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Report 2023-139

Report Title: **2024 - 2026 Draft Budget and Long-Term Plan**

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Special Council Meeting Date: December 6, 2023

Strategic Plan Priorities: ☒ Innovate for Service Excellence
☒ Ignite Economic Opportunity
☒ Foster a Thriving Community
☒ Propel Sustainable Growth
☒Champion a Vibrant Future

Information Report

"**That** County Council receive Report 2023-139 '2024 – 2026 Draft Budget and Long-Term Plan and PowerPoint presentation for information."

Purpose

This report provides an overview of the 2024 - 2026 draft budget. It also summarizes a 7-year long-term financial forecast, key financial trends including reserve, and debt projections.

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Executive Summary

Northumberland County's draft 2024 annual levy increase can be broken down into several components. These include growth, our established Dedicated Infrastructure Levy, a proposed new dedicated levy for housing and homelessness initiatives, items that have been referred to deliberations, and the base levy amount.

The 2024 draft budget proposes an annual levy increase to the existing taxpayer (after growth) of 6.36% as shown below.

Levy Increase

Total levy increase	8.36%
Growth (estimated)	2.00%
Levy increase after growth	6.36%
Dedicated Infrastructure Levy (DIL) (on target)	1.07%
Levy increase after Growth and DIL (compared to 4% target)	5.29%
Proposed Dedicated Housing Levy (DHL) (New)	1.00%
Kingston University Hospital Foundation Request (Deliberation item)	0.07%
Commuter Connect Program (Deliberation item)	0.22%
Base Levy increase after growth, DIL, DHL, and Deliberation items	4.00%

The owner of the median assessed home in Northumberland would pay an estimated $1,461 on the County portion of their property taxes based on the current 2024 proposed budget. This is an increase of approximately $88.55.

The dedicated infrastructure levy is based on 3.0% of the 2023 levy – as directed by council. Given the prior year dedicated infrastructure levy had been calculated at 2.0%, the incremental increase to the dedicated infrastructure levy results in a further overall year-over-year increase to the total levy in 2024 of 1.07%.

Staff are proposing a new Dedicated Housing Levy for housing and homelessness initiatives. County Council has indicated that these initiatives are a top priority. Northumberland has two housing projects currently underway, and staff are investigating other potential opportunities. However, levy dollars will be required to support future projects and a dedicated levy would help raise funding for future projects without having to cut service levels in other areas. The proposed DHL is calculated based on 1.0% of the 2023 base levy.

The 2024 proposed base levy increase is higher than the 4% target set by council because of the proposed Dedicated Housing Levy (1%). The remaining difference is because of the proposals for Kingston University Hospital Foundation (0.07%) and for continuation of the Commuter Connect Program (0.22%).

Inflationary pressures continue to have a significant impact on the County budget. The larger items related to inflation are the increase in the Waste Department collection contract, the full

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year impact of the 2023 Non-union salary increases, Merit, COLA, and union increases. These items represent an increase to the levy of approximately 6.7%. In addition to inflationary pressures, the levy is impacted by approximately 0.4% for a loss in Federal Non-profit subsidy. The issue papers identified through the budget process represent a further increase in levy of approximately 6.1%.

These pressures are partially offset by a reduction in levy due to the closure of the Material Recycling Facility of approximately 2.2%, a reduction in contributions to the GPL & NCAM reserve of 1.5%, and other savings and efficiencies that amount to approximately 2.2%.

The 2025 and 2026 draft budgets propose annual levy increases to the existing taxpayer (after growth) of 7.91% and 7.79% respectively - as shown below.

Levy Increase

	2025	**2026**
Total Levy	9.91%	9.79%
Growth (estimated)	2.00%	2.00%
Levy increase after growth	7.91%	7.79%
Dedicated Infrastructure Levy (DIL) (on target)	0.13%	0.19%
Levy increase after Growth and DIL (compared to 4% target)	7.78%	7.60%
New Proposed Dedicated Housing Levy (DHL)	0.59%	0.67%
Base Levy increase after growth, DIL, and DHL	7.19%	6.93%
Amount above targets ($2,363,973 and $2,384,309)	3.20%	2.94%

While it is challenging to estimate the actual impact on the taxpayer in 2025 and 2026, because there are number of variables that can change, the owner of the median home in Northumberland would pay an estimated $1,606 in 2025 and $1,764 in 2026 on the County portion of their property taxes based on the proposed budget. This is an increase of approximately $144.98 and $157.32 respectively.

The dedicated infrastructure levy continues to be calculated based on 3.0% of the prior year levy – as directed by council. Because the base levy amount increases, it results in a 0.13% increase in 2025 and a 0.19% increase in 2026 due to the DIL.

The calculation for the proposed Dedicated Housing Levy increases to 1.5% of the prior year levy in 2025 and 2.0% of the prior year levy in 2026. This results in an overall increase to the levy of 0.59% in 2025 and 0.67% in 2026.

The main reason the proposed budget for 2025 and 2026 is above the target is because debt servicing payments for the GPL & NCAM project start in 2025. We will make two payments a year on this debt. It is estimated that each payment will be $3.12M with the first payment happening in 2025 and then two payments happening each year starting in 2026. This means that the levy is increasing by $3.12M (or 4.2%) in 2025 and again by $3.12M (or 3.8%) in 2026 because of these debt payments. This is partially offset by the Construction Funding Subsidy that is approximately $1.0M in 2025 and then $1.3M in 2026 and going forward. There is a Construction Funding Subsidy Top-up program that would have meant an additional $2.3M in funding annually but Northumberland is not eligible for this funding because our construction started before April 1st, 2022. Lobbying the Province for the CFS Top-up for our project has been unsuccessful to date.

Higher interest rates are a significant risk for the GPL & NCAM project. The current rate for a 25-year debenture with Infrastructure Ontario is 5.11%. Based on the economic outlook, a rate of 4.11% has been used in the draft budget. For reference, the difference in the total interest costs over the life of the debt between a rate of 5.11% and 4.11% amounts to $16.7M.

We continue to see inflationary pressures in 2025 and 2026 for things like fuel, insurance, and salaries and benefits. The increase from proposed issue papers in 2025 and 2026 is $2.1M and $600K, respectively.

Staff have found some efficiencies to try to offset the increases in 2025 and 2026, but the pressure from the GPL & NCAM debt payments is too large to overcome without eliminating several issue papers and/or cutting service levels.

Background

Budget Process and Schedule

The County budget process commenced in July 2023 after staff received direction from the Finance and Audit Committee, and subsequently Council, to target a base levy increase of 4.0% for the 2024 to 2026 budget years. Within the long-term financial planning model for the years 2027-2033 Council approved utilization of an annual base levy rate increase of 4.0%. Further, that the annual dedicated infrastructure levy be calculated annually at 3.0% of the prior year's levy for 2024, 2025, and 2026 and then increase to 4.0% for the duration for the long-term plan. The approval for target levy increases typically derived from economic indicators provided Finance staff the direction to commence drafting budgets with all departments based on a known expectation from Council. Initiating the budgetary cycle in June/July facilitates enough time for Council budget deliberations in December with sufficient opportunities for review and discussion amongst staff, management, and Council. The timing will allow early tendering of projects and purchases and ideally provide more advantageous pricing. This also allows 2024 initiatives to move forward with funding in place and demonstrates ongoing improvements in the budget process and long-term planning.

The 2027-2033 long term financial plan is built on annual base levy increases of 4.0% after assessment growth and the dedicated infrastructure levy. Over the 12 years leading up to the 2023 budgetary cycle, the County had relatively stable levy increases after more than a decade of volatility in the County tax rates. Council approved a higher target base levy increase of 5% in 2023 to address the pressures from historically high inflation. Inflation has remained high during 2023 and Council has set a target base levy increase of 4% for the 2024 to 2026 budget years in recognition of this. Balancing fiscal responsibility with that of homeowner affordability and for maintaining standards for all County services were key considerations in establishing the target. This year's draft budget process continued to focus on long term financial needs and challenges within the model. Unrealistic tax increases focusing on the current budget year in isolation has significant impact on financial capacity over the long-term. One of the core objectives of the long-term model is to ensure stable modest annual increases over the long term by avoiding volatility caused from trying to gain ground with large increases in future years because of unrealistic increases over the short term.

Beginning in 2012, staff developed a 10-year long-term financial plan for each County department under the Long-Term Financial Planning Framework. The long-term plan includes operating revenues and expenditures as well as capital. It projects levy impacts as well as the changes to debt levels and reserves over that 10-year period. This is becoming common practice among municipalities with many going as far as formally adopting multi-year budgets aligned with the term of Council. The 2024-2026 budget includes an additional seven years of projections through 2033. Staff revise the forecast each year to include changes in Provincial funding, economic indices, refining estimates based on new information and legislation, prioritizing projects, adding the details of recently approved master plans, and using reserves to achieve a stable annual levy increase where warranted and in alignment with the County Reserve Policy. This year the long-term plan continues to specifically earmark levy dollars dedicated to capital throughout the 10 years as was introduced and adopted within the model commencing with the 2016 budget. Council provided staff with direction to target a dedicated infrastructure levy based on 3% of the prior year levy in each of the years 2024 to 2026 and 4% in years 2027 to 2033 of the long-term forecast.

The draft 2024-2026 budget and long-term financial plan is aligned with the County's Strategic Plan 2023 - 2027. The existing strategic plan identifies five strategic priorities:

1. Innovate for Service Excellence
2. Ignite Economic Opportunity
3. Foster a Thriving Community
4. Propel Sustainable Growth
5. Champion a Vibrant Future

The draft budget funds the continuation of all current programs and services although some specific programs will see minor modifications that are the result of changes to Provincial service delivery models, subsidies and/or program guidelines and legislation as well as a continual drive to ensure the best value for the programs delivered by the County. It also identifies financial resources to advance initiatives identified in the strategic plan such as plans to promote economic innovation and prosperity. Each department has prepared Business Plans and Issue Papers that clearly map their plans and projects to the corporate strategic plan. The detailed Business Plans will be available to the public on the County website, or in printed copy upon request, in December 2023 immediately following the initial budget presentation to Council.

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Preliminary draft budgets were developed by each division over the summer months. Issue Papers were reviewed at the departmental Standing Committee meetings the week of September 4th and departmental draft budgets the week of October 30st. Budget deliberations are scheduled for a special Council meeting on December 6th. The draft budget was consolidated by the Finance department who worked closely with each division and sought input from Standing Committees to make adjustments, find efficiencies and meet the general targets set in the previously endorsed 10-year plan. Staff have worked to bring the draft budget to Council as early as possible to ensure 2024 projects can be started early in the new year.

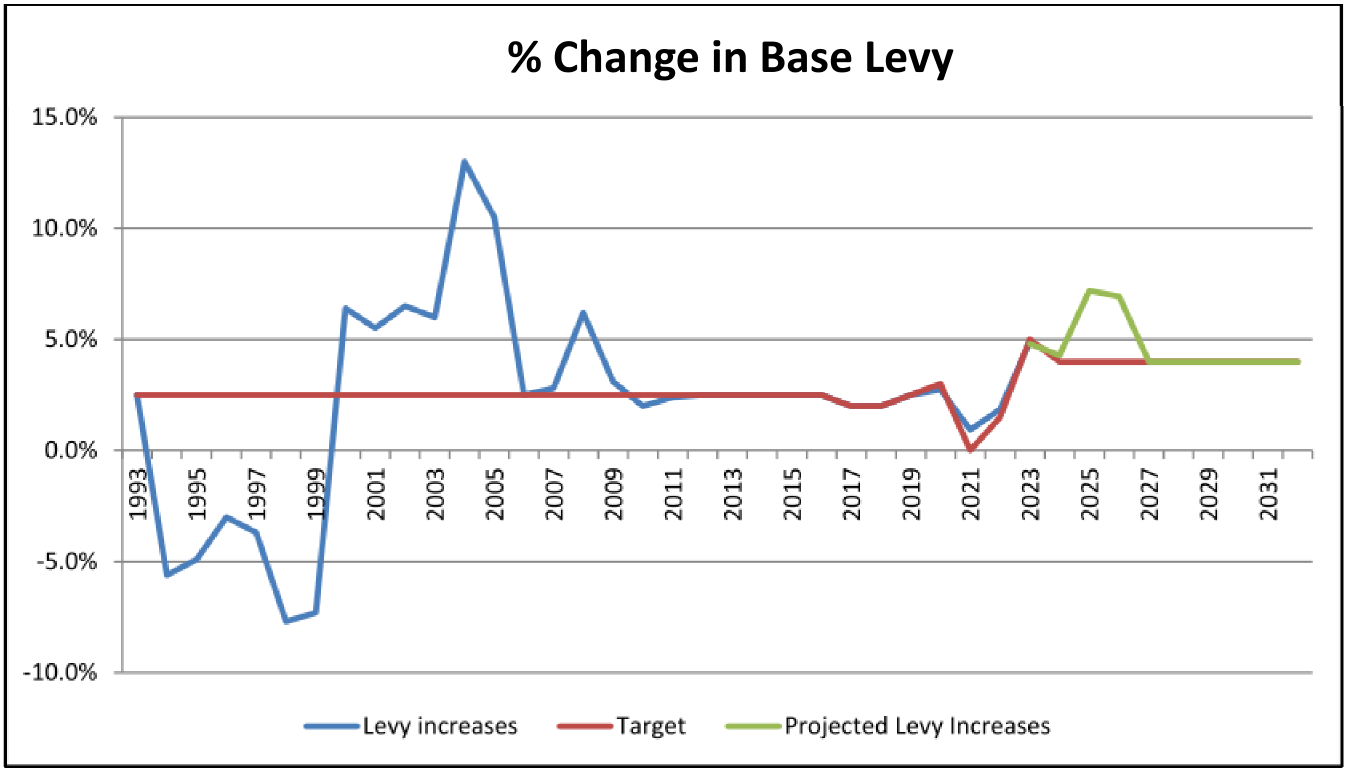
The 2024–2026 Budget is Northumberland County's first multi-year budget. Northumberland's multi-year budget policy lays out the process for preparing and approving a multi-year budget. If approved, council with be approving the 2025 and 2026 budgets "in principle" and will have to re-adopt those budgets each year. There will be a streamlined budget process for 2025 and 2026 where potential changes to the budget are identified and presented to council. Changes must be material and comply with the multi-year budget policy. Examples of acceptable items would be changes to legislation and/or funding, unforeseen changes to cost drivers, a change in council priorities, other unforeseen events. These changes will be vetted by senior staff and presented to council, in addition to a presentation that gives an overview of what is contained in the budget that was approved in principle. Council will have an opportunity to debate and make changes before re-adopting the budget each year.

Long Term Financial Planning Framework

Recognizing the multiple priorities identified within the County's 2023-2027 Strategic Plan, staff annually prepare a ten-year financial planning model in accordance with methodologies derived under an adopted Long-Term Financial Planning Framework (LTFPF).

The County has adopted a financial strategy within this framework that is focused on long term needs and challenges as opposed to focusing solely on the current budget year levy impact. In order to ensure consistent and modest levy increases over time, this framework adopts a philosophy of establishing a targeted annual increase for the current budget year's budget and the seven-year forecast.

In prior years the County experienced significant volatility in annual levy decreases/increases. Since adopting the LTFPF, the County has primarily realized stable annual levy increases and this approach carries forward within the long-term financial model. Actual increases over the past few years have proven insufficient to keep pace with inflation resulting in a spike in the 2023 budget and 2024 draft budget recognizing the need to gain some ground on an eroded base levy as displayed below:



* Prior to 2020, the Base Levy excluded the Dedicated Infrastructure Levy; however, included the annual increase for the Transportation Construction Program. Effective 2021, calculation methodology changed whereby the base levy also excludes the annual increase for the Transportation Construction Program now treated as Dedicated Infrastructure Investments. The 2020 target was set by Council as inclusive of the Base Levy and Dedicated Infrastructure Investments. 2021 Target represents Council request for feasibility review of a 0.0% increase.

This chart helps to display how each year is interlinked and how decisions focusing on the short term can impact on future years. In the '90's, the County experienced levy rate reductions and then in subsequent years implemented significant increases trying to rebuild operating and capital budgets particularly considering Provincial downloads. In conjunction with this, reserves were depleted as a means for financing routine capital items and in some instances, projects were completed and recorded as unfinanced capital within the Financial Statements. Working capital was minimal and the operating line of credit was frequently utilized to maintain cash flow requirements.

Prudent long-term focused planning under the existing framework allows for improved financial positioning by building upon reserves towards thresholds as identified through the County Reserve Policy. Minimization of debt servicing costs is achieved with the issuing of debt for only larger, non-routine capital projects or projects where debt is available at preferential rates in alignment with the County Debt Policy allowing project funds to be stretched further. Striving towards a more sustainable financial model, escalation of annual capital budgets is a key priority.

