

The Corporation of the Town of Deep River

REPORT

2021-FIN-010

Council Meeting Date: May 26, 2021
Council Meeting Time: 6:00 P.M.
Council Meeting Place: Council Chambers

File Storage

Subject: 2021 Budget Report

Author: Arthur Smith, Treasurer

RECOMMENDATION(S):

BE IT RESOLVED THAT the 2021 Budget as recommended by Council at the May 26, 2021 Special Meeting of Council, be received,

THAT the 2021 Capital Budget be approved,

THAT monies to fund the 2021 Capital Budget be allocated in the total amount of \$1,982,102.00, and

THAT the 2021 Operating Budget be approved as presented to Council, and

Town of Deep River

2021 Budget



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1 Executive Summary

This report provides an overview of the proposed 2021 Operating and Capital Budgets.

The proposed 2021 Operating and Capital budget requires that **\$ 7,040,732** be raised from municipal taxation, which represents an increase of **2.19%**.

Some key components of the budget are:

- **An overall increase in operating expenses of 2.51%.**
- **An overall decrease in revenue from user fees of 10.7%.** The decrease is driven by a significant reduction in recreational programming caused by the COVID-19 pandemic restrictions. User fee revenue for Recreation and Library services decreased by \$120,000 (approximately 1.7% of the taxation to be raised). Without this reduction, the overall increase in taxation to be raised would be 0.4%.
- **An increase in capital funding** to be sourced from general taxation from \$154,000 in 2020 to \$190,000 in 2021.
- **A significant carry-over of OCIF funding from 2020.** The COVID-19 pandemic restrictions in 2020 limited the Town's ability to spend some grant monies received in 2020. These have been carried forward into 2021, resulting in a one-time increase in grant revenue of approximately \$130,000 which is committed to be spent in 2021.
- **Wages and benefits increased by 1.4%.** The limited increase is the result of reduced part-time hours required for recreational programming.
- **Training and development costs have decreased** for 2021 as many training programs have been delayed or moved to a virtual format.
- **Water and sewer rates have been increased** in line with Scenario 2 of the Utility Rate Study recommendations.

An average increase of 1.0% is required on the municipal portion of the property tax levy to raise the required \$7,040,732. When combined with the county and education portions, the property tax on an average single-family home will increase by approximately \$38.

Budget books that give detail at the General Ledger Account Code (GL code) level are included in the appendices. Note that some expenses were reallocated to different GL codes during the development of this budget. This was done to reflect the labour and material costs allocated to specific programs more accurately. The reallocation will mean that some expense lines will show significant changes. As far as possible, this has been noted in this report and the attached budget books. Major changes have been captured in this summary document.

2 Introduction

2.1 Purpose and structure of this report

This report provides a high-level summary and overview of the Draft 2021 Operating and Capital Budgets, proposed to be tabled at Council and for public comment on June 9th, 2021. It contains:

- A description of the factors that have been considered during the development of this budget
 - External events that have impacted Deep River, and
 - The main assumptions
- An overview of the capital budget.
- An overview of the operating budget, including a description of revenue sources and expenses categories.
- A description of the impact of the proposed budget on the property tax rate and a comparison with other municipalities in Renfrew County.

For reference, the following documents are included as appendices.

- Detailed budget books showing the proposed budget at a General Ledger Account Code level
- Capital budget justifications
- The *Master Financial Plan* prepared by NG. Bellchamber & Associates and received by Council on February 24th, 2021
- The *Water and Wastewater Rate Study* prepared by Watson and Associates and received by Council on January 27th, 2021

2.2 Background

On August 5th, 2020, Council received report 2019-FIN-011, “2021 Draft Budget Directions Report” and instructed staff to develop the Operating and Capital Budgets such that the municipal tax increase is no greater than 2%.

A draft Capital budget was presented and approved (with amendments) by Council on October 21st, 2020, for inclusion in the 2021 Operating budget. The amended capital budget is described in Section 3.1 below.

2.3 Factors impacting the budget and other considerations

2.3.1 COVID-19 Pandemic

The ongoing COVID-19 pandemic has significantly impacted the Town’s operations and the services delivered to the community. Restrictions on public gatherings have reduced the Town’s recreational programming, facility opening times, and several events have been cancelled. This has reduced the revenue generated through user fees and increased cleaning costs. Some of this lost revenue has been offset by reduced expenditures, related to the number of part-time staff required to support programs and events.

