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Date	September 20, 2023
To	Finance Committee – September 20, 2023
From	Heather Sachs, Director of Financial Services/Treasurer
Report No.	FIN22-23
Report Title	Preliminary Operating Budget 2024

Recommendation

That Report FIN 22-23 respecting, the Preliminary 2024 Operating Budget, be received as information; and

That Council acknowledge the proposed Preliminary 2024 Operating Budget as presented; and

That Council direct staff to present the final version of the 2024 Operating Budget for review and adoption at a future meeting.

Executive Summary

Section 290 (1) of the Municipal Act, 2001 requires that each year local municipalities prepare and adopt estimates for the purposes of the municipality including amounts sufficient to pay all debts falling due within the year, and amounts required for any board, commission, or other body. Preparing and adopting annual budget estimates determines Aylmer's revenue requirements that will need to be collected through taxation and user rates. Aylmer Council has had preliminary capital budget presentations as well as a report outlining some of the budget pressures that the Town will be faced with on August 9th, 2023. A report containing the updated Water and Wastewater Rates, and Development Charges for 2024 will be presented in the fall. The operational budget estimates presented to Council this evening anticipate an 10.81% tax levy increase in 2024 and with the current assessment data, this would equate to a residential tax rate increase of approximately 10.06% since growth was

only very slight. Attached are the Preliminary 2024 Operating budget files without working through any options at this point. The list of further options for Council to consider will be presented for council consideration at a future meeting but some have been included for review and comment below.

Background

This report represents another step in the Town's continued efforts to move toward a more transparent and interactive budgeting process. We are not addressing the substantial capital infrastructure gap in this current operating budget year with the pressures encountered by residents such as cost of groceries, gas, and essentials. This is not the year to address the historical gap.

The MPAC data suggests a very minimal amount of growth in mid 2023 and Aylmer's 2023 average CVA of a detached home is still around \$214,000. We are working with MPAC to have the various properties with occupancy reviewed as a priority so that they will be able to be included in the cutoff timing for the 2024 roll of assessment.

In 2022, the town had a decrease in assessment of -0.04% which is extremely rare. For 2023, the town has a very small increase in assessment of 0.99% overall. After several years of being stagnant, the new developments happening now will cause an anticipated growth for 2024 and 2025 as the homes in these new subdivisions gain occupancy pending economic conditions. There are several properties currently in the queue to be assessed by MPAC and staff are hopeful to see this assessment come through for the assessment roll book in December.

2024 Operational Pressures

The main pressures or budget drivers upon the 2024 Operating budget are:

- Significant inflationary pressures due to labour bottlenecks, supply chain and transport issues,
- Increased costs to commodities such as diesel,
- Vendor costs increase due to labour and materials,
- MPAC assessment resulting in only marginal growth in 2024,
- High interest rates are causing an economic slowdown in the housing market,
- Switching from one temporary to permanent employee position in 2023 to support future growth.

Increased employee complement to support growth

The restructuring that the town has undergone in the last few years has helped to support growth, expedite residential development and prioritize capital projects now in the Industrial Sector of Aylmer. The expertise in lot grading plan assessment, inspections and general development reviews has helped expedite site alterations such as infill development, site plan inspection and review with the CBO. It has also helped in moving forward plans of subdivision which had been historically stagnant or delayed. While the interest rate announcements have slowed building permit issuance and the sale of the larger homes in our new residential developments, we can remain hopeful that these volumes will normalize before the end of the year.

The added staffing complement has also created and streamlined contract documents and design guidelines to help with our tendering process. The documents which have been created help contractors in the quotation process that ensures the Town is offered the best possible pricing. The result in favourable pricing relates to the contractors being able to eliminate uncertainty in the quoting process. The value is shown in the bottom-line of the contracts because the contractors know exactly what they are pricing. Historically, the tendering process for all of these tenders would be contracted to an outside engineering firm and staff have been able to tender and answer the majority of the questions in-house.

The temporary contract position added in 2022 for an Administrative Records Assistant was approved by council as a full-time position in the spring of 2023. This position has already helped tremendously with moving forward the business process systems initiatives and modernization using Laserfiche including more recently, working with Elgin County to integrate a document lookup of drawings in GIS.

The volunteer firefighter headcount will remain at 26 plus 2 auxiliaries for 2024. Staff will not present an expansion in this area until we see the subdivision developments fill in creating a need.

