

# City of Cornwall – 2019 Operating and Capital Budget

The City of Cornwall is governed by a Council/Chief Administrative Officer form of government. The Chief Administrative Officer (CAO) provides advice and guidance to Council while carrying out Council policies and programs.

The City provides municipal services to approximately 47,000 citizens within its boundaries and an additional 65,000 citizens of the United Counties of SDG for Social and Housing Services, Paramedic Services and a Home for the Aged.

The Municipality has over 700 full-time employees providing a wide range of services and programs.

Services/programs include:

- Infrastructure and Municipal Works (roads, sidewalks and facilities)
- Public Transit
- Recreation, Cultural Programs, Library
- Protective Services (Policing, Fire and Paramedic)
- Social and Housing Services
- Home for the Aged
- Community Planning
- Economic Development
- Regulatory and Compliance
- Environmental Stewardship

City staff are responsible for overseeing numerous programs and services that keep the City running every day.

Each year, the Council approves a budget that supports these numerous services and programs in our community. The City's budget document acts as a blueprint for setting priorities for municipal programs, services and initiatives.

## 2019 Budget Process Overview

Each year, staff put forward a preliminary budget for Council review. The Financial Services department coordinates the development of the budget document annually in conjunction with all City departments. This includes both operating and capital budgets. The budget division oversees the process from departmental submissions through to publication of the approved budget document by Council. As part of the budget process, this division also coordinates budget submissions from Community Partners and applications through the Municipal Grants Program.

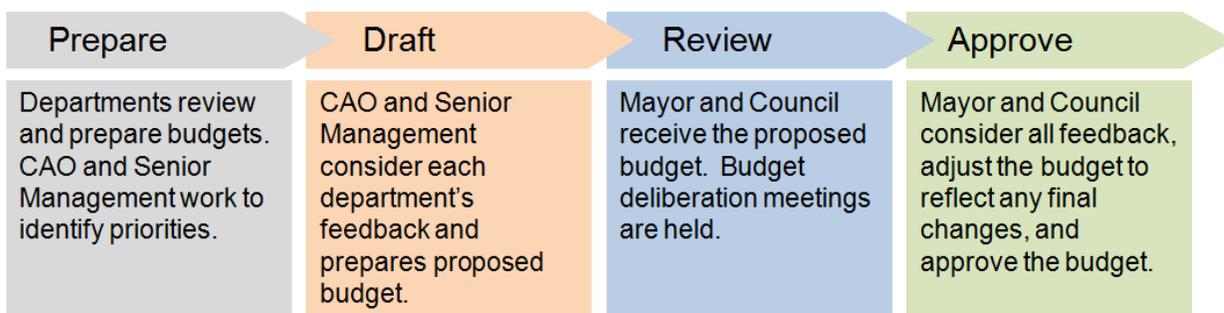
The development of the City’s budget is based on several supporting plans/documents: Asset Management Plans (FCapX, 2016; Dillion and Watson, 2014), the Water and Wastewater Financial Plan (Watson, 2015), Long-Term Financial Plan (KPMG, 2017), the Development Charges Background Study (Watson, 2017), and several departmental master plans.

The principles in the preparation of the annual budget may be summarized into the following:

- Maintain existing service levels,
- Incorporate long-term perspective,
- Establish linkages to Corporate and departmental plans,
- Identify and implement efficiencies,
- Keep tax levy reasonable,
- Ensure user fees for services are appropriate,
- Have planned capital projects ready for grant opportunities with upper levels of government (shovel-ready).

Sections 289, 290 and 291 of the *Municipal Act* outlines the regulations for a municipality’s yearly budget/multi-year budgeting process. Unlike federal and provincial budgets, municipal budgets must be balanced at the end of the year. Council is required to approve a balanced budget each calendar year (January 1–December 31), before final property taxes can be billed.

Although municipalities take different approaches to completing the annual budget exercise, the process generally follows a similar cycle.