The County continues to work towards addressing the infrastructure deficit. Much of the infrastructure the County owns was downloaded from the province in the form of roads, bridges and social housing. In many instances, this infrastructure is nearing the end of useful life and is

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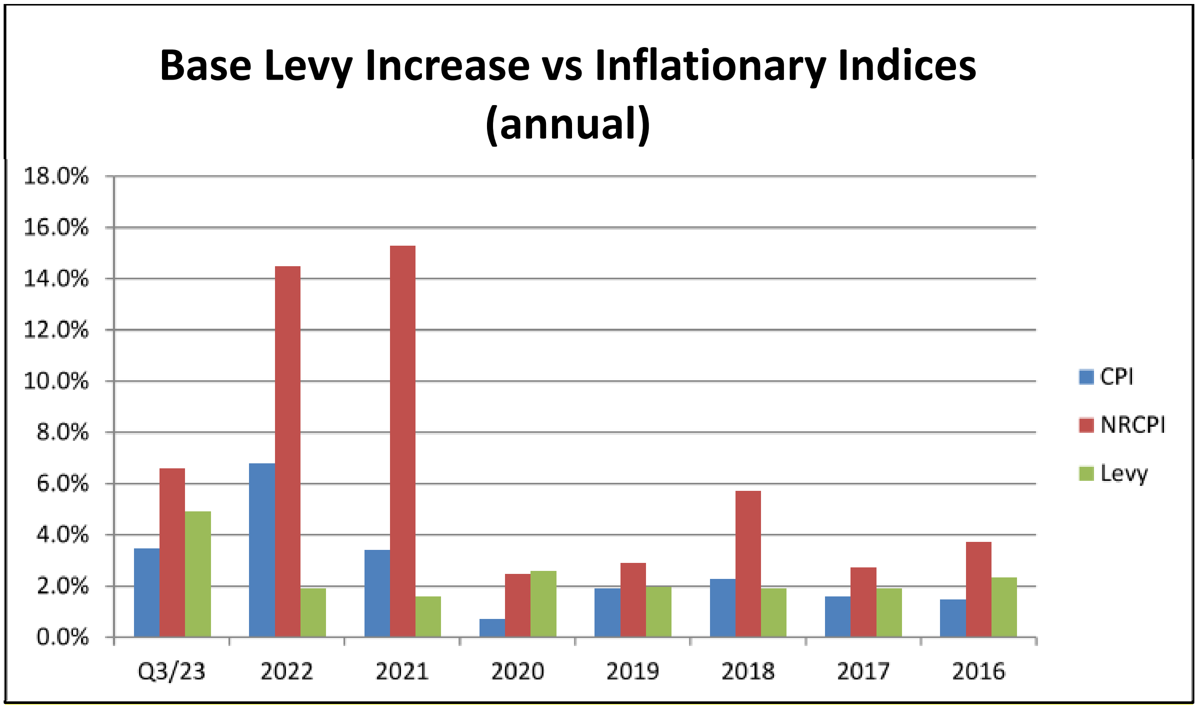
inefficient and costly to operate and maintain. The County currently has two Asset Management Plans. The first plan was adopted several years ago and is still in place for most non-core assets. In 2022, a new Asset Management Plan, specific to core assets (road network, bridges/culverts and storm sewer) was approved by Council. The current Asset Management Plans combined indicate that the County should be spending $32.9M per annum on infrastructure; however, the long term model anticipates spending below this threshold even though major capital projects such as the Golden Plough Lodge (GPL) and Northumberland Archives and Museum (NCAM) Redevelopment, a new Trent River Bridge, Social Housing expansion initiatives such as the Elgin Park Redevelopment project and a consolidated operations facility are included within the current financial plan. In 2016, the County introduced a dedicated infrastructure levy. Even with the implementation of this special purpose levy, infrastructure spending is only marginally gaining ground relative to the asset management plan. Adoption of a County-wide D.C. has increased financial capacity towards advancing expansion related infrastructure projects within the Transportation Department given the significant funding gap identified in this area.

The index used for the base levy increase (after growth and dedicated infrastructure investment) in the current long-term model (2027-2033 is based on 4.0% as approved by Council). In the 2023 budgetary cycle, the long-term plan model was developed based on a 3% base levy target (after growth and the dedicated infrastructure investment). When establishing the index, it is important that this be aligned with actual economic factors that impact municipal spending and are representative of the types of expenditures incurred. Under the LTFPF, the index utilized in the model is reviewed annually. The Consumer Price Index (CPI) is a measure that is often suggested for municipal budgeting and forecasting. However, this is not necessarily indicative of the composition of spending incurred by most municipalities depending upon geographic location and the types of services provided. A significant proportion of County expenditures are related to capital and external services which can be more accurately predicted based on construction price indexes. These indexes reflect the changes in costs for construction materials and both skilled and unskilled labour. Also, of significant proportions within the composition of costs for the County are salaries/wages and benefits, utilities and insurance. The weighting of these expenditures as comprised within the overall County budget must be considered in deriving a realistic targeted increase under the LTFPF.

The chart below displays that, although the levy increases (after growth) had been fairly aligned with CPI, commencing in 2021 the levy was markedly less than CPI with a significant variance occurring in 2022. Inflationary measures for 2020 represent an anomaly and are skewed because of the economic impacts from the COVID-19 pandemic. The CPI rose only 0.7% (annual change) in 2020. In 2021, inflation rose sharply driven by global supply chain constraints and heightened consumer demand resulting in the CPI indicator reaching 3.4%. CPI rose further in 2022 to 6.8% with pressures from geo-political conflicts. In 2023 inflation has slowed and the latest indicator for CPI at October 2023 represents a 3.1% increase (12-month change). CPI reached its peak of 8.1% in June 2022 reflective of the largest yearly change in the index since January 1983.

The chart further displays that the levy has not been keeping pace with inflationary pressures related to construction type activities as measured by the Non-residential Building Construction Index in any of the years presented, being particularly dramatic in the years 2021 and 2022.

The chart clearly displays the significant disconnect in the current and prior year for the levy increase in relation to both CPI and the Non-residential Building Construction Index:



Levy increases below inflation erode financing capacity over the longer term. Given the variation between actual levy increases and inflation in the years 2021 and 2022, the levy going into the 2024 budgetary year has already realized a significant decline in purchasing power that could be further entrenched if not at least keeping pace in 2024 and onwards. The County has extraordinary capital construction projects within the long-term model. Projects such as the new Trent River Bridge and the expansion and redevelopment of the Northumberland County Housing Corporation (NCHC) stock inclusive of the Ontario Street Development project and placeholders for further housing development projects, a new Brighton Emergency Services Base and a placeholder for a Consolidated Operations facility will experience significant cost escalations based on inflation as evidenced by the trend for the Non-residential Construction Price Index. This is in addition to the base annual Transportation construction program for tangible capital assets anticipated to total in excess of $140M and other capital type projects within the ten-year model. While the dedicated infrastructure levy is assisting in making modest gains towards specifically reducing the infrastructure deficit, based on the trend, unevenly rising inflation is exasperating the problem.

The LTFPF provides for ease of budgeting in that subsequent budget years are already populated in detail with capital items identified. The further out in the forecast the greater the level of uncertainty with high level assumptions for items such as projected capital costs, interest rates, etc. However, in the short-term horizon, assumptions and capital items are more accurately identified and provide for an ‘off the shelf’ budget for the subsequent budget year.

Each year as staff enters into a new budgetary cycle, the upcoming budget forecast year as well as the long-term model is examined in detail for savings and efficiencies. Each department evaluates their operating and capital needs independently of the overall County budget target. Department managers and directors discuss needs and priorities throughout the budget process.

The current draft budget is Northumberland County's first multi-year budget after the approval of a multi-year budget policy in 2022. Multi-year budgets are permitted by the Municipal Act and are used by a number of municipalities across the province. A multi-year budget will formalize our long-term planning process and streamline the work required on an annual basis to prepare a detailed budget as only a few changes are made to reflect unforeseen budgetary items. This policy provides the framework and defines the approach and processes to be used for multi-year budget planning and Council approvals.

Incorporated within the 2024-2026 Budget and the long-term financial plan for the fourth year are D.C. revenues. Council formally authorized staff to commence processes for the undertaking of a D.C. Background Study. Further, this was formally identified within the Council approved County Strategic Plan (2019-2023) as a specific objective. Identified as such under the Sustainable Growth Priority to 'Evaluate a County-wide Development Charge' and ensure 'growth pays for growth'. Ultimately, the County adopted By-law 2020-36 effective October 1, 2020 imposing County-wide D.C.'s. After completion of several statutory requirements leading up to the adoption of the County-wide D.C., Bill 197, the COVID-19 Economic Recovery Act, 2020 received Royal Assent. Changes to the D.C. Act because of this allow municipalities to recover discounted D.C.'s for certain services that previously had in place a statutory 10% reduction. As a result, staff requested and received Council authorization to amend the County D.C. By-law and the associated Background Study. The County-wide D.C. By-law was amended August 25th 2021 under By-law 25-2021. D.C.'s are one-time fees levied by municipalities on new residential and non-residential lands to help pay for a portion of the growth-related capital infrastructure. The purpose of D.C.'s are to ensure that new development pays its proportionate share of the capital costs required to service the associated new development. It is common practice for municipalities in Ontario to utilize D.C.'s, thereby, ensuring that the capital cost of providing services to new development is borne by the development receiving the benefit.

Legislative amendments resulting from Bill 23, More Homes Built Faster Act have significant impacts to D.C. revenues in the long-term model with most of these amendments having come into effect upon Royal Assent on November 28, 2022. Of most significance to the County of the amendments is the removal of housing as an eligible D.C. service. The County's current D.C. Background Study identifies two specific housing projects, those being the Elgin Park Redevelopment Project and the 473 Ontario Street Development Project. The DC study projected approximately $2.4M in total D.C. revenues for these two housing projects. Bill 23 eliminated the majority of this revenue for these projects.

This change under the Act, coupled with cost escalations and increased debt servicing costs from higher interest rates, makes the 473 Ontario Street project more challenging to finance. This is also a loss of revenue for future social housing expansion projects that would come forward for consideration aligned with the Northumberland County Affordable Housing Strategy.

This strategy has set goals to increase the supply of housing at various levels of affordability. It's estimated that over 250 new affordable housing units in Northumberland may be at risk over the next 2 – 7 years.

At the time of the change, the impact to the County-wide D.C. charge for a single and semi-detached residential dwelling was nominal in relation to the total cost of a new home going from $3,848 to $3,109 for a reduction of $739; however, the total impact in lost financial capacity for County Community Housing expansion initiatives is significant at $2.4M.

Some of the other notable amendments under the Act that will create other financial challenges include the removal of studies as an eligible D.C. item for sourcing D.C. revenues and new statutory exemptions for affordable and attainable units that would require the County to fund the D.C. reserve equal to the amount of these exemptions from a non-D.C. source.

Consultations

In previous budget cycles, staff have facilitated various combinations of Financial Framework Open Houses and surveys. The intent was to educate and engage the public on the County's services and budgetary processes and to provide for public engagement and input into the County's annual budget and long-term financial plan. Despite communication of the open houses via social media, the County website, newspapers, radio and media advisories participation was limited with 11 and 5 attendees at the last open houses facilitated in the years 2017 and 2018, respectively. The number of survey responses received was 2 and 1 in the years 2017 and 2018, respectively with a markedly improved participation level in 2019 at 374 respondents dropping down to 54 in 2020. Recognizing the limited participation for open houses and the extensive staff time required for planning and facilitating these, Council authorized under Council Report 2018-55 that the stakeholder consultation process be restricted to a budgetary survey only effective commencing with the 2020 budgetary cycle and staff recommended an enhanced on-line engagement via the Join In Northumberland project page for the 2022 budget. To this end, an interactive budget simulation tool was piloted as an opportunity to improve staff and Council's understanding of resident and stakeholder needs, expectations, and priorities for investment of the 2022 County Budget. The level of public response was modest with only 77 people completing the simulation. With limited success, Council directed staff to not facilitate the simulation tool for future years budget engagements.

Northumberland County adopted a new strategic plan in 2023. The plan required extensive public engagement that was facilitated through the Communications department. Because of this extensive engagement, it was decided that we would not conduct a separate budget survey. The feedback gathered during the strategic plan consultations has been factored into the departmental business plans and issue papers.

Discussion

2024 - 2026 Budget Overview, and Economic Outlook

The 2024 draft budget proposes an overall levy increase of 8.36%. After growth, the increase to the existing property owner is 6.36%. The dedicated infrastructure levy represents an increase of 1.07% to the levy**. After growth and the dedicated infrastructure levy, the increase to the existing homeowner is 5.29%** The target for the base levy increase was set by Council at 4.0%; therefore, the proposed budget, as currently drafted, is above this target by 1.29%.

The overage of 1.29% is caused by the proposed new dedicated housing levy $668,904 (1.0%) and the amounts for the Kingston University Hospital Foundation request $46,000 (0.07%) and the estimate of the extension of the Commuter Connect program (Durham line) $150,000 (0.22%).

The increase in the dedicated infrastructure levy at 1.07% is a modest increase for infrastructure investment, considering the County's infrastructure deficit and current inflation within the construction industries. Growth is estimated at 2.00% pending final property tax roll return for the 2024 year.

Inflationary pressures and high interest rates continue to be challenges for Northumberland County. After historically high inflation in 2022, inflation has gradually slowed in 2023 and was at 3.1% (on a year-over-year basis) in October 2023 and above the inflation target of 2.0% as set by the Bank of Canada (BOC) in monetary policy. After aggressively raising interest rates in 2022, the Bank of Canada has kept rates high through 2023 in an attempt to bring inflation in check. The overnight lending rate remained at 5% after the BOC's latest interest rate announcement on Oct 25th. In the banks October Monetary Policy Report they indicate that they believe that the Canadian economy is approaching a balance point. They expect that inflation will stay around 3.5% until the middle of 2024 before dropping to 2.5% and then finally to their target of 2% in 2025.

Interest rates are a significant risk for Northumberland County because we will be taking on long term debt in the form of an Infrastructure Ontario debenture when the GPL & NCAM project is complete. The principal amount of this debenture is expected to be $97M and the term is 25 years.

Many of the goods and services purchased by the County move independently of the general rate of inflation as determined by a consumer basket of goods; therefore, CPI is not indicative of inflationary pressures experienced by the County. Expenditures such as insurance for the County are impacted by other factors not typical of household consumers and far exceed the headline CPI index. The annual Non-residential Building Construction Index in the 3rd quarter of 2023 was 6.6%. This is a decrease from the 14.5% and 15.3% that it was in 2022 and 2021 respectively. This index is a better measure of costs related to County infrastructure construction projects. Inflation of Non-residential construction costs has put a lot of pressure on the County's construction activities, with price escalations driving tender awards to come in over budget. These price escalations represent a significant risk to the County with several major construction projects contemplated in the near term and within the long-term financial plan.

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The County will continue to need to monitor these inflationary pressures and revise levy assumptions within the long-term model appropriately in order to deliver programs and services and simultaneously invest in infrastructure and contribute to reserves for the considerable future needs. In addition to inflationary pressures related to construction activities. As the County budget becomes more restrictive, the possibility of incurring an annual deficit becomes more prevalent and is a concern recognizing many items that impact annual results are uncontrollable. This places strain on reserves from the perspective of limited annual surpluses and greater likelihood of utilization should a deficit position occur.

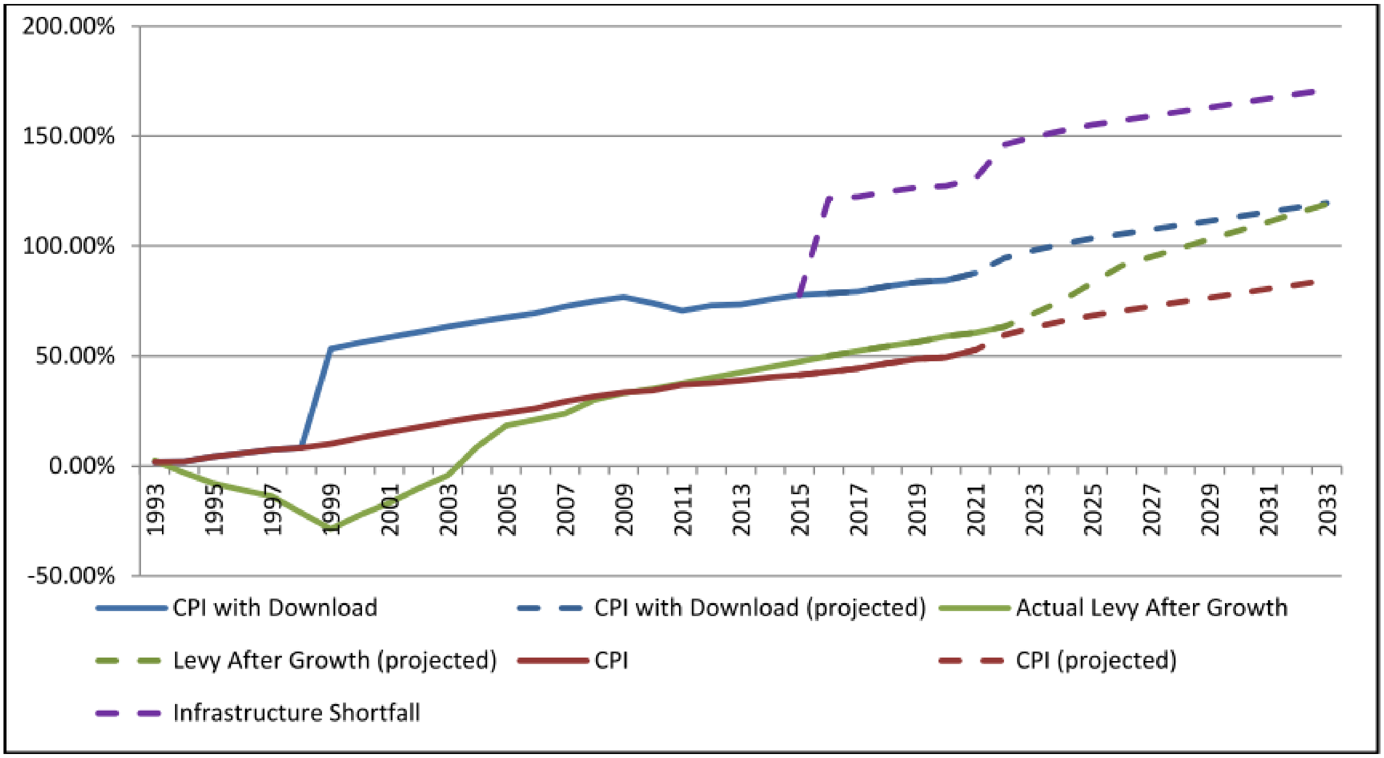
As a full service upper-tier municipality, the County is responsible for several mandated services that receive funding from various Provincial ministries. The 2024 budgeted proportionate share of revenues from grants and subsidies is significant at 38%. Fiscal challenges at the Provincial level are at risk to likely impact the County over future years as the province strategizes towards reducing the overall deficit.

