



13

2022 - 2023

Operating Budget Forecast



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Overview

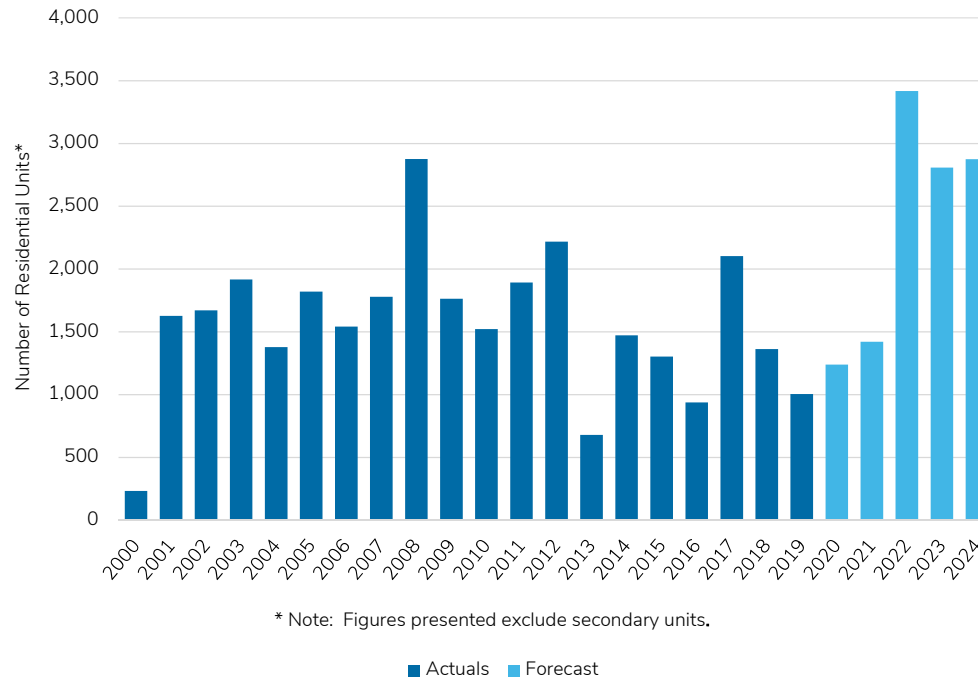
When preparing future budgets, estimating the rate of growth that is anticipated to occur in the Town is especially important, as both the capital and operating budgets will be affected by the revenues and expenses generated from this growth. Incremental tax revenues will be generated from assessment growth, however with growth also comes the increased demand to expand services and infrastructure such as facilities, parkland and roadways.

Residential Growth

The taxes raised from residential growth do not currently cover the costs of services provided and therefore balancing growth between the residential and non-residential sectors is critical to financial stability. Over recent years, residential growth has outpaced non-residential with the mix of assessment (unweighted) changing from 71.8% residential in 2001 to 82.7% residential in 2020.

The growth projections shown below give consideration to expected timing of subdivision agreements and site plans that are in progress or in the pre-consultation stage. The following graph shows that beginning in 2022, the Town is anticipating a significant amount of volume as the Boyne area continues and new areas progress.

