

MEETING NO: # 02 18 Finance & Audit Committee
DATE: June 5, 2018
TIME: 9:30 a.m. – 11:00 a.m.
PLACE: CH Admin. Office, 2596 Britannia Road West, Burlington ON
905.336.1158 x 2236

AGENDA

Page #

1. **Acceptance of Agenda as distributed**
2. **Disclosure of Pecuniary Interest for Finance & Audit Committee**
3. **Consent Items**
Roll call & Mileage
Approval of Finance & Audit Committee minutes dated April 12, 2018
4. **Action Item**
 - 4.1 2019 Preliminary Budget and Business Plan
Report #: FA 02 18 01
5. **Other Business**
6. **Adjournment**

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Committee members: Rob Burton
Cathy Duddeck
Rob Duvall
Moya Johnson
Gerry Smallegange
Jim Sweetlove
John Vice

REPORT TO: Finance & Audit Committee

REPORT NO: # 02 18 01

FROM: Sheryl Ayres, Senior Director, Corporate & Strategic Initiatives
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DATE: June 5, 2018

SUBJECT: 2019 Preliminary Budget

Recommendation

That the Finance and Audit Committee recommend to the Conservation Halton Board of Directors that **the attached 2019 Preliminary Budget and Business Plan be approved for budget discussion purposes with funding watershed municipalities.**

Executive Summary

The 2019 preliminary budget is being submitted for approval, prior to budget submissions to the Regions of Halton and Peel in July. Meetings with Regional staff typically occur in September. The detailed 2019 Preliminary Budget and Business Plan includes, for each department, a business plan, key objectives and activities, key performance indicators, a staffing overview and program budgets.

The 2019 preliminary budget of \$35.3 million provides for programs and services to protect our communities, manage natural areas and resources, creates opportunities for people to connect with nature, and creates sustainable communities through a municipal levy of \$10.3 million.

One of the key service targets in Conservation Halton's Strategic Plan is to limit operating and capital municipal funding increases to regional budget guidelines. Halton Region staff will be providing their Budget Directions report in July that will include the guideline for boards and agencies. The Halton Region guideline provided for the 2018 budget was 3.5% based on 2% inflation and 1.5% assessment growth. The 2019 preliminary budget provides for the core programs and services provided by Conservation Halton and requires an increase in municipal funding of 2.5%, below the anticipated guideline of 3.5%.

In addition to the 2.5% increase for core business delivery, additional funding in the amount of \$493,850 is included in the budget for the State of Good Repair Levy. This increase includes funding for the second year of a planned four year phase-in of this levy, funding to repay debt financing for unforeseen works to repair Kelso dam, and the introduction of funding for building assets as identified through a facility condition assessment completed in 2018. The overall increase to municipal funding including the State of Good Repair Levy is 7.6%.

Although the 2019 budget expenditures are increasing by 11% over the 2018 budget, staff have been proactive in budgeting increases in other sources of funding so that the overall increase in municipal funding is minimized to 2.5% for operating and capital programs and 7.6% including the State of Good Repair Levy.

A summary of the 2019 Preliminary Budget and municipal funding is as follows:

	Budget 2019	Budget 2018	\$ Increase (Decrease)	%Increase
Total Municipal Funding:				
Operating	8,808,768	8,605,511	203,257	2.4%
Capital	687,013	656,813	30,200	4.6%
	9,495,781	9,262,324	233,457	2.5%
State of Good Repair Levy	779,850	286,000	493,850	172.7%
Municipal Funding	10,275,631	9,548,324	727,307	7.6%

For comparison purposes, the 2018 budget has been restated as a result of an organizational realignment that occurred in December 2017. Comparisons to 2017 actuals will be provided when these amounts have been restated according to the current organization structure.

The 2020 – 2028 Operating and Capital Forecasts are currently being prepared and will be provided in October 2018 with the 2019 Budget update.