In 2021, the area hospital foundations of Northumberland Hills Hospital and Campbellford Memorial Hospital requested that the County provide an annual grant towards funding identified capital initiatives. To this end, Council committed to an annual contribution of $250,000 over five years. This grant was paid out in 2023 and is reflected in the 2024-2026 budget.

The County has not fully re-established sustainable capital budgets for all departments such as transportation, waste and social housing. The ongoing trend of heightened inflationary pressures within the economy for construction type activities, as evidenced by the Non-residential Construction Price Index, will make it increasingly difficult to continue to limit tax levy increases without impacting capital intensive programs or seeing the infrastructure deficit worsen.

The chart below has been included in budget presentations over the past several years. It continues to be relevant as it provides a clear picture of the actual changes in the County levy compared to inflation and program changes. The green line shows the major decrease in the County levy through the 1990's when budgets were slashed across all departments. However, program responsibilities such as County Roads stayed the same, so by 2000 the County's programs were all seriously underfunded. From 1998-2001, a range of former Provincial and Federal programs, such as Social Housing, several roads and EMS, were downloaded to the County with significant financial costs. From 2000-2005, the levy increases were steep as Council struggled to meet its responsibilities to fund and operate all of the former and new downloaded services. The red line represents the Consumer Price Index (CPI) and shows how, theoretically, the County levy should have been increased to sustain its original program responsibilities only. The blue line is a theoretical line showing how the levy should have been increased from 1993 to today to handle both the original and downloaded program responsibilities. The purple dashed line reflects the additional investment in capital that was recommended based on the County's original 2014 Asset Management Plan and, in 2022, the newly approved Asset Management Plan specific to the incremental impact from updates to the valuations to required investments for core assets (road network, bridges / culverts and storm sewer). While this chart shows significant financial challenges in the past, the County is much more financially stable as we have made up much of the ground previously lost.

Levy vs Consumer Price



We have continued to project stable increases over the next several years. The proposed increases in 2024 to 2026 make up some ground for years where increases have not been in line with inflation. The increases to the DIL, the addition of proposed DHL, and the 4% levy target set by Council for the long-term plan have adjusted the trajectory of the projected green levy line above. However, there is still a significant spread between the projected levy and what is required to meet our overall infrastructure needs. Construction inflationary pressures make it more challenging to address the shortfall in infrastructure funding. Increases that don't keep pace with inflation will continue to erode financial capacity in future years.

The Federal Gas Tax is the primary source of infrastructure funding available to the County and included a one-time doubling up of funds in 2019 and again in 2021. The Province introduced formula based OCIF funding in 2015 and announced under their Fall Economic Statement last year that the OCIF formula-based funding model has now been redesigned. The announcement indicated the funding will be enhanced, effectively doubling the funding envelope province-wide over the next 5 years. Application based funding programs are sporadic and require competition with other municipalities. In an environment where almost all municipalities are in need of infrastructure investments, the competition is fierce to chase relatively small pots of funding. Therefore, the level of annual increases is being reconsidered for future budgets as we develop plans to reach sustainable funding levels for both operating and capital budgets.

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The County continues to monitor program, legislative and funding decisions being made by the Provincial government. The draft budget reflects decisions to the extent possible up to the point of finalization of the draft budget.

The 2024-2026 draft budget (**cash basis**) is as follows:

	2022 (M$) Budget	**2023 (M$) Budget**	**2024 (M$) Draft**	**2025 (M$) Draft**	**2026 (M$) Draft**
Revenue					
Levy	63.2	68.0	73.9	81.2	89.1
Grants & Subsidies	47.4	60.2	59.6	66.4	62.2
Other Revenue	20.5	22.8	25.9	33.3	34.9
Total Revenue	131.1	151.0	159.4	180.9	186.2
Borrowing					
Debenture/Construction Financing	44.7	47.3	40.3	8.9	11.2
Internal Borrowing	0	0	0	0	0
Total Borrowing	44.7	47.3	40.3	8.9	11.2
Total Revenue & Borrowing	175.8	198.3	199.7	189.8	197.4
Expenditures					
Operating	111.3	127.2	140.4	145.3	148.8
Capital	67.6	75.8	67.4	55.0	44.8
Debt Principal Repayment	1.7	1.2	1.1	2.4	4.1
Total Expenditure	180.6	204.2	208.9	202.7	197.7
Reserves					
Transfer to Reserve	6.9	9.2	9.7	12.0	12.4
Transfer from Reserve*	(11.7)	(15.1)	(18.9)	(24.9)	(12.7)
Net Change in Reserves	(4.8)	(5.9)	(9.2)	(12.9)	(0.3)
Total Expenditures & Reserves	175.8	198.3	199.7	189.8	197.4

* Inclusive of prior year carryover items

The 2024-2026 draft budget (**accrual basis**) is as follows:

	2022 (M$) Budget	2023 (M$) Budget	2024 (M$) Draft	2025 (M$) Draft	2026 (M$) Draft
Cash Budget	175.8	198.3	199.7	189.8	197.4
Less:					
Debt Principal Repayment	1.7	1.2	1.1	2.4	4.1
Capital	67.6	75.8	67.4	55.0	44.8
Internal Borrowing	0	0	0	0	0
Debenture/Construction Financing	44.7	47.3	40.3	8.9	11.2
	(114.0)	(124.3)	(108.8)	(66.3)	(60.1)
Add:					
Amortization	9.4	9.5	9.7	9.8	10.0
Future Employee Benefits Liability	0.4	0.4	0.4	0.4	0.4
Landfill Post Closure Liability	0.6	0.6	0.6	0.6	0.6
	10.4	10.5	10.7	10.8	11.0
Accrual Based Budget	72.2	84.5	101.6	134.3	148.3

Levy

Each County department is funded through multiple sources. The proposed $73.9M levy is split across the County operating departments as outlined in the graph below. Approximately 32% of the levy is directed to the department as the Federal Gas Tax is the only other significant source of revenue for roads maintenance and construction projects. Paramedics require 13% of the levy to fund the County's portion of operating costs as well as capital. The Waste division receives about 9% of the levy – which will be reduced from the prior year after the closer of the MRF. Waste has other sources of revenue such as bag tags and tipping fees. About 14% of the levy goes to the Community and Social Services department with the NCHC garnering a further 6%. The GPL is allocated 10% of the levy and we have now stopped the contribution to reserves towards the redevelopment of the facility. The GPL receives a Provincial subsidy and accommodation revenue from residents in addition to the levy. A further 6% of the levy funds the County's required payments to the Health Unit and MPAC. The balance of the levy funds various smaller departments including Economic Development, Tourism, Natural and Cultural Heritage, Land Use Planning and Emergency Planning and Health and Safety.

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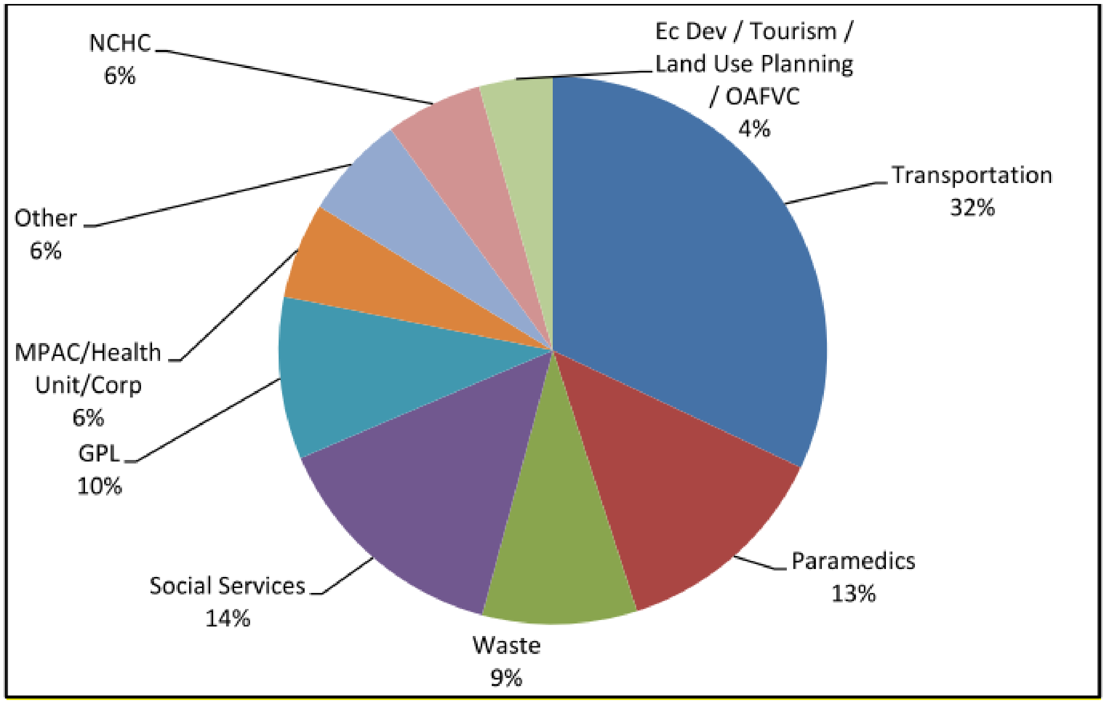
2024 Levy by Department



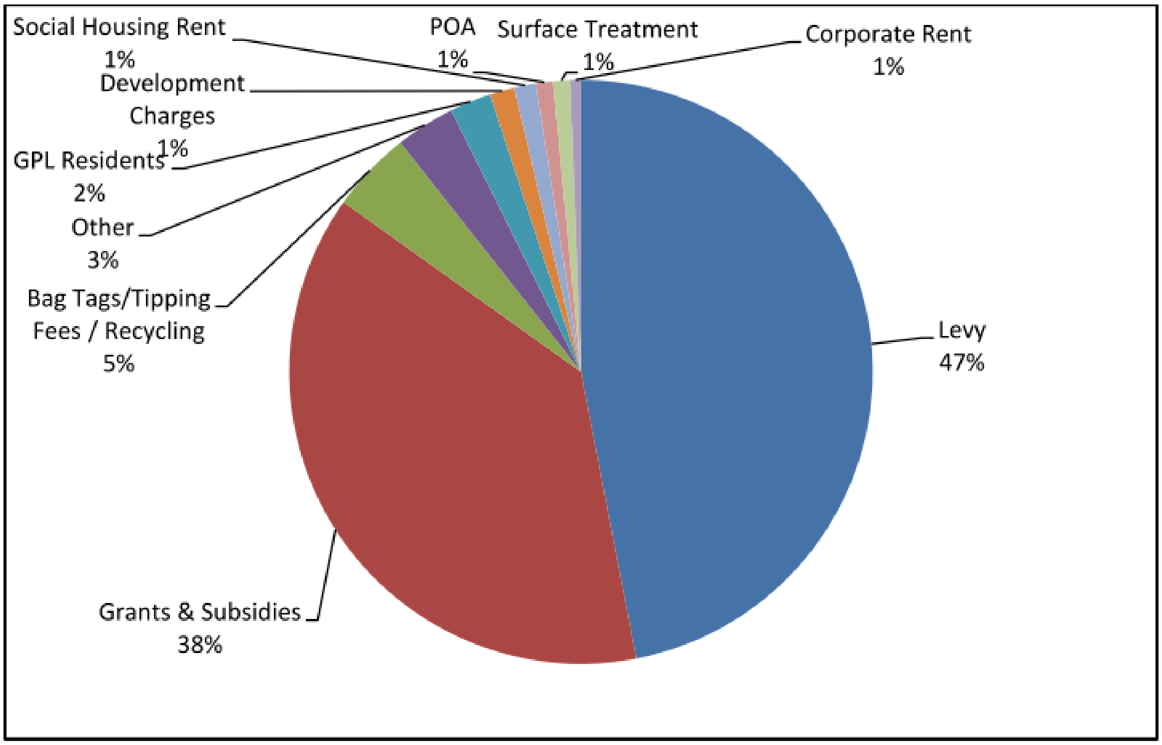
The support departments (Human Resources, Finance, Information Technology, Facilities, Corporate Management, Records Management, Communications, and Legal Services) are funded through internally allocated charges to each operating department. Each department is charged as follows:

Corporate Department	Allocation Method
IT	Number of computers by department
HR	Number of employees in each department
Finance	Percent of total County budget
Corporate Management	Percent of total County budget
Facilities	Percent of office space used by each department
Communications	Percent of total County budget
Clerk	Percent of total County budget
Legal Services	Percent of total County budget

Revenue

The County funds its programs, services and infrastructure through a number of sources. The largest single source of revenue is property taxes or the tax levy at 47%. An additional 38% of County operations are funded by grants and subsidies from the Provincial and Federal governments. Several departments generate significant revenue for their programs through rents, accommodation fees for long term care, fees such as bag tags and tipping fees, the new contract with Circular Materials Ontario to administer the waste collection contract for recyclables, and Provincial Offences fines. Although Provincial Offences revenues have not quite recovered to pre-pandemic level based on ticketing volumes, the budget assumes this will occur in 2024. The 2024 draft budget represents the fourth year with D.C.'s representing 1.4% of revenues within the year. The D.C. revenue in the year primarily reduces debt requirements for previously identified projects and increases financing within the Transportation Department towards addressing the infrastructure deficit gap for expansion related projects. The relative proportion of revenue sources is fairly consistent with previous years.

2024 Revenue Sources



Expenditures

In 2024, approximately 44% of operating expenditures will be spent on staffing costs due to the fact that many services provided by the County are labour intensive such as long-term care and paramedics. Salaries and benefits relative portion of expenditures remains fairly consistent year over year. About 21% of the County's operating budget is spent on Social Services programs although a significant portion of these costs are flow-through dollars and are funded directly by the Province. The County spends 15% of their operating costs on contract/external services which include all forms of contract services including waste collection, engineering, auditing, legal, repairs and maintenance and a number of other specialized services. External services also include annual fees to the Municipal Property Assessment Corporation (MPAC) and the Health Unit, as well as Fire Dispatch services, and Court Security. External transfers include the annual hospital grants amounting to $250,000 as approved by Council for a 5-year period commencing in 2021. Materials and supplies account for 5% of operating expenditures and

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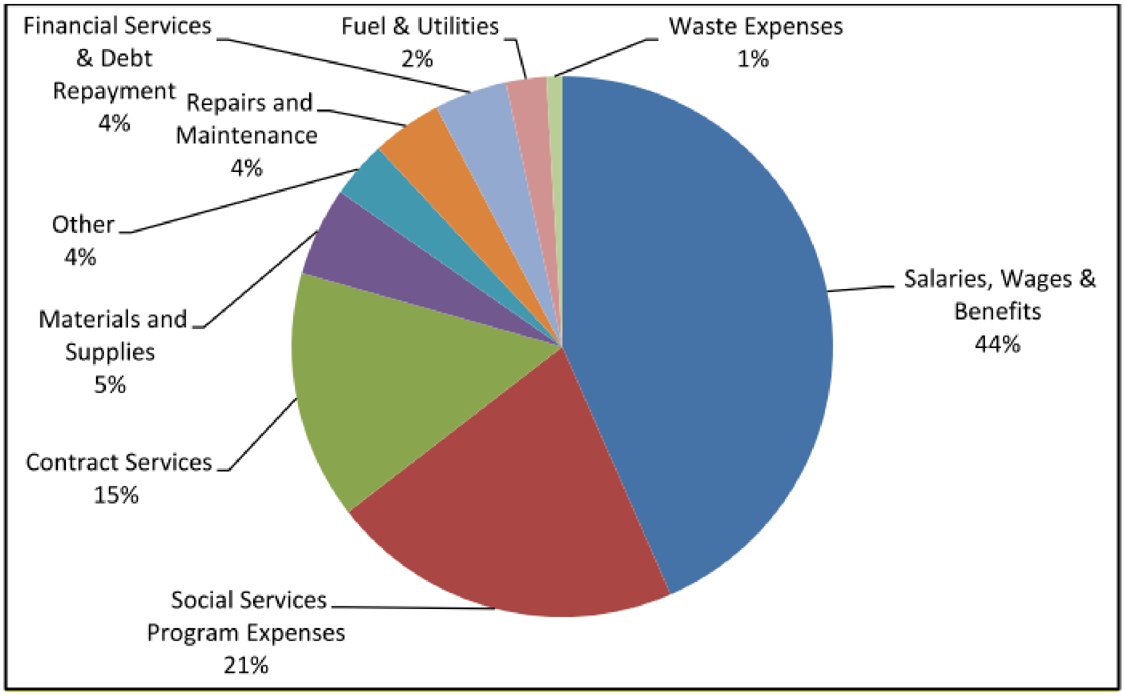
consist of medical supplies, raw food for the long-term care home, sand and salt for roads, maintenance materials, office supplies and many other goods required for County operations. The balance of operating expenditures includes repairs and maintenance, fuel, utilities, waste expenses (primarily leachate management) and debt servicing.

2024 Operating Expenditures



The majority of the capital expenditures will be directed to the GPL/NCAM Redevelopment project at 51% with construction continuing for the multi-year project. The next largest proportion of capital expenditures occurs within the Transportation department at 20%. This department manages the vast majority of the County's infrastructure. The NCHC and the Facilities Department also manages a significant portion of the County assets. In 2023, the NCHC completed construction on phase 1 of the Elgin Park Redevelopment project and will begin construction on phase 2 of the project. This work represents a 10% share of the capital budget. The balance of the capital budget will be spent primarily in Paramedics, Facilities Waste, Planning, Natural Heritage, and Information Technology Management.