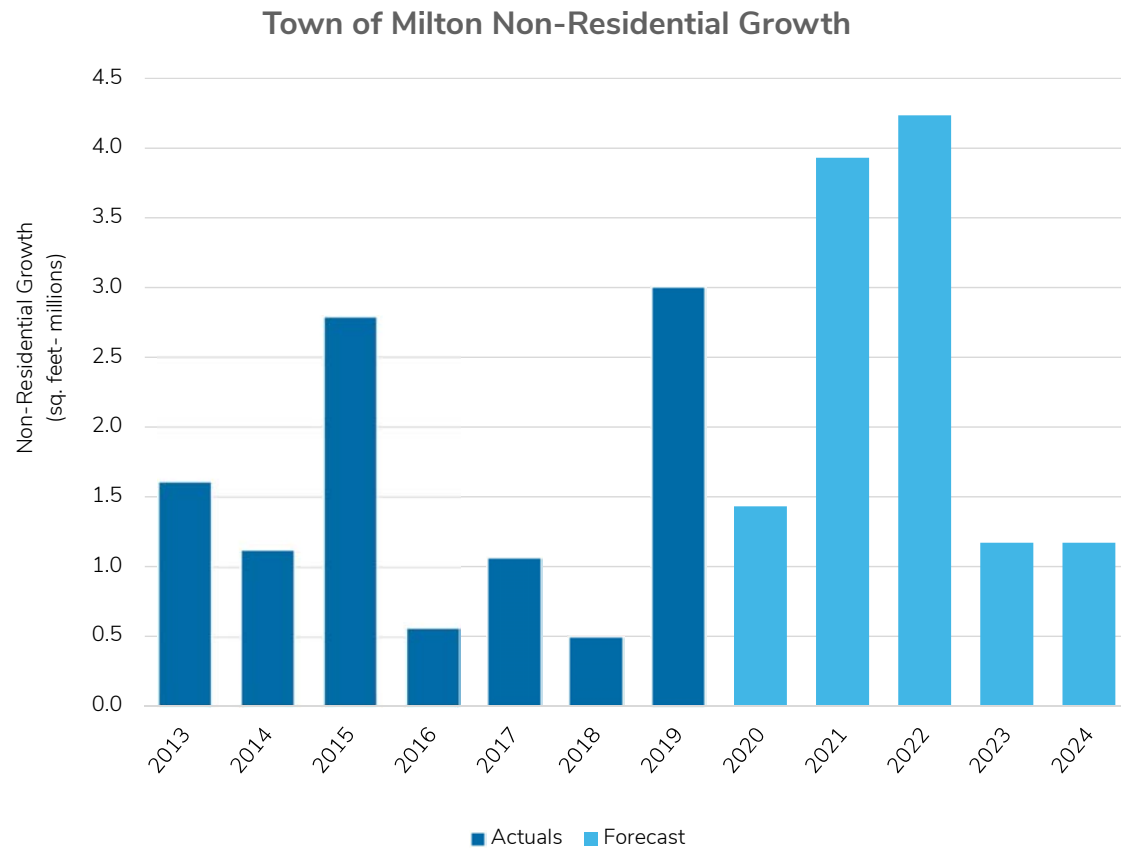
Town of Milton Residential Growth



Overview

Non-Residential Growth

Non-residential activity is also expected to increase as the Derry Green business park activity continues with 3.9 million square feet of development anticipated in 2021 and over 4.0 million square feet the following year.