The budgeting process allows municipalities to prioritize projects, programs, and service levels based on anticipated revenue and expenses.

## Long Term Financial Plan

In 2017, Council adopted a Long Term Financial Plan (LTFP). The LTFP is an important part of the budgeting framework. It allows Council to monitor long term financial sustainability while working to address the needs and expectations of the community reflected in the Strategic Plan and related departmental plans and strategies.

The LTFP is designed to encourage progress towards the City's long-term financial goal of sustainability. Together with the City's strategic plan, Asset Management Plan (AMP), water/wastewater plans, and annual budgets, the LTFP is an effective component of the City's budget development and an integral part of ongoing planning efforts that support the delivery of community services.

The LTFP will assist the City with:

- ensuring long-term financial sustainability;
- delivering services in a cost-effective and efficient manner;
- identifying cost-recovery through user fees from consumers;
- managing the City's capital assets;
- using debt financing where appropriate;
- maintaining reserve and reserve funds at appropriate levels.

The model forecasts the City's capital and operating expenditures/revenues and addresses in detail, issues related to asset management (linear and other), adequacy of reserves, debt management, and property tax, as it relates to current levels of service and future growth.

The LTFP for the City of Cornwall was constructed upon two key building blocks: the implementation of life-cycle costing and a capital levy.

#### Life-Cycle Costing

Life-cycle costing is the process of estimating how much money will be spent on an asset over the course of its useful life. Life-cycling costing would be used to plan the replacement of the City's assets; such as, fleet and equipment replacement, facility capital maintenance, ITT infrastructure, traffic signal upgrades, and road resurfacing.

With life-cycle costing, the city would determine the assets expense at a future value, determine the annual reserve contribution and contribute this amount to a reserve over the useful life of the asset. By charging itself for the use of the asset, the City will build its reserve and fund capital from the reserve, significantly reducing the long term cost of capital asset replacement.

To begin this initiative, following a recommendation in the LTFP, the City has implemented a flat contribution to the Recreation Facilities Reserve (2018 \$150,000; 2019 \$200,000 with annual contributions growing consistently to \$1 million in 2025 and remaining flat for the remaining years of the plan).

#### Capital Levy

The capital levy will provide long-term financial support to the City's capital program. A capital levy is applied each year for projects that are typically not funded by long-term financing. A capital levy would be used to plan for the replacement of City's assets; such as, culvert replacement, street light pole replacement, road reconstruction/construction.

The LTFP gradually implements a capital levy as a percentage of net operating expenditures starting at 0.25% in year 2018, increasing every year to 2.0% in the year 2026. In 2019, the City will contribute \$159,830 (2018 - \$155,331) to the Road Infrastructure Reserve.

A capital levy will reduce the City's reliance on external debt financing and reduce the long term cost of capital expenditures.

This financial planning model assisted in the preparation of the City's 2019 budget submission. The Financial Services department updates the LTFP every year after the budget is approved.

## Asset Management Planning

Asset management is a municipality's plan for how to manage municipal infrastructure in order to provide services to residents and other users in a way that meets their expectations and is financially sustainable into the future.

Asset management planning is the process of making the best possible decisions regarding building, operating, maintaining, renewing, replacing, and disposing of infrastructure assets. An AMP incorporates detailed asset inventories, operational/maintenance tasks, and long-term financial planning to ensure that annual revenue, reserves, and reinvestment are sufficient to facilitate the long-term viability of the system.

The City has always practiced a form of asset management. For many years, staff and consultants have completed separate analysis to address future repair, rehabilitation and/or replacement requirements with related estimated costs necessary to maintain the City's critical assets.

The five generally recognized components of an AMP include:

- Performing an inventory and condition assessment of the system's assets;
- Defining level of service goals;
- Identifying critical assets;
- Establishing life cycle costs, and
- Developing a long-term funding strategy.