The Federal and Provincial governments developed special COVID-19 grants to mitigate the impact on municipalities. The Town of Deep River received \$155,096 in additional funding through these grants in

2020. Any unspent surplus will be carried over into 2021. This has not been accounted for in this operating budget.

The COVID-19 pandemic restrictions also limited the Town's ability to spend some OCIF grant monies received in 2020. These have been carried forward into 2021 and are accounted for in the budget.

2.3.2 Delayed Update of Assessment Values

In 2020, the Provincial government postponed the regular four-year update to assessment values and indicated that property taxation in 2021 would be based on the 2016 assessments. This will also be the case for 2022. Only new developments, therefore, have contributed to growth in the tax base (previously tax base would have grown through a combination of assessed value growth and new developments).

2.3.3 Financial Master Plan

In early 2021, the first phase of the development of a long-term Financial Master Plan was completed. Several recommendations were made; some of which have been included in this budget:

- Recommendation 3: Implementation of the utility rate increases for water and wastewater
- Recommendation 2: Increased reserve transfers for water and wastewater infrastructure
- Recommendation 7 and 1: Resourcing for improving the Town's asset management plans and capabilities
- Recommendation 8: Upgrading of the financial software system (conditional on receipt of a grant)
- Recommendation 11: Ongoing relationship with AECL / CNL (reflected in recent PILT agreement)

The Plan's other recommendations have been noted, and where possible, included in plans for 2022 and beyond.

The full report is included in the appendices of this report.

2.3.4 Utility Rate Study

A 10-year utility rate study was completed in early 2021 for the delivery of water and wastewater services. Scenario 2 from the utility rate study was adopted by Council to be used in our five-year water and wastewater financial plan submitted for license renewal. As a result, the recommendations for increased water and sewer rates have been included in the 2021 operating budget.

The full report is included in the appendices of this report.

2.3.5 AECL / CNL PILT Agreement

The Financial Master Plan highlighted the importance of AECL / CNL as the Town's largest ratepayer. The current assessment values for the Chalk River Laboratories do not appear to accurately reflect the significant capital investments made recently. To account for any potential discrepancy, AECL / CNL and

the Town agreed on an amount of \$850,000 per year to be paid in addition to the normal *payments made in lieu of tax* (PILT) for each of the next two years. This payment is subject to a reconciliation after the agreed assessment review is complete.

However, Public Sector Accounting Board (PSAB) standards require that these payments are held in reserve until the reconciliation is completed. Therefore, only interest earned on the \$850,000 is reflected in the 2021 operating budget.

2.4 Assumptions

The primary assumptions made during the development of this budget include:

- A return to full operations after the pandemic will occur in the fall of 2021. As a result, summer programs, facilities and events will be modified.
- The Marina will operate as usual (seasonal dates, operating times, services available).
- No further federal and provincial government assistance will be received.
- All conferences, seminars and training programs for staff for 2021 will be conducted virtually.
- The existing Fire Service agreement with CNL, which expires at the end of September, 2021, has been utilized as a baseline for the remainder of the year. An incremental increase has been applied.
- The Community Improvement Plan will be initiated in 2021 with implementation following in 2022.
- No second intake for the Community Grant program will occur in 2021.

2.5 Major Changes

Several operational changes have occurred in 2020 and 2021, which have impacted the operating budget. These include:

- Historically, the Town had received HR consulting services from the County of Renfrew. These were typically provided at a subsidized rate. However, the County is currently unable to provide this service due to changes in its organizational structure. Therefore, additional HR consulting costs have been included in the operating budget.
- The Town receives an annually renewed grant from the Ontario Community Infrastructure Fund. In 2020, very little of this grant was spent, and the surplus has been carried over to 2021, resulting in a one-time increase in grant revenue.
- The budget for salt and sand has been adjusted in 2021 to reflect actual historical costs incurred. Further, it is expected that sales of salt and sand will be reduced this year, as several external customers have found alternative supplies.
- Cleaning supply expenses have increased across all areas to account for additional COVID related cleaning supplies and PPE.
- The amount budgeted for physician recruitment has been proposed to be increased in 2021 as requested by the Deep River Hospital Foundation.