Current Value Assessment (CVA) Apportionment data is used to calculate the proportionate share of municipal funding to the participating municipalities. For purposes of allocating the 2019 budget, 2018 CVA data will be received from the Province in early September. The 2018 revised apportionment percentages have been used in the 2019 Preliminary Budget Summary. The largest apportionment percentage is currently 87.5% for the Region of Halton.

Report

The 2019 Preliminary Budget report is based on summary information provided in the 2019 Preliminary Budget and Business Plan.

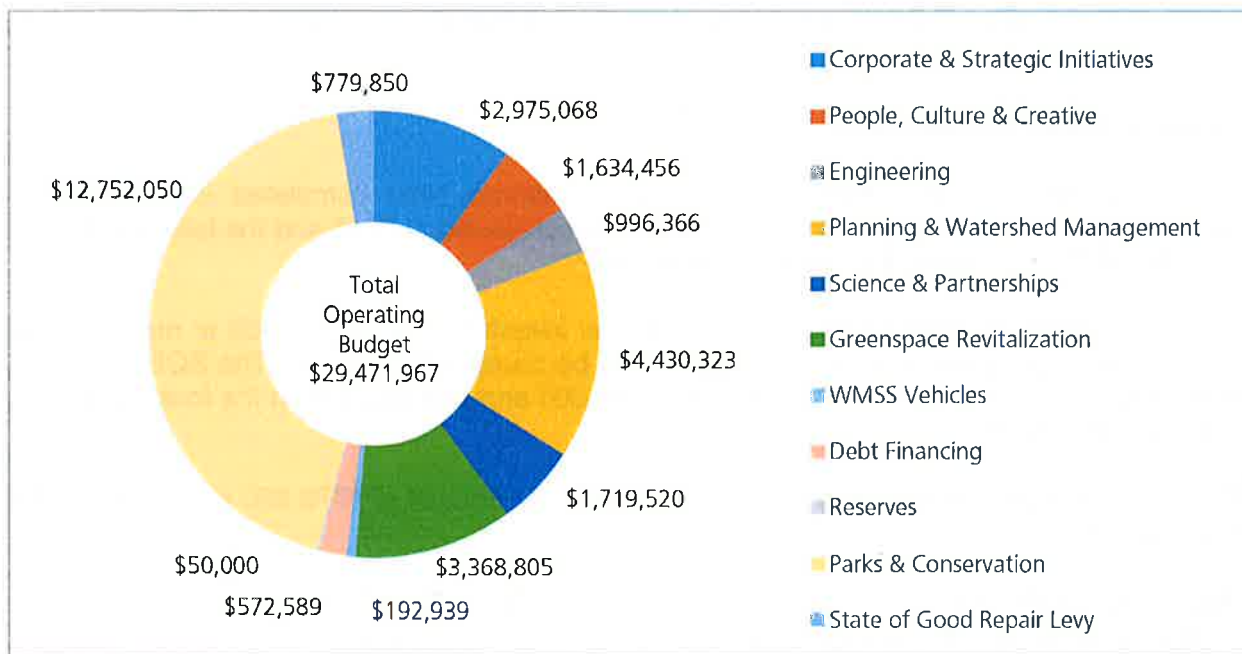
Conservation Halton has established two primary budget categories in its Budget Principles, Watershed Management and Support Services (WMSS) and the Conservation Areas, based on the funding sources for these programs. The WMSS program receives funding from the municipal levy whereas the Conservation Areas are self sufficient in funding sources through program fees charged to park visitors. Annual Park operating surpluses are transferred to the Conservation Area capital reserve to fund park capital project expenditures. The parks do not receive municipal funding for the recreation programs provided with the exception of education programs.

Assumptions Used in Preparing the 2019 Preliminary Operating Budget

- Inflation has been assumed at 1.75% to 2%. The Bank of Canada expects inflation to average 2% in 2019 and the Royal Bank of Canada Forecast for inflation in 2019 is 1.8%. According to Statistics Canada, the Consumer Price Index as of April 2018 for Ontario is at 2.1%.
- Staff salary bands for 2019 are proposed to increase by 1.75%. Salaries are based on 91% and 94% of the top of the salary band for Conservation Areas and Watershed Management and Support Services (WMSS) staff respectively. These percentages are consistent with the 2018 Budget and represent the proportion of actual salaries to the top of the band.

