

2021 SERVICE PRIORITIES AND BUDGET GUIDELINES

Council / Governance Issue

Step 06 in the budget process is a check-in with Council to verify that the Budget Guidelines approved by Council are still relevant based upon economic conditions and community feedback.

Recommendation

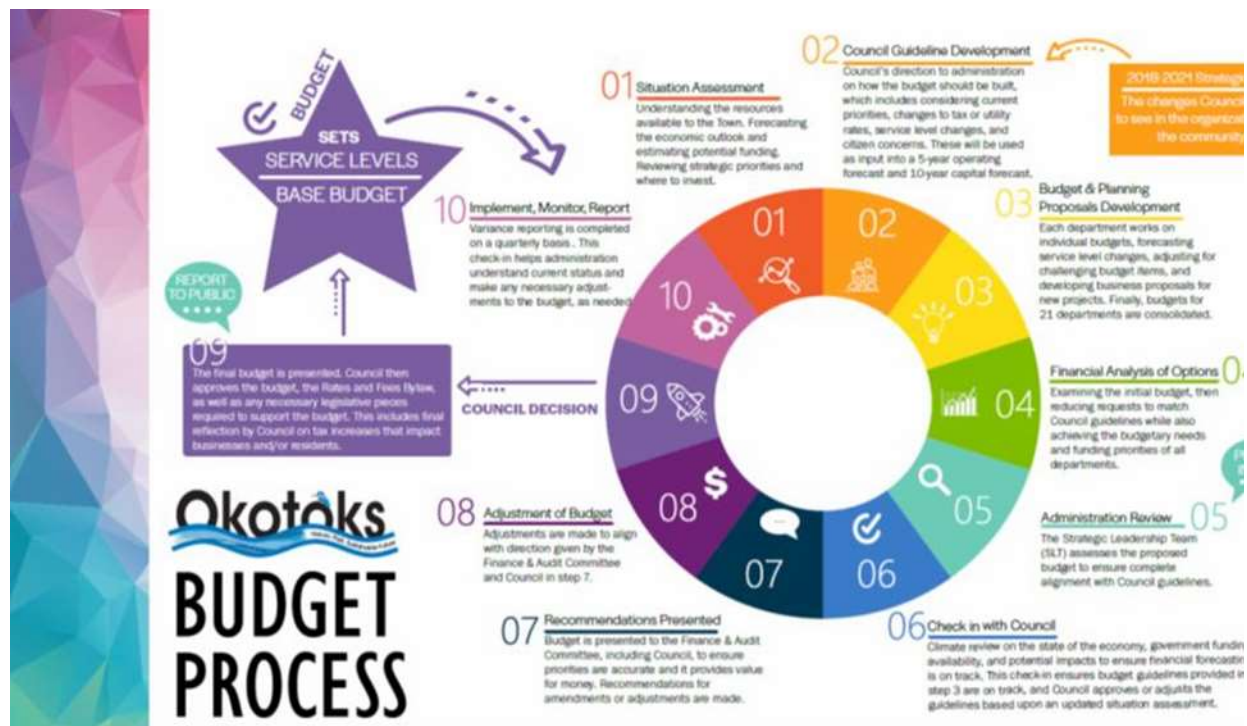
That the 2021 Annual Budget; the 2022 - 2025 Operating Forecast; and the 2022 - 2030 Capital Forecast Guidelines be approved as recommended by the Finance and Audit Committee and the Governance and Priorities Committee.

Background and Considerations

The *Municipal Government Act* requires that Council have an approved budget in place that manage the finances of a municipality. Okotoks has a well-established budgeting process that ensures the Operating Budget is approved in advance of the operating cycle.

The annual budget preparation schedule runs from April to December. All members of Council and the public are invited to attend the 2021 budget presentations to the Finance and Audit Committee on November 17, 18, and 19, 2020. Council will consider approval of the 2021 Budget at their Regular Council Meeting on December 14, 2020. This process enables a preliminary budget to be prepared by Administration for thorough and timely review by Council.

The budget preparation process and associated timeline requires that budget development begins in April, however due to the COVID-19 pandemic, the process has been delayed this year. The annual process begins with Council providing the Corporation with Budget Guidelines. The proposed Operating and Capital Budgets are then developed by each Business Centre, taking into consideration the Guidelines set by Council, the Strategic Plan, and the needs and expectations of the Town's customers and Business Centres. Administration is developing a one (1) year budget for 2021 and a four (4) year forecast.



On June 8, 2020 Council approved Budget Guidelines directing a zero percent (0%) tax increase, and the creation of a public participation process to ensure citizen involvement in budget. At the time of moving to the 0% tax increase and waiving overdue collection fees on taxes and utilities, the full impact of COVID-19 on citizens, businesses, the community, and the organization was unknown. We are now beginning to see the impacts and the survey helps us further understand these impacts so that strategies to appropriately respond can be developed.