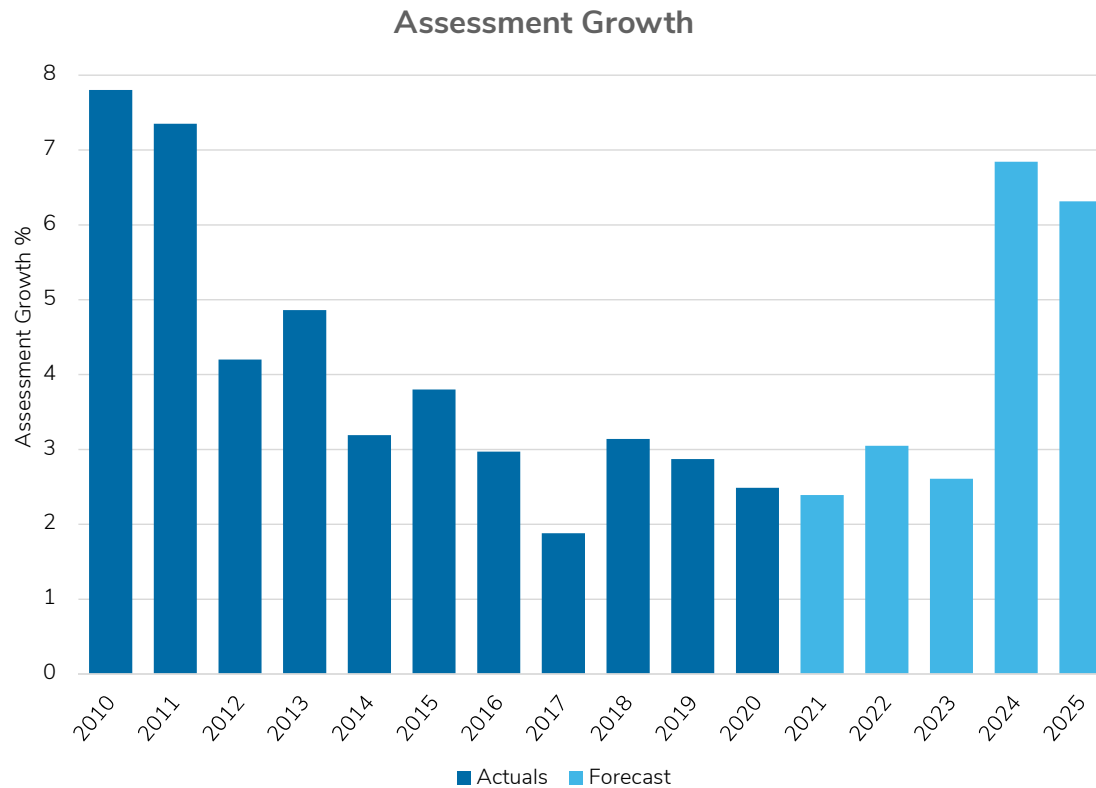


Overview

Assessment Growth

The anticipated growth is important to consider for budgeting purposes because it translates to assessment growth that can be used to offset a portion of the resulting costs associated with growth in future years.

Due to the lag in timing from permit issuance (presented on the last two graphs), to assessment that is included in the tax roll, the Town can expect increasing numbers similar to those realized in 2010-2015 in years beyond 2023. The following graph shows the assessment growth history, as well as the current five year forecast.



Overview

Pressure on the tax levy in the amounts of \$4.9 million and \$7.4 million are projected for each of 2022 and 2023. These pressures are primarily due to the expansion of service delivery such as transit and maintenance of roads and parks to new areas of the community as well as lifecycle contributions for the future replacement of growth related assets.

The projected pressure on the tax levy is partially offset by additional property tax revenues resulting from assessment growth. Based on anticipated building activity in both the residential and non-residential sectors, assessment growth revenues are expected to offset \$2.2 million of the levy pressure in 2022 and \$2.1 million in 2023. The timing of building activity, particularly industrial and commercial activity, can fluctuate significantly and be challenging to predict. As such, the tax rate impact between years will continue to require review and future updates.

As shown in the table below, and based on a 2021 tax rate increase of \$9.74 per \$100,000 of residential assessment (the equivalent of a 3.93% tax increase at the local level), the Town can expect a tax rate pressure of \$16.85 and \$24.52 per \$100,000 of residential assessment in each of 2022 and 2023 in order to maintain existing service levels. These forecasted impacts translate to an estimate 6.5% and 8.9% pressure at the local level in those years.

The multi-year forecast is presented through the budget process to help inform the decisions made with respect to the current year's approval. At this stage pressures have been presented based on anticipated need and without further mitigation. As with the year 2021 and other recent budgets, through the 2022 budget process the Town will look at opportunities to reduce those pressures through measures such identifying further efficiencies (through service delivery review, for example), deferring growth capital or service level changes or increasing non-property tax revenues sources. Findings from processes like the Town's Fiscal Impact Studies will also be considered in determining the appropriate balance of investment in services and maintaining an affordable property tax rate.