2019 Preliminary Operating Budget

The operating budget of \$29.4 million provides for an investment of \$16.7 million into the Watershed Management and Support Services and for an investment of \$12.7 million into the Conservation Areas. The following chart shows the distribution of the operating budget by department.



Investing in the Watershed

The WMSS 2019 Preliminary Operating Budget expenses have increased by \$907,179 over the 2018 Operating Budget, including the State of Good Repair Levy. This increase is partially funded by program revenue, grants, reserves and chargebacks of \$257,698. Municipal operating funding for WMSS programs is proposed to increase by \$155,631 for programs and services and by \$493,850 to fund an increase to the State of Good Repair Levy.

Major drivers of the WMSS operating budget increase include:

WMSS Staff Salaries and Benefits	\$243,008
New staff offset by positions not replaced in the 2018 Budget	423,848
Digital Transformation Purchased Services	30,000
Municipal Debt Financing Charges decrease	(45,997)
Transfer to Land Securement Reserve	25,000
Transfer to Vehicle & Equipment Reserve	(50,000)
Partnership Projects decrease	(284,991)
Inflationary increases in materials and purchased services	72,461
State of Good Repair Levy	<u>493,850</u>

Total increase in 2019 Preliminary WMSS Operating Budget **\$907,179**

Proposed enhancements in Information Technology and Engineering Flood Forecasting and Operations will continue to facilitate the digital transformation process and modernize these operations. These initiatives are recommended in the Technology Landscape Assessment completed in 2018 and in the Strategic Plan.

A new Integrated Watershed Management Program has been included in the operating budget. This new program is another initiative identified in Metamorphosis that will assist in streamlining watershed management planning for the Conservation Halton watershed.

State of Good Repair (SOGR) Levy

An Asset Management Plan (AMP) for Dams and Channels was completed in 2017. Asset Management Plans for building assets is expected to be completed in 2018 and the balance of assets is planned for 2019 to complete the comprehensive AMP.

The Dams and Channels AMP identified a total annual investment of \$1,500,000 to maintain these assets in a state of good repair with 50% proposed to be municipally funded. The SOGR Levy was implemented in the 2018 Budget in the amount of \$286,000 and was included in the forecast as being phased in over four years.

The SOGR Levy has been included in the 2019 budget in the amount of \$779,850 and consists of the following elements.

2018 Approved SOGR Levy	\$ 286,000
Year 2 phase in of dams and channels funding	197,468
Sutotal SOGR funding for dams and channels	483,468
Increase in debt financing charges for the Kelso Dam Rehabilitation Capital Project as a result of additional municipal debt financing	121,382
SOGR funding for buildings	175,000
2019 SOGR Levy	\$ 779,850

The \$175,000 requested for buildings is the amount required to maintain these assets in a state of good repair based on a Facility Condition Assessment ten year expenditure plan completed by a consultant in April 2018.

Investing in our Parks

Operating expenses have increased in the Conservation Areas 2019 Operating Budget by \$1,138,146. The increase in expenses is funded by additional program revenue, with the exception of a proposed increase in municipal funding for Education programs of \$47,646, bringing 2019 municipal funding to \$240,000 from the 2018 Budget amount of \$192,354.

Increases in expenses are largely related to staffing. Two new full time positions are included in the operating budget to assist with lift and maintenance needs at the parks. The impact of the planned

minimum wage increase in 2019 to \$15 has also been factored in to the operating budget accounting for most of the staffing cost increase.

New programs included in the Conservation Areas operating budget include the implementation of a Visitor Impact Monitoring and Management program that is identified as a Strategic Plan initiative for 2019.

The chargeback to the Conservation Areas for support services has increased by \$17,214 to \$1,073,000. This is the second year of a phased increase to the parks chargeback that is offset by a reduction of \$93,400 for positions not being replaced in the 2018 Budget.