Examples of benefits/outcomes that can be realized through asset management:

- Prolonging asset life and improving decisions about asset rehabilitation, repair, and replacement;
- Meeting consumer demands with a focus on system sustainability;
- Setting rates based on sound operational and financial planning;
- Budgeting focused on critical activities for sustained performance;
- Meeting service expectations and regulatory requirements;
- Improving responses to emergencies;

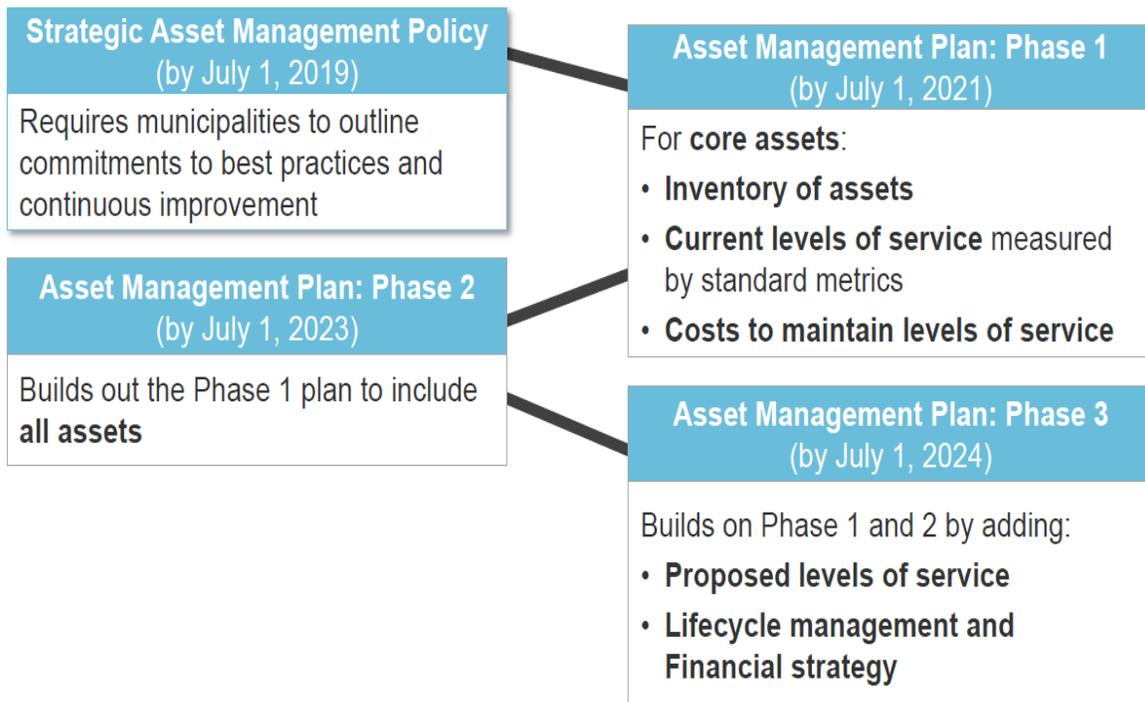
- Improving the security and safety of assets;
- Reducing overall costs for both operations and capital expenditures.

## Regulating Asset Management Planning

The Infrastructure for Jobs and Prosperity Act, 2015, was proclaimed on May 1, 2016 and includes an authority for the province to regulate municipal asset management planning. The purpose of the regulation is to implement best practices throughout the municipal sector so that the province, municipalities, and the federal government can work together to address challenges posed by aging infrastructure and increasing renewal pressures.

