 2023 reflects an increase of \$456,285 which requires a tax rate increase of 6.0%, however, to achieve a balanced budget that will meet the departmental needs reflected in the report, a tax rate increase of 8.90% is required.

Staff will continue to work on reviewing the budget for cost savings and efficiencies to minimize any increases to the tax rate.

Approved by: Sylvia Kirkwood, Chief Administrative Officer