Program revenue has increased by \$1,090,500 to \$12,489,750 from the 2018 Budget amount of \$11,399,250. Program revenue increases include adjustments to budget amounts based on the three year average of historical actual amounts, new program offerings and proposed 2019 fee increases assuming average fee increases of 2 to 5%. The revenue increase is offset by a reduction of \$180,000 associated with the elimination of the snow tubing program at Kelso/Glen Eden.

Staff Complement Changes

The 2019 Preliminary Operating Budget provides for a net change of 8.6 Full Time Equivalent (FTE) staff with details provided in the Departmental Business Plans. The staff increase consists of 6 Full Time staff and 2.6 part time FTE staff.

Summary					
	2018 Approved FTE	2019 Service Adjustment	2019 Reallocation of Staff	2019 Total FTE	Net Change 2019 vs 2018
Watershed Management & Support Services					
Full-time	105.0	4.0	0.0	109.0	4.0
Part-time/ Contract	5.9	1.6	0.0	7.5	1.6
Total WMSS	110.9	5.6	0.0	116.5	5.6
Conservation Areas					
Full-time	36.7	2.0	0.0	38.7	2.0
Part-time/ Contract	96.0	1.0	0.0	97.0	1.0
Total Conservation Areas	132.7	3.0	0.0	135.7	3.0
Total Full-time	141.7	6.0	0.0	147.6	6.0
Total Part-time/ Contract	101.9	2.6	0.0	104.5	2.6
Total Staff FTEs	243.6	8.6	0.0	252.2	8.6

Debt Financing and Debt Capacity

The Debt Financing Charges included in the 2019 Preliminary Operating Budget of \$572,589 includes \$542,589 municipal debt financing charges and \$30,000 for estimated principal and interest payments on the land acquisition loan with the Hamilton Community Foundation.

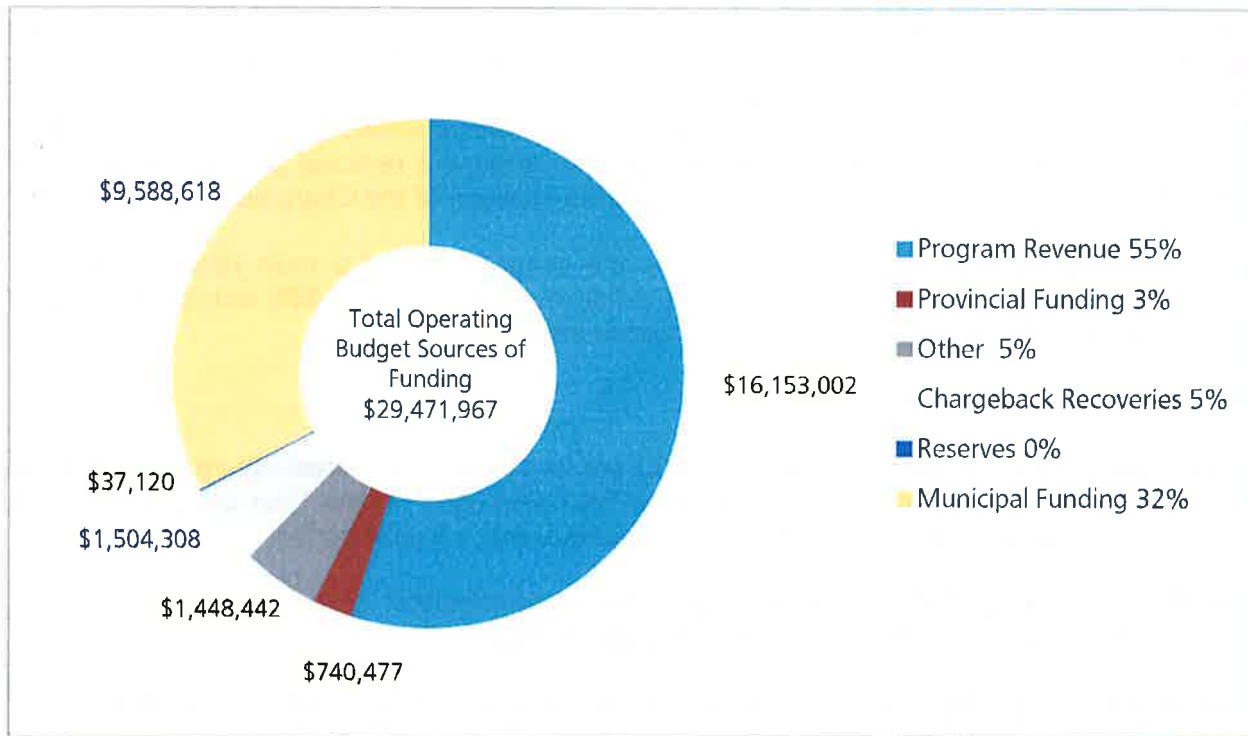
Municipal debt financing is based on the amount included in the 2019 Forecast with the 2018 Budget that was provided by Halton Region staff. Debt financing charges included in the budget and forecast will be updated by Halton Region staff after the preliminary budget amounts are submitted in July. Debt financing charges are calculated based on Halton Region's actual investment earning rate of 3.2% in 2017, with repayment over ten years and thirty years for the Kelso Dam Capital Project debt financing. Projects that have been debt financed include significant dams and channels capital projects and the Administration Office major renovations.