Overview

Component	2022			2023			Comments
	Net Levy Impact \$ (000's)	Residential Tax per \$100K of Assessment*	% Change	Net Levy Impact \$ (000's)	Residential Tax per \$100K of Assessment*	% Change	
Prior Year Tax Levy	\$73,799	\$257.86		\$81,003	\$274.71		
COVID-19 Impacts:							
COVID-19 Net Financial Impact	(\$2,818)	(\$9.56)	-3.71%	\$0	\$0.00	0.00%	Reversal of net impact of COVID-19 included in the 2021 budget.
COVID-19 Reversal of Contribution from Tax Stabilization Reserve	\$1,409	\$4.78	1.85%	\$0	\$0.00	0.00%	Reversal of 2021 contribution from Tax Rate Stabilization Reserve offsetting temporary impacts from COVID-19.
COVID-19 Reversal of Additional Mitigation	\$1,410	\$4.78	1.85%	\$0	\$0.00	0.00%	Reversal of additional COVID-19 mitigation from 2021 budget.
Inflation and Base Adjustments:							
Inflation (MPI)	\$1,839	\$6.24	2.42%	\$1,971	\$6.51	2.37%	Inflation based on Municipal Price Index (MPI) and other miscellaneous status quo items.
Non-recurring & Reversal of One-Time Transfers	\$3	\$0.01	0.00%	\$0	\$0.00	0.00%	Reversal of one-time funding from stabilization reserves included in 2021 budget (\$0.3M transit, \$0.15M library). Reversal of transfer to reserve from additional assessment growth dollars from 2021 (-\$0.45M)
Service Delivery Review	\$50	\$0.17	0.07%	\$50	\$0.17	0.06%	Conversion of seasonal operations workers to full time phased in over four years.
Service Enhancements	\$233	\$0.79	0.31%	\$0	\$0.00	0.00%	Introduce Transit Master Plan recommendations (cross boundary service in 2022).
Infrastructure Deficit	\$1,000	\$3.39	1.32%	\$1,000	\$3.31	1.20%	Funding to gradually reduce the infrastructure deficit outlined in existing asset management plan.
Other Base Adjustments	\$324	\$1.10	0.43%	\$190	\$0.63	0.23%	Expected additional hydro savings from implementation of solar panels at Sherwood Community Centre (\$40K in 2022), fire related staffing costs including annualization of the 2021 fire crew.
Total Inflation and Base Adjustments	\$3,449	\$11.70	4.54%	\$3,211	\$10.61	3.86%	
Growth Related:							
State of Good Repair for Constructed & Assumed Assets	\$1,462	\$4.96	1.92%	\$2,877	\$9.51	3.46%	Lifecycle contributions to reserves based on budgeted and assumed assets in order to prevent a further increase in the infrastructure funding deficit.
Expanded Service Delivery to Growth Areas	\$1,748	\$5.93	2.30%	\$1,790	\$5.92	2.15%	Costs (materials, contracts etc.) of expanding service to growth areas e.g. road and park maintenance, expansion of transit to Derry Green & Boyne areas in 2022 (\$1.1 M). New fire crew in each of 2022 (\$0.3M) and 2023 (\$0.4M).
Other Growth-Related Impacts	\$544	\$1.84	0.72%	\$1,654	\$5.47	1.99%	Funding for legislated development charge exemptions (\$0.2M), growth related increase to reserves (\$0.2M-2022, \$0.3M-2023), transit facility (\$0.2M-2023), HRIS (\$0.4M-2023), Library Bookmobile (\$0.2M-2023).
Total Growth Related	\$3,754	\$12.73	4.94%	\$6,321	\$20.89	7.60%	
Total Increase in Levy	\$7,204	\$24.43	9.47%	\$9,532	\$31.50	11.47%	
Total Tax Levy	\$81,003	\$282.29		\$90,535	\$306.21		
Estimated Assessment Growth (net of reductions)**	(\$2,237)	(\$7.59)	-2.94%	(\$2,113)	(\$6.98)	-2.54%	Forecast assessment growth based on updated residential growth forecast and expected industrial/commercial development.
Forecasted Net Tax Levy Increase	\$4,967	\$274.71	6.53%	\$7,419	\$299.23	8.93%	

* Based on 2020 CVA values per 2020 Final Tax Levy By-law and Tax Policy update, CORS-032-20. Through the annual tax setting by-law tax rates are re-calculated each year using current year assessment values.

** This is the amount net of anticipated losses from Assessment Review Board appeals, Request for Reconsiderations, and Section 357 Applications (tax class changes, properties razed by fire, etc.).

Overview

The key assumptions used to prepare the operating budget forecast are outlined in a table on page 314 and the main impacts of projected increases to the tax levy are summarized below.

COVID-19 Impacts

The 2021 budget has been prepared on the basis that by the fourth quarter of 2021 the Town will resume normal business activity as part of the recovery from COVID-19. Accordingly, the 2022 and 2023 operating forecast do not currently reflect any continuing impacts from the pandemic. The net financial impact of COVID-19 of \$2.8 million included in the 2021 budget is reversed in 2022 along with the mitigation strategies used. Further information will be needed in 2021 to assess the likelihood of this outcome, and the forecast will require updating as the pandemic and associated implications continue to evolve. COVID-19 has also impacted fuel consumption which could impact the level of provincial gas tax received by the Town beginning in 2022.

Inflation and Base Adjustments

Included in the operating forecast are inflationary impacts to the base budget from the prior year. The inflation index used in the forecast is the Municipal Price Index (MPI). The MPI is an inflationary index based specifically on the mix of goods and services purchased by the Town calculated as a weighted average of price increases for each component in the Town's budget. A detailed review and update to the Town's MPI is calculated and presented annually, typically through the Budget Call Report. For purposes of forecasting inflationary pressures, a high level update to the 2021 MPI was done to reflect current index information available or where information was not available an average of historical indices was used.

All one-time funding and other non-recurring items included in the 2021 budget are planned to be reversed through the 2022 budget. The significant reversals include:

- Reversal of \$300,000 one-time contribution from Tax Rate Stabilization Reserve used in the 2021 budget to smooth the impact of the reversal of the 2020 contribution for the transit program.
- Reversal of additional contributions of \$150,000 one-time contribution from Library Tax Rate Stabilization Reserve to smooth the impact of opening the new Sherwood branch.
- Reversal of \$450,000 one-time contribution to the Tax Rate Stabilization Reserve transferred in the 2021 budget as a result of higher than anticipated assessment growth.

A number of service level increases that had previously been identified as part of various master plans or reports are reflected in the operating forecast as follows:

- Service Delivery Review Recommendations
 - » Conversion of seasonal operations workers to full time phased in over four years starting in 2022 with an estimate of \$0.05 million each year.
- Service Enhancements
 - » Transit Master Plan Recommendations such as the introduction of Cross-Boundary Service in 2022 (\$0.2 million)

The forecast also includes an annual addition of \$1.0 million in increased funding for the capital renewal program to continue to mitigate the existing infrastructure deficit as previously discussed through this budget document and the Asset Management Plan.

Included in Other Base Adjustments is additional savings anticipated to be realized as a result of the planned solar panels installation on the Sherwood Community Centre. Also included are the annualization of the fire crew included in the 2021 budget process to service Fire Station 5, as well as the anticipated costs that result from the fire staff's progression through the ranking levels.

Overview

Growth Related Expenditures

As new development occurs and the Town either builds assets or acquires assets from developers, the Town not only assumes the cost for maintaining the assets but also is responsible for the future replacement of those assets. In line with financial sustainability practices outlined in Financial Principles Policy No. 110 the forecast continues to provide for a transfer to reserve to fund the future rehabilitation and replacement of the assets, resulting in incremental amounts of \$1.5 million and \$2.9 million in each of 2022 and 2023, respectively.

The forecast also includes the incremental costs of expanding existing services to areas of the community such as the maintenance of new roads and parks and transit service. The expansion of service delivery is estimated to add incremental costs in 2022 and 2023 of \$1.7 million and \$1.8 million respectively. This includes an allowance of \$0.35 million in each of the years for the addition of new positions (CORS-043-17). The expansion of transit service to the Derry Green and Boyne areas is expected to result in \$0.18 million of additional operational costs in 2022 and \$0.5 million in 2023. The forecast also provides for an additional fire crew in each of 2022 and 2023.

Other growth related costs include:

- An additional transfer of \$0.2 million in both 2022 and 2023 to the Growth Capital - Other reserve to provide for sufficient funds for the legislated development charges exemptions. As per the Development Charges Act and the Town's Development Charge By-law, certain forms of development are exempt from paying development charges (DC's). For these developments, the Town must fund the amount that would otherwise have been collected through DC's.
- The implementation of technology projects intended to create efficiencies for the Town including a new Agenda Management System (\$0.03 million impact in 2022), Radio Communications (\$0.06 million impact in 2022), Building Public Portal (\$0.02 million impact in

2022), Property Tax System (\$0.1 million impact in 2023) and Human Resource Information System (\$0.4 million impact in 2023).

- Transit facility maintenance costs as the facility is planned to be operational mid-2023 (\$0.16 million impact in 2023).
- Library Bookmobile (\$0.2 million impact in 2023).
- Miscellaneous other growth related costs such as changes in subdivision revenue related to planned development activity, a growth in tax write-offs and a growth related increase in budgeted transfers to reserves.

Assessment Growth

Offsetting a portion of the costs in the forecast will be the incremental property tax revenue that is generated through the assessment growth realized from new developments and property revitalizations. The Town is currently seeing lower assessment growth values than has been historically achieved and this trend is expected to continue through 2022 and 2023.

While residential growth is projected to increase in 2022, there is an average of a two-year difference between the time of application of a development and the year in which it is recognized on the returned tax roll for budget purposes. Similarly, in the Industrial/Commercial area, growth is projected to increase through 2021 and 2022 but there is generally a three-year lag before these properties will be on the tax roll for budgetary purposes. In both cases the timing delay takes into consideration the time from application to the occupancy upon which the final assessment value based. Given the current growth projections, the Town is expected to return to higher assessment growth revenues beginning in 2024.

Overview

2022 - 2023 Operating Budget Forecast Forecast Assumptions

ACCOUNT SUMMARY	ASSUMPTION and/or SOURCE	ACCOUNT SUMMARY	ASSUMPTION and/or SOURCE
EXPENSES		REVENUES	
<u>Salaries and Benefits</u>		<u>Taxation</u>	
Salaries and FTE		- Penalties / Interest	Maintained at 2021 Budget Estimates
- Increases for salaries and benefits have been applied to reflect contractual agreements and current market adjustments		- Supplementary Taxes	Maintained at 2021 Budget Estimates
- \$350,000 for new positions in 2022 and 2023 to address growth needs and KPMG's review findings (CORS-078-15 and CORS-043-17)		- Railway Taxes	Maintained at 2021 Budget Estimates
<u>Administrative</u>		<u>Grants and Interest Income</u>	
- Increase at the rate of 1.5% (CPI)		- Maintained at 2021 Budget Estimates	
<u>Financial Expenses</u>		<u>Payments in Lieu (PIL)</u>	
- Debt Charges	As per debt schedules and capital forecast	- Maintained at 2021 Budget Estimates	
- Transfer to Capital	Based on capital forecast	<u>Provincial Offences Act (POA) Revenue</u>	
- Transfer to Reserves	Increase at a rate of 2.39%, the weighted average of indices used for MPI, with the exception of the building reserve lifecycle and capital transfers tied to the Asset Management Plan	- Maintained at 2021 Budget Estimates	
<u>Purchased Goods and Services</u>		<u>User Fees</u>	
- Increase at the rates per the 2021 MPI		- User fees - increased by 2.12% (rate of estimated MPI)	
- Incremental roadway maintenance costs for 85 new lane kilometres in 2022 and 16 new lane kilometre in 2023		<u>Recoveries/Donations</u>	
- Increases for utilities, fuel and insurance costs are based on anticipated rate increases		- Maintained at 2021 Budget Estimates with the exception certain funding arrangements	
<u>Transit</u>		<u>Finance</u>	
- Implement and annualize operating impacts for capital acquisitions		- Per unit fee increased at the same rates as non-union compensation	
<u>Facilities</u>		- Transfer to Capital indexed by assessment growth and inflation	
- Implement operating impacts from growth facilities including Transit Facility		<u>Assessment</u>	
- Implement operating impacts from additional fire crew for Fire Station 5		- Residential -	
<u>Parks</u>		- Residential -	
- Implement operating impacts from growth projects		2022	978 units @ \$ 438,519 * 2020 Final Tax Rate
		2023	1,421 units @ \$ 455,857 * 2020 Final Tax Rate
		- ICI -	
		2022	2,936,229 sq. ft. @ \$ 126 * 2020 Final Tax Rate
		2023	1,430,781 sq. ft. @ \$ 123 * 2020 Final Tax Rate
		- Net Annual Growth -	
		2022	2.94% Includes anticipated assessment losses
		2023	2.54% Includes anticipated assessment losses