2.6 Major projects for 2021

The following major projects are scheduled for 2021 in support of the Town's Strategic Plan:

Projects related to increased population and vibrant economic sector

- Getting ready for development (by-law and policy review, process capability)
- Finalization of the West-End Secondary Plan
- Completion of the Community Improvement Plan and initiation of phase 1
- Launch of new branding for the Town and initiation of its marketing strategy

Projects related to quality and reliable infrastructure and facilities

- Completion of the upgrades improving accessibility at the arena and town hall facilities
- Improvements to Grouse Park
- Improvements and capital upgrades to water and wastewater treatment plants
- Significant road resurfacing work
- Updating of Town's asset management plans / Rebuilding asset management capabilities

Projects related to improvements in governance and administrative efficiencies

- Upgrading of the Town's financial software system
- Developing a high-performance culture (KPI's, who does what, customer service, performance evaluations, etc.)

3 2021 Budget at a Glance

3.1 Capital budget for 2021

Table 1 outlines the capital projects for 2021, the associated costs, and sources of funding. **A total of \$1,982,102 in capital spending** will occur, with 51% of the funds to be drawn from reserves. Approximately 40% will be sourced from grants, and **\$190,000 will need to be raised from general taxation**.

At this time, no debt is planned for capital projects in 2021. However, should funding any project through debt become the more favourable option, Council will be approached for approval.

It should be noted that projects requiring grant funding are conditional on that funding being received.

Table 1: Capital budget

2021 Capital Budget	2021 Budget	Reserve	General Taxation	Debt Financing	Grant/other Funding
Council	100,000	0	100,000	0	0
Annual Capital Contingency	100,000		100,000		
Finance and Administration	225,012	75,012	0	0	150,000
Upgrade Finance Software	200,000	50,000			150,000
Secondary Plans	25,012	25,012			
Facilities	320,090	140,090	40,000	0	140,000
Marina Docks - phase 4	80,000	22,500	17,500		40,000
Arena Upgrade	65,000	15,220	0		49,780
Town hall Renovation	30,000	5,280			24,720
Grouse Park Upgrades	13,650	13,650			
Gazebo Replacement	10,000	10,000			
Community Pool - Dectron	68,089	42,589			25,500
Public Works - Drive shed	17,500		17,500		0
Library - Floor	5,000		5,000		
Library - refurbish HVAC	20,851	20,851			
Milller Rd. Landfill	10,000	10,000			
Fleet	42,500	42,500	0	0	0
Replace half ton	36,000	36,000			
Loader - sandblast / paint	6,500	6,500			
Roads	476,800	0	5,000	0	471,800
Road resurfacing work	471,800				471,800
Airport Runway	5,000		5,000		
Water and Wastewater	572,700	553,700	0	0	19,000
WTP Fire Alarm System	19,000	0			19,000
THM Remediation	10,000	10,000			
Backwash sump pump	10,000	10,000			
Process actuators	40,000	40,000			
Process turbidimeters	12,000	12,000			
Process chlorine analyzers	5,000	5,000			
Fluoride Analyzer	12,000	12,000			
Chemical feed pumps	13,000	13,000			
Water Tower Assessment	16,700	16,700			
WWTP expansion: EA	350,000	350,000			
Lifting equipment improvement	25,000	25,000			
Roof Ice guards	30,000	30,000			
Grinder	30,000	30,000			
Fire Service	245,000	200,000	45,000	0	0
Fire Pumper/Tanker	200,000	200,000	0		
Hose Dryer	20,000	0	20,000		
Volunteer PPE	25,000		25,000		

2021 Capital Budget	2021 Budget	Reserve	General Taxation	Debt Financing	Grant/other Funding
Total Capital Budget	1,982,102	1,011,302	190,000	0	780,800

Table 2 outlines the capital spending plan for the next five years. The bulk of the capital investment will occur in the water and wastewater treatment plants and significant investment in roads and fleet.