The total long term debt balance is currently \$2,852,454. Combining this amount with the municipal debt financing amount approved for the Kelso Dam rehabilitation capital project, long term debt is expected to increase to \$7,025,488 in 2019. The increased long term debt balance will increase the debt capacity ratio for 2019 to 18.9% based on estimated own source revenues excluding Conservation Areas program revenue. Under Ontario Regulation 403/02, municipalities are permitted to borrow up to 25% of own source revenues but as a best practice most Councils approve more restrictive policies. The Region of Halton has approved a debt capacity limit of approximately 13% of own source revenues and they are forecasting that they will remain well below this limit in the future.

Sources of Operating Budget Funding

The 2019 Preliminary Operating Budget funding sources are consistent with prior years with the majority of funding being derived from self-generated revenues and only one-third of the budget funded from the municipal funding of \$9,588,618 including the State of Good Repair Levy. Conservation Halton has been proactive at generating funding from sources other than the municipal levy which has resulted in 68% of the budget being funded by these other sources.

Program revenue included in the operating budget has been assumed to increase based on inflationary increases and growth where applicable. A Program Fees and Rates Review is planned to be completed during June to August 2018 with a report from the consultant to be presented at the September 27, 2018 Board of Directors meeting.



2019 Preliminary Capital Budget Summary

The Preliminary Capital Budget of \$5,824,630 is allocated to Watershed Management & Support Services (WMSS) programs of \$4,069,930 and Conservation Areas programs of \$1,754,700. The 2019 Preliminary Capital Budget will provide funding for projects such as the rehabilitation of flood control infrastructure, updating of flood plain mapping, investments in digital transformation and technology upgrades, vehicle and equipment replacements, development of studies and plans, managing the impacts of Emerald Ash Borer, land management initiatives and infrastructure improvements at the Conservation Areas.

Investing in the Watershed

The proposed capital budget provides for an investment of \$4,060,930 into Watershed Management and Support Services. Although the WMSS capital budget has increased in cost by \$812,609, the municipal capital funding required for WMSS capital projects of \$687,013 has increased by only \$30,200.