Key capital projects & purchases in 2024 include:

- Continuation of the GPL/NCAM Redevelopment project
- Continuation of the Elgin Park Redevelopment project
- Initial costs for the Ontario Street Development project
- Roads and bridge work
- Equipment and fleet replacement in Transportation, Waste & Paramedics
- Social Housing and corporate building upgrades and equipment replacement

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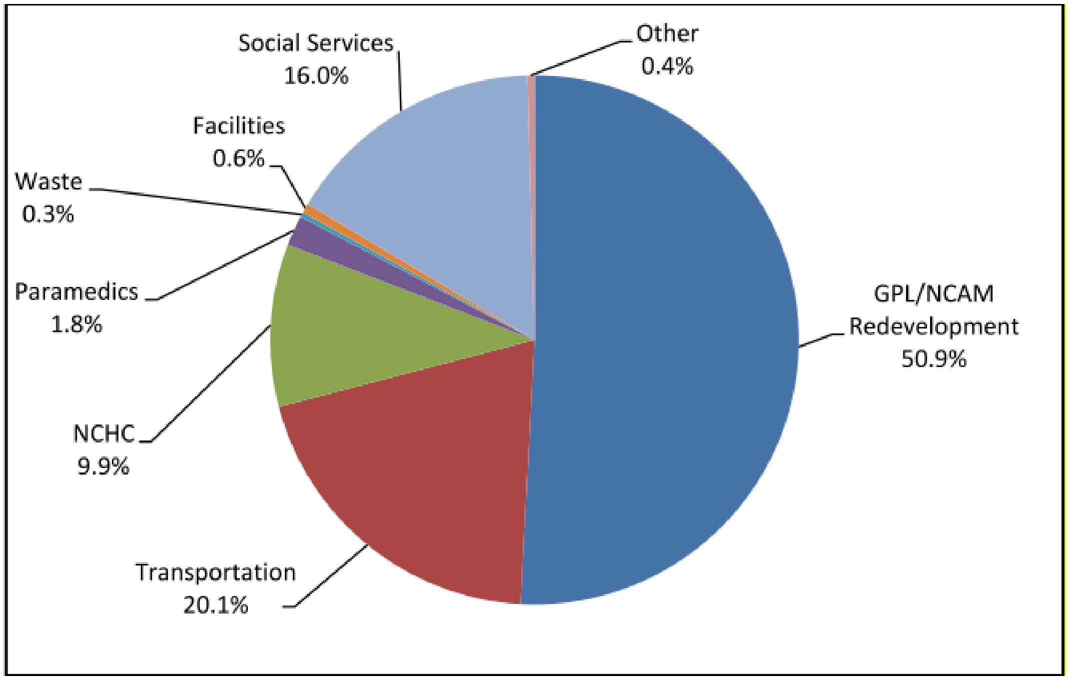
2024 Capital Expenditures



Since 2009, the revised Public Sector Accounting Board (PSAB) standards have been in place. These standards required that clear definitions of capital be adopted by municipalities. Capital is generally defined as new, replacement or betterment projects or purchases greater than $5,000 with a useful life of more than one year. Where high value purchases are made to improve or expand upon an existing asset, it is measured against specific criteria to determine whether it will be recorded as a capital or operating expenditure. Examples of the criteria include extending the useful life of the asset and the value of the improvements relative to the total value of that asset.

The Province requires that all municipalities have Council approved Asset Management Plans established to be eligible for any infrastructure funding programs. The County's Asset Management Plans clearly identify and prioritize the critical infrastructure needs of the County. The County has implemented asset management software to ensure asset data is kept current for effective decision making. In addition to the financial data management and reporting, this software has many other tools that assist with or link into GIS mapping, customer service issues tracking and asset maintenance processes. The software is fully integrated with the County's existing GIS system. In addition to this, the implementation of this asset management software included customization to fully integrate financial data from the County's financial ERP system ensuring all relevant asset costing is available for analytics and linked to GIS mapping data. User acceptance training and end-user training were completed in 2018 and the software went live in 2019. Life cycle modeling commenced in 2020 as the next phase in this project towards development of a new Asset Management Plan under the County's Asset Management Policy that was approved by Council in 2019. Phase I of the plan update to address core infrastructure assets was completed in 2022 with Council approval of a new Asset Management Plan for these specific assets on June 15, 2022.

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Tax Impact

Each year it is difficult to balance the need to increase property taxes to ensure the continuation of service and maintenance of assets with the challenging economic circumstances of the County. The EOWC identified in a white paper some of the challenges faced by rural Eastern Ontario when setting tax rates which include:

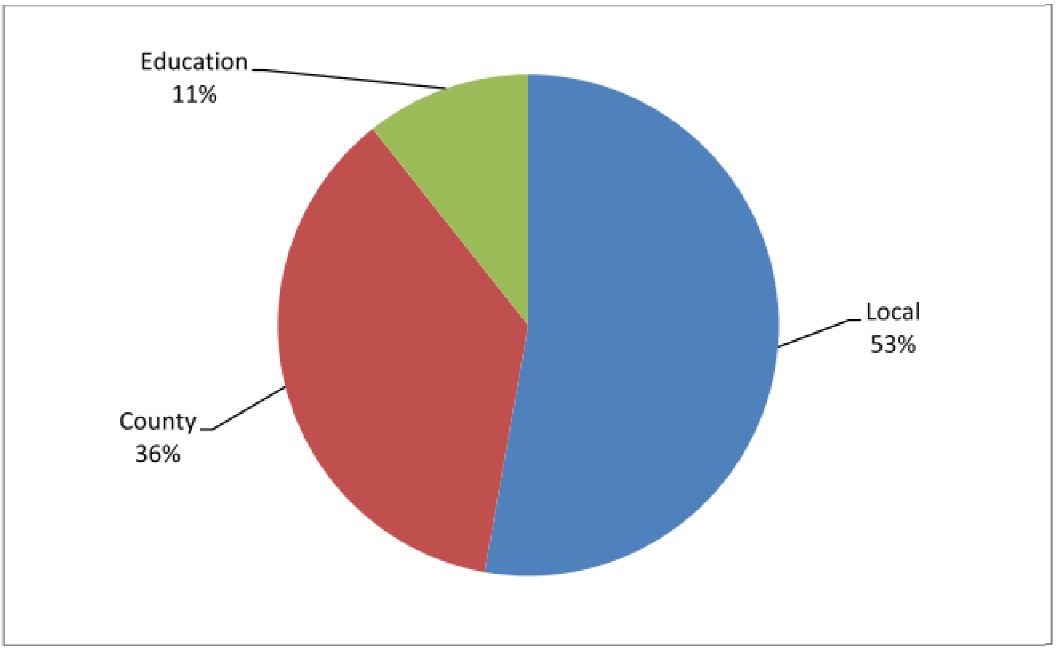
- Almost 90% of the local assessment is residential
- Average personal earnings are less than the Provincial average
- One in five people are a senior citizen
- Lower share of income from employment earnings
- Lower share of the workforce with college or university education
- Lower shelter costs for owned homes but there are longer more expensive commutes
- Larger share of homes needing major repairs

While these factors make it difficult to increase property taxes, they also support the need for sustainable programs and services delivered by municipal governments. Further, the balancing of immediate and future needs is critical to setting reasonable and appropriate rates to balance current and future budget considerations. The overall **estimated** tax impact from the County increase for 2024 is approximately $89 for the median single-family home or $7.42 per month.

There are several factors that go into the estimated tax calculation that make it very difficult to predict accurately into the future. However, the estimated tax impacts from the levy increases in the draft 2024-2026 budget for 2025 and 2026 are approximately $144.98 and $157.32 respectively.

Property taxes have three components: Municipal (local), County and Education. The portion of the property tax bill allocated to the County varies across the seven member municipalities. The County and Education tax rates are the same across all seven member municipalities. However, the local municipal tax rates vary by municipality depending on the types of programs and services offered. On average, the local municipalities account for just over half of a property tax bill at 52.8% with the County and Education making up the balance at 36.5% and 10.7% respectively. In recent years, the education tax rate in Northumberland has declined modestly. This has resulted in a slight shift in the proportionate split of local tax dollars. On average, local municipalities have been the primary beneficiary.

How Are Property Taxes Allocated?



2023 Tax Rate Split

	Local	County	Education
Port Hope (Ward1)	60.7%	30.4%	8.9%
Cobourg	57.3%	33.0%	9.6%
Trent Hills	55.0%	34.9%	10.2%
Cramahe	54.3%	35.4%	10.3%
Port Hope (Ward 2)	53.2%	36.2%	10.6%
Brighton	50.5%	38.3%	11.2%
Alnwick/Haldimand	46.6%	41.5%	12.1%
Hamilton	44.8%	42.7%	12.5%
Average 2023	**52.8%**	**36.5%**	**10.7%**
Average 2022	52.5%	36.3%	11.3%
Average 2021	52.2%	36.2%	11.6%
Average 2020	52.0%	36.2%	11.8%
Average 2019	51.5%	36.2%	12.3%
Average 2018	51.0%	36.2%	12.9%
Average 2017	50.2%	36.3%	13.5%
Average 2016	49.7%	36.1%	14.2%
Average 2015	49.1%	36.0%	14.9%

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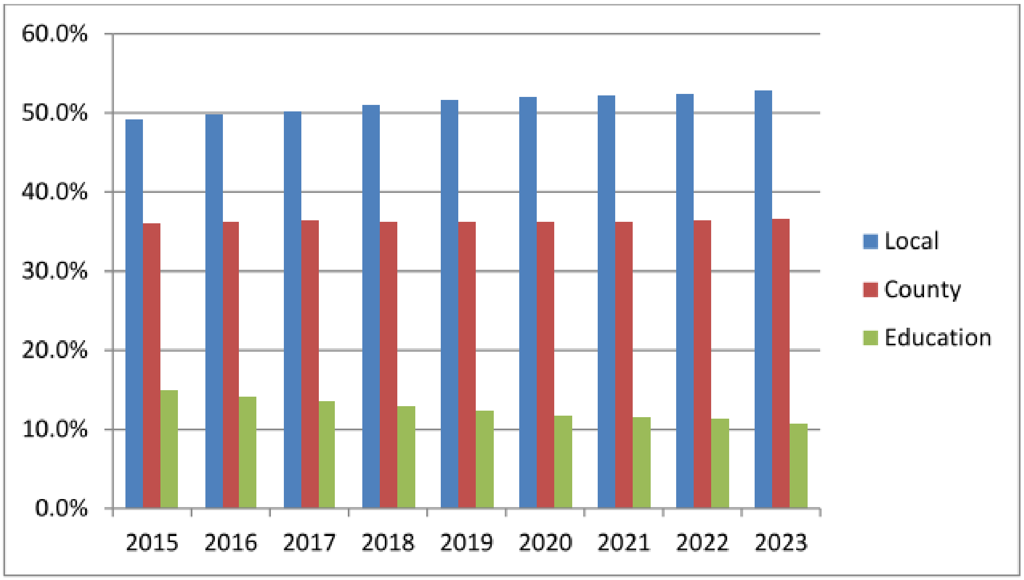
The allocation of the municipal tax dollar was fairly consistent between 2015 and 2023. The slightly lower education tax rate continued to create a small amount of tax room for the lower tier municipalities and the County. During this time, overall, the ongoing reduction in the education tax rate saw more of the proportionate share of each property tax dollar shift from education to the member municipalities.

Relative Share of Property Tax Dollars



The draft budget would see the actual County residential tax rate increase to an **estimated** 0.005577767 from 0.00523979 based on current tax policy. **The final tax roll information is not yet available, and the tax rate will change when the final data is published by MPAC. Further changes could be realized once the tax policies for 2024 are approved in the new year subsequent to budget approval and final lower-tier and education tax rates are pending**. On a four-year cycle, MPAC reassesses all properties within Ontario. In 2016, MPAC provided reassessment valuations based on a valuation date of January 1, 2016. This represents an update from January 1, 2012 valuations. The current value assessment (CVA) from the 2016 reassessment was utilized for property taxation calculations in the four-year taxation cycle of 2017-2020 with any increases to property values phased-in equally over the four-year period towards full CVA.

The Ontario Government postponed the 2020 Assessment Update due to the COVID-19 pandemic. On Aug 16th, 2023 the province amended the Assessment Act to extend the postponement of the province-wide reassessment. The government also announced that it will conduct a review of Ontario's property assessment and taxation system. The details of that review are currently unknown.

Property assessments for the 2024 property taxation year will continue to be based on the fully phased-in January 1, 2016 current values (i.e., the same valuation date in use for the 2023 taxation year). This means that any shifts in taxation burden between property tax classes as a result of changes in property assessment values to reflect current market conditions will not be realized. The most recent median home value based on the 2023 returned tax roll in Northumberland County per MPAC to be used for property tax calculations is $262,000 (valuation date of January 1, 2016). Given the property valuations currently used by MPAC are based on a valuation date of January 1, 2016, they do not reflect current market values. However, these are the valuations that are used for calculating property taxation, and as such, the median valuation from the returned roll is used to calculate the estimated annual tax increase. Utilizing these median values, a typical property owner would see their annual property tax for the County portion increase by approximately $88.55. It is important to note that these estimates are based on the median household and the actual impact will depend on the assessment of each individual property. Properties are assessed by MPAC and many factors are considered in determining a property's assessed value.

The County levy is allocated to each of the member municipalities based on weighted assessment. Growth does not occur consistently across the municipalities and changes in assessment values can vary among the municipalities as well. Therefore, each year the weighted assessment is recalculated to determine the distribution of the levy across the municipalities. Based on the preliminary tax roll data and the existing County tax policies, the distribution will be approximately as follows:

Levy Distribution by Municipality

	%	$
Alnwick/Haldimand	9.80%	7,236,082
Brighton	12.92%	9,543,799
Cobourg	23.84%	17,609,156
Cramahe	6.83%	5,040,680
Hamilton	12.98%	9,589,092
Port Hope	19.41%	14,333,489
Trent Hills	14.22%	10,498,967
County Total	**100%**	**73,851,265**

County staff initiated a formal tax policy review as authorized by Council under resolution 2017-03-15-61. Further to this, Council directed staff to report on findings of the policy review and options for tax policy changes under resolution 2017-10-11-222. The results of the policy review were presented to County Council on October 18, 2017.

There were several factors that highlighted the need for a formal tax policy review. The County tax policies had remained fairly constant for over a decade. In 2017, the Ministry of Finance made a number of changes to statutes within the property taxation legislative framework increasing flexibilities for municipal tax policy setting. Reassessment of properties by MPAC resulted in a shift in the proportion of assessment and taxation burden across property classes commencing in 2017. Various individuals and organizations have contacted staff and Councilors requesting changes to tax policy as it applies to an applicable tax class of interest to them.

Information provided within the tax policy review was considered in adoption of the property taxation policies for 2020 as the final year aligned with the four-year MPAC assessment cycle of 2017-2020. The announcement from the Province that the 2020 MPAC Assessment Update had been postponed provided a unique opportunity for further refinement of tax policy in 2021 in the absence of reassessment tax shifts that would normally occur. As a result of this, County staff, in conjunction with the Northumberland County Treasurers Inter-Municipal Working Group, completed a review of tax policies in 2021. Recommendations that were approved by Council included elimination of the reduction program for the commercial and industrial vacant/excess land subclasses. In 2023, County Council approved a reduction in the Mulita-residential tax ratio from 2.0 to 1.8 based on the recommendation from the Treasurers Inter-Municipal Working Group and the expectation that a reduction in this ratio is likely to be mandated.

Given that the province has further postponed the 2020 MPAC Assessment Update such that tax rates will continue to be calculated based on January 1, 2016 property valuations in 2024, staff and member municipal Treasurers will consider the possibility for further refinements to tax policy. If pursued, modeling will be provided to Council based on the 2024 returned tax roll so that potential impacts to property owners in all tax classes as a result of any policy changes are fully understood subsequent to budget approval. Further, the Treasurers Inter-Municipal Group had an assessment roll audit conducted in 2023 to ensure accuracy in the assessment base and highlight any anomalies in individual property assessments.

Departmental Summaries

Below is a brief overview of the draft budget for the major County departments. For more detail, please review the department business plans and Issue Papers in the budget books.

Transportation

The Transportation department draft budget is $34.5M. This includes road maintenance for winter and summer, surface treatment and construction activities. The department is primarily funded by the levy but also receives Federal Gas Tax funding and Ontario Infrastructure Funding (OCIF). As announced in the Province’s 2021 Fall Economic Statement, the OCIF formula-based funding model has been redesigned. The announcement indicated the funding will be enhanced, effectively doubling the funding envelope Province-wide over 5 years. The 2024 draft budget currently has OCIF formula-based funding budgeted for $1.3M. The department also receives full cost recovery for providing surface treatment services to the member municipalities.

