



Staff Report

Finance and IT Services

Report To: Committee of the Whole
Meeting Date: June 26, 2017
Report Number: FAF.17.72
Subject: 2018 Budget
Prepared by: Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets

A. Recommendations

THAT Council receive Staff Report FAF.17.72, entitled “2018 Budget”;

AND THAT Council direct staff to prepare a base budget for 2018 that will support the Town’s current level of service at a cost of no more than ____% over the 2017 Budget;

B. Overview

This report outlines the budgeting pressures that the Town will need to account for in the 2018 Operating Budget. A similar timeline (Attachment 1) to 2017 is being proposed, with the Committee Budgeting Meetings happening in December and the final by-law being passed in February 2018.

C. Background

Each year staff bring forward this report to get a target percentage increase from Council as well as give Council the opportunity to request any changes to current service, or any additional services. It is important to note that this report is looking at the budget requirements for the base budget; which include the same services that the Town is currently delivering.

D. Analysis

This section of the report will look at the Operating Budget broken down by major Expense costs.

Salaries and Benefits

As per historical practice, staff are starting 2018 with a 2% annual cost of living increase for all non-union staff. In the summer and fall of 2017 the HR department will be undergoing a compensation review comparing the Town to other comparable municipalities. This review has the potential to affect the 2018 and future budgets but that impact will not be known until later this year. Currently the Town only has one vacant position.

At the end of May, the Provincial Government announced changes to minimum wage. On January 1, 2018 minimum wage will increase to \$14.00 per hour followed by an increase up to

\$15.00 in 2019 with annual adjustments for inflation in future years. This announcement will have an effect on the 2018 budget.

Operating Expenses

The majority of the operating expense budget is spent on Maintenance Gravel for the Town's 80 kilometers of gravel road. In 2016 staff brought forward report CSPW.16.096 outlining the requirements to keep the Town's gravel roads in good working condition. The report stated that the Town needed to buy 40,000 tonnes of gravel per year; currently the Town is purchasing around 25,000 tonnes.

This report outlined that if the Town increased the budget by \$25,000 per year by 2022, there would be sufficient budget to purchase the required 40,000 tonnes. However in 2017, the Town tendered the purchase of maintenance gravel and that cost had increased by almost 40%. With this increase the Town needs to increase the budget by \$44,000 to meet the 2022 goal.

Similarly to gravel, dust control expenses are increasing as the Town assumes more gravel roads, Thunderhill Subdivision for example, and resident complaints are increasing. This budget line is trending over budget in 2017 and will need a 25% to 30% increase for 2018.

Utilities

The Town pays for three different utilities; water, natural gas/furnace oil and hydro. Hydro costs represents 75% of the overall Utilities' budget and therefore any changes to the Town's Hydro costs will greatly effect this budget line.

For 2017 the Town is trending to be slightly over budget for Hydro and would expect a budget increase of at least 5% per year for 2018. As 2017 continues staff will keep an eye on any Province releases regarding hydro costs, to date the initiatives have been directed at residential properties and have not impacted municipal costs.

Equipment Maintenance

For the 2017 budget staff increased the IT Service Agreement budget by over 50% to fund new annual software costs, CityWorks as an example, and additional licenses for current software. For 2018 there are no additional software being added however new modules are being implemented in currently owned software. With new modules comes an increase in the annual maintenance cost. As well, the number of people allowed to be using the software at any given time needs to increase.

On top of the increase licenses the majority of these are paid in US dollars which can be difficult to predict long-term. Most predictions are expecting the Canadian dollar to stay close to the \$0.75 mark. With these factors in mind staff are looking at a 15% to 20% increase for these Service Agreements.

Vehicle Related

The largest expense within this group is the cost of fuel for vehicles and equipment. According to Statistics Canada the average fuel price in the GTA for April 2015 was \$1.052 per litre, which decreased to \$1.023 per litre in April of 2016. Fuel prices in 2017 have jump dramatically up to \$1.160 per litre in April of 2017. This represents a year over year increase of 13.4%.

On average over the past four years, two years having higher and two years having lower costs than 2017, the Town has spent \$167,260 per year on fuel. 2017 is trending even higher than that at closer to \$175,000. This budget line will need to be increased \$15,000 for 2018.

Purchased Services

After Salaries and Benefits, Purchased Services are the second biggest expense grouping for the Town. Included in this group are expenses such as Legal, Consulting, and Contract Services.

Consulting can be a challenging item to budget for as it is driven by the Plans and Studies being done by Staff. For 2017 there are a number of plans being done however they drastically decrease in 2018. For large scale plans and studies staff normally try to fund these from reserves and therefore limit the swings on the taxation levy.

Contract Services had a number of changes in 2017, luckily the increases were mostly offset by the decreases. Major changes in 2017 included decreases to the garbage, recycling, and compost contract, with an increase to Leachate Haulage. Looking ahead to 2018 smaller changes are predicted, but a much larger increase is expected as no decreases are forecasted at this time.