On January 1, 2018, Ontario Regulation 588/17: Asset Management Planning for Municipal Infrastructure came into effect. The regulation sets out requirements for municipal asset management planning to help municipalities better understand their infrastructure needs and inform infrastructure planning and investment decisions. Building on the province's *2012 Building Together: Guide for Municipal Asset Management Plans*, municipalities are required to adopt a strategic asset management policy that would promote best practices and link asset management planning with budgeting, operations, maintenance and other municipal planning activities. Continued municipal asset management planning will also help councils prepare long-term infrastructure financing plans and make good investment decisions for their residents

The following is an overview of the regulatory requirements for a Strategic Asset Management Plan (SAMP) as outlined in O. Reg. 588/17:



By July 1, 2019, all municipalities must have a SAMP policy in place, must implement an AMP to cover core assets by 2021, and an AMP for all assets by 2023. The last phase of the regulatory requirements is to include proposed levels of service and lifecycle management and financial strategy in the municipality's AMP by 2024. In the coming months, City Administration will bring a draft SAMP policy to Council for review and adoption.

## Operating Budget

The operating budget includes the day-to-day expenses and revenues that are required to run the municipality and provide services to citizens. It includes expense items; such as, salaries, contracted services, fuel, utilities, building materials, transfer payments, debt charges, and capital supported by the tax base. The City's 2019 operating expenditures increased by \$1.9 million (1.2%) when compared to the 2018 budget.

Operating expenses are offset by revenues. Municipalities rely on property taxation as a major source of revenue. The 2019 budget submission has been prepared with a tax levy of \$73,359,017. A tax levy increase of \$2,197,336 or 3.09%.

The 2019 budget submission is supported by the following revenue sources:

- \$75.7 million (44%) of total revenue comes from taxation, growth, supplementary taxation and payments in lieu;
- \$69.1 million (40%) of provincial grants supporting, for the most part, Social and Housing Services, Paramedic Services, and GSDL;
- \$18.3 million (11%) of revenue collected is from user fees and charges;
- \$7.8 million (4%) is received from other municipalities; and
- \$1.8 million (1%) from reserves.

The City's 2019 operating revenues (excluding taxation) increased by \$148,325 (0.14%) when compared to the 2018 budget.

Overall, including Police Services, the 2019 operating budget has increased by \$2.1 million (3.03%) when compared to the 2018 budget.

The 2019 budget submissions by department and the supporting commentary are provided in the Operating section of the budget book.

## Capital Budget

The City acquires, operates, maintains and renews assets to support the delivery of services to residents, businesses, partner agencies, and visitors.

The capital budget funds the City's infrastructure. Roads, bridges and sidewalks provide transportation networks. Recreation centres and playgrounds are community gathering places where people learn, play, stay healthy, and interact with one another. Ambulances, fire trucks, and snow plows are required to support emergency services and keep our city safe and accessible all year long.

In 2016, the City developed an AMP for the years 2016 to 2025. In total, including water and wastewater assets, the assets owned by the City amount to a value in excess of \$1.3 billion (2016 replacement dollars). The City's assets supported by the tax base are estimated at \$648 million (2016 replacement dollars).

The capital budget is financed through a combination of debt, government grants, development charges, reserves and contributions from the operating budget (tax base).

The 2019 capital budget submission identifies projects that would be undertaken during the year and how each project will be funded. As part of the Capital section of the budget book, staff have provided commentary describing each project. Each department has also included their 10-year capital forecast to 2028.

## Multi-Year Budgeting

A multi-year budget is a document that authorizes a municipality's planned expenditures and anticipated revenues for two or more consecutive budgetary years. The advantages of multi-year budgeting include improved financial management, long-term strategic planning, improved program monitoring and evaluation, linking operating and capital activities, and efficiencies with resources.

Multi-year budgeting is considered a best practice by the Government Finance Officers Association (GFOA) and has been embraced by several Canadian municipalities.

While the City of Cornwall has not implemented a multi-year budget approach, the annual budget does provide financial forecasting based on key assumptions applied to the operating budget for future years and through the application of the 10-year capital plan forecast.