Recycling Contract Ending 2024

The Environmental Services budget sees a reduction in area of recycling costs from 2023 due to provincial requirements. O. Reg 349/22 established that municipalities will no longer operate Blue Box programs. The Town of Aylmer had been assigned a transfer date of July 2023. We do anticipate that this change will result in any further operational savings other than what has been presented in this initial budget report. While Blue Box services will continue past the transition date with producers of recyclable materials being responsible for the costs associated, Council has decided to cover the cost of the approximate 75 affected businesses that still require pick-up for this service. The anticipated cost has been included in this 2024 budget.

Prior year adjustments

In 2023, Council was forced to make some tough decisions regarding cuts to reserve contribution, offsetting the tax levy impact with a 100k contribution from the Council Initiatives Reserve and holding wages to a 1.5% increase in 2023 while all of our neighbours were able to give increases tied to the CPI index. These challenges come back to be compounded challenges for 2024.

Staff would like to point out a few options that council considered last year that has helped contribute to the starting point for 2024 such as:

1. Council approved to reduce a contribution to 8k for the next election in 2023 and it has still not been added back to the operating budget for 2024 so staff are suggesting adding 16k to 2025 instead.
2. The transfers to reserves that were removed in 2023 of 35k for modernization and technology projects were not added back in 2024 so staff are suggesting adding the 35k transfers to 2025 instead.
3. The remaining transfer to capital funds for asset management for 2024 would only be an additional 25k.

One-time reductions for 2024 & Additional Measures Towards 2024 Affordability

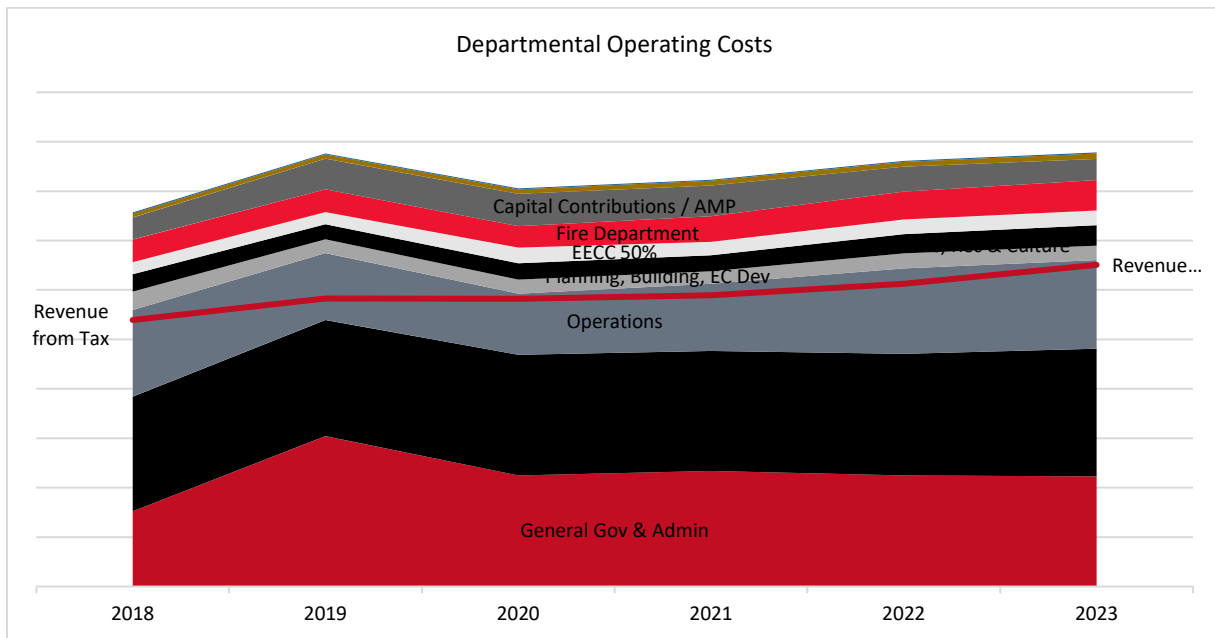
Through subsequent senior management reviews, one-time cuts have been historically found by pushing off some expenditures such as pushing off operating tool replacements and delaying training costs. This will not help our position for 2024 as these amounts have never been replaced and the departments are already operating on a shoestring budget.