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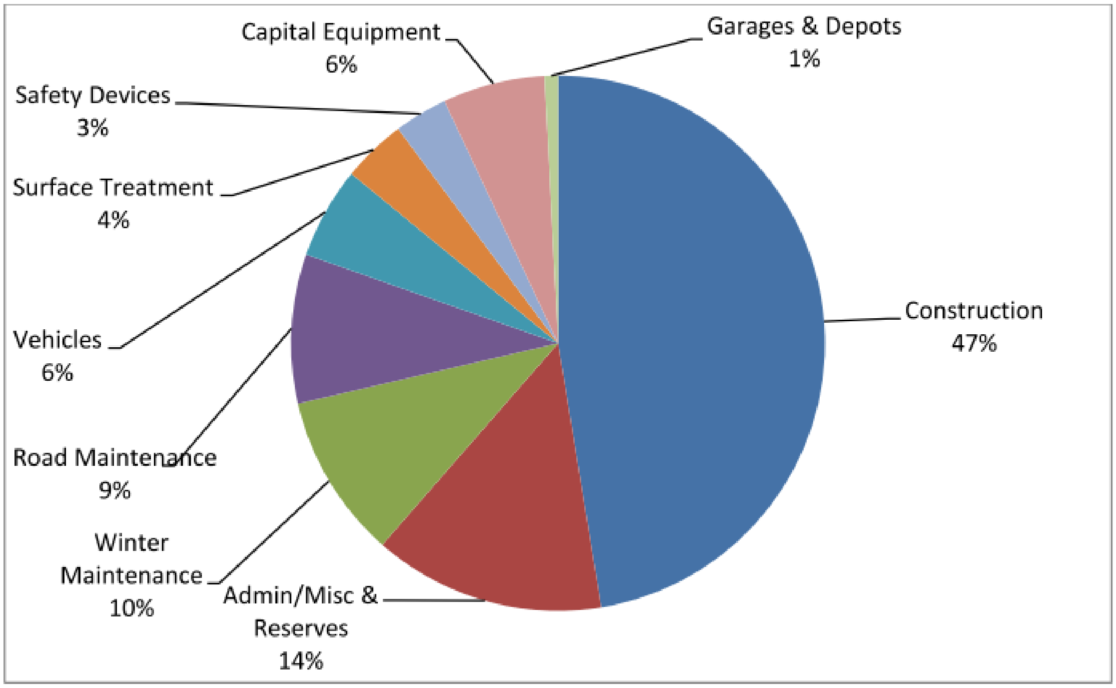
Transportation Expenditures



The dedicated infrastructure levy has been directed to the Transportation department because they are responsible for the majority of the county's assets. The majority of the dedicated levy to date has been put in reserve for future bridge construction.

Transportation has an issue paper to increase the amount of the contribution to reserve for their equipment replacement strategy from $875K to $1.08M in 2024 and $2M in in 2025 and beyond. The supply chain issues that started with the pandemic have had a significant impact on our ability to replace equipment. 50% of our heavy vehicles are 10 years or older and 40% of the light and medium duty trucks are over 7 years old. Maintaining these aging vehicles is resulting in increased repair costs and risking our operations with more frequent breakdowns. There are 3 staffing issue papers in Transportation. These are: Roads Operations Staffing, Roads Operations Supervisor and a paper for Converting a part time Contract Administrator to Full Time.

Waste Services

The Waste Services draft budget is $16.0M. This includes operations, curbside collection, Community Recycling Centre operations, closed landfill monitoring, and Household Hazardous Waste. The Waste department is able to generate revenue for its operations through bag tag sales and tipping fee revenue. Bag tag and tipping fee revenue is expected to remain flat compared to 2023. Financial pressures will continue well into the future as the County implements the commitments identified within the 2014 Waste Master Plan, experiences limited funding from the Province and continued risk of instability in non-tax revenues.

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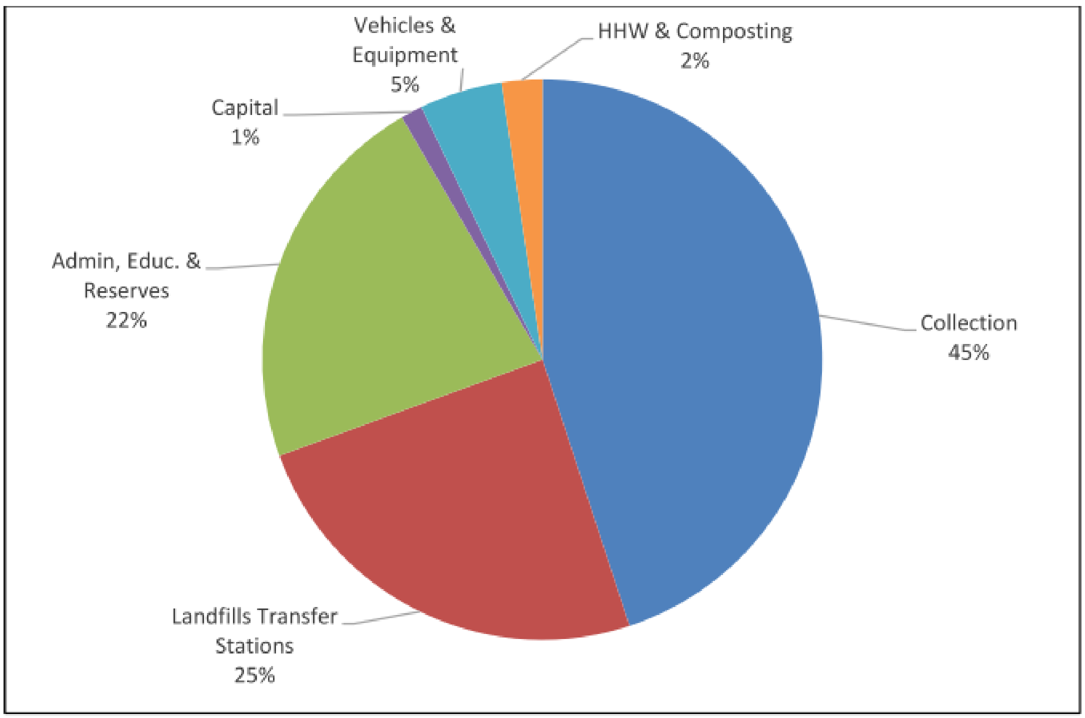
The MRF will cease operations at the end of 2023. This will mean the elimination of the operating cost, but also the loss of the revenues that the MRF generated through the sale of recyclables and diversion funding. Northumberland has also entered into an agreement with Circular Materials Ontario (CMO) to continue to administer the recycling portion of the collection contract. The net impact of all of these changes is a reduction in the levy requirement of approximately $1.5M. This savings has been redirected in the draft 2024 budget to offset other pressures. The proceeds from the sale of the MRF will be set aside in reserve to offset MRF severance costs and for future capital requirements.

Waste Expenditures



The Waste department has three proposed issue papers. There is an annual recurring Issue Paper to request the purchase of capital equipment fully funded by reserves in 2024 recognizing that an annual reserve contribution has been established for financing annual equipment replacements. An issue paper is proposed for the replacement of scale house buildings in Brighton and Seymour. There is also an issue paper for an asphalt shingle and dimensional lumber diversion program.

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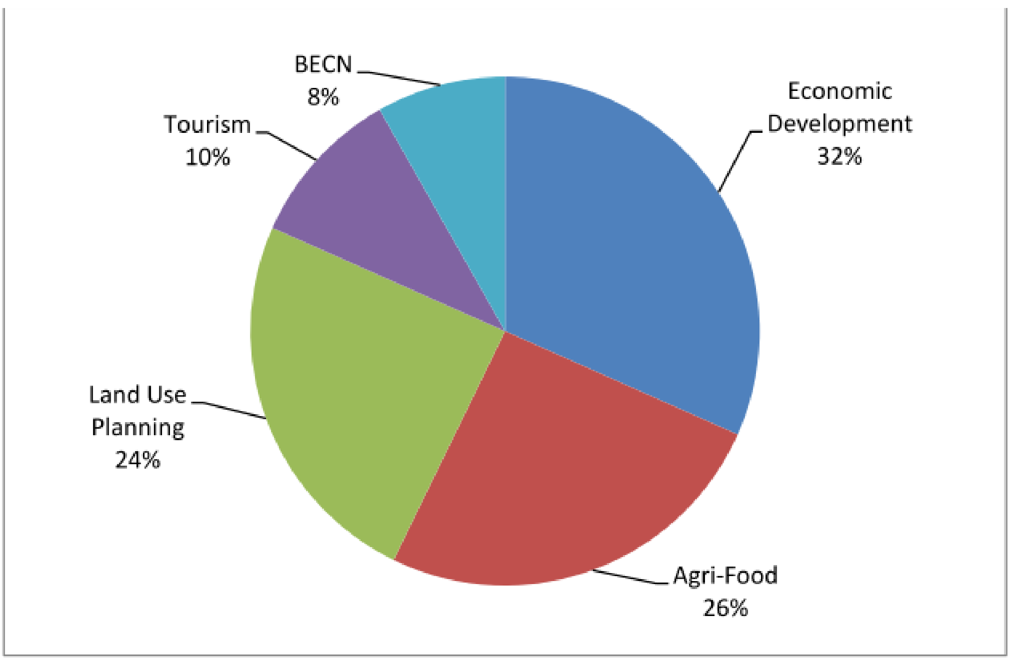
Economic Development, Land Use Planning & Tourism

The draft Economic Development budget for 2023 is $5.0M. This includes the economic development and tourism operations as well as the Ontario Agri-Food Venture Centre (OAFVC), the Business and Entrepreneurship Centre (BECN) and Land Use Planning and Plumbing and Septic inspections. This department's operations are funded primarily by the County levy with some small contributions from grants, permits and revenues from the OAFVC. The OAFVC has contract staff required to facilitate operations of the centre and the budget assumes extension of these contracts as required resourcing to support activities and clientele.

The departments have submitted the following seven Issue Papers:

- Government/Community Relations Officer
- OAFVC Building and Equipment Renewal
- Technology Reserve Fund (BECN)
- Technology Reserve Fund (Tourism)
- Planning Intern/Co-op Student
- Planner
- Vehicle Replacement for Inspection Services

Economic Development, Land Use Planning & Tourism Expenditures



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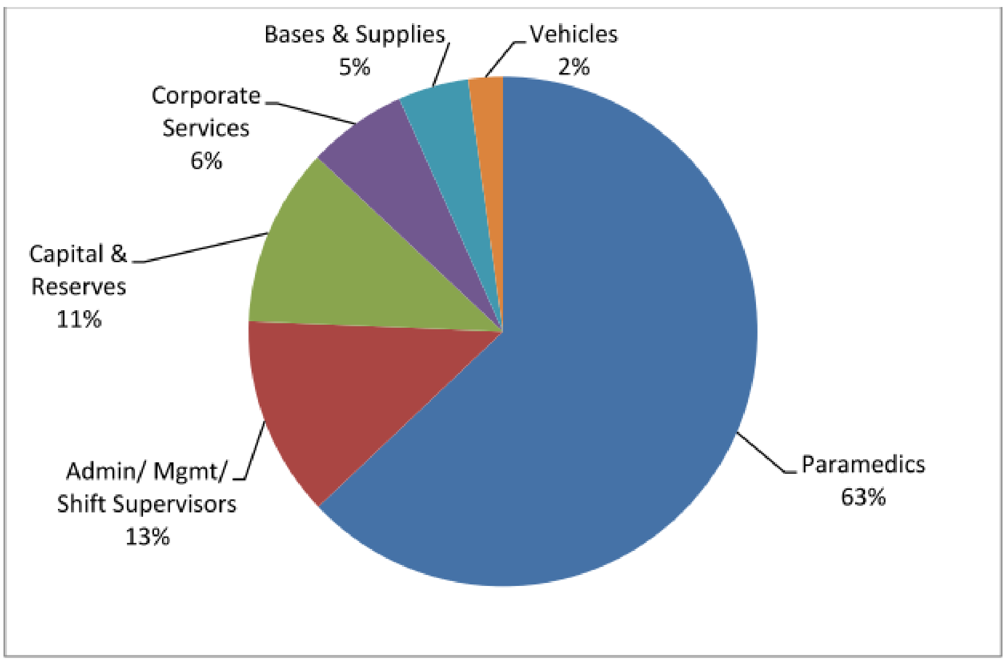
Northumberland Paramedics

The proposed 2024 budget for the Paramedics department is $22.3M. This includes the operation of six bases and a fleet of ambulances and emergency response vehicles. Paramedic operations costs are funded 50% by the County levy and 50% from the Provincial subsidy. Capital costs and reserves contributions are funded solely by the County levy with the asset amortization being subsidized by the Province.

The Paramedics department has included five issue papers in the draft 2024 - 2026 budget. They are:

- Additional 12 Hour Crew and Ambulance
- Peer Support Team
- Student (2) Operations/Admin
- Upstaffing Requirements
- ERV Medic Addition and Vehicle

Northumberland Paramedic Expenditures



Golden Plough Lodge

The GPL draft 2024 budget is $24.0M, excluding the GPL Redevelopment costs. The GPL provides nursing, dietary, housekeeping, maintenance, life enrichment programs and accommodations to the residents. In addition to the levy attributed to the GPL, funding is received through the Provincial per diem subsidy and resident accommodation revenue. However, the Provincial funding is not projected to be adequate to fund the increasing patient acuity needs and levels of care. Funding has been enhanced through a Supplementary Staffing

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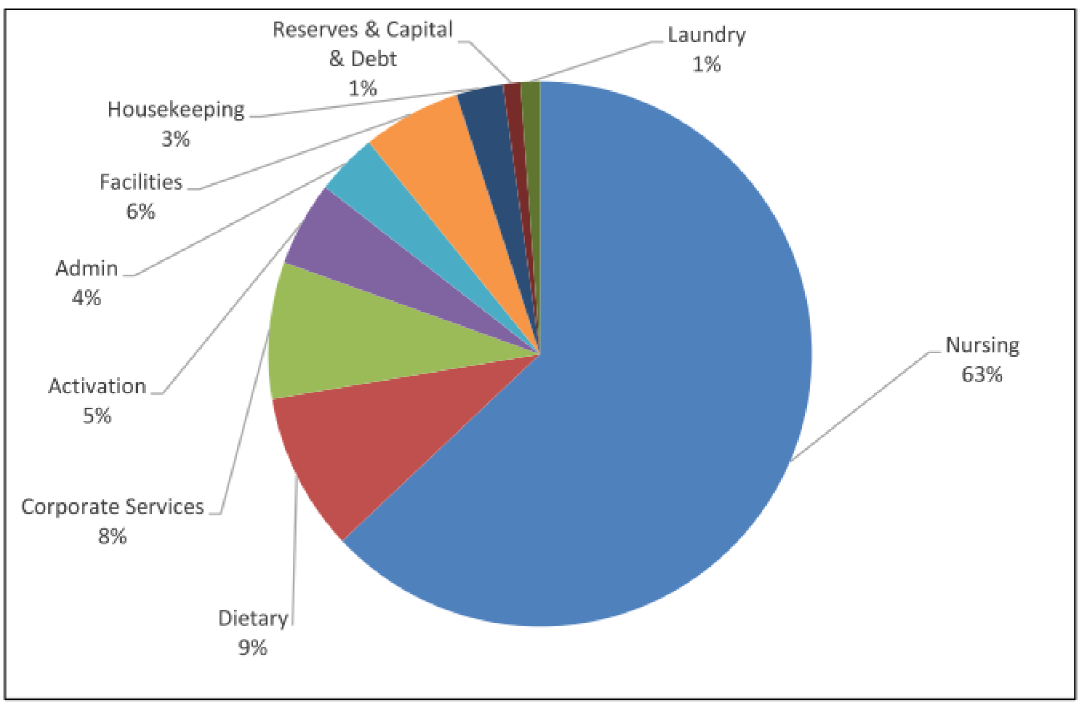
Funding Model to facilitate phasing in towards 4 hours of direct care per resident per day by 2024/25 and this been reflected in the current year budget and long-term plan along with the PSW wage enhancement which has been made permanent.

The GPL is required by the Province to rebuild the facility with those redevelopment works currently underway. The GPL will increase in size from a 151-bed facility to 180 beds based on a Development Agreement secured with the Ministry of Long-Term Care for the ongoing funding of the additional beds and this is reflected within the 2024-2026 budget and long-term plan.

The GPL has submitted seven issue papers and many are related to the change in operations in moving to the new building during the 2024-2026 budget timeframe. The full list of issue papers is:

- Direct Care Staffing
- Life Enrichment Staffing
- Environmental Services Staffing
- Logistics Coordinator
- Environmental Services Reserve Strategy
- Dietary Services Reserve Strategy
- Dietary Services Future Staffing

GPL Expenditures



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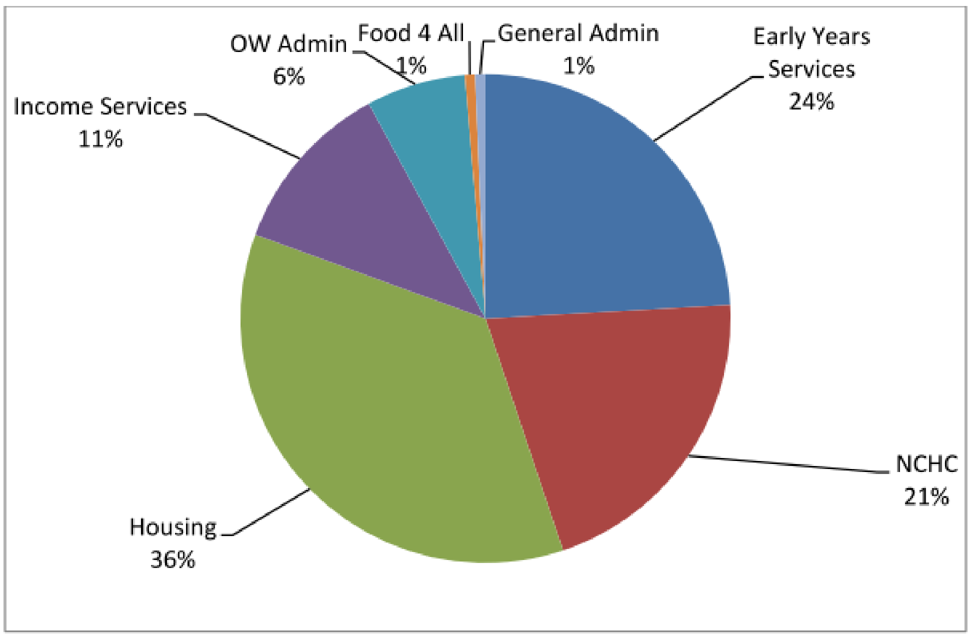
Community, Social Services & Northumberland County Housing Corporation

The Community & Social Services draft 2024 budget is $63.2M. This includes the NCHC, Community Services, Customer Service, Early Years Services, the new Canada-Wide Early Learning and Child Care System which is a fully funded program, Housing Services, the Food 4 All warehouse and administrative services. The Housing proportionate share of expenditures has increased because of the 473 Ontario Street project. Sources of revenue are primarily Provincial subsidies and social housing rent. A significant portion of the Community & Social Services revenues come via funding from Provincial Ministries, many of which are for mandatory programs and comprise of a cost sharing component by the County.