To project the City's anticipated financial performance for the years 2020-2022 the following key assumptions, as outlined in the LTFFP, were used:

- Revenue (users fees, investment income) has been forecasted to increase at 2%;
- Provincial funding (social assistance, court security) is expected to increase at 1% with the same increase for related expenditures (external transfers);
- Ontario Municipal Partnership Fund (OMFP) is forecasted at 85% of the 2018 allocation;
- Salaries and benefits are projected to increase at an average rate of 2.5% per year based upon our financial model. This reflects settlements under the City's collective bargaining agreements, including incremental increases, corresponding

increases for non-union personnel, and increases in benefit costs and other staffing adjustments;

- Costs for materials and goods (materials, fuel, parts, supplies, utilities) are projected to increase at a rate of 1.0% per year, which represents the assumed general increase in energy costs due to inflation and the impact of saving initiatives undertaken by the City;
- Other operating expenses (contracted services, etc) are projected to increase at a rate of 3.0% per year, which represents the assumed general rate of increase in operating costs due to inflation and the impact of regulatory changes;
- Insurance is expected to increase by 2%;
- Principal and interest charges have been estimated based on current debt, approved debt, and anticipated debt based on the 10-year capital budget forecast.
- Contributions to reserves are projected to increase as the City moves towards life-cycle costing;
- Projected capital expenditures and associated funding (based on financial policy recommendations) are based on the 10-year capital forecast.

The estimated financial forecast chart for the years 2020-2022 can be found page A-2 of the City Overall section of the budget book

## Budget Challenges/Risks

### Tax Refunds

Over the past couple of years, the City has refunded tax dollars related to property assessment adjustments from Municipal Property Assessment Corporation (MPAC). At this time, not all tax appeal files have been settled. It is estimated that the City will refund \$6.4M in property taxes in 2019. The following 4-year plan (2020-2023) presents an option to address this liability.

Projected 2019 tax refunds	6,400,000
2019 Budget	-1,500,000
Tax Stabilization Reserve	-2,100,000
Shortfall funded from Working Reserves	2,800,000
<u>4-Year Plan</u>	
The \$700,000 annual budgeted contribution to the Tax Stabilization Reserve would be redirected to repay the Working Reserve	-2,800,000

## Ontario Municipal Partnership Fund (OMPF)

On December 21, 2018, the Minister of Finance issued a letter indicating that the OMPF program was under review.

OMPF allocations to municipalities is a critical component of funding that would have significant effects on residential tax rates if the funding is reduced or eliminated. In response to the Minister of Finance's letter, the Municipal Finance Officers' Association of Ontario (MFOA) conducted a survey of its membership so that information could be circulated on how municipalities are addressing the uncertainty surrounding the 2019 OMPF allocations in their budget approval process.

The responses from the survey included: increase communication with Council regarding the uncertainty and financial risk the municipality is facing, budget flat to the 2018 OMPF allocation, support any variances from reserves, assume and plan that the province will have a phase in approach and will honour the previous 85% guarantee, assume a smaller OMPF amount and increase the levy, put the budget on hold until there is further information/indication of the timing of OMPF.

On February 13, 2019, the Minister of Finance provided a follow up letter. Recognizing that municipalities are already into the budget year, the province would maintain the current structure of the OMPF for 2019. Funding to municipalities will remain virtually the same as in 2018. Allocation notices will be received in mid-March. As in the previous letter, the Minister notes that government transfer payments, including the OMPF program is under review and that the province is committed to announcing the 2020 allocations well in advance of the municipal budget year so that municipalities have appropriate time to plan.

In 2018, the City received \$3,834,100 in grant funding. The City has included this same amount in the 2019 budget submission. The City has included 85% of this amount in its 2020-2022 budget plan.

## Court Security Funding

The Ministry of Community Safety and Correctional Services (MCSCS) provides funding to Cornwall Community Police Services (CCPS) to offset costs incurred for providing security services at provincial courts. The City sent an inquiry email regarding 2019 funding to MCSCS. The MCSCS responded noting that a province-wide review of government expenditures is currently underway and that results from this review will inform the decision-making process for 2019, including all new agreements and disbursement of funds. This program is aligned with the OMPF program and the City expects to receive notice at the same time for both Programs.