Table 2: Projected capital spend over next 5 years

Projected capital spending for next 5 years	Total spend	2022	2023	2024	2025	2026
Contingency	500,000	100,000	100,000	100,000	100,000	100,000
Finance and Administration	22,000	7,000	15,000			
Facilities	564,100	249,100	220,000	35,000	60,000	
Fleet	867,000	206,000	240,000	176,000	20,000	225,000
Roads	809,572	265,636		271,968		271,968
Fire	290,000	200,000	40,000	50,000		
Water and Wastewater	10,853,200	7,600,000	684,200	868,000	1,113,000	588,000
Total Capital Budget	13,905,872	8,627,736	1,299,200	1,500,968	1,293,000	1,184,968

Table 3 outlines the changes to reserve levels as a result of the Capital budget described above. Note that the values in Table 3 assume no contribution to reserves result from the surplus disposition from 2020 and 2021.

Table 3: Changes to Reserves

Changes to reserves	2019 Closing Balance	2020 Estimated Closing Balance	2021 Proposed Capital Reserve Funding	2021 Proposed Transfer to Reserves	2021 Projected Closing Balances
Other General Reserves	2,451,003	2,221,413	457,602	25,960	1,789,771
Reserve - Sewer Replacement	399,783	399,783	435,000	122,692	87,475
Reserve - Water Works	194,168	45,811	118,700	148,211	75,322
Total	3,044,954	2,667,007	1,011,302	296,863	1,952,568

3.2 Operating Budget for 2021

The proposed 2021 Operating and Capital budget requires that **\$7,040,732** be raised from municipal taxation, increasing by **2.19%** compared to the 2020 operating and capital budgets.

Operating expenses will total \$8,787,994, an increase of 2.51% compared to Budget 2020. Non-tax revenues have increased by 3.80% to a total of \$1,747,263, primarily driven by an increase in grant revenue.

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(Note that this excludes expenses and revenues for Water and Wastewater treatment, which are not funded through taxation.)

The following table and figures show the breakdown of the operating budget.

Table 4: Operating budget summary

		Actual 2018	Budget 2019	Actual 2019	Budget 2020	Actual 2020	Budget 2021	% change from 2020 budget
Finance and Administration		1,611,952	1,359,191	1,237,013	1,431,678	1,005,904	1,470,967	2.7% ▲
GL codes 050, 120, 130, 140, 150, 240, 250, 800	Revenue	264,013	271,056	211,728	168,617	351,522	172,600	2.4% ▲
	Expenses	1,875,965	1,630,247	1,448,741	1,600,296	1,357,426	1,643,567	2.7% ▲
Recreation and Library		1,311,511	1,042,417	1,292,241	1,207,428	1,337,269	1,405,106	16.4% ▲
GL codes 700, 780	Revenue	557,099	576,656	553,845	561,132	400,611	451,389	-19.6% ▼
	Expenses	1,868,611	1,619,072	1,846,087	1,768,560	1,737,880	1,856,495	5.0% ▲
Public Works		1,361,201	1,463,308	1,327,667	1,572,474	1,287,087	1,302,333	-17.2% ▼
GL codes 300, 400, 500	Revenue	300,313	597,687	376,988	388,521	290,827	548,746	41.2% ▲
	Expenses	1,661,514	2,060,994	1,704,655	1,960,995	1,577,914	1,851,079	-5.6% ▼
Emergency Services		3,387,454	3,012,668	3,086,796	2,985,025	3,038,396	3,160,130	5.9% ▲
Fire Service		1,812,205	1,583,225	1,594,415	1,522,421	1,586,634	1,639,716	7.7% ▲
GL codes 210, 211	Revenue	0	0	0	0	2,840	8,600	0.0% ▲
	Expenses	1,812,205	1,583,225	1,594,415	1,522,421	1,589,474	1,648,316	8.3% ▲
Police Service		1,575,249	1,429,443	1,492,382	1,462,605	1,451,762	1,520,415	4.0% ▲
GL codes 220, 221	Revenue	146,729	156,900	133,445	148,518	155,375	159,372	7.3% ▲
	Expenses	1,721,978	1,586,343	1,625,827	1,611,122	1,607,137	1,679,787	4.3% ▲
Council		106,608	107,729	104,930	109,520	98,191	108,751	-0.7% ▼
GL codes 110	Revenue	0	0	0	0	0	0	0.0% ▲
	Expenses	106,608	107,729	104,930	109,520	98,191	108,751	-0.7% ▼
Water and Wastewater treatment		0	0	0	0	0	0	-
GL codes 41, 43	Revenue	2,275,340	2,736,913	2,305,420	2,875,040	2,446,924	2,914,590	1.4% ▲
	Expenses	2,275,340	2,736,913	2,305,420	2,875,040	2,446,924	2,914,590	1.4% ▲
Expenses net of revenues		7,778,726	6,985,313	7,048,648	7,306,125	6,640,563	7,526,788	1.93% ▲
Less other revenues		13,131,403	389,344	13,789,930	416,556	13,579,610	406,556	-2.4% ▼
	OMPF	321,400	321,400	829,186	320,300	320,300	320,400	0.0% ▲
	PILT	3,986,867	22,944	3,767,871	21,256	3,262,963	21,256	0.0% ▲
	Taxation	8,823,136	45,000	9,192,873	75,000	9,996,348	64,900	-13.5% ▼
Revenue to be collected from tax			6,595,969		6,889,569		7,040,732	2.19% ▲