Contract Services are such large dollars that even a 2 to 3% increase can have a significant impact on the overall budget. Small increases are expected for the Police Services contract as well as Winter Control and Waste Collection; at this time staff are looking at an overall 5% increase for these expenses.

Financial Costs

This category encompasses expenses such as banking fees, insurance, debt repayments, and the grant program. Minimal changes are expected in this group with the exception of insurance and debt repayment.

The Town's current contract with the insurance provider expires in 2017; the Town will be re-tendering this service. As with all tendering process a final dollar value will not be known until the process is complete. Staff are optimistic that the Town will see similar costs that are currently paid and not the situation from a few years back. However if there is a drastic change in the cost of insurance this will have a huge impact on the 2018 and future budgets.

With the Landfill Mining and Expansion project now complete staff will be starting the process to take out long term debt to finance the unfinanced piece of this project. Estimates are putting this loan payment at \$65,000 per year which will impact the budget until the debt is fully funded.

Facility and Site Maintenance

Although one of the smaller budget lines, facility and site maintenance are going to become an important item. As facilities age, more annual repairs and maintenance will be required which in turn should help keep the capital purchases down. In 2017 staff are looking at completing facility condition assessments on some of the Town owned facilities. The assessments in conjunction with the Asset Management Software will give the Town a good idea of the repairs and maintenance that should be done annually.

Capital

After some early conversations staff are expecting to present a similar 2018 capital budget as was included in the 2017 budget package. 2018 will be a very busy capital year for the Town and is initially pegged at a \$359,200 increase over 2017. At this time staff are aware of one change to the capital budget which will include \$125,000 for the redevelopment of the Town's website.

Reserves and Reserve Funds

In 2017 Council approved a \$240,000 transfer to reserve for the Elma and Alice Street reconstruction project. This transfer will be removed for 2018 while all other transfers remain consistent. The Capital Levy will be calculated using 2% of the 2017 tax levy, minus the \$240,000, which will bring that transfer to \$290,600, an increase of \$8,600. An additional \$10,000 has also been included for the Bridges Reserve Fund; this annual increase started in 2015.

E. The Blue Mountains' Strategic Plan

Goal #4: Promote a Culture of Organizational and Operational Excellence
Objective #4: To be a Financially Responsible Organization

F. Environmental Impacts

N/A

G. Financial Impact

The chart below quantifies the pressures listed in the body of the report as well as outlines the potential increase it will have on the 2018 budget:

Pressure	Budget Impact	Change over 2017 ¹ (%)
Salaries and Benefits	\$150,000	1.03%
Operating Expenses	\$69,000	0.50%
Hydro	\$15,500	0.10%
IT Service Agreements	\$30,000	0.21%
Fuel	\$15,000	.010%
Purchased Services	\$60,000	0.41%
Financial Costs	\$65,000	0.50%
Capital	\$359,200	2.47%
Transfer to Reserves	\$18,600	0.13%
Pre-Approved Items ²	\$258,000	1.78%
Total Pressures	\$1,040,300	7.16%
Less: Estimated Growth	(\$217,900)	1.50%
Projection Increase to the 2018 Tax Levy	\$822,400	5.66%

¹The 2017 tax levy is \$14,528,777 (\$14,768,777 - \$240,000).

²This line includes items such as the Website capital, 2017/2018 benefit enhancements and the minimum wage increase.

Staff will be reviewing the budget throughout 2017 and will look for cost savings in all accounts in preparation for the 2018 budget.

H. In consultation with

Senior Management Team
Finance Team

I. Attached

1. 2018 Budget Timeline

Respectfully Submitted,

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2018 Budget

FAF.17.72
Attachment 1

Timeline

Task	Due Date
Budget Pre-consultation Report	June 26, 2017
Operating and Capital data distributed to SMT & SAM	July 12, 2017
All information due back to Finance including, Operation, Capital, 2018 Work Plan, Budget Commentary, and Non-Financial Stats	September 8, 2017
Budget Review meetings with Service Area Manager and Director	October 2 to 6, 2017
Draft Electronic Budget distributed to SMT	October 20, 2017
CAO & Director of FIT to review departmental budgets with Department Heads	October 30 to Nov 3, 2017
Draft Budget distributed to SAM to review any changes	November 10, 2017
SMT Review of Draft Budget and Additions	November 14, 2017
Deadline for any comments from Directors to Finance Team regarding Draft Budget	November 17, 2017
Distribution of Electronic Budget to Council, Committee, SMT & SAM	November 30, 2017
Budget Meetings – Committee of the Whole Review	Week of Dec 11 to 15, 2017
Council Approved Recommendations from COW Budget Meetings	December 18, 2017
Public Meeting Notice on website and local newspapers	December 19, 2017
Draft Budget Released	Beginning of January 2018
Public Information Centre and Public Meeting	Mid-January, 2018
Staff Report – Follow-up to comments from PIC and Public Meeting	End of January, 2018
Budget By-law Approved by Council	Mid-February, 2018