## Capital funding from senior governments

Capital projects submitted by Transit Services rely on funding from the Investing in Canada Infrastructure Program (ICIP). Projects that are contingent on ICIP funding will be put on hold until the roll out of the ICIP is finalized.

# Reserves and Reserve Funds

The City maintains reserve and reserve funds in accordance with the Reserves and Reserve Funds Policy. Reserves are a critical component of a municipality's long-term financial planning. The purpose of maintaining reserves is to:

- Provide stability of tax rates;
- Provide funding for one-time or short term requirements without permanently impacting tax and utility rates;
- Make provisions for the replacement and/or maintenance of capital assets and infrastructure;
- Provide flexibility to manage debt levels and protect the City's financial position;
- Provide a source of internal financing;
- Ensure adequate cash flows;
- Provide for future liabilities incurred in the current year but paid for in future years.

The Reserves and Reserve Fund Policy ensures that annual reporting to Council will occur at the same time that the City's Financial Statements are presented. The annual report is to provide an update on the balances of reserves, how they compare to the targeted funding levels established in the policy, and recommend to Council a plan to work towards achieving the targeted balances.

As the City moves forward, financial sustainability must continue as one of Cornwall's key priorities. Reserves are a critical component of the City's LTFP. Continued infrastructure renewal investment will ensure that services are sustainable in the future and meet the citizen's level of service expectations. Adequate reserves will position the City to be able to meet these future infrastructure needs.

Further detail regarding City reserves can be found in the Reserve section of the budget book.

# Development Charges

Development charges (DCs) are collected by municipalities to recover a portion of the growth-related costs associated with the capital infrastructure needed to service new development.

DCs are based on the methodology that existing taxpayers should not be liable for capital costs of new growth. At the same time, new taxpayers should not have to contribute more than the net capital cost attributable to growth in order to maintain current levels of municipal services.

DCs are the primary way for Ontario municipalities to raise funds for required growth related capital infrastructure improvements related to the provision of services and to provide a

funding source to minimize the impact on the existing tax base. DC funds may only be used for the purpose for which they are collected.

As part of the 2016-2018 Strategic Plan initiative, the City retained Watson and Associates Economists to undertake the development charges study process. The overall objective of the study was to introduce development charge rates that reasonably represented the anticipated costs resulting from projected growth over the 10 year forecast of the study.

The 2019 budget submission includes \$2.1 million from the DC reserve to fund capital projects. Financial Services, in consultation with departmental staff, reviewed the capital budget submission to determine growth related projects that would be eligible for recovery from DCs.

Following the approval to the DC bylaw, the City began charging DCs in April of 2018; therefore the use of DCs as a funding source for capital projects was not included in the City's LTFP. This new funding source will relieve financial pressures from the tax base, reserves, and the necessity to borrow.