Community & Social Services Expenditures



The Community & Social Services department is proposing six Issue Papers in the 2024-2026 budget. They are:

- Investment in Housing Reserve
- NCHC Capital Repair Funding
- Community Housing Building Condition Audits
- Made in Northumberland Rent Supplement Program
- Housing Project Implementation Supervisor
- Financial Housing Specialist (Captured in Finance Budget)

Support Services & Corporate Departments

The corporate and support departments include a number of smaller support departments: Finance (Finance/Procurement, Court Services/POA), Corporate Services (Natural and Cultural Heritage, Emergency Planning and Health & Safety, Human Resources/Payroll, and Legislative

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Services), Information Technology (inclusive of Information/Records Management), Communications and Facilities. These departments are primarily funded through allocations to the various operating departments. Additionally, corporate includes County expenditures for the Health Unit and MPAC classified as External Services and Hospital Grants classified as External Transfers within the budget.

A summary of Issue Papers for all County Departments is included as an attachment to this report.

Staffing Budget Requests and Resourcing Challenges

Included in the 2023 budget are Issue Paper proposals for staffing requests. The requests have all been reviewed and discussed at the senior leadership level and vetted to ensure alignment with strategic goals, that supports cannot be transferred or provided from other areas and to legitimize and substantiate needs and anticipated outcomes.

Overall, the recruitment landscape continues to be a challenge for all employers. In the first three quarters of 2023, Human Resources had completed 193 recruitments. During 2023, the competition between employers for talent is still high. So far in 2023, the County has had 41 positions that had to be reposted more than once, in some cases several times. Additionally, due to the lack of applicants/qualified applicants, the County has had to reduce the thresholds for some positions and ‘underfill’ the positions. Staff have also seen the need to create development positions and provide internal growth opportunities to bring staff up to a higher level and continue to look for opportunities to promote municipal jobs in the school settings. A primary way to enhance the importance and availability of municipal jobs is to hire summer students to provide them with direct, hands-on experience in a municipal setting.

Ongoing vacancies place a considerable amount of added workload and stress on staff and lead to elevated levels of fatigue and burn-out, resulting in long term absences compounding the workload issues. The amount of time spent on recruitment has remained high at 23.5 hours per recruitment which equates to 3,435 hours (close to 2 FTE’s). Given the current recruitment landscape, individuals are ‘job-hopping’ such that they are not staying long term with employers and we continue to see a significant number (15) of candidate declining job offers in 2023. Offers are being declined in the final stages of the recruitment process even though compensation etc. has been clearly defined throughout the process. Additionally, many individuals are requesting 100% remote work and relocation costs which has proven detrimental in the County’s ability to secure new recruits.

As the County grows, there are increased demands placed on staff based on volume of work in many instances. Further to that, and of greater impact, is the expanded scope of complexity for many of the County’s operations, programs and initiatives which has placed significantly more burden on staff. This is in conjunction with often addressing other needs with staffing shortages creating further risks for retention of staff. To ensure resilience, mitigating staff risks is essential towards achieving strategic goals. As staff turnover increases, effective resiliency based on lost knowledge base is significantly compromised.

Expanded funding programs and the roll out of new programs such as the Canada-wide Early Learning and Child Care System and Community Paramedicine create extensive work loads. Projects such as the public, private partnership and new Municipal Services Corporations for expanding broadband and the innovative partnership to expand social housing at the 473 Ontario Street Project are examples of many very complex initiatives that are impacting on the County's ability to provide effective resourcing to see these projects come to fruition. The County has been successful in acquiring funding for many projects such as the ones noted above. Ensuring they are completed is critical to realize the funds and the benefits they attribute to the community as a whole both economically and socially. and implementing new legislation, expanded Provincial reporting requirements on existing and new programs continue to outpace the level of resourcing available.

Several departments have requested summer student or intern/co-op positions. This enables the County to provide direct hands-on experience to potential new employees, provide insight into municipal governance jobs and build future talent. Several requests are as a result of new funding, enhanced service delivery requirements, improved safety/supervision, and new program delivery.

Issue Paper requests for staffing address the following:

- Workload & capacity
- Significant risk of fatigue and burnout
- Staff are, rightfully so, placing more focus on work-life balance
- Turn over due to excessive workloads
- Employees focusing on their own tasks as opposed to fulfilling multiple roles

Staffing Issue Papers are summarized under criteria as noted below:

Provincial & legislatively driven changes

- Housing Financial Specialist (2024)
- GPL Direct Care Staffing (2024)
- GPL Life Enrichment Staffing (2025)
- GPL Environmental Services Staffing (2025)

Environment & Sustainability

- Natural Heritage Technician (2024)

Ensuring the County is appropriately staffed to meet service delivery needs & responding to overall growth

- 12-hour Ambulance Shift (2024)
- IT Technical Support Analyst (2024)
- GPL Logistics Coordinator (2024)
- Project Manager (2024)
- Communications Officer Capital Projects (2024)
- GPL Dietary Services Staffing (2025)
- IT Service Desk Analyst (2025)

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- 12 Hour Emergency Response Vehicle Shift (2026)
- Planner (2026)

Workload & Capacity

- Housing Services Supervisor (2024)
- Payroll Supervisor (2024)
- Operator 1 (2024)
- Roads Supervisor (2024)
- Construction Contract Admin (2024)
- Legal/Legislative Services Assistant (2025)

Business Security & Efficiency

- Information Technology Cybersecurity Analyst (2024)
- Securities Infrastructure Specialist (2024)

Summer Students (assist with workload capacity during peak vacation periods; introduces future employees to municipal sector employment opportunities; creates a pipeline of new hires with potential to alleviate ongoing recruitment challenges)

- Paramedic Dept (2) Operations & Admin
- Information Technology Client Services Intern (annual year-round student)
- Communications Intern (annual year-round student)
- Planning Intern/Co-op Student

10-Year Financial Plan

The development of a long-term financial plan is essential to ensuring the ongoing financial sustainability of the County and its assets. A long-term plan requires staff to identify future needs and create a financial roadmap to ensure those needs will be met without creating volatile and unexpected tax increases. A thorough understanding of long-term needs and related costs is essential to achieving sustainable infrastructure and services. The financial plan developed by staff projects an approximate annual 4.0% increase for continuing operations within the years 2027-2033 as well as dedicated infrastructure investments through the dedicated infrastructure levy.

The strategy of consistent modest increases has worked well to get the County back on track for funding operations. While most departments still face financial challenges and constraints, the County has made great strides in moving closer to adequate and sustainable funding levels. With the detailed asset management reviews completed in recent years, it has become increasingly apparent that this strategy is not sufficient to meet the long-term infrastructure needs.

The dedicated infrastructure levy was introduced in the 2016 budget and was applied within the long-term financial plan. The proposed 2024-2026 budget calculates the dedicated infrastructure levy based on 3.0% of each year's prior year base levy amount. While the infrastructure needs remain unchanged, the timeframe to implement these increases has been re-evaluated and is recommended to escalate slowly over several years. This reflects the persistent economic challenges across Northumberland County and the demands on member municipalities to keep tax rates low. The 10-year financial plan priorities are fully funded using a combination of levy increases, reserves, D.C.'s and debt. The plan continues to respect the need for stable and predictable levy increases from year to year.

The revised long-term plan identifies a portion of the projected increases for infrastructure. At the end of the 10 years, funding will not have reached a sustainable level and will require further increases beyond the term of the long-term plan. This type of strategy to build infrastructure funding is being used frequently by municipalities across the Province.

As indicated previously, the BOC's target range for inflation is 1 to 3% with the monetary policy aimed at the 2% target midpoint. The dedicated infrastructure levy is calculated at 3% of the prior year total levy in years 2024 to 2026. Council approved a target for the dedicated infrastructure levy that increases to 4% (of the prior year's levy) in 2027 and remains at that level until 2033. These targets are an improvement to amounts previously approved for the dedicated infrastructure levy. The DIL will increase marginally in years 2027 to 2033 as the levy increases. Staff targeted a 4.0% inflation factor after growth and dedicated infrastructure levy (based on direction from council) for the purpose of balancing the overall long-term plan in each year. Operational items within the plan assumed inflation of 2% with higher factors applied for more volatile items such as utilities and fuel. Where future prices are extremely difficult to project on a 10-year horizon such as asphalt, a lump sum amount has been used with project specifications to be increased or decreased as funding permits. These assumptions allowed staff to target an overall levy increase of 4.0% after growth and dedicated infrastructure levy on average.

A long-term plan is an 'evergreen' document or a constant work in progress. The first 10-year plan was developed as part of the 2012 budget process. Changes in Provincial funding, legislation, unplanned events such as the COVID-19 pandemic, severe weather, climate change and the economy can all have dramatic impacts on one or many years. Therefore, the original document has been revised as part of the current budget process to reflect new information such as changes to operations, changes to Provincial subsidies, legislative changes, and current economic conditions.

While this long-term plan meets operating and basic capital needs, the County still has an infrastructure deficit. This is not unique to Northumberland as it is a challenge facing municipalities across the Province. The County's roads and bridges are by far the largest single asset type. Utilizing information in the Transportation Master Plan, the asset management software provides data to facilitate modeling under an asset management framework for the full lifecycle of assets. This will allow for a more detailed estimate of infrastructure needs and timing will be incorporated into the long-term financial plan.

Projects that are on the horizon for 2024 and beyond are:

- Continuation of the multi-year GPL/NCAM Redevelopment project as mandated by the Ministry of Health and Long-Term Care and expansion from 151 beds to 180 beds
- Implementation of the Housing Strategy to redevelop and expand availability of affordable housing through construction projects such as the Elgin Park

Redevelopment, 473 Ontario Street Development project and development of current/future property acquisitions
- New Brighton Emergency Services Base
- Several major bridge projects including construction of the new Trent River Bridge
- Implementation of the Waste Master Plan including residual waste environmental assessment, remediation transfer and landfill space
- Implementation of the Transportation Master Plan
- Social Housing repairs & maintenance needs
- Review of Transportation yards and facilities for possible construction of a consolidated operations facility

Capital Assets & Infrastructure Deficit

The County has made major strides in recent years to rebuild capital and maintenance budgets despite many financial challenges. There is an ongoing commitment to ramp up the roads and bridges budgets and the housing repairs and maintenance budget is nearing a sustainable level. The County has also purchased or made major repairs to corporate buildings, Paramedic bases and roads depots. With millions of dollars being invested in the County's infrastructure, the assets are remaining safe and operational to meet service objectives. Unfortunately, many of the County's assets are still relatively old and in many cases are approaching either the end of their useful life or a point where major rehabilitation will be required.

The County completed its first Asset Management Plan in 2013 and it was approved by County Council in January 2014 as required by the Province. The Asset Management Plan is a robust document that includes a vast amount of information with even more data available in the asset management software system and prior to this supporting spreadsheets with the initial rollout. In 2022, staff facilitated a comprehensive review to provide an update to the original plan for all core assets as documented under a new second Asset Management Plan in 2022. It is important to recognize that Asset Management Plans are meant to be evergreen documents that require updates on a regular basis based on economic conditions, service level standards, strategic direction under various plans (ex. the Waste Master Plan and the Transportation Master Plan), asset condition ratings and life cycle analysis. The two current Asset Management Plans only includes major assets. The data does not include most equipment or vehicles and it does not value landfills and transfer stations in any way. The additional assets will be included in a future revision to be completed.

Building on the province's 2012 Building Together: Guide for Municipal Asset Management Plans, the Infrastructure for Jobs and Prosperity Act, 2015 was proclaimed on May 1, 2016 and includes an authority for the province to regulate municipal asset management planning. Under new regulations all municipalities were required to develop and adopt a strategic asset management policy by July 1, 2019 which the County did complete. At least every five years from that date municipalities would be required to review and update the policy. Municipalities are also required to prepare an asset management plan in three phases:

1. Phase I to address core infrastructure assets was completed as required by July 1, 2022.
2. Phase II would expand on Phase I by including all infrastructure assets in the plan by July 1, 2024. This will provide for an update to the non-core assets that had been identified in the original plan along with encapsulating the balance of assets not originally included.

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3. Phase III would require asset management plans to include a discussion of proposed levels of service, the assumptions related to the proposed levels of service, what activities will be required to meet proposed levels of service, and a strategy to fund the activities.

The Province continues to place a heavy reliance on Asset Management Plans for funding applications. We have also seen a clear focus on core infrastructure which only includes the road and bridge asset types at the County as we do not maintain other types identified as core infrastructure such as water and sewer. The County's Asset Management Plans identify roads and bridges as by far the largest need.

The most astounding number in the Asset Management Plan is the projected replacement value of the assets. The chart below summarizes the projected replacement value by major asset type under the two existing plans:

Asset Type	**Replacement Cost**
* Core Assets	$887,021,056
Facilities	$82,042,756
GPL Building	$51,126,022
Housing	$40,415,388
MRF Equipment	$4,555,000
Total	$1,065,160,222

* road network, bridges/culverts and storm sewer

Over the next 50-60 years, the infrastructure need will be approximately $1 billion excluding MRF equipment with the MRF ceasing operations in 2024 moving to a producer responsibility model under the Provincial Made-in-Ontario Environment Plan. The total replacement cost valuation will see an increase in respect to the next update for valuations from cost escalation and adding in assets not previously captured such as equipment and vehicles. There are many strategies to extend the life of an asset but even applying the most advanced strategies, it will still require a significant financial investment to keep these assets functioning effectively. According to the latest Asset Management Plan update for core assets, coupled with that of non-core assets in the original plan, in order to manage these needs effectively, approximately $32.9M should be spent annually to replace and maintain assets. The current long-term plan provides for an annual asset investment of about $37.5M on average over the next 10 years. However, the long-term plan includes $191.3M in extraordinary large non-recurring type capital initiatives such as the GPL/NCAM Redevelopment, Trent River Bridge, the Elgin Park Redevelopment project, 473 Ontario Street Development project and placeholders for three new housing expansion projects and a new consolidated operations facility. Excluding these extraordinary items, the annual investment in ordinary base assets on average is only $18.3M from the 2022 update in the Asset Management Plans going out to 2033 in the long term plan. This equates to an annual infrastructure shortfall of approximately $14.6M which is even more pronounced than what the gap had been prior to the latest plan updates. Initiatives such as ramping up the annual roads and bridges construction program budgets have begun to narrow this gap slightly. Cost escalations as evidenced by construction indices pose a significant threat to further expand the infrastructure deficit for the County.

The Ministry of Municipal Affairs and Housing (MMAH) provides a metric, Asset Consumption Ratio, to measure the percentage of the consumption of assets relative to original acquisition costs. This latest published metric shows that Northumberland is performing just slightly better than the Provincial average. However, the total assets are almost half depreciated or ‘used up’ and the trend indicates that overall the County is losing ground on asset replacement. These are theoretical values for accounting purposes and only approximate the actual consumption of the assets’ useful life. However, the trend is alarming in that for all 10 years where data is available, the County has consumed almost half of the asset value and this trend is not turning around. This supports the need for an increased financial commitment to asset rehabilitation and replacement to reverse the trend.

