



COUNCIL REPORT

Meeting Date: October 15, 2024
Department: Financial Services
Report No.: FIN-2024-25
Submitted by: William Dakin – Director of IT/Finance-Treasurer
Approved by: Trisha McKibbin, Chief Administrative Officer
SUBJECT: **2025 Budget – Strathroy-Caradoc Foundations & Priorities**

RECOMMENDATION: THAT: Council receive Report FIN-2024-25 Foundations & Priorities Report for Information.

BACKGROUND:

A municipal budget provides the financial resources to implement plans, deliver mandated services, and to provide an operational work plan to implement various projects or services. At Council's Special Meeting (Strategic Priorities) held on September 6, 2024 the following motion was passed:

Moved: Deputy Mayor McGuire

Seconded: Councillor Pammer

THAT: Council direct staff to aim for a 7% tax rate increase.

Result: Carried

For reference purposes, a 1% increase in 2025 equals \$231,410, therefore a 7% would equal \$1,619,870 in revenue.

Property Tax Bill

The Municipality of Strathroy-Caradoc is a Lower Tier Municipality. Therefore, a Resident of the Municipality of Strathroy-Caradoc will see three levies on their Tax Bill:

1. The Municipal Levy:

In 2024, approximately 55% of the Property Tax Bill revenue collected stays within the Municipality of Strathroy-Caradoc to pay for the services it provides, including road maintenance, parks and recreation, police and fire protection, garbage and recycling, and

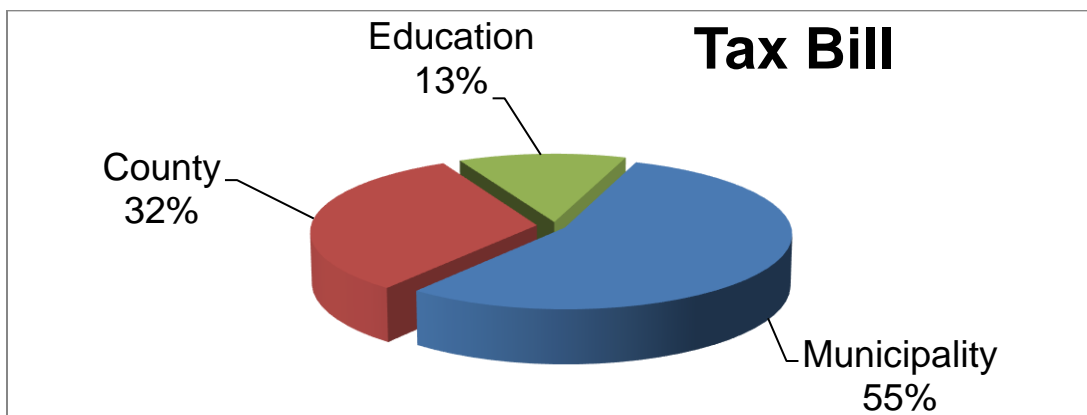
cultural facilities.

2. The County Levy:

Approximately 32% of the Property Tax Bill revenue collected is remitted to the County of Middlesex to pay for the services it provides, including maintaining the county road system, long-term seniors care at Strathmere Lodge, the county library system, and the county share of services like Ontario Works, Middlesex-London EMS ambulance service, and social housing. The County Council, which the Mayor and the Deputy Mayor sit on, sets the Tax Rate for County of Middlesex.

3. The Education Levy:

In 2024 approximately 13% of the Property Tax Bill revenue is remitted to the Province to support the education system. This includes funding for elementary and secondary schools. The education tax rates are set by the Provincial government.



Therefore, the budget the Municipality puts forward accounts for approximately 55% of the overall Property Tax Bill while the other 45% is decided by other entities. Strathroy-Caradoc simply collects those entities' levies and remits those levies to them. Strathroy-Caradoc Council Budget meetings are focused on the Municipal (55%) portion of the final Property Tax Bill only.

A municipal budget is informed by a range of plans and documents, with the two leading plans being the Corporate Strategic Plan and the Asset Management Plan. The budget is a key planning document in achieving the municipality's Strategic Priorities.

Strategic Plan

In June 2024, Council adopted the [2024-2029 Strathroy-Caradoc Corporate Strategic Plan](#). The Strategic Plan is based on six goals:

- **Local Infrastructure:** Households and businesses in Strathroy-Caradoc will be supported by reliable, financially responsible and well-maintained infrastructure networks.