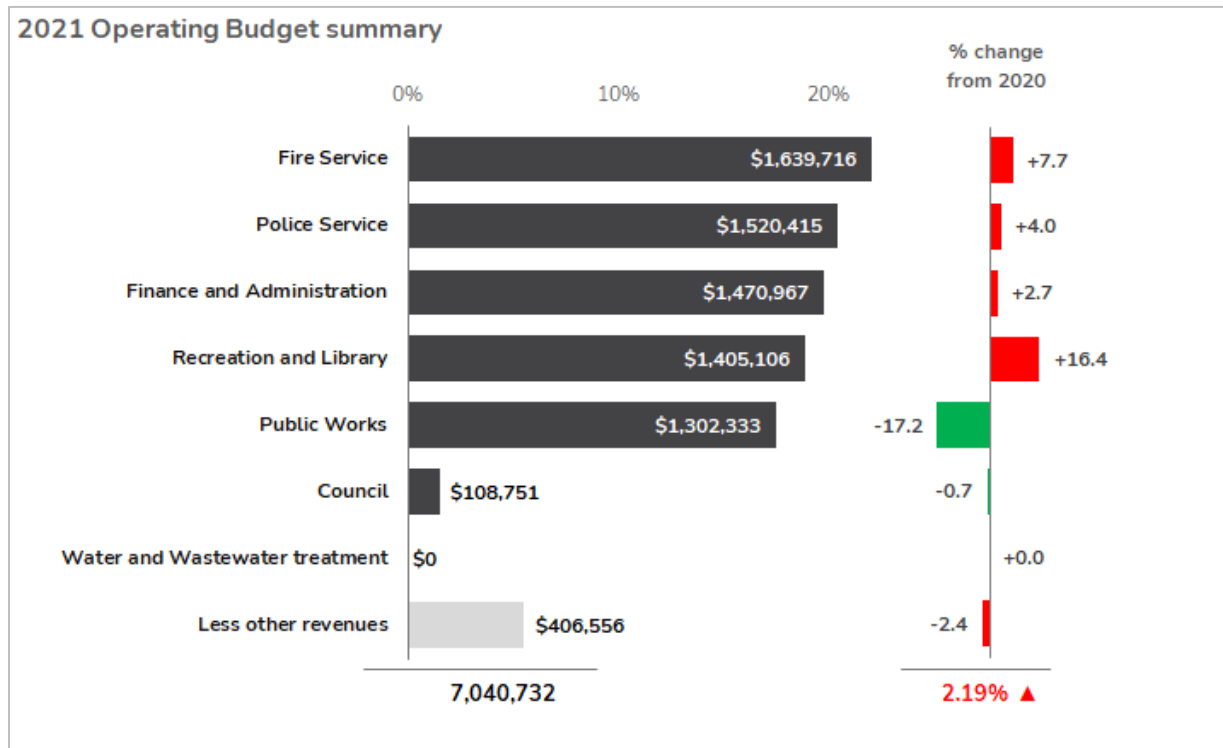


Figure 1: Departmental net operating expenses

3.2.1 Summary of wages and benefits

Although there has been significant realignment of the staffing models, no significant changes in full time staffing levels have occurred. Adjustments to part-time staff have been made to account for reduced programming.

Due to wages and associated benefits being budgeted in a limited number of areas and expensed according to where they are utilized, there has been some confusion on this topic in past budget discussions. This has also created a challenge to ensure that appropriate levels of wage expenses are attributed to the appropriate programs. For these reasons, staff have realigned the wage allocations to better represent the actual distribution of resources.