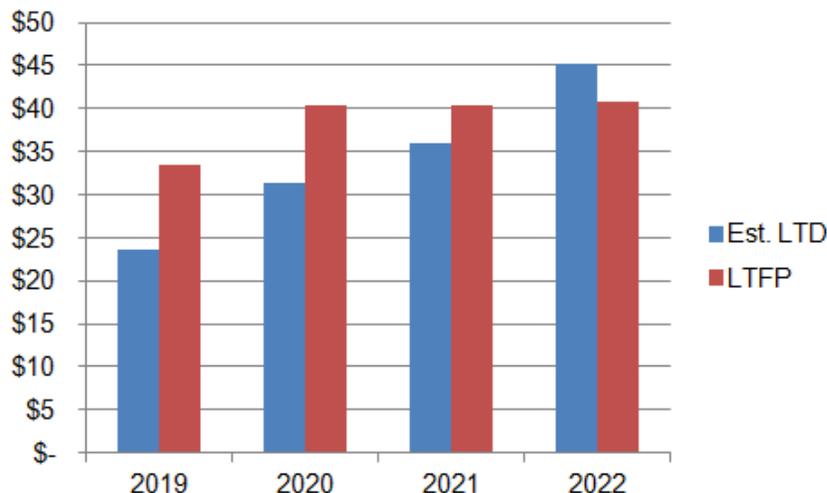
## Long Term Debt

Debt is a long-term tool that can be used to help fund the capital budget. In many respects, it works much like a home mortgage, with the principal and interest being repaid over the asset's life.

One of the principles in the LTFP, states that debt financing should be used, where appropriate. More specifically, debt financing should only be considered for new, non-recurring infrastructure requirements, programs and facilities which are self-supporting and projects where the cost of deferring expenses exceeds debt servicing costs.

As part of the general taxation budget, the City has a total of \$22.5 million in outstanding debt at the beginning of the 2019 fiscal year, an additional \$11.2 million of approved borrowing from prior years, with approximately \$59.4 million (\$12.3 million in 2019 budget submission) in new debt to be issued over the next ten years.

The following chart shows the four-year (2019-2022) forecasted balance (shown in the millions) of long-term debt compared to the LTFP.



One of the financial policy recommendations from the LTFP is that over a ten year period, the City would shift capital funding from debt financing to reserve funding based upon life-cycle costing. The City's goal would be a financial state where debt financing is a last resort tool for one-time projects where insufficient life-cycle costing funds are available.

To accomplish this, the municipality has set specific targets for debt, which will help it to steadily reduce its debt level and associated debt charges (principal and interest) that must be repaid each year.

The maximum long term borrowings available to the City based on the 2018 Annual Repayment Limit (ARL) is approximately \$309.9 million resulting in debt capacity available to the City of approximately \$271.1 million based on provincial guidelines. The annual repayment limit for the City is \$24.9 million.

However, in order for debt to be affordable and sustainable, the City is following a policy recommendation in the LTFP that sets a maximum annual repayment limit of 10% of net own-source revenues (approximately \$10.7 million in principal and interest payments annually).

The City remains well within its annual debt and financial obligation limit. The City's annual debt payment for 2017 was \$5.3 million (\$4.0 million in principal and \$1.3 million in interest).

Each year, at the same time that the City's Financial Statements are presented, a report is presented to Council containing information related to the current status of the City's Municipal Debt Limits.

## Debt Management Policy

The City's LTFP recommends the City adopt a Debt Management Policy. A Debt Management Policy would be a comprehensive policy on debt issuance and would form a cornerstone of the City's financial strategy. The purpose of the Debt Management Policy would be to formally set out the parameters and provide guidance by establishing guidelines and appropriate controls for the use and issuance of debt and by integrating debt management with other long-term planning.

During 2019, the Financial Services department plans to develop a draft Debt Management Policy for Council's consideration.

# Budget Highlights

The 2019 Budget for the City of Cornwall can be summarized as follows:

- ❑ This document has been prepared with a tax levy of \$73,359,017. A tax levy increase of \$2,197,336 or 3.09%;
- ❑ This includes \$425,000 of growth (new assessment from 2018 supplementary taxation) that has been added to the 2019 tax roll;
- ❑ Operating budgets funded from the tax base for City departments (including Police Services) has increased by \$2,109,686 or 3.03%;
- ❑ The combined net capital budgets for City departments funded from the tax base have increased from \$1,586,850 to \$1,674,500 (\$87,650 or 5.52%);
- ❑ The City manages an annual operating budget of \$177.5 million and a capital budget of \$22.2 million.

# Proposed Tax Dollars at Work

The 2019 municipal taxes for the average home assessed at \$169,932 would be \$2,484.35 annually (\$2,412.90 in 2018). An average annual increase of \$71.45 or 2.96%.