- **Economic Development, Industry, and Jobs:** Strathroy-Caradoc will have a diverse tax base and be a place that offers a variety of economic opportunities to current and prospective residents and businesses.
- **Community Wellbeing and Quality of Life:** Residents of all ages in Strathroy-Caradoc will have access to community amenities and activities that are accessible and support active lifestyles and wellbeing.
- **Community Safety:** Community safety is fundamental to community well-being, and all relevant services and organizations, including the Hospital and fire service, have key roles to play. The Municipality values its community-based Police Service.
- **Municipal Customer Service:** The municipality offers seamless, responsive service and an exceptional experience for every customer.
- **Managing the Challenges of Growth for the Municipal Organization:** Strathroy-Caradoc will be an inclusive community where growth is managed to accommodate a range of needs and optimize municipal resources. We are committed to maintaining operational efficiency and economies of scale through these times of change.

The attached spreadsheet attempts to align these goals with capital projects in process or proposed for future years.

COMMENTS:

The Municipal Act requires that municipalities prepare balanced budgets, with no anticipated surplus or deficit. Most municipalities used a modified accrual accounting in budgeting, which is permitted by provincial regulation (O.Reg 284/09). Strathroy-Caradoc prepares its annual budgets following modified accrual accounting.

This type of accounting treats certain cash items, including borrowing, the initial cost of assets, and debt repayments, as revenues and expenses. Transactions are recognized and recorded at the time they happen, not when the cash is received or paid.

Table B: Examples of Modified Accrual Accounting

Amortization	In modified accrual budgeting, capital spending is recorded as an expense in the year it occurs.
Post-Employment Benefits	The defined benefit plans relating to post-retirement and post-employment provide a variety of benefits to retirees and long-term disabled employees, including income, medical, dental, life insurance, workers' compensation, and sick leave benefits. In modified accrual budgets, the municipality estimates the amount of cash that will be paid out for these benefits in the year.
Future Liabilities	These items have incurred obligations in the current year but are to be paid out in future years. Examples include landfill closure and post-closure liabilities, contaminated sites, brownfields, accrued interest, and asset retirement obligations.
Timing Differences Between Capital Budget and Spending	Budgets established for tangible capital asset acquisitions are on a project-oriented basis, the costs of which may be carried over one or more fiscal years.
Transfers To/From Reserves	Transfers from reserves and the proceeds of borrowing are recorded as revenues. Transfers and contributions to reserves and repayments of debt are recorded as expenses.
Acquisition of Tangible Capital Assets	Capital spending is recorded as an expense in the year it occurs.

Municipal Budgets

The municipality's annual budget consists of two components, an Operating Budget and a Capital Budget. An operating budget plans for day-to-day expenditures such as programs/service delivery, salaries/wages/benefits, maintenance of buildings and parks, heat and hydro and supplies.

Capital budgets plan for the rehabilitation of existing infrastructure as well as the investment in new infrastructure. Examples include, the financing of roads, water/waste water infrastructure, facility improvements (large projects) and trail and park infrastructure. The Municipality's Strategic Plan and Asset Management Plan support and guide the content of the Capital Budget.

While both an Operating and a Capital budget provide for the services and programs to be delivered, the types of expenditure and sources of financing differ. An Operating Budget provides for the annual cost to deliver services and maintenance and repair infrastructure, while a Capital Budget provides for investments in rehabilitation and replacement of infrastructure that provide long-term benefit. In a Capital Budget, projects can often span a number of years.

Table C: How the Municipality's Budget is Funded

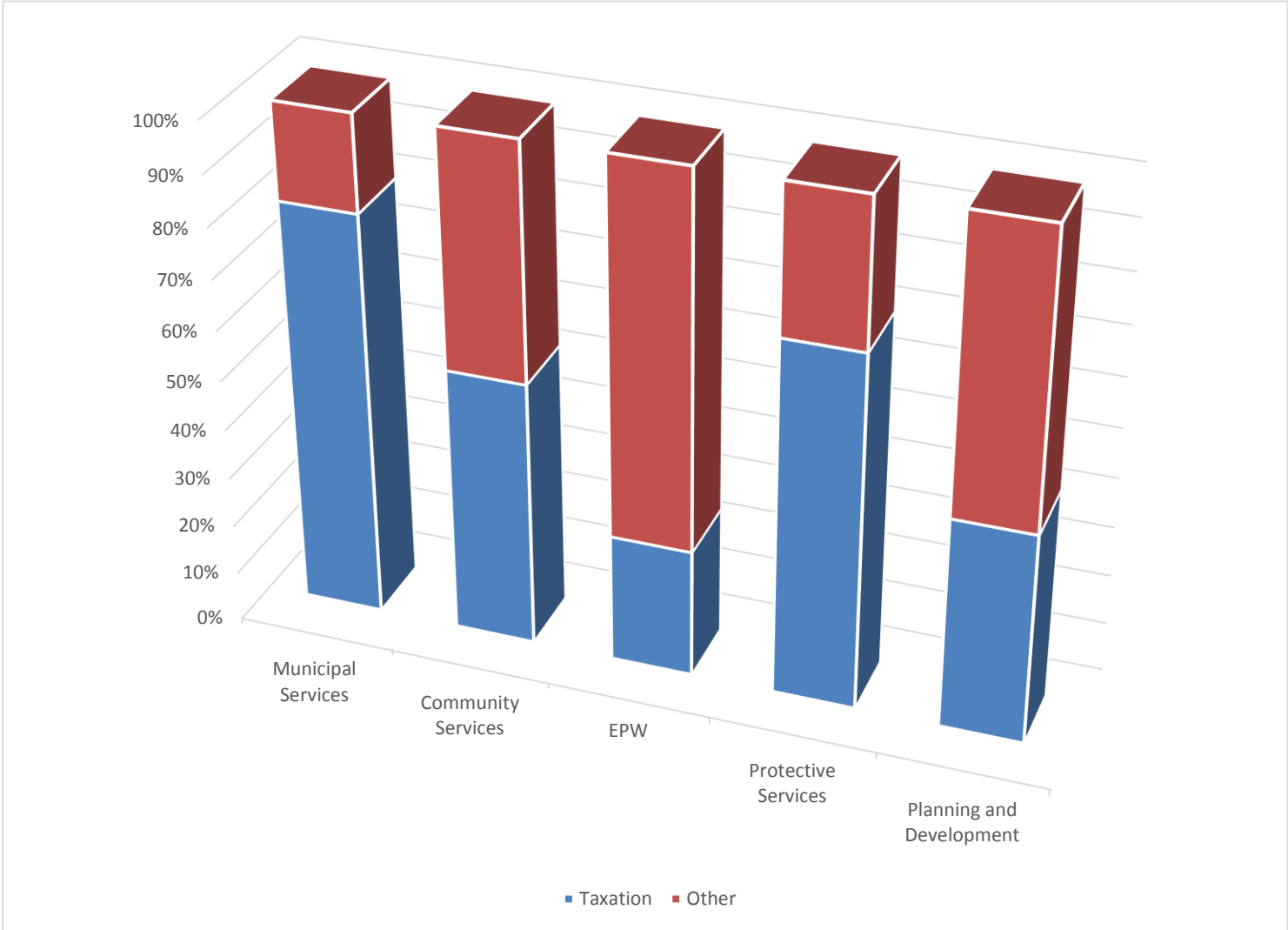
Source	Description	Budget
Property Taxes	The Municipality's major source of revenue is property tax. The Municipality's property tax base is the value of all property as assessed by MPAC in accordance with Provincial legislation.	Capital & Operating Budgets Property Tax accounts for the majority of the operating budget, and funds portions of the Capital Budget.
User Fees	User Fees are charged to cover all or part of the costs associated with a specific service. The Fees & Charges Bylaw sets out the fees for those services. Revenues may include, but are not limited to, licenses, permits, fire inspections, recreation programs, etc.	Operating Budget
Rate Supported program	<p>Water and wastewater services required to operate and maintain existing infrastructure is funded through a rate supported program.</p> <ul style="list-style-type: none"> • Water bill revenues - per cubic meter rate charged on water consumption • Sewer surcharge revenues - percentage rate charged on the amount of water consumed and billed • Water and sewer reserves - funds transferred from operations to reserves that enable capital requirements to be funded on a cash basis • Debt financing - financing source to fund major capital infrastructure 	Operating & Capital Budget

Development Charges	<p>Development charges (DC's) are fees collected from developers/or builders to help pay for the cost of infrastructure required to provide municipal services to new development, such as roads, water and sewer infrastructure, community centres and fire and police facilities.</p> <p>These charges are provided by complex calculations done by our DC consultant who works with staff to project a 10 year horizon of possible growth related capital needs, which is then matched with projected community growth to arrive at a charge. Once charged and received these funds are kept in a segregated bank account.</p> <p>These charges provide funding for the growth portion of associated capital projects as identified in the Development Charges By-laws and Development Charges Background Studies. The next study has to be completed prior to 2028.</p>	Capital Budget
Reserves	<p>Reserves and Reserve Funds – both are part of the accumulated surplus generated by the municipality.</p> <p>An annual surplus is generated when the municipal revenues exceed municipal expenses.</p> <p>They are typically part of an overall strategy for funding capital projects or operating programs/projects</p> <p>Reserves help finance long-term projects in order to avoid sudden tax increase.</p> <p>Reserve and reserve funds are established by municipal council through by-laws.</p> <p>Reserves have no cash backing but are rather backed by assets, whereas Reserve Funds are backed by Cash</p>	Operating & Capital Budgets
Government Funding	Includes grants from Provincial or Federal Government - Ontario Community Infrastructure Fund, Canada Community Building Fund (former Gas Tax Fund) – these two have been ongoing program based grants. Application based grants are becoming more rare and highly competitive for municipalities our size, therefore are no-longer a reliable source of revenue.	Capital
Grants	The majority of the grants received by the Municipality are Government grants; however, there are other granting agencies that we receive grants from i.e. Enbridge Gas, Firehouse Subs, all of these grants are application based.	Capital
Other Revenues	Land sales, fines (Provincial Offences Act, etc.), and Investment income.	Operating & Capital

Debt	Debt is borrowed money that needs to be paid back (usually with interest) later. Borrowing can be an effective tool when there is a need for financing. Debt Repayment appears in the Operating Budget.	Capital
------	---	---------

Tax Revenue vs All Other Revenue

In looking at the area of cost recovery, as to how much of the costs are cover by taxation as opposed to other revenue streams: the overall average is 55% of costs are covered by taxation revenue and 45% are covered from all other sources of revenue.



Capital Budgets

As mentioned above, Capital Projects may include construction of new infrastructure and/or the renewal or replacement of current infrastructure.

Capital Projects often require careful planning, engineering, acquisition of permits & approvals, and project management and administration, and may take several years to complete.

Some projects may require additional studies such as Environmental Assessments if they fall into certain categories under the current Municipal Class Environmental Assessment guideline, such as the construction of a new sewage treatment plant or expansion of an existing treatment plant beyond its existing rated capacity.

Capital Projects undertaken in Strathroy-Caradoc are generally exempt from EA provisions due to their scope and scale, as they are understood to have minimal negative environmental impact (ie. road reconstruction without increasing lanes, refurbishment/upgrade of sewage treatment plant without increasing rated capacity.)

A typical Capital Project in Strathroy-Caradoc may take approximately 2 to 3 years from initial conception through to construction and start-up, with an additional year of warranty. However, larger, more complex projects can take up to 7 to 10 years or longer to complete.

Table E: Capital Budget Timeframe Example

Project Phase	Duration (Range)	Duration (Typical)	Completion Year (Typical)
Initial Planning (Confirmation of Scope)	3 to 12 Months	6 Months	Year 1
Environmental Assessment (If required)	1 to 3 Years	n/a*	n/a*
Preliminary Design (30%)	1 to 12 Months	3 Months	Years 1 to 2
Detailed Design (60%, 90%, 100%)	1 to 24 Months	3 Months	Years 1 to 2
Permits & Approvals (ie. Permit to Take Water, Environmental Compliance Approval)	0 to 1 Year (often parallel with design)	3 Months	Year 2
Procurement & Award	3 to 6 Months	3 Months	Year 2
Construction & Startup	3 Months to 3 Years	6 Months	Years 2 to 3
Warranty End	1 to 2 Years	1 Year	Years 3 to 4

* Typical projects completed in Strathroy-Caradoc are generally exempt from EA provisions. If required, a typical EA could be expected to take approximately 2 to 3 years from start to finish

As projects may take several years, Total Project Budgets need to be confirmed in, or prior to, Year 1 of the project, even though physical construction may not occur until year 2 or 3. This allows for effective planning and management of the overall Capital program and provides Council with a clear line-of-sight for expenditures, particularly in the near to mid-term.

Confirmation of Total Project Budget does not necessarily bind the Corporation to the full amount immediately, with several off-ramps throughout the Project Delivery cycle that provide staff and Council the opportunity to evaluate project progress against original expectation and change course if underlying needs or economics have changed (ie. Inclusion of new scope identified during planning phase; Deferral, cancellation or de-scoping of project due to higher construction tender costs than expected.)

Table D: Major Capital Projects Proposed for 2024-2027 as taken from the 2024-2027 budget document

Year	Project	Cost
2023 Carry Forward	Parkhouse Dr (Adelaide-Rougham) (2021 - \$5. Mil)	\$7.5 million
	MTB WWTP Upgrades (2022 -\$5 Mil)	\$6 million
	STR WWTP Upgrades (2022- \$5.9 mil)	\$10.1 million
		\$23.6 million
2024	Fire Hall – Station #1	\$10 million
	Queen Street Phase #2	\$8 million
	Saxton Road Re-design and construction	\$3.2 million
	Strathroy Crossing Drain	\$2.5Million
		\$23.7 million
2025	Downtown Street Revitalization	\$12 million
	Road Upgrades <ul style="list-style-type: none"> • Head St. (Design approved in 2023) • High St. (Designed in 2009 and updated in 2022) • Oxford/Richmond Str. (Designed in 2011 and updated in 2023) 	\$15 million
	Police HQ Annex	\$9 million
	Mt. Brydges/Melbourne Fire Hall	\$4 million
		\$40 million
2026	Allocation - Mt. Brydges Sewers	\$3 million
	McKellar St. Upgrade	\$3.5 million
	Adelaide Rd. Phase #1	\$2.5 million
	High St. Reconstruction	\$4.0 million
		\$13 million
2027	Adelaide Rd. Phase #2	\$3.5 million
	York St. Upgrade	\$3.5 million
	Falconbridge Rd.	\$3 million
	Allocation - Mt. Brydges sewers	\$3 million
	Pannell Lane	\$1.8 million
	Glengyle Rd.	\$2.4 million
	Mt. Brydges Works Yard allocation	\$1.25 million
		\$18.4 million

It should be noted from the above chart that cost delays of projects tend to snowball into higher costs. The carryforwards for 2023 is a good example as the 2022 cost was \$15.9 million and is now \$23.6 million, a \$7.7 million or 48% increase. We will be sharing a concept of a Capital Spending Allowance (CSA) as part of the overall presentation at this meeting.

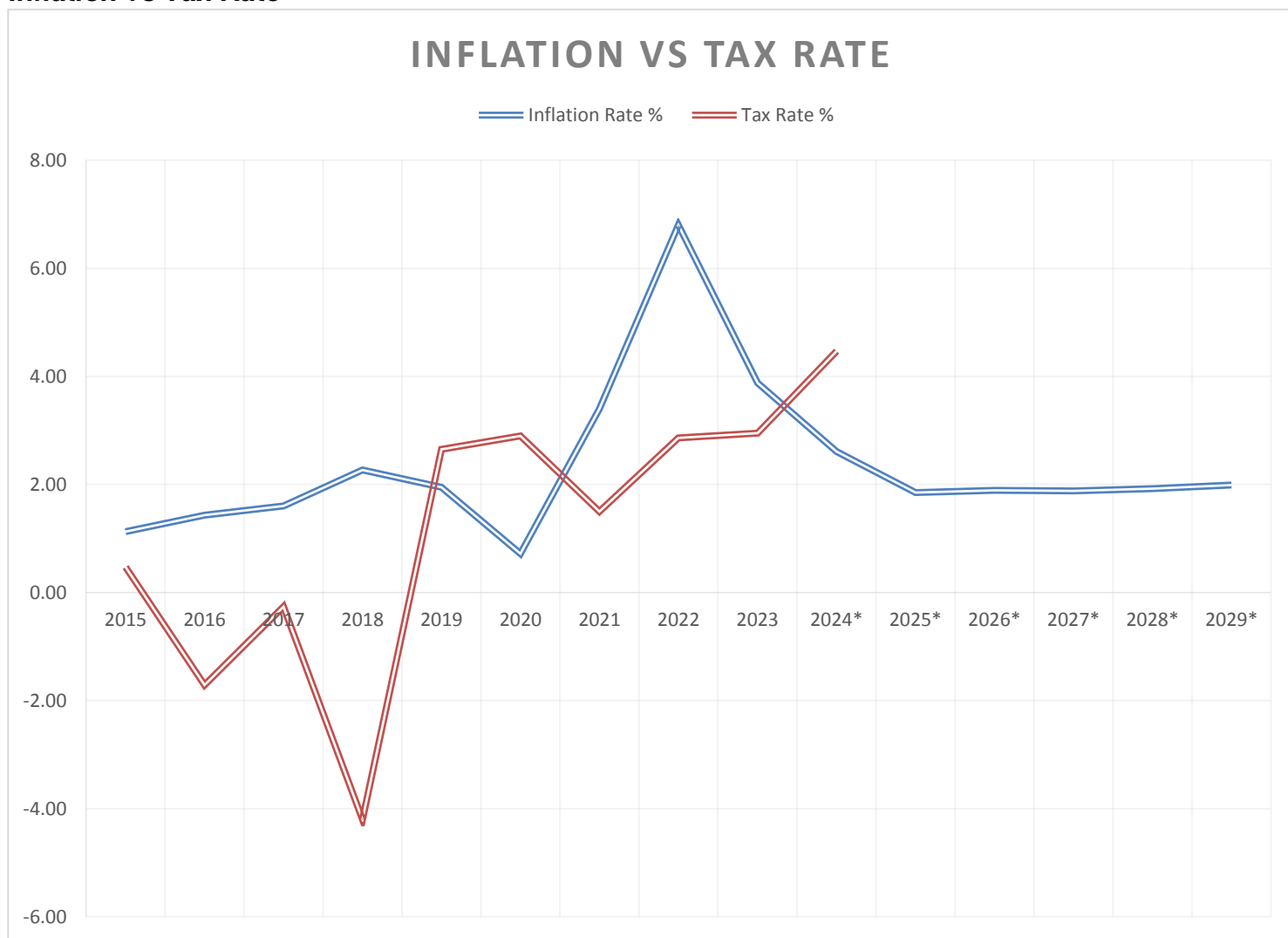
Please note this project listing above is made prior to Council receiving the Roads Needs Study, and the Long Range Financial Plan for Water and Wastewater. So the information presented here may change.

Overall Budget Pressures

Inflation/Interest Rate/Tax Rate

The Canadian Economy has recently not only had to adjust post-pandemic, but also adjust to a period of high inflation and high interest rates. Municipalities are no different from the residents that make up those municipalities and we need to navigate these economic times of high unemployment and higher than normal inflation and interest rates. The forecast for inflation and interest rates is leveling out which will help provide some stability. Council will need to ensure that our tax rate keeps pace with inflation, which hasn't always been the case as depicted in the graph below. Also, the impending MPAC re-assessment will have an additional impact when it takes place.

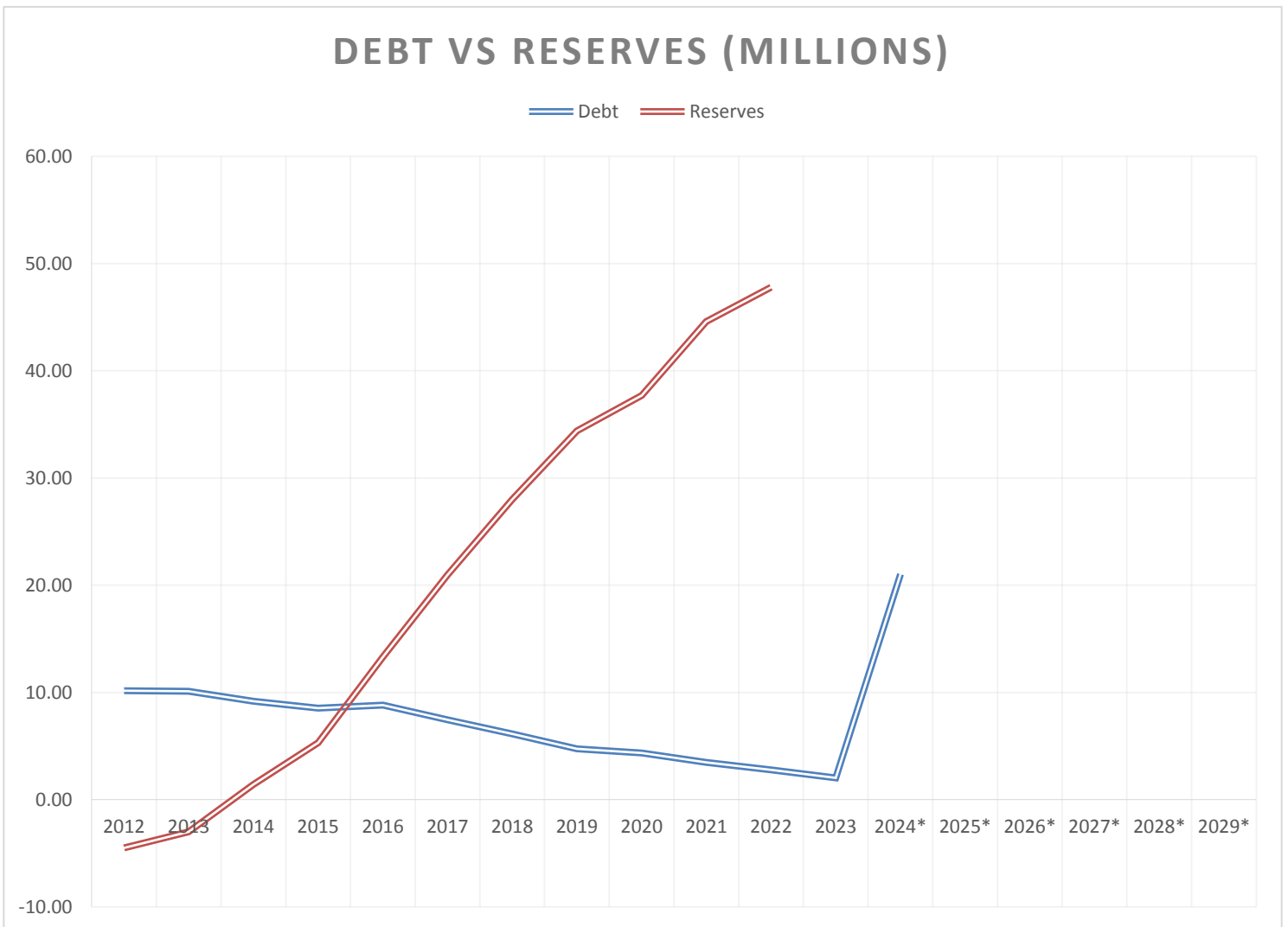
Inflation vs Tax Rate



Debt/Reserves

The Municipality has been successful at reducing the long-term debt load as well as being able to increase reserve balances as depicted in the graph below. However, in the coming years the municipality will need to use both debt and reserves to manage the numerous capital projects that it faces. Our projected debt for Dec. 31, 2024 will be approximately just over \$21 million (see attached debt schedule). The Municipality's 2024 Annual Repayment Limit (ARL) is set at \$8,930,798 (see attached report), as per our debt schedule our proposed payment is approximately \$2 million. As our debt increases, the municipality will see a decline in reserve balances. However, council should continue to allocate funds to reserves to ensure there is ample funds available moving forward.

Debt vs Reserves



Development Charges

The Municipality's last full Development Charges (DC) Study was done in 2018, with updates in 2020 and 2022. Current legislation would require the municipality to complete its next study in 2028. With the amount of growth experienced since 2019, and predicted growth, there may be a case for completing it earlier. There will need to be careful analysis of the pros and cons of completing the Study early. The new or updated DC study will be much different than one from the past. Current DC balances are strong, but not unlike reserves, this will need to be maintained in order to ensure future infrastructure needs are met. One other pressure around DC's is the current legislation which offers exemptions and discounts, which have not been accounted for under the current plan but will need to be built into the new or upgraded plan.

Other Pressures

The major cost drivers beyond staffing for the municipality are Utilities, Fuel, and Insurance. All of these costs can unfortunately, at times, become unstable based on external factors of their own (i.e. unrest in the world, and current experience with climate change (repeat massive storms)) resulting in higher and more frequent losses. The budget process will account for modest increases of 3-5% in these areas. Staffing costs will continue to be the largest cost within the operating budget.

In summary, all of the above pressure points have created a perfect storm for not only our municipality but those across the county. Staff and Council need to work together to navigate this current budget and future budgets carefully, but confidently.

CONSULTATION:

Director of Finance/Treasurer Senior
Management Team

STRATEGIC PLAN ALIGNMENT:

This matter is in accord with the following strategic priorities:

All components of the 2024-2029 Updated Corporate Strategic Plan.

ATTACHMENTS:

1. Strategic Plan 2024-2029 with budget items.
2. Reserve Fund, Reserves, Trust Funds, and Deferred Revenue Analysis
3. 2024 Debt Repayment Schedule-MOSC
4. 2024 Annual Repayment Limit – Province of Ontario