Although the OCIF amount is outstanding at this point, it would be transferred to deferred revenue and it would not help offset the tax levy increase regardless, and this amount will be shown as a direct contribution to reserves with a net zero impact when received.

Analysis

The current tax levy impact as a starting point for 2024 prior to any adjustments or increases was approximately 3%. When adding estimated increase related to insurance cost due to claims, decreased revenues from the sale of property, contractual salary increase for 2024 of 1.5%, increased cost in contractual labour, increase costs from inflationary pressures in materials and decreased operational funding anticipated from the province, an aging fleet of vehicles, considerations from the budget survey and limited growth, we end up at an overall starting point of just over 10.5%. The wage review completed over the past few years has shown that the town was behind in wage updates when compared to the market which has also been corrected in this preliminary 2024 operating budget file.

Departmental Operating Costs



The majority of the changes overall are related to salary and contracted services. Any contracted service reductions have come from being able to complete more of the services with the expertise inhouse. The departments that had minimal changes related to any other than salary include Government and Administrative, Planning and Development, Protection Services, Police Services, Water, Wastewater.



**TOWN OF AYLMER
Summary of All Units**

	Current Year	Future	Future	Future
	Budget 2023 YTD	Budget 2024 YTD	Roll 2023 to 2024 increase/(decrease) YTD	Roll 2023 to 2024 increase/(decrease) %
General Fund Expenditures				
Total Salaries, Wages & Benefits	6,691,588.13	7,266,000.14	574,412.01	8.58%
Total Admin, Materials and Supplies	4,895,951.35	5,091,096.13	195,144.78	3.99%
Total Contracted Services	1,433,940.01	1,386,039.41	-47,900.60	-3.34%
Total Rents and Financial Services	15,589.00	15,589.00	0.00	0.00%
Transfer to Own Funds	1,939,416.00	1,326,914.00	-612,502.00	-31.58%
Total Long Term Debt	67,803.00	951,681.00	883,878.00	1303.60%
Total General Fund Expenses	15,044,287.49	16,037,319.68	993,032.19	6.60%
General Fund Revenues				
Total Taxation Revenues	-6,507,576.90	0.00	6,507,576.90	-100.00%
Total Payments in Lieu of Taxes	0.00	0.00	0.00	0.00%
Total Tax Write-offs	25,000.00	25,000.00	0.00	0.00%
Total Canada / Ontario Grants	-2,750,211.59	-2,646,020.29	104,191.30	-3.79%
Total Municipal Contributions	-425,268.00	-446,335.00	-21,067.00	4.95%
Total User Fees and Charges	-5,166,670.00	-5,674,670.00	-508,000.00	9.83%
Total Licenses, Permits and Rentals	-165,185.00	-155,185.00	10,000.00	-6.05%
Total Fines and Penalties	-68,900.00	-68,900.00	0.00	0.00%
Total Other Revenues	-294,000.00	-294,000.00	0.00	0.00%
Total Transfer To / From Own Funds	-125,000.00	-25,000.00	100,000.00	-80.00%
Total General Fund Revenues	-15,477,811.49	-9,285,110.29	6,192,701.20	-40.01%
Net General Fund (Revenue)/Expenditure	-433,524.00	6,752,209.39	7,185,733.39	
Total Operating Projects / Capital from Operating	433,524.00	458,524.00	25,000.00	5.77%
Tax Levy	0.00	7,210,733.39	7,210,733.39	

Fire

Most of the changes in fire include substantial increased operating costs due to the aging ladder truck and the addition of the 30k contribution to reserves for the fire communications equipment requested by the County.