In response to direction from Council, Administration created a two-phase public participation process and committed to data analysis on the tax and utility deferral impacts. The first phase of the public participation process was to do a check-in with the community to determine how COVID-19 has impacted businesses and citizens and which high level alternatives they would like the Town to pursue. The first phase is being completed by Ethelo, between September 8 and 22, 2020. The second phase of the public participation strategy will be conducted in October to further refine the initial input from businesses and residents.

Environmental Scan

In April, to adjust to the changing conditions of COVID-19, adjustments were made to ensure that lost revenue from closed facilities was offset by reduced expenditures and the reduced tax revenue of \$0.580M. Adjustments were also made to utility and tax collection dates. The public perception has been that with the closing of facilities, there are no further adjustments to be made; however, it is important to note that over 30% of a municipality's budget is generated from user fees. The impacts of these changes within the organization have been significant and as COVID-19 is now expected to be a much longer event, we must consider additional alternatives to meeting a 0% budget guideline, rather than the continued hiring freeze. This freeze

has resulted in accumulated vacation and lieu time that is a significant liability to the organization.

Council governs what services a municipality provides and the appropriate service level. In 2019, transit service was introduced to the community and has had an extremely positive impact which requires an ongoing tax commitment of \$0.750M. Growth in the asset base maintained by the municipality continues to occur regardless of tax growth levels. To deliver the same level of service for 2021, the Town will need to absorb the costs of servicing additional assets of approximately 4 kilometers of trails, 6 hectares of land including roads, and 431 trees. Another example of pressure is in the Planning Services business centre. As of September 15, we have received and processed the same volume of activity and permits as we did in the entire year of 2019 and have actually seen an increase in both permit revenue and construction values for 2020.

Costs have increased that are classified as non-negotiable and need to be factored into the budget guidelines. Examples include Protective Services costs for RCMP (\$0.18M), Fire Services (\$0.356M) along with increased Insurance premiums (\$0.112M) and IT Software licencing (\$0.127M). In 2021 a municipal election must also be conducted for (\$0.060M).

Community Services adapted to COVID-19 by moving many of the events online. Now that Town facilities are able to open, the demand for recreational services is at the same levels as previous years, and the public is expressing dissatisfaction with our levels of service, which has been to prioritize recreational activity over viewing activity. Psychosocial supports use community/municipal resources to strengthen and rebuild coping capabilities of individuals and families affected by disasters by enhancing their resilience, inner strength, responsiveness, and flexibility in the face of high levels of stress and traumatic events. Community Services recognizes the vital role the municipality plays to support psychosocial wellbeing and resiliency in our community during and after an emergency (including pandemic situations) by providing affordable and accessible programs and services to all residents. Especially for those who have been the most affected, it is important that all residents are able to be included in community programs and events regardless of personal situations.

Deferral of operational costs occurred in the 2020 Budget to meet requirements; however long term deferral is not in alignment with our risk management or asset management strategies and a deferral review is being prepared for consideration.

The focus on continuously adjusting operational requirements is preventing the focus on strategic activities. We are requesting Council provide clear guidance on non-negotiable strategic initiatives for 2021. At this point, we understand these priorities to be the:

1. regional supplemental water solution;
2. delivery of the Arts and Learning Campus;
3. delivery of three (3) components of the Long Term Financial Health Framework: Reserve Policy, Off-Site Levies, and Impacts of planned library requisitions on overall tax rates;
4. implementation of the key Economic Development Strategies of business retention, long term business recovery, and system and process improvements

5. affordable housing initiatives (to be determined after delivery of affordable housing strategic plan);
6. completion of the Waste Water Treatment Plant upgrades;
7. COVID -19 core service adaptation to meet priority community needs (e.g., social fabric and business retention).

Making permanent changes to the budget at this time, when circumstances continuously evolve, will not serve our long-term interests, would not allow the flexibility needed to adapt and adjust to changing conditions, and simply put, would not be accurate and require additional staff time which could be spent on delivering core services and other priorities. We will provide quarterly updates and make adjustments based on parameters established by Council. It is important that the budget conversation evolve to include the triple bottom line consideration of financial, social, and environmental impacts. This is especially important today when the impacts of COVID-19 are having profound impacts on social wellbeing.

Another key area to review is the impact of the pandemic on Federal and Provincial long-term budgets. While both senior governments have taken steps to deploy immediate grants to municipalities, the level of debt in these levels of government is unprecedented. Our belief is that it will be impossible for them to maintain their core level of funding to municipalities in the future and as such we are recommending that the level of budgeted grant funding currently received be reduced to 40% of current levels.