Table 5: Breakdown of wages and benefits per department

Wages and benefits per department	Actual 2018	Budget 2019	Actual 2019	Budget 2020	Actual 2020	Budget 2021	% change from 2020 budget
	5,471,937	5,185,513	4,966,344	5,079,915	4,861,332	5,149,364	1.37% ▲
Finance and Administration	861,318	929,976	870,795	834,518	845,895	914,094	9.5% ▲
Recreation and Library	1,027,572	813,980	1,008,928	976,840	974,261	1,041,039	6.6% ▲
Public Works	609,523	928,178	635,513	869,161	657,095	620,317	-28.6% ▼
Fire Service	1,303,201	770,731	801,173	736,895	823,187	837,566	13.7% ▲
Police Service	1,431,999	1,392,208	1,464,758	1,402,939	1,441,833	1,469,955	4.8% ▲
Council	89,948	88,439	89,799	91,020	92,257	95,051	4.4% ▲
Water and Wastewater treatment	148,376	262,000	95,378	168,543	26,804	171,342	1.7% ▲

- The significant variances at the departmental level are largely due to the realignment of wage allocations, with the exception of the Fire Service which is driven by the new Captain positions. The increase in wages for the new positions offset what would be an increase to Contracted services to CNL.
- It should be noted that combined budgeted amount for wages and corresponding benefits has only increased by 1.37% from 2020. It should also be noted that the variance in 2020 can be attributed to a combination of COVID related recreation department reductions and the delayed salary increases that were budgeted for the DRPFFA collective bargaining.

3.3 Water and Wastewater

The water and wastewater facilities are self-sustaining, in that they are not funded from taxation, but through user fees as per the Water and Sewer Sustainability Act, 2002. The current five-year base contract with Ontario Clean Water Agency (OCWA) includes water treatment, water distribution, wastewater treatment, wastewater collection, and all related treatment chemicals. Reconcilable charges such as hydro, gas, and major maintenance are also included in the contract, along with the Strategic Infrastructure Program (SIP). In the past 18 months, CNL water supply has also been managed by OCWA. A combination of underutilization of the CNL water system and reconciliation challenges and new CNL billing models have created complex challenges. A full review of the OCWA contract and deliverables and CNL water supply program is underway, and will be presented to Council as part of a recommendation for water and wastewater services in Q3 2021.

4 Impact on a typical tax bill

Deep River ratepayers pay a combined property tax that comprises municipal, county, and education portions. The combined property tax on an average single-family home in Deep River will increase by \$38.

The combined property tax for an average small / retail commercial property will decrease by \$413. The decrease in commercial tax results from new Provincial regulations reducing the education tax rate on commercial properties.

Table 6 shows how each portion will change in 2021.

Table 6: Impact of taxation increase on a typical tax bill

Property tax on average properties		2020 Taxation	2021 Taxation	Total \$ Change	% Change
Combined property tax		2,998	3036	38	1.3%
Single family home	Municipal	1,970	1990	20	1.0%
Average assessed value of \$198,000	County	725	743	18	2.5%
	Education	303	303	0	0.0%
Combined property tax		4,576	4163	-413	-9.0%
Small / retail commercial property	Municipal	2,221	2244	23	1.0%
Average assessed value of \$123,000	County	817	837	20	2.5%
	Education	1538	1082	-456	-29.6%

Note that property tax rates are set according to the Provincially-set assessment values. As mentioned in Section 2.3.2 above, the Province has delayed updating assessment values, keeping them fixed at 2016 levels.

For reference purposes, Table 7 lists the municipal tax increases for several other municipalities in the County of Renfrew.

Table 7: Municipal tax changes in other municipalities

Change in municipal tax revenues 2021	% Change
Deep River (proposed)	3.35%
Laurentian Valley	7.1%
Petawawa (unconfirmed)	4.9%
Pembroke	1.9%
Arnprior	1.5%

5 Appendices

The following documents are appended for reference.

- Detailed account level budget book
 - A colour coding has been applied to highlight:

	Items covered by the OCIF grant (revenue and expense)
	Wages and benefits
	Items related to the OCWA Contract
	Items impacted by COVID-19

- Financial Master Plan report
- Utility rates study report