EECC

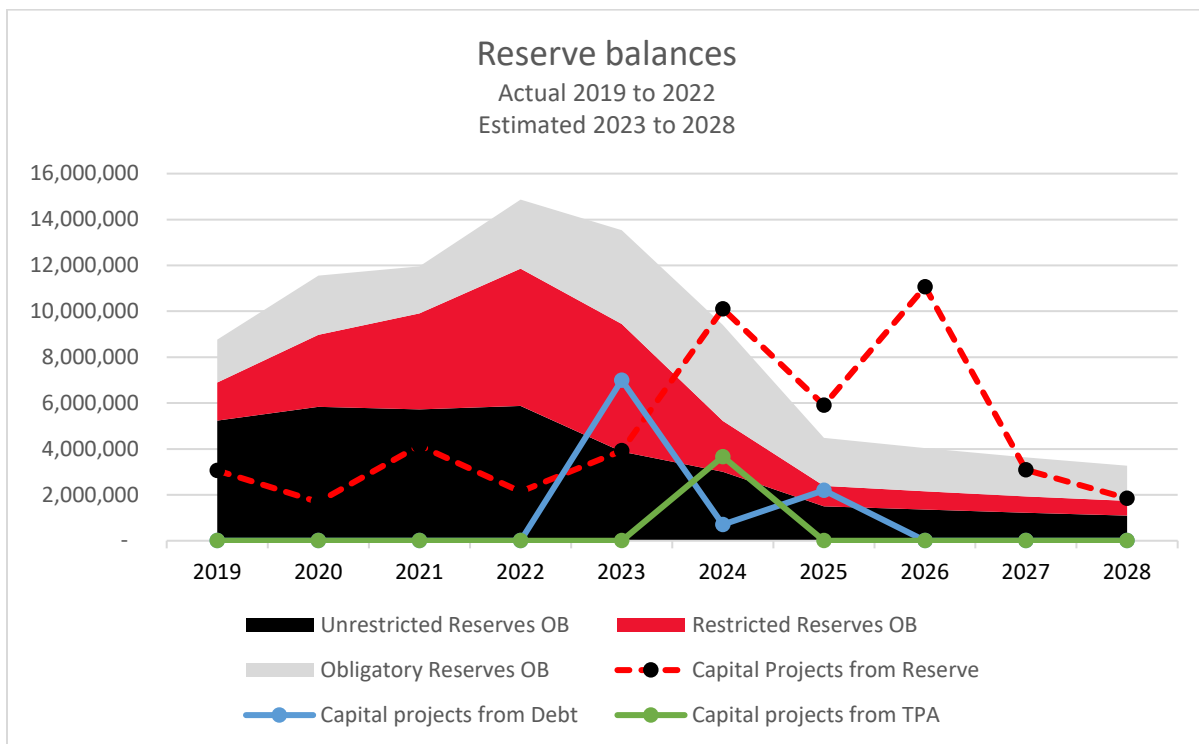
The EECC operating budget will be presented to the board for consideration before details would be published.

Police

Negotiations are ongoing between the PSB and the Police Service regarding compensation. The Police operating budget will be presented to the board for consideration before details would be published.

Reserve Balances

In June, Council endorsed that staff prepare a final loan application and approved an overall project amount of 11.5 m for the water tower project to move forward as planned. This project will be entirely funded out of debt and grant funding at this point. The remainder of the projects have been suggested to be paid from reserves as in past practices. The graph below shows how the past reserve balances will be drawn down to normal levels by the 2027-2028 timeframe with the estimated capital expenditures until then. The blue line represents the issuance of debt for the water tower in 2023 and the green line represents the cash injection from the ICIP grant for the water tower occurring in 2023-2025. The red dotted line shows the cash outlay of capital investment required from reserves spiking in 2025-2027 due to Elk Street, Lagoon Optimization, Scada and investment in the industrial infrastructure for AIM Park. At this time, staff are not recommending any further cuts to funding transfers to capital or reserves because of the impending commitments.