This year, we are recommending a shift in the budget debate to be on the impacts of proposed strategies to address the fluctuations in revenue and demand. Based on the citizen feedback received to date, Administration will be exploring both short and long-term options including the establishment of new user fees, the potential adjustment/realignment of user fees/tax subsidy, the elimination of some programs, the reduction in service levels - all to ensure staff are working in the areas that the community needs

Based on this environmental scan, here is the updated Budget Guidelines recommended for approval:

Multi-year Forecast

- Provide a 5-year Operating Plan (1-year budget and 4 year forecast).
- Provide a 10-year Capital Plan (1-year budget and 9-year forecast). Due to the uncertainty in future funding levels from other levels of government, the 10-year funding reconciliation will be reduced to a 1 year reconciliation to support the 2021 Capital plan. A funding forecast will be provided for 2022-2023 based on the best information available.

Debt Level

- Council's policy of 75% of the maximum debt level be maintained throughout the 10-year Capital Plan.

Reserves

- Maintain a minimum reserve balance of \$25M throughout the Capital Plan or establish a new reserve level if Council has comfort in going below a certain level.

Grants

- For Municipal Sustainability Initiatives (MSI) capital beyond 2021/2022 and based on the COVID-19 challenges, we recommend using 40% (from 60%) of existing current MSI funding. We are still waiting on the details of Local Government Fiscal Framework (LGFF) from the Province to replace MSI.
- For the Federal Gas Tax Fund, based on COVID-19 challenges, we are proposing to budget for 40% of current levels past 2024 as the program is currently set to expire at that time.

Business Cases

- The business case template be updated to include an evaluation from a triple bottom line perspective including financial, social, and environmental impacts.

One-Time Operating Projects

- Provide a business case to support one-time operating projects. (These are over \$0.100M requests. Below the limit should be included in normal budget.)

Strategic Initiatives

- Provide a business case to support all expenditures linked directly to achieving Council's strategic initiatives. An example is the 2023 Alberta Summer Games.

Staffing

- No net staffing increases over current budgeted employee levels.

Franchise Fees

- Fortis: Increase the rate from 18% to 20% in 2021. Maximum rate allowed is 20%. Equals additional revenue of \$0.390M. Estimated annual impact for residential home \$26; monthly is \$2.17.
- ATCO: Increase the rate at 16% to 20% in 2021. Maximum rate allowed is 35%. Equals additional revenue \$0.260M. Estimated annual impact for residential home \$20; monthly is \$1.66.

Municipal Tax Rates

- 2021 property tax increase of 1%.
- 2022 and beyond: property tax increase of 2%.
- For 2021, maintain the non-residential tax rate value of 150%.

Taxes for Requisitions (School Boards, Westwinds Communities, Library Boards)

- Rates to be set to meet the amount of requisitions without subsidy from municipal taxes.

Cost Recovery

- In general, municipal cost recovery rates target full cost recovery for billable services, with specific provisions as outlined below.

Utilities

- Continue to apply the approved Utility Policy and utility rate structures contribution to administrative overhead of \$1.7M for 2021.
- Water and wastewater utilities provide for full cost recovery of water - 15% of the customer revenue and wastewater - 15% of customer revenue.
- Storm utilities are 4% of customer revenue in 2021. For 2022 they are 6%, 2023 they are 8%, 2024 they are 10%, and 2025 they are 10%.
- Waste services for 2021 will be fully self-funded with no draw from operating reserves and an increase to capital reserves.

Community Services

- Rates will be compared to rates charged in other municipalities providing similar services in comparable facilities for all demographics.
- A business case including impacts and phased-in recommendations will be developed for consideration of reducing tax support for Community Services – recreational services from 35% to 25% tax subsidization.

Development Services

- A business case including impacts and phased-in recommendations will be developed for consideration of reducing tax support for Development Services – from 60% to 25% tax subsidization.

Service Levels/Value for Money

- Administration will be developing options for temporary service level changes. A triple bottom line evaluation of the service level changes will be included in the business case. The 2021 Service Priorities and Budget Guidelines provide the foundation for the 2021 Budget development.

Strategic Priorities

Council approve the following as the non-negotiable priorities for 2021:

1. The regional supplemental water solution;
2. The delivery of the Arts and Learning Campus;
3. The delivery of three (3) components of the Long Term Financial Health Framework: Reserve Policy, Off Site Levies, and Impacts of planned library requisitions on overall tax rates;
4. Affordable Housing Initiatives (to be discussed at workshop);
5. Waste Water Treatment Plant Upgrade;
6. COVID -19 core service adaptation to meet priority community needs (e.g., social fabric and business retention).

Current Bylaw or Bylaw Analysis

n/a

Municipal Comparisons

n/a

CAO Comments

The 2021 budget is going to be a significant challenge. The public input on the first phase of the survey was statistically significant and highlighted both the impacts that COVID-19 has had on their businesses and personal lives but also how our short term budget reductions have had an impact on the community. The public also highlighted that the Town should shift our models from being fully tax supported to more of a user pay philosophy. These budget guidelines support these shifts; to hold the tax rate as low as possible and explore options for fee increases for specific services. The next phase of public participation will launch in October and will build off the current survey by offering detailed options for potential new fees, potential fee increases and potential service level changes.

Attachment(s)

1. Survey Analysis_Budget 2021

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September 24, 2020