The WMSS 2019 Preliminary Capital Budget includes:

Engineering

Dams and channel major repair and maintenance projects with a total cost of \$1,387,516. These projects are assumed to be funded 50% from the Water Management Capital Reserve, which is funded through the implementation of the State of Good Repair Levy, and 50% provincially through the Water and Erosion Control Infrastructure (WECI) fund. The 2019 proposed projects provide for estimated repairs costing \$898,906 to Hilton Falls Dam and \$82,774 for Hilton Falls Dam road

resurfacing. The Environmental Assessment work for this project was completed in 2015. Milton channel repairs included in the 2018 Budget were closed in May 2018 as provincial funding was not approved for this project in 2018 and have been added back to the 2019 Preliminary Capital Budget in the amount of \$255,927. The balance is related to the implementation of the Dam Public Safety Plans being completed in 2018 for \$74,909, \$25,000 for sediment removal at Freeman Pond and \$50,000 to begin a study for the naturalization of concrete sections of the Channels.

Flood Plain mapping, with costs of \$466,626 is the second year of a multi-year capital project identified through the Strategic Plan. This project is assumed to be funded 50% municipally and 50% through a Federal National Disaster Mitigation Program grant.

Greenspace Revitalization

Administration Office capital works for \$150,000 are to support the infrastructure and landscape improvements to the exterior of the office based on the Landscape Master Plan completed in 2018. The building improvements are planned to be implemented over a 5 year period.

Giant's Rib Geopark for \$100,000 is to support the implementation of the concept of a Geopark system including communication materials and website development.

Emerald Ash Borer (EAB) treatment has been included at a cost of \$1,154,000 according to the 2019 amount outlined in the Business Plan approved by the Board in 2017. EAB costs are funded by designated funds from the Region of Halton for EAB work and is separate from the base municipal funding.

Other WMSS Capital Projects

Vehicle and equipment replacements planned for 2019 of \$242,937 for WMSS will be funded by a transfer from the Vehicle and Equipment Reserve.

New or increases to existing capital projects, that are fully municipally funded, consist of the purchase of Ortho Imagery of \$60,000 that will provide updated mapping to meet program requirements, development of a Shoreline Management Plan and monitoring for \$40,000 and digital transformation enhancements of \$115,000 to implement recommendations identified in the recently completed Technology Assessment report.

Investing in our Parks

The proposed 2019 Parks capital budget provides for an investment of \$1,754,700 into the Conservation Areas. Capital project expenditures are largely funded by the Conservation Areas Capital Reserve. This Capital Reserve is funded through the transfer of annual park operating surplus to the Reserve.

The Conservation Area 2019 Preliminary Capital Budget includes:

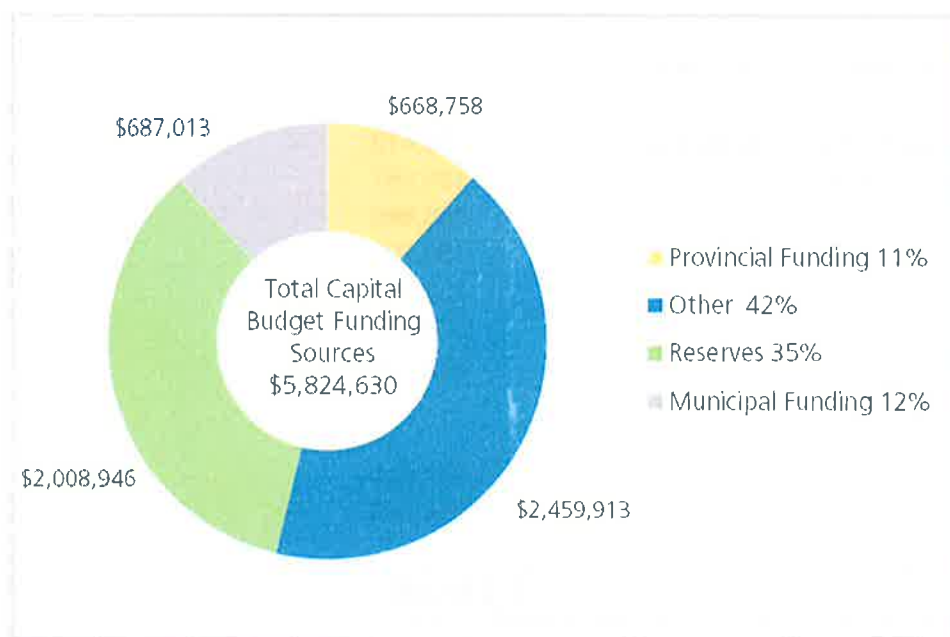
Facility major maintenance for park infrastructure totalling \$1,146,200. Park infrastructure projects will provide for Glen Eden snowmaking and electrical improvements, rental equipment replacement, and IT and other park infrastructure enhancements. Accessibility upgrades and the installation of a washroom proposed at the Mount Nemo Conservation Area is proposed to be primarily funded through a grant that was applied for in 2018.