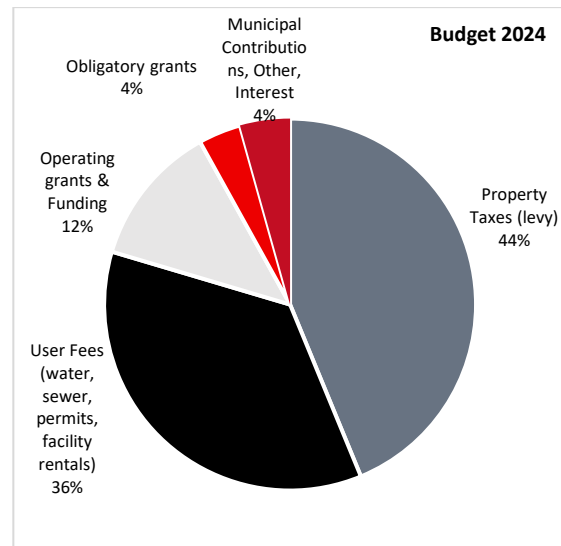
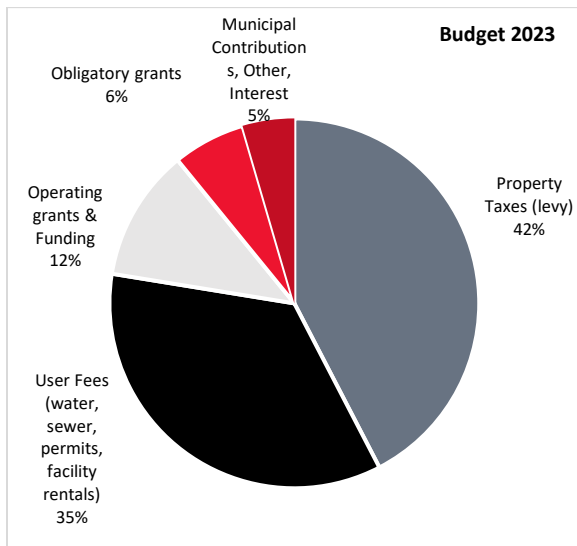
Council Initiatives Reserve

As mentioned, since inception, the Council Initiatives Reserve has been used as a one-time affordability measure to help offset the tax levy impact. Staff are recommending for 2024 that Council choose to sponsor a few initiatives from this reserve to specific departments instead of just offsetting the overall levy increase.

For example, if Council wishes to sponsor a parks beautification initiative, then they would offset part of the incremental operating increase in this department through a one-time Council initiative contribution. Council would therefore remove the expenditure in 2025 and the Council contribution of revenue would also be removed to avoid having a deficit in next year's operating budget.

2023/2024 Funding Breakdown

In 2024, the Town is expecting obligatory grants to remain between 4 - 6% of the overall funding for 2024 and this amount is booked as deferred revenue. Various funding amounts have not yet been announced so assumptions have been included in this comparison illustrating the potential impact.



Financial Impact

Table 1. 2024 Preliminary Town Budget

Capital	\$16,756,500
Expenditures*	\$16,470,844
*includes transfers to reserves	
Revenue	
User Fees (Water, Sewer, Permits, Facilities)	\$ 5,898,755
Grants	\$ 2,646,020
Investments/Other	\$ 715,336
Levy Requirement	\$ 7,210,733

Table 2. Potential Additional Levy Impact

2023 Levy: \$6,507,577	2024 Levy: 7,210,733
2023 Mill Rate: 0.906030	2024 Mill Rate: 0.997164
2023 Levy Increase: 5.82%	***2024 Levy Increase: 10.06%

* Additional Impact based upon 2023 Average single home CVA of \$214,000

** Amounts exclude Upper-Tier and Educational Levy

*** Assumptions are based upon MPAC data as of August 16, 2023

Strategic Priorities

This report supports the goals and objectives set out in [Council's Strategic Pillars](#).

The goals it supports include:

Pillar Two – Planning for the Future, related to ensuring sustainability by securing infrastructure that supports future growth and sustains current needs by providing safe drinking water for all users.

Pillar Three – Economic Vitality by helping to attract growth to the town and creating opportunities for our neighbours.

Pillar Five – Public Service Excellence by delivering municipal services in a safe and efficient manner.

Conclusion

Staff have undertaken an extensive review with the 2024 budget and are setting up further meetings and discussions with each department. In the meantime, staff welcome Council to provide any areas of further investigation and analysis that they would like undertaken prior to the October/November budget meetings. It is staff's hope that the Town's 2024 Budget will be approved in late December, however, staff are recommending that Council review and comment on the 2024 Operating Budget so that all options can be pulled through for another presentation at Council in October.

Respectfully submitted by:

Andy Grozelle
Chief Administrative Officer

Heather Sachs
Director Financial Services

Josh Brick
Director of Corporate & Legislative Services

Rob Johnson
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Terry Koning
Associate Director of Infrastructure and Operations

Chief Todd McKone
Fire Chief
Town of Aylmer

Reviewed by Andy Grozelle, Chief Administrative Officer

Appendix

Attachments

1. Preliminary 2024 Operating Budget

Follow Up

In adopting this report, what follow up action is required?

- By-law
- Agreement(s)/document(s) to be signed by Mayor and/or Clerk
- Social media/Website update or communication
- Other communication – Specify: