Staff Report

Presented By: Jim Bundschuh, Director, Corporate Services

Meeting Date: October 15, 2024

Subject: 2025 Business Plan – What to Expect

Attachment(s): None

Recommendation

That Council receive the 2025 Business Plan – What to Expect report for information.

Report Summary

The 2025 Business Plan will be presented to Council during full day sessions on November 20 and November 27, 2024. The materials for these sessions will be published for review on November 4. In advance of this, it is prudent to give Council a heads up on the significant challenges it will need to consider during the Business Plan deliberations.

Background/Analysis

The 2024 Business Plan included the first ever ten-year capital plan. This plan addressed the infrastructure deficit identified in the Town's core assets. The significant investment required to address this deficit was funded by a dedicated Future Infrastructure Special Levy of $49 per average home in 2024, $98 in 2025, $147 in 2026 and will continue to grow by equal measured amounts through the end of the plan in 2032. This measured approach to developing a fully funded capital plan over time required the use of reserves in the short-term until the Special Levy reached its destination value of $441 on an average home by 2032. Thereafter, it would be prudent for the Special Levy to grow by the rate of construction inflation. This measured approach to raising funding levels softens the immediate financial impact on residents, allowing them to adjust gradually to the cost they must bear to fund the infrastructure they rely upon. The draft ten-year capital plan in the 2025 Business Plan contains spending consistent with the 2024 Plan. As such, the proposed capital spending will not result in changes to the previously planned Special Levy increases.

As was discussed in the previous Business Plan, debt will also play a significant role in funding the needed investments in infrastructure. Approximately $170 million of debt will be acquired from 2024-2029 to fund the Aquatic and Wellness Centre (AWC) and other facility projects, roads projects, and water and wastewater projects. This will result in debt payments climbing to over $11 million annually, taking the Town very close to its self-imposed 75% of the Annual Repayment Limit (ARL). This amount of debt funding is consistent with the 2024 Business Plan presentation.

As in past years, the Business Plan will be presented to Council outlining Major Initiatives and Division Highlights to highlight the important changes that will be occurring, and the work being conducted to better serve our residents. The impact on taxation of these items will be included as part of the Business Plan presentation.

<u>Highlights</u>
Just as last year, staff will be categorizing the highlights into preliminary Service Priorities as an aid to Council deliberation. Highlights with significant impacts on 2025 taxation include:

- Base Priority: loss in Ontario Community Infrastructure Fund (OCIF) funding ($0.6 million impacting taxation by 2.6%)
- Base Priority: increase in Westario dividends ($100,000 reducing taxation by 0.5%)
- High Priority: increase to the Municipal Housing Subsidy ($75,000 impacting taxation by 0.4%)
- Medium Priority: The Southampton Arts Society Operating Grant ($100,000 impacting taxation by 0.5%),
- Low Priority: Southampton Tennis Club Grant ($175,000).

Low priorities, although highlighted in the draft Business Plan, are not included in the overall proposed tax increase as they will not be included in the approved Business Plan. The preliminary Service Priority levels will be a starting point for Council debate on an appropriate and affordable level of service. Each of the highlighted items have been presented through reports to Council throughout the course of this year to ensure that Council has a deep understanding of the topics prior to seeing them consolidated into the Business Plan presentation meetings.

New for this year, staff will also be categorizing items by cost driver categories:

- Standard Inflation: Items that are modified by a forecast of Consumer Price Index (CPI) or the Building Construction Price Index (BCPI).
- Exceptional Inflation: Items that have been inflated by a rate higher than the forecasted CPI or BCPI.
- Efficiency: A change resulting in improvements in the way we operate, resulting in more efficient delivery of service.
- Reallocation: A movement of cost or revenue from one sub-account to another but with no net change.
- Correction: A change to the value in a sub-account to fix an error in a prior business plan.
- Regulatory: A change required to meet new or revised legislative requirements.
- Service: Service can be either an increase or decrease in service level resulting in a change in cost and/or revenue.
- Growth: A change in cost or revenue needed to accommodate the demands of a larger population and employment base.
- One-Time: Items that will occur only once. Since such an action does not create ongoing strain on the Town's financials, a tax increase may be warranted, and in such

cases, the costs would be funded from prior operating surpluses (Tax Stabilization Reserve).

- Recurring: Items that have historically occurred every couple/few years and will continue as such into the future.

These cost drivers will allow Council to see the year-over-year changes at a summary level and at an account level to facilitate understanding of the changes.

One-time expenditures in 2024-2027 are exceeding historical levels (approximately $0.1 million) by $0.2 - $0.3 million. Significant one-time costs in 2025 include the Community Planning Permit System ($150,000). At this time, it still makes sense to use approximately $1 million in reserves to avoid adding an additional 1.3% tax increase, as the 2025 budgeted drawdown on reserves will be manageable. The Community Planning Permit system has the potential for federal grants to offset the cost. Additionally, the Town has traditionally been able to achieve year-end budget surpluses, which to some extent will offset these one-time costs. An incremental increase can always be considered for 2026 if unfunded one-time costs are projected to remain high moving forward.

<u>Options for Council Consideration</u>

Based on the High and Medium service priorities (but not including Low priorities), the draft 2025 budget would require a tax increase of close to 3.5%, excluding exceptional increases for Police Service and OCIF. The Police budget is still under development, but the potential exists for their increase to be in the double digits. As an example, a 10% Police Service budget increase would drive up the overall tax increase by a further 1%.

The OCIF revenue loss adds 2.6% to the needed base tax increase resulting in an increase of approximately 6% (Option 1). This equates to a $140 increase on an average home plus $49 increase for the Special Levy for a total of $189. An analysis of the OCIF change is still underway with the province and a detailed report will be presented to Council on November 11, 2024. Also, the loss in OCIF will climb to almost $1 million by 2027 which would need to offset by further incremental base tax increases of close to 1% in both 2026 and 2027.

Another alternative to increasing the base tax to offset OCIF losses, would be to increase the Special Levy in 2025 by $108 per year on an average home, instead of $49 (Option 2). With this alternative, the 2025 total increase on an average home for both the base tax increase and the Special Levy would still be approximately $189, plus any exceptional increase needed for Police. 2026 and 2027 would require a further $23 increase to the Special Levy to offset future OCIF losses, bringing the increase to those years to $72 each year. In 2028, the Special Levy increases would return to $49 per year through 2032 provided no further OCIF reductions occur.

As an alternative to increasing base taxes to offset the loss of OCIF funding, Council could consider reducing the commitment to capital investment (Option 3). The approved 2024 Business Plan included an average annual tax funded investment in 2025-2032 of $21 million. Reducing that investment to $20 million annually would offset the loss in OCIF and negate the need for an associated tax increase. An elimination or significant delays in certain projects would be required. As an example, an OCIF related tax increase could be eliminated if one of the following projects were delayed by at least ten years reducing the capital ten-year plan by almost $10 million: Fire Station; Centralized Operations Centre; and Southampton Town Hall and Library. Slowing the rate of road reconstruction through a reduction of $1 million each year would be another option. Such reductions in capital spending would keep the 2025 increase at 3.5% plus any exceptional increase needed for Police Service ($81 on an average home plus $49 for the Special Levy for a total on approximately $130). Additionally, this alternative accommodates the 2026-2027 OCIF losses within the 2025 Business Plan, eliminating the future tax increases that are needed with Options 1 and 2.

Council is not being asked to deliberate these Options at this meeting. They are being provided for advance awareness ahead of the November Business Plan and Budget meetings and to provide Council members with additional time to consider. The below table summarizes the three Options:

Options to Offset OCIF Loss	2025 Impact on Avg. Home excluding exceptional increase for Police			
	Base %	**Base Tax**	**Spec. Levy**	**Total**
1) Base tax increase *	6%	$140	$49	$189
2) Dedicated Future Infrastructure Special Levy increase *	3.5%	$81	$108	$189
3) Capital Investment commitment reduced by $1M annually	3.5%	$81	$49	$130

** Requires further incremental tax increases in 2026-2027 to offset further OCIF losses.*

<u>Long-Term Operating Plan</u>

Whereas last year was the first ever ten-year capital plan, this year's business plan contains the first ever ten-year operating plan. Although not as critical as a long-term capital plan, a long-term operating plan allows Council to consider the implications of growth and community needs through a lens that allows difficult decisions to be viewed in perspective.

This long-term operating plan will evolve over the coming Business Plan cycles as it is further developed and refined. Based on the inputs into the current Business Plan model, tax rate increases of approximately 5% annually from 2026-2027 are proposed. As was previously stated, 1% of that increase is a result of anticipated further OCIF grant reductions. From 2028-2033 the Business Plan model includes tax increase declining each year, with increases at the rate of inflation in the final years of the plan. It can be expected that in the coming years, new unforeseen service needs will be identified by the community. Additionally, external factors such as government legislation and economic factors will also have an impact. For each new annual Business Planning cycle, Council will be informed of how these factors could impact the previously approved Plan. As with any budget deliberation, every Business Plan cycle will involve difficult decisions for Council as it balances community needs and affordability. It is therefore prudent that this Business Plan's tax increases decline to the rate of inflation by the end of the ten-year cycle. This provides flexibility down the road as unforeseen factors create pressure on future plans.

Linkages

- Strategic Plan Alignment: Pillar 4: Fostering a Vibrant Place to Live and Visit
- Business Plan Alignment: Corporate Services Business as Usual

Financial Impacts/Source of Funding

No costs or revenue is associated with this report.

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