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Report 2024-164

Report Title:	**2025 Budget**
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Approved by:	Jennifer Moore, CAO
Council Meeting Date:	December 18, 2024
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 2024-164 '2025 Budget' and PowerPoint presentation for information."

Purpose

The purpose of this report is to:

1. Provide an overview of the revised 2025 draft budget including a summary of the long-term financial forecast, key financial trends including capital, reserve, and debt projections,
2. Provide an overview of options to meet the 6.5% levy target (for 2025) established in Council Resolution 2024-11-20-835, and
3. Provide an overview of other matters to be considered by council that could have an impact on the 2025 levy increase.

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

On December 13, 2023 Northumberland County adopted its first multi-year budget (Resolution 2023-12-13-888 and By-law 41-2023) that covered the years 2024 to 2026. The resolution adopted a levy increase (after growth) of **8.65%** for 2025.

Since that time, council has approved some additional items and there have been other changes (that have an impact on the 2025 levy) that should be considered by council. The majority of these changes were reviewed at the November Finance and Audit Committee and at the regular council meeting in November 2024. Council gave further direction to staff to investigate options to reduce the 2025 levy increase (after growth) to 6.5%.

The revised 2025 draft budget proposed by staff includes adjustments that result in a 6.32% levy increase after growth. These adjustments are outlined further in this report. The information and charts in this report are built on a 6.32% levy increase. **It should be noted that there are other items to be considered by council that may have a further impact on the 2025 levy increase.**

The main pressure in the 2025 budget is the start of semi-annual payments for the Golden Plough Lodge & Northumberland County Archives and Museum Redevelopment Project (GPLNCAM) debenture. The Finance and Audit committee is recommending that the term of the debenture be changed from 25 years to 20 years to save approximately $15.3M in interest over the life of the loan. This change results in the total impact of the new debenture in 2025 being $3,656,874 or an increase of 4.94%. The levy increase for all county operations and capital in the revised 2025 budget (if the impact of the new GPLNCAM debenture payment is excluded) is 1.38%. This increase is below inflation and will create budget pressures in subsequent years if Council wants to maintain service levels.

The adjustments recommended in the revised 2025 draft budget include delaying previously approved issue papers, delaying the increases in the dedicated infrastructure and housing levies, delaying some capital projects, and some adjustment to other operating items. These adjustments will delay progress in some capital projects, reduce the base funding for infrastructure and will delay progress on certain initiatives but will not result in the immediate reduction of any current services to the community.

The owner of the median assessed home in Northumberland would pay an estimated $1,580 on the County portion of their property taxes based on the revised 2025 draft budget. This is an increase of approximately $92.70.

The revised 2025 draft budget and presentation focus on 2025 however, decisions made on the 2025 budget will have an impact on 2026. The 2026 budget year has the same pressure from an additional GPLNCAM debenture payment. Staff will be reviewing the 2026 budget in early 2025 and will present an update to Council in the first half of 2025.

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

Background

Budget Process and Schedule

On December 13, 2023 Northumberland County adopted its first multi-year budget. The resolution adopted a levy increase (after growth) of **8.65%** for 2025.

The multi-year budget policy requires that Council review, make necessary changes, and re-adopt the budget annually. Changes can be made to the budget if they meet the criteria outlined in the multi-year budget policy. Examples of acceptable items would be changes to legislation and/or funding, unforeseen changes to cost or revenue drivers, a change in council priorities, or other unforeseen events. Some potential changes were outlined in Report 2024-145 '2025 Budget Update' that was presented to council on November 20, 2024.

Resolution 2024-11-20-835 approved a revised 2025 target levy increase of 6.5% (after growth) and directed staff to prepare options for reducing the levy impact for Council's consideration at the December 18, 2024 Council meeting, noting that services and programs provided to Member Municipalities are not to be included in options for reducing the levy impact.

Staff have reviewed the budget and provide options for reaching a 2025 levy increase of 6.32%. The details are outlined in this report. There are a number of items to be reviewed by council and decisions made on the outstanding items may have an impact on the overall levy increase.

The revised 2025 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 multi-year budget 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 are available to the public on the County website, or in printed copy upon request.

Long Term Financial Planning Framework

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 has become 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 included an additional seven years of projections through 2033. 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 2024 and an additional 1% increase in both 2025 and 2026.