Vehicle and equipment replacements of \$108,500 for the Conservation Areas will be funded by a transfer from the Conservation Areas Capital Reserve.

Parks Developer Contribution Works for \$500,000 is related to estimated preliminary design, cost certainty and regulatory needs. These costs are proposed to be funded by Developer Contributions that are being held by Halton Region for Conservation Halton designated projects approved by the Board in October 2017.

Sources of Capital Budget Funding

Capital Project funding sources are detailed in the 2019 Preliminary Capital Budget and in the Departmental Business Plans. A summary of the funding sources is provided in the chart below.



Reserve Funding

Included in the 2019 Preliminary Operating Budget is Vehicle and Equipment Reserve funding of \$25,000 that has decreased by \$50,000 from the 2018 Budget amount of \$75,000. The transfer amount was based in the past on the planned ten year average of the WMSS vehicle and equipment replacements. With the reduction in vehicle replacements and vehicle fleet in recent years the Vehicle and Equipment Reserve balance has grown. Vehicle replacements will be reassessed in the budget forecast to bring this Reserve balance to a more appropriate level.

A new transfer of \$25,000 to the Land Securement Reserve is proposed in the 2019 Preliminary Budget. The transfer will help to ensure funds are available to respond to opportunities that meet the guidelines established in the Land Securement Strategy approved in 2018.

Reserve transfers include 50% of Dams and Channels major repairs costs in addition to Vehicle and Equipment replacements, Administration Office infrastructure and Conservation Area capital projects.

The Reserve Summary below lists the Projected Reserve Balances at December 31, 2019. A Reserve schedule is provided in the 2019 Preliminary Budget that details the proposed transfers to and from Reserves included in the 2019 Preliminary Budget.

Name of Reserve	Reserves Projected Balance Dec. 31, 2019
Watershed Management & Support Services	
Vehicle & Equipment	597,903
Building	285,879
Watershed Management Capital - Municipal Funds and Self Generated Funds	475,276
Watershed Management & Support Services Stabilization	703,413
Capital Projects - Debt Financing Charges	186,567
Legal	258,889
Water Festival	159,791
Land Securement	133,336
Property Management	228,900
Stewardship and Restoration	222,716
Conservation Areas	
Capital	1,632,949
Stabilization	854,568
Total Reserves	5,740,187

Impact on Strategic Goals

This report supports the Metamorphosis strategic theme of Striving for service excellence and efficiency. This theme is supported by the objective to provide clear financial data and analysis to support informed strategic and operational decision-making for budget development and long term planning.

Financial Impact

Conservation Halton is faced with delivering core services to an increasing number of residents in the watershed and visitors to its Conservation Areas, in addition to enhancing programs and services to meet mandated timelines and service delivery objectives outlined in Conservation Halton's Strategic Plan Metamorphosis.

The 2019 Preliminary Operating Budget focuses on meeting service level targets and the initiatives required to meet the key objectives in the strategic plan. The 2019 Preliminary Budget provides for

investments in our programs to enhance service delivery, digital transformation, watershed planning, greenspace revitalization, floodplain mapping, flood forecasting, and park experiences. The municipal funding requested in the 2019 Preliminary Budget for operating and capital expenses is within the regional guidelines assumed for 2019.

Signed & respectfully submitted:


for

Sheryl Ayres
Senior Director, Corporate & Strategic Initiatives

Approved for circulation:



Hassaan Basit
CAO/Secretary-Treasurer

FOR QUESTIONS ON CONTENT:

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