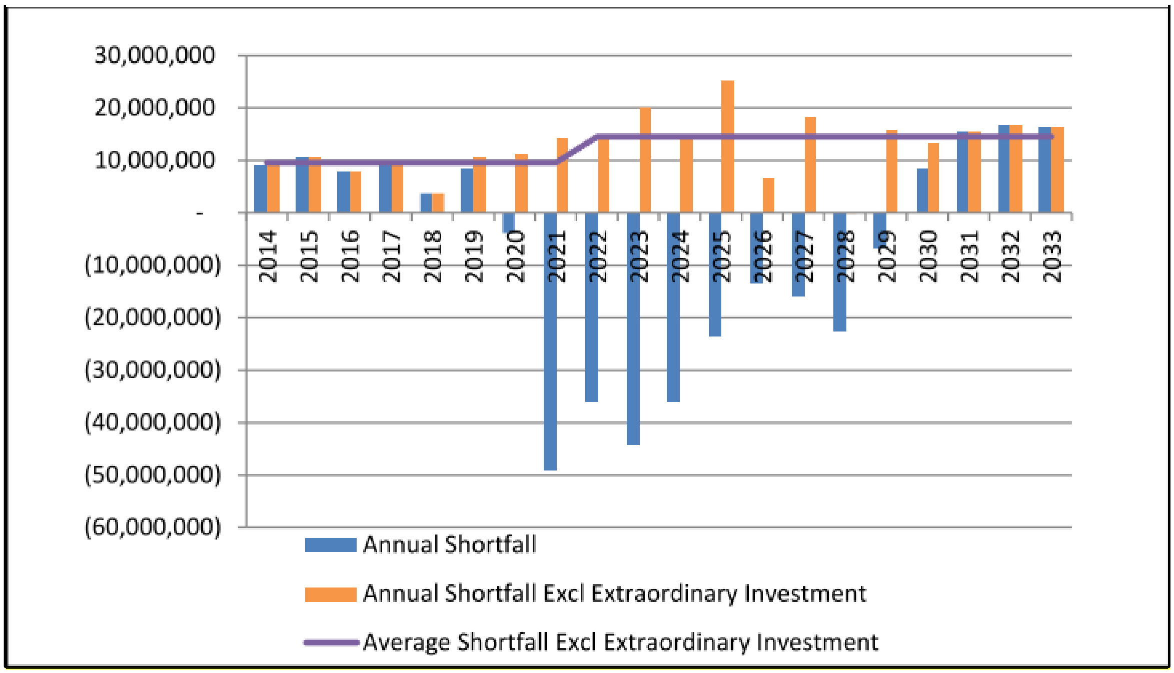
Asset Consumption Ratio
(latest published data MMAH)

	County	Average
2011	40.5%	44.7%
2012	41.1%	45.8%
2013	42.6%	46.7%
2014	43.8%	47.5%
2015	44.4%	48.6%
2016	45.4%	49.2%
2017	46.2%	49.8%
2018	46.4%	50.1%
2019	47.0%	50.7%
2020	46.4%	51.2%
2021	47.3%	51.5%

The chart below shows the projected asset funding shortfall on an annual basis since the last asset management plan update in 2022 going out to 2033 and what it had been prior to the update. Construction costs for the GPL/NCAM Redevelopment commenced in 2021 and will carry on through to 2025; therefore, these years reflect heighted investment as a result of this extraordinary large investment in capital projects. Further, the Elgin Street Redevelopment project will continue construction into 2024 and 473 Ontario Street Development over 2024-2026. The long-term plan includes extraordinary non-recurring type projects which have already been initiated or embedded as placeholders as follows:

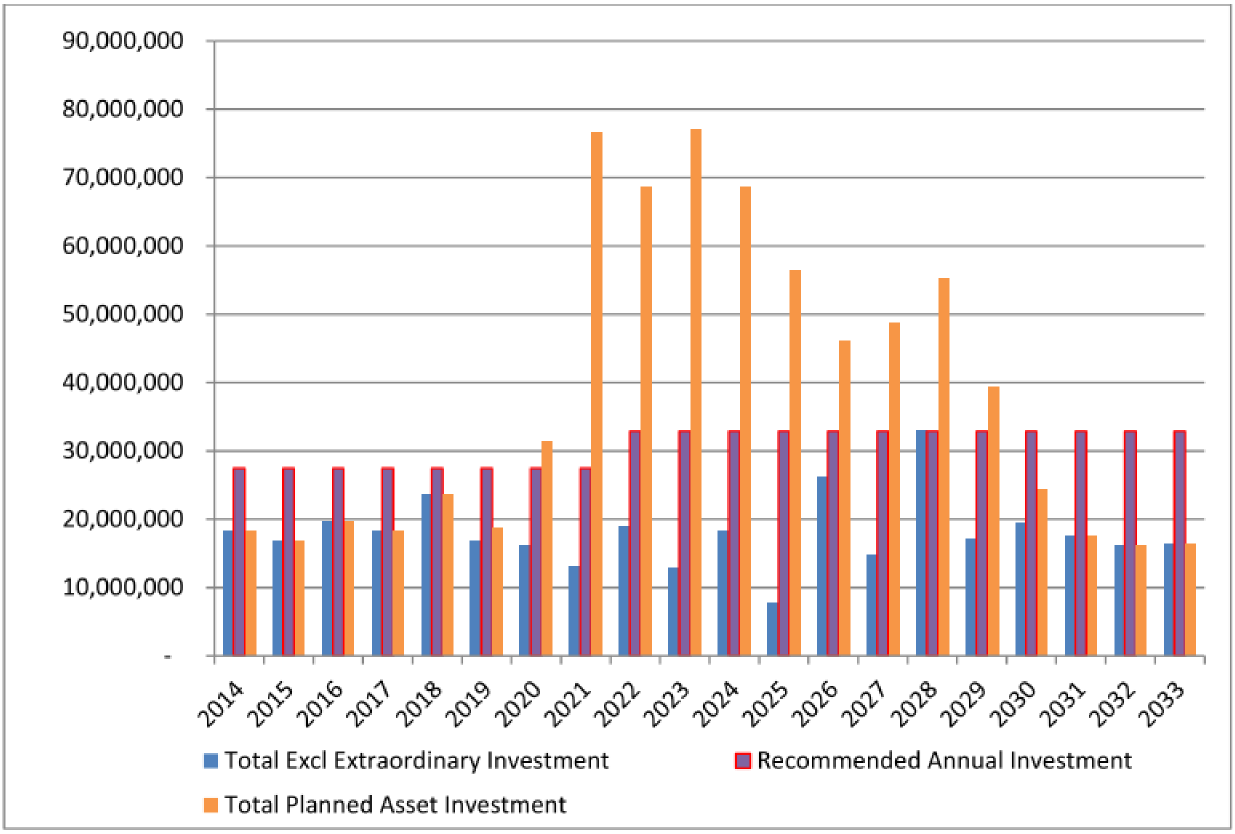
- 2021-2025 GPL/NCAM Redevelopment
- 2022-2025 Elgin Park Housing Redevelopment
- 2024-2025 Ontario Street Housing Development
- 2025 new Brighton Shared Emergency Base
- 2025-2027 new Trent River Bridge
- 2026 new housing project
- 2027 new housing project
- 2028 new housing project
- 2025-2030 new consolidated works yard

Annual Asset Investment Shortfall



Comparing the planned asset investment within the 10-year plan and the targets set in the Asset Management Plans, the shortfall in the years is alarming in the chart below when excluding the extraordinary non-recurring investments to represent investments planned for the ordinary base infrastructure assets. In 2022 and onwards the recommended annual investment increases as a result of updating plans for core assets and a similar spike is anticipated to occur at the next update inclusive of the remaining assets.

Capital Investments vs Asset Management Plan Investment Target



The Asset Management Plans data can be used to develop more effective strategies to manage the County's assets. Funding strategies are being developed to move toward the target levels. The priorities identified in the AM plan will drive future capital funding applications to ensure money is spent where it is most desperately needed. There is a significant amount of work to be done and strategies to develop utilizing current and robust asset data and modeling from recently implemented asset management software.

In an effort to close the gap between actual spending on capital and what is required to keep pace with the deterioration of County assets, the draft 2024 budget includes a dedicated infrastructure levy. The amounts set aside from the dedicated infrastructure levy will be used to fund designated infrastructure projects. The amount included as dedicated infrastructure levy in the 2024 budget is $2.0M as calculated based on 3% of the 2023 total levy. The DIL amounts to $2.1M in 2025 and $2.3M in 2026. Council approved changing the target for the DIL to 4% of the prior year levy in 2027 and beyond. In 2027 the DIL will amount to approximately $3.4M and will grow marginally over the remainder of the long-term plan. In prior years, the dedicated infrastructure levy was calculated based on 1% (and then 2%) of the total levy so 2024 provides for a much-needed infusion of additional funds recognizing the significant cost escalations for capital works. In 2023 the dedicated infrastructure levy was $1.26M.

Staff are recommending the creation of a Dedicated Housing Levy (DHL) to be used for housing and homelessness infrastructure needs. Council has indicated that housing and

homelessness initiative are a top priority but this will require significant levy funding. The DHL will operate just like the DIL and staff are recommending that the amount be based on 1% of the prior year levy in 2024, 1.5% in 2025, and 2.0% in 2026 and beyond. If the DHL is approved (at these levels) it will generate $669K in 2024, $1.07M in 2025, and $1.56M in 2026.

This strategy of using dedicated levies is in line with what a number of other Ontario municipalities are doing to address the infrastructure gap. Some of those municipalities that now have a similar budget tool to address this problem include the City of Barrie, Newmarket, Brampton, Mississauga, Centre Wellington, and Woolwich Township. Within the EOWC, seven of the twelve municipalities also have implemented similar dedicated infrastructure levies/allocations.

Given the economic challenges within the broader County, a slow and steady approach was approved. Funding opportunities, expanded County-wide D.C.'s, new technologies and operating efficiencies will all contribute to accelerating the closure of this gap. As economic circumstances change, the pace of ramping up the dedicated levy will be re-evaluated.

Reserves

Reserves are an important tool for long term planning. As part of the long-term planning process, reserves are being set aside to pay for future capital projects and unexpected operating expenses such as extreme weather events. As infrastructure needs are becoming better defined through the AM Plan and various departmental master planning processes, it is becoming more apparent that the County will not have enough funds set aside for future infrastructure needs. The dedicated infrastructure levy assists with building reserves in an effort to be better financially prepared for impending capital needs.

In 2022 the County adopted a comprehensive Reserve Policy and completed a detailed reserve review. The policy and corresponding review resulted in a realignment of reserves and established formal criteria, limitations, uses and applicable thresholds for each reserve. This very much sets the foundation and strategy for building reserves based on identified needs and risks. New reserves were created that previously had not been in place including a reserve to build funds towards financing the Landfill Closure, Post-closure Liability which is identified in the County's 2022 Financial Statements at $22.0M and a current reserve balance of only $2.4M.

The County's reserve position has improved slightly through 2020/21. Once again, the County has exceeded the Provincial average when looking at reserve contributions as a percentage of operating expenses. The portion of departmental budgets allocated to reserves has increased but planned reserve contributions need to be further enhanced in future budgets. Reserves allotted specifically for the GPL/NCAM Redevelopment, the consolidated operations facility, the Trent River Bridge and various social housing development projects will significantly reduce the County reserve position once these funds are utilized to finance these large extraordinary capital projects The Ministry of Municipal Affairs and Housing (MMAH) with its latest published Financial Indicators assigned a risk rating of low based on the County's level of reserves in 2021.

Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses
(latest published data MMAH)

	County	Average
2008	10.0%	28.1%
2009	12.9%	30.7%
2010	24.8%	30.7%
2011	27.3%	32.9%
2012	31.2%	37.1%
2013	39.2%	33.2%
2014	41.5%	33.3%
2015	46.3%	34.5%
2016	54.0%	35.9%
2017	50.7%	37.8%
2018	53.4%	39.4%
2019	54.0%	42.6%
2020	65.0%	50.4%
2021	76.9%	55.9%

The County's reserves as a percentage of operating expenses have increased substantially between 2007 and 2021. There was a reduction in the County's reserve position in 2017 primarily as a result of utilizing corporate reserves to pay off maturing debt in the amount of $5.8M. The maturing debt was for an unsecured loan for the County Headquarters building. Over the past several years the County has been able to increase funds allocated to the Corporate Reserve enhancing flexibilities for the maximization of financing efficiencies as they arise. The County was not able to refinance with Infrastructure Ontario for the Headquarters Building as an existing asset. Given that Infrastructure Ontario generally offers preferential rates, the maturing principle on the outstanding loan was paid-out utilizing the Corporate Reserve as opposed to taking on higher interest debt.

At the end of 2023, the County's reserve balance is expected to be approximately $81.2M. There has been a conscious effort across all departments to identify needs and increase reserve contributions. However, the ongoing operational needs will continue to prevent reserve contributions from accelerating as quickly as required. The Asset Management Plans and long-term financial plan identifies future capital needs and provides a plan for ongoing reserve contributions and withdrawals for major capital projects. Given the number of major projects coming up in the next 10-20 years, the County's reserves will need to continue to grow.

There will be significant utilization of reserves for major capital projects moving forward to 2027 as dedicated reserve funds are sourced for the GPL/NCAM Redevelopment, the Elgin Park Redevelopment, the Trent River Bridge and towards placeholders contemplated for expansion of affordable housing, residual waste needs and remediation and a possible consolidated works yard. The County reserves in the long-term plan are anticipated to be depleted to a low of approximately $54.5M by 2027 or approximately 31.1% of the 2027 estimated operating budget versus the most recent comparator average from MMAH at 55.9%. Further to this, the County will be acquiring debt financing in the years leading up to 2027 towards these extraordinary large projects. The ability to provide reserve financing limits the amount of debt that otherwise would be required. Reserves were utilized towards providing rate stabilization for the first time in 2021; specifically, towards ‘smoothing’ the impact of the new curbside collections contract over 2021/22. The 2024 – 2026 proposed budget factors in the utilization for the rate stabilization in 2025 and 2026 to help offset the increased levy requirements caused by the GPL debt payments. $500K in rate stabilization is in the budget in 2025 and in 2026 to coincide with an increase of $3.1M from these debt servicing payments. Reserves will grow in the years following 2027 which will be critical for financing needs into the extended future and limiting debt, particularly post GPL/NCAM Redevelopment, as debt levels and servicing costs will be approaching levels that are encroaching the upper threshold of the County’s Debt Policy.

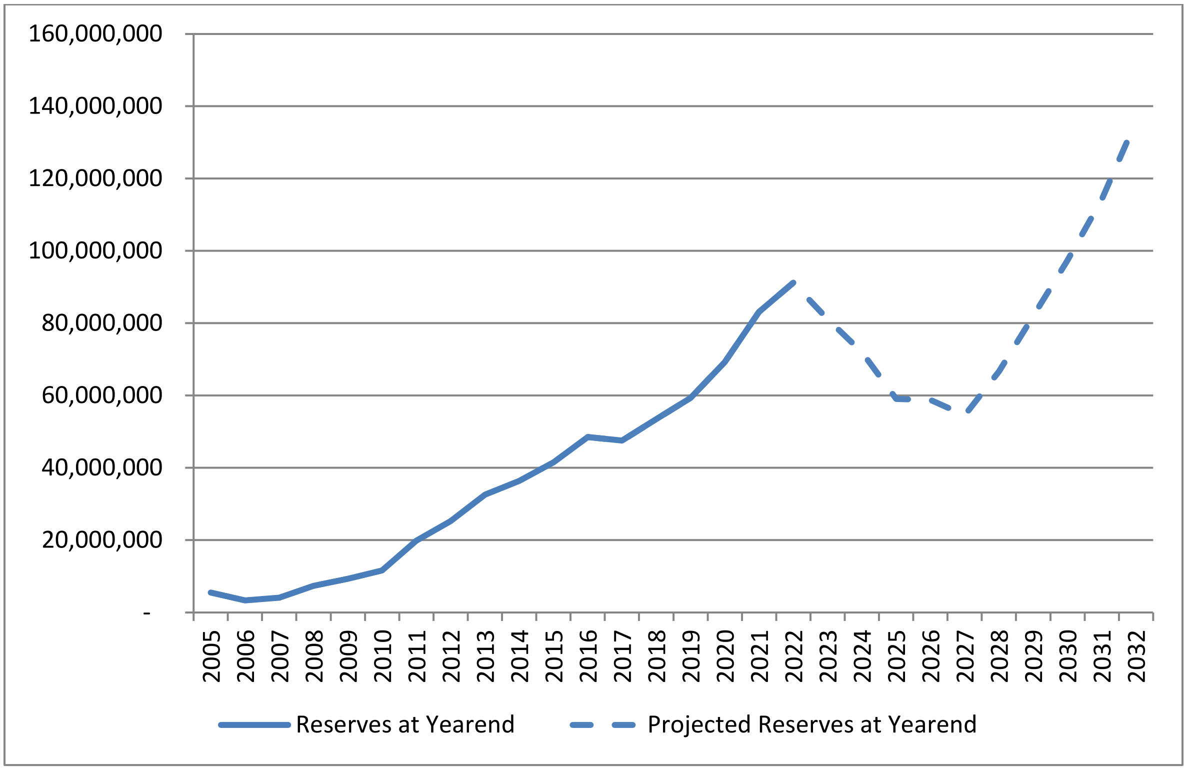
The County, as a schedule 2 WSIB employer, committed to maintaining a WSIB reserve that would meet actuarial estimated liability requirements and sufficient funds should a catastrophic event occur. The most recent actuarial report has identified significantly more requirements for funding future years as a result of PTSD claims within the Paramedics Department. This is a common challenge for municipalities that provide first responder services. As a result of this, maintaining the WSIB reserve at it’s optimal level under the County Reserve Policy is critical.

Under the new County Reserve Policy that was approved by Council this year, a new reserve has been established towards funding the Landfill Closure and Post-closure Liability as identified within the County audited Financial Statements. This liability is significant at $22.0M and represents estimated future costs for closure of the Brighton landfill as the County’s only operating landfill as well as costs for closed landfill remediations, monitoring and leachate collection and maintenance of control systems. Previously, this liability was unfunded and disclosed as such within the audited Financial Statements. Contributions to this reserve are contemplated within the long-term plan. This will be dependent in future years on economic conditions and actual annual levy increases.

The Asset Management Plans clearly illustrated that despite efforts to save for future projects, the County will still fall far short of the funds needed for infrastructure over the next several decades. The data presented above is helpful to illustrate our progress. However, benchmarking against other upper tier municipalities should be done with caution. Each municipality provides a different range of programs and services and operate different infrastructure. The trends are useful, but it is not an ‘apples to apples’ comparison. It is widely understood that no municipality is contributing to reserves at an adequate level.

The shortfall in reserves will require future tax increases and the assumption of more debt in the near term as infrastructure needs become more critical.

Forecasted Yearend Reserve Balance



Estimated 2023 yearend reserve balances are detailed in the chart below pending funds to be placed in reserves upon bylaw approval to carryover financing for projects into 2024 and future years that were incomplete at yearend (primarily roads, waste, and several smaller projects) as well as any yearend surplus funds aligned with the County's Reserve Policy.