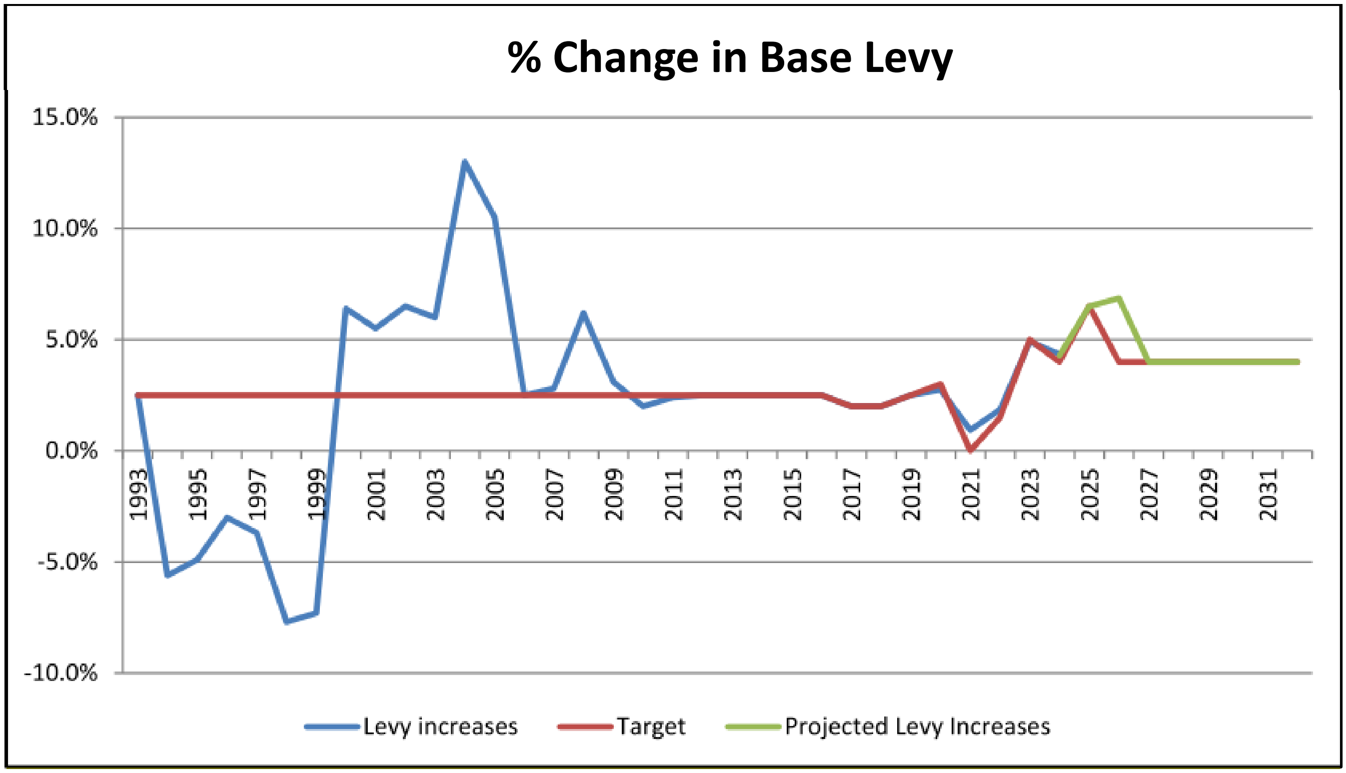
The 2027-2033 long term financial plan is built on annual base levy increases of 4.0% after assessment growth and the dedicated infrastructure levy. Over the 10 years leading up to the 2020 budgetary cycle, the County had relatively stable levy increases after more than a decade of volatility in the County tax rates.

In 2024 Council approved a higher target base levy increase of 4% (for the multi-year budget process) in order to address the pressures from historically high inflation and make up ground from levy increases that were below inflation during the pandemic. Inflation remained high during 2023 and into 2024. Ultimately Council approved a levy increase of 6.57% (After growth) for 2024. Balancing fiscal responsibility with that of homeowner affordability and for maintaining standards for all County services were key considerations in establishing this increase. 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.