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Estimated Year End Reserve Balances

Reserve	2023 (est)	2024 Additions	2024 Reductions	2024 (est)
General / Rate Stabilization Reserves	20,193,963	2,890,498	5,519,671	17,564,791
Landfill Closure/Post-closure Liability Reserve	2,550,000	200,000	-	2,750,000
Social Housing Reserve	11,229,486	713,792	1,973,605	9,969,673
NCHC Reserve	2,223,874	150,000	668,964	1,704,910
Transportation Capital Reserve	12,669,593	3,178,401	1,904,509	13,943,485
GPL Rebuild Reserve	10,477,281	-	6,677,460	3,799,821
WSIB Reserve	6,088,803	-	-	6,088,803
Waste Services Capital Reserve	5,536,799	600,000	292,000	5,844,799
Paramedics Capital Reserve	1,677,076	1,290,000	920,000	2,047,076
Facilities Capital Reserve	2,215,702	115,000	380,000	1,950,702
Transportation Operating Reserve	1,364,082	-	-	1,364,082
Social Services Reserve	1,255,169	33,000	135,000	1,153,169
Planning & Inspections Reserve	494,007	71,000	41,048	523,959
Health Safety Emergency Planning Reserve	379,518	5,000	-	384,518
Insurance Claims Reserve	241,386	-	40,000	201,386
Ec Dev and Tourism Operating Reserve	262,678	25,000	-	287,678
Natural Heritage Reserve	379,587	129,416	56,900	452,103
Human Resources Reserve	416,663	-	-	416,663
Corporate Service Reserves	559,000	-	-	559,000
Communications Reserve	25,000	-	-	25,000
GPL Capital Reserve	80,458	50,000	28,000	102,458
IT Reserve	853,072	225,000	317,035	761,037
GPL Donations Reserve	47,242	-	-	47,242
	81,220,439	**9,676,107**	**18,954,192**	**71,942,354**

Other liquidity measures indicate significant improvements in the cash position of the County and these measures are directly related to the improved reserve position. The Total Cash & Cash Equivalents as a % of Current Liabilities was rated by MMAH as high risk. However, it should be noted that this metric can vary year over year depending on timing of shorter-term investments such as funds on deposit under High Interest Savings Accounts (HISA) as it only captures balances in bank accounts and does not include other very short term and liquid investments. The County invests short-term working funds in a bank HISA and Notice Plan Account under its current favourable banking services agreement. Rates under this agreement exceed the LAS ONE Fund HISA that many municipalities utilize while still allowing for full liquidity to meet immediate cash flow needs. The investment portfolio is comprised of short and long-term cashable bonds aligned with cash flow requirements ensuring access to funds if required for operations or capital purchases. The change in these liquidity measures reflects timing of cash flows, investment of maturities and investment of short-term liquid funds in a HISA versus held as cash. This County investment strategy has led to a significant increase on the return on the County's investments yields. All investments are low risk, preserve principal and in compliance with the requirements of the Municipal Act. The County is well positioned with short-term investments set to mature allowing for reinvestment in the current higher yield environment. All investments are facilitated for based on review of investment options, cash flow requirements and recommendations with the County's Investment provider.

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Total Cash & Cash Equivalents as a % of Current Liabilities
(latest published data MMAH)

	County	Average
2012	97.9%	302.6%
2013	214.9%	317.5%
2014	48.2%	323.9%
2015	188.3%	321.6%
2016	23.5%	280.5%
2017	126.0%	283.0%
2018	51.0%	279.0%
2019	41.0%	352.0%
2020	15.0%	326.0%
2021	14.0%	334.0%

Debt

During 2022, Council approved the County's first Debt Policy that established the framework, processes and limitations for taking on debt financing. The County's current outstanding debt continues to be at a very manageable level. It is well below the Annual Repayment Limit (ARL) set by MMAH. The MMAH ARL is calculated primarily based on 25% of own source revenues, whereas, the County's internal ARL is established at 12.5% under the Debt Policy. The County, as a public body, is able to acquire debt through Infrastructure Ontario with rates that are generally preferable to what can be garnered through private financing sources. The County is sourcing construction financing through Infrastructure Ontario currently towards works for the GPL/NCAM Redevelopment Project. Also, construction financing for the Elgin Park Redevelopment will be sourced. Preferential rates that had previously been realized with the low-rate interest environment indicative of the BOC setting its trend setting overnight rate at its lower bound during the pandemic have now increased dramatically.

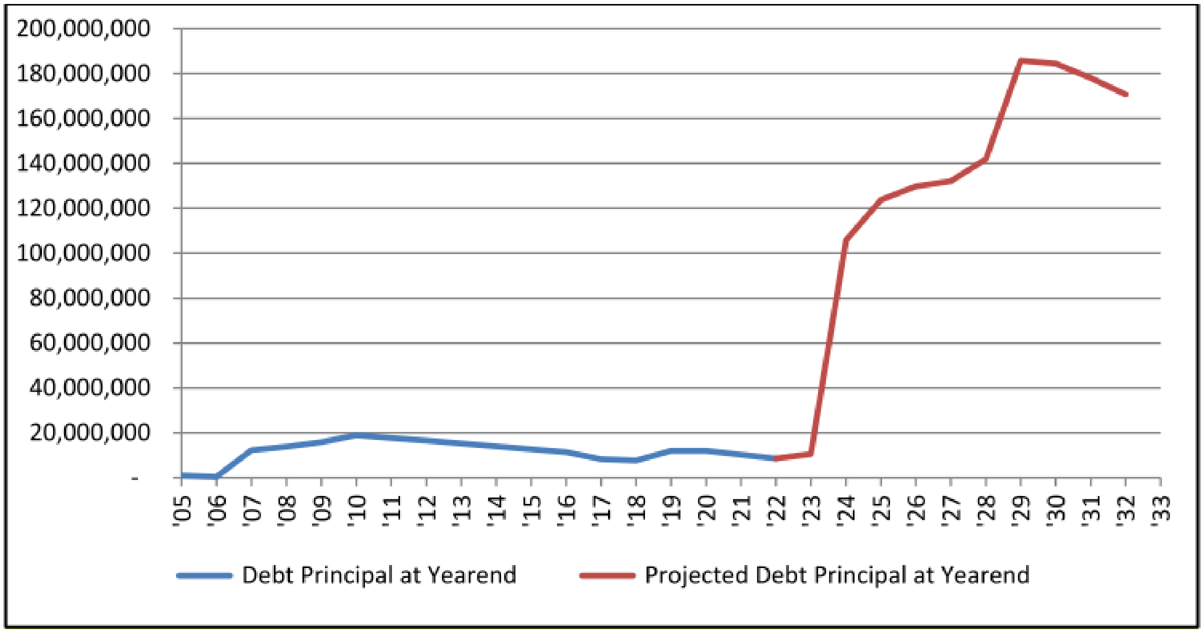
The County will continue to acquire (and incur interest costs from) construction financing for the GPL/NCAM Redevelopment and Elgin Park Redevelopment projects with the final long-term debentures to be issued upon completion of the works or upon maximization of the approved project debt financing with Infrastructure Ontario. Economists are forecasting that interest rates will start to decline in 2024 and slowly decrease through 2025. It is our hope that debenture rates will have declined by the time the debt for the GPL & NCAM project must be finalized. Municipalities are only permitted to assume debt for capital projects. The long-term debt level is projected to reach $142.0M in 2029. Most of this debt is attributable to the GPL & NCAM project but there are also placeholders for potential future housing projects. There is a placeholder in the long-term plan for a consolidated works yard (or Joint Operations Base). This is projected to bring total debt to $185.8M.

As the longer-term financial needs are considered, the County will need to take on additional debt in the medium and long term. Progress has been made to build reserves for future projects. However, adequate reserves will not be accumulated prior to beginning these critical projects. Major projects that have been identified for a significant portion of financing by debt will be the

GPL/NCAM Redevelopment, the Elgin Park Redevelopment, 473 Ontario Street Housing Development, a placeholder for a new Paramedic base in Brighton, a possible consolidated works yard (Joint Operations Base) and various housing projects to redevelop and construct purpose-built housing in the form of new affordable and market rental units. As more detailed project plans are developed and cost estimates are refined, the specific financing tools will be reevaluated. A portion of these projects will be funded by reserves, but it is unlikely sufficient reserves can be set aside in time for these projects. Further, the first County-wide D.C. implemented in 2020 will provide financing towards reducing debt requirements. A business case analysis will be completed to determine if it is a more prudent business decision to forego the return on invested funds or pay interest on debt. Given the anticipated growth in reserves within the long-term plan there will likely be a greater proportion of reserves utilized for financing identified projects versus what is currently contemplated in the model; thereby, lowering the amount of debt, particularly if interest rates remain elevated. Other sources of financing such as Federal or Provincial funding may advance the timing of projects if opportunities become available. The County currently has the financial capacity to utilize reserves in order to optimize any funding opportunities with the advancement of projects ultimately minimizing debt levels. The Paramedics bases are funded 50% by the Provincial subsidy for interest costs which creates a favourable margin for borrowing in these instances for the County.

The chart below shows the current debt being paid down and the addition of new debt based on the estimated costs for the projects as noted above. The significant increase is primarily the result of debt to be issued for the GPL/NCAM Redevelopment Project which is currently in the form of construction financing. Further projects in the long-term model contemplating debt financing include the Ontario Street Housing Development project, a new Emergency Services Base in Brighton, and a consolidated operations facility in 2026. Placeholders for further housing developments in the years 2025 and 2027 are assumed to be financed by a combination of funding from upper levels of government, debt and reserves within the long-term plan.

Forecasted Yearend Long-Term Debt (Principal)



The debt repayment schedule below also shows that the amount of budget dollars required to service the debt will remain relatively flat until about 2025 when financing costs for long-term debt related to various extra-ordinary large construction projects start to come on-line as mentioned above. The County's annual debt repayment remains well below the maximum permitted ARL established by the Province; however, it is encroaching on the County ARL limit set within the County Debt Policy. Some capacity will be generated based on the Construction Per Diem Funding that the County will receive from the Ministry of Health and Long Term Care over 25 years estimated at ~$1.5M per annum. Further utilization of reserves for financing in place of debt will be assessed particularly with heightened interest rates.

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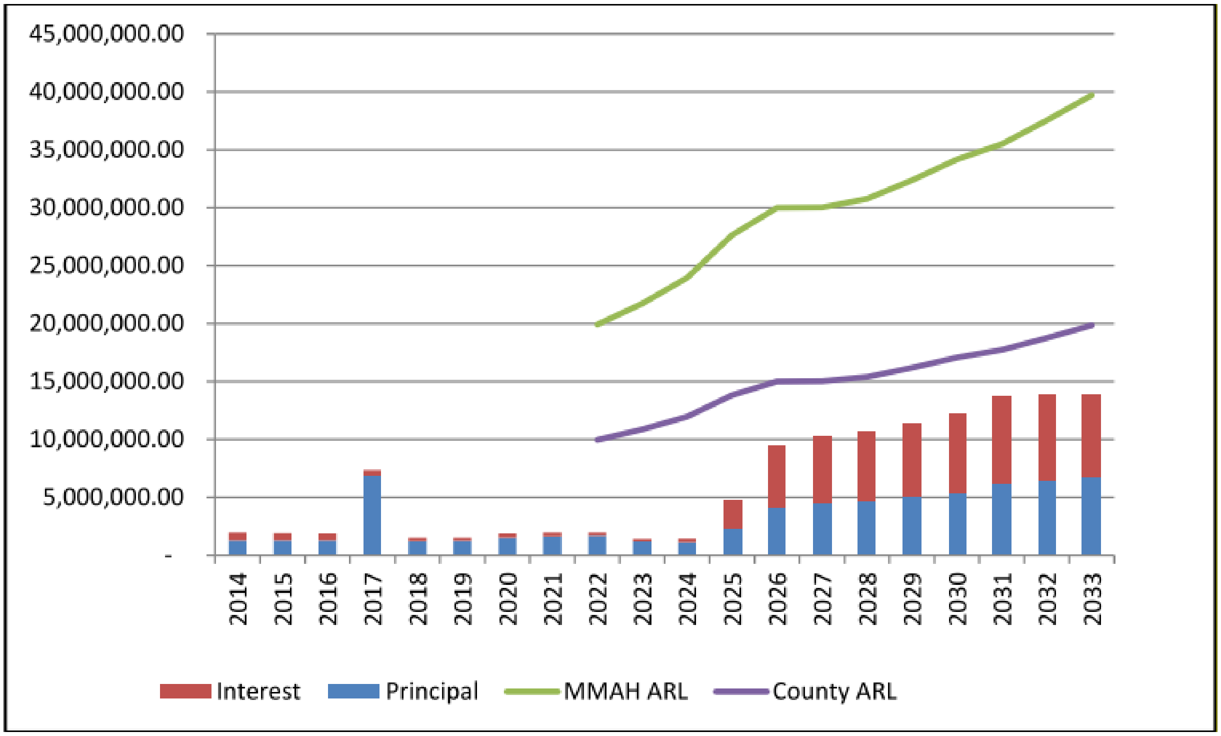
Debt Repayment Schedule



MMAH provides two sustainability metrics to identify concerns with a municipality's ability to continue to pay for servicing long term debt commitments. The County's position had improved in 2021 for Net Financial Assets or Net Debt as a % of Own Source Revenues; however, Debt Servicing Cost as a % of Total Operating Revenue increased slightly.

Net Financial Assets or Net Debt as a % of Own Source Revenues
(latest published data MMAH)

	County	Average
2014	-5.0%	16.8%
2015	2.7%	18.7%
2016	12.2%	21.6%
2017	20.4%	25.8%
2018	23.3%	29.2%
2019	21.2%	36.1%
2020	28.1%	47.9%
2021	29.7%	57.8%

Data only available from 2014

The recent debt has been at relatively low interest rates which are not reflected in the metrics. These low rates have helped keep the cost to service debt at a minimum. With the aggressive increases from the Bank of Canada to the trendsetting overnight interest rate to date in 2023 increasing 5.0% the rate is now at high compared to rates over the last decade. Interest rate increases in 2022 and 2023 reflect one of the most aggressive tightening cycles in the central banks history. This will have significant impacts on future debt servicing costs for projects that will be financed. The higher than normal measure in 2017 for Debt Servicing Cost as a % of Total Operating Revenue below can be attributed to paying off the maturing debt on the County Headquarters in 2017 from this one-time debt payout. Eliminating the extraordinary one-time payout of the County Headquarters in 2017 the County remains aligned with the provincial averages for debt servicing costs.

Debt Servicing Cost as a % of Total Operating Revenue
(latest published data MMAH)

	County	Average
2008	1.7%	2.3%
2009	1.8%	2.4%
2010	2.1%	1.9%
2011	2.3%	2.1%
2012	2.2%	2.1%
2013	2.2%	2.0%
2014	2.1%	1.9%
2015	1.9%	1.7%
2016	1.8%	1.8%
2017	6.9%	2.0%
2018	1.3%	1.9%
2019	1.3%	1.6%
2020	1.6%	1.8%
2021	1.5%	1.5%

Conclusion / Outcomes

The 2024-2026 draft budget and long-term financial plan provided a challenge recognizing the ongoing impacts from inflation entrenched in the County's financial capacity as evidenced in the long-term financial model. Recognizing the need to balance these challenges with ratepayers affordability and maintaining service levels are key considerations. The proposed budget for 2024 is above the base levy target of 4.0% because of the proposed Dedicated Housing Levy and the deliberation items (Kingston University Hospital Foundation request and Commuter Connect Program). The proposed levy increase that includes these additional items is 5.29%. If the increase from the Dedicated Infrastructure Levy (1.07%) is included, the total levy increase after growth is 6.36%.

The proposed budgets for 2025 and 2026 are above the target increase of 4% because of the new debt servicing payments for the GPL & NCAM project. This extraordinary item cannot be absorbed in the County budget without significant cuts. The total increase, including these additional costs and the proposed Dedicated Housing Levy is 7.78% in 2025 and 7.60% in 2026. If the minor increase from the Dedicated Infrastructure Levy is included, the total levy increase after growth is 7.91% in 2025 and 7.79% in 2026.

The Long-Term Financial Planning Framework provides the foundation for a well-established budgeting process that sees major projects and initiatives being identified within the long-term plan that are simply forwarded into the current budget year. This forward thinking, long-term approach has put a significant focus on building reserves, funding strategies and asset management.

The budget and supporting documentation are fully aligned with the 2023-27 strategic plan and will advance the priorities established in that document. Each department has developed a budget document that is linked to the four strategic priority areas, the mission and vision. The initiatives identified and funded within the draft budget focus on People, Partnerships and Possibilities, achieving best practices and collaboration.

The proposed 2024-2026 budget does not include any new programs or services that are levy funded but continues to meet the demands for all existing services. The operations are well funded, and departments are able to effectively deliver services with this proposed budget. However, funding is still not adequate in areas such as long-term care. Shortfalls for sustainable and predictable Provincially funded services continue to put pressure on the County levy for the current budget year and possibly in future years. Costs are being contained primarily outside of inflationary impacts with departments being able to accomplish more with the same or less funding.

The infrastructure needs will be a challenge over the long term, but the proposed budget provides for the immediate needs identified by each department and all projects previously identified for 2024-2026 in the long-term plan. The budget allows for some reserve contributions as we continue to look forward. This budget lays out a strategy for dedicated capital levies that will build through each successive year in an effort to reduce the annual infrastructure gap.

The County is financially stable, and the 2024-2026 budget focuses on preparing for the future. Each department maintains a strong foundation that is being built on sound fiscal decisions that position the County well to achieve success in delivering quality programs and services, maintaining infrastructure and being in a solid position to respond to the pressures of the economy and needs of the community.

Attachments

Presentation - 2024 – 2026 Budget Issue Paper Summary

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