Recognizing the multiple priorities identified within the County's 2023-2027 Strategic Plan, staff prepared 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 increases in each year of the multi-year 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 experienced several years of stable annual levy increases and this approach carries forward within the long-term financial model. Actual increases during the pandemic have proven insufficient to keep pace with inflation resulting in a spike in the 2023 and 2024 budgets 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 should be a key priority.

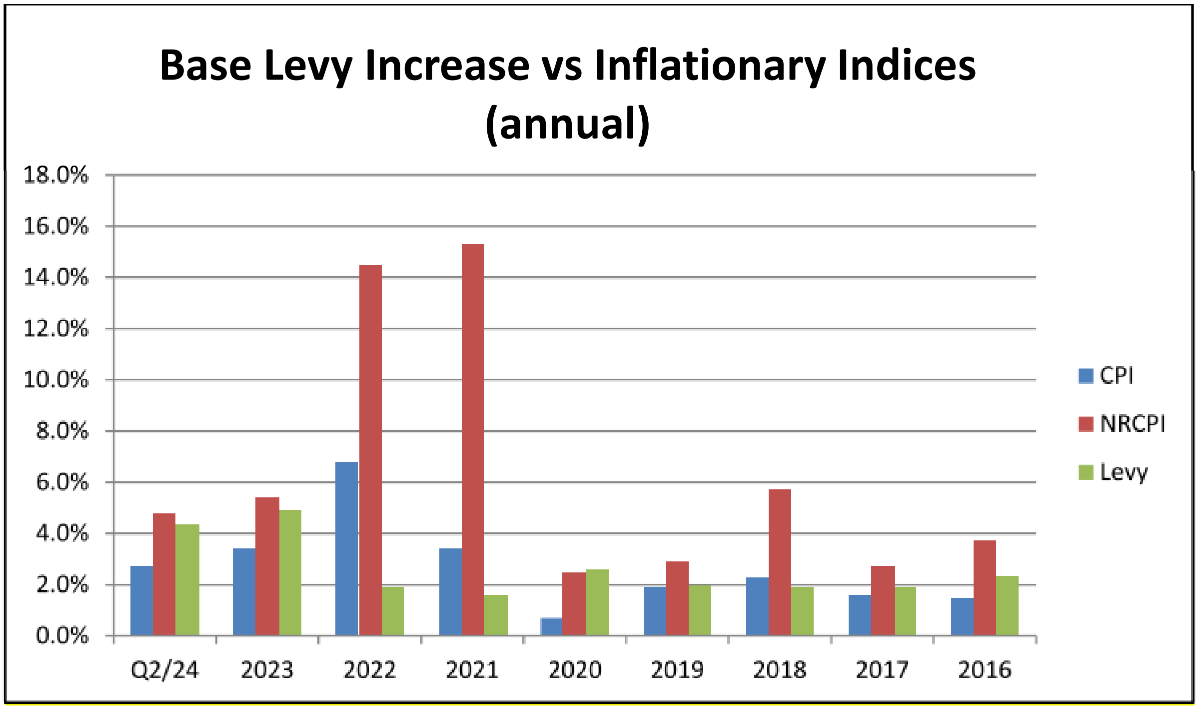
The County continues to work towards addressing the infrastructure deficit. Much of the infrastructure the County owns was downloaded from the province in the form of roads, bridges and social housing. In many instances, this infrastructure is nearing the end of useful life and is inefficient and costly to operate and maintain. The County currently has new Asset Management Plans for core and 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 $48.3M 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 and in 2024 a new dedicated housing levy. Even with the implementation of these special purposes levies, 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). 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, 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 came down to 3.4% and as of October 2024 it had returned to the 2.0% target. 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 recent years 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 – 2026 budgetary years had 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.

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Department managers and directors discuss needs and priorities throughout the budget process.

Incorporated within the 2025 Budget and the long-term financial plan for the fifth 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 was significant at $2.4M.

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

2025 Budget Overview, and Economic Outlook

The Council approved budget levy increase for 2025 that was adopted during the multi-year budget deliberations on December 13, 2023 was calculated as follows:

	Amount $	**Levy Impact %**
2024 Levy	$74,097,987	
2025 Levy	$81,981,967	
Increase	$7,883,980	10.64%
Estimated Growth	$1,481,196	2.0%
Levy Increase After Growth	**$6,402,020**	**8.65%**

The numbers above included a draw of $500K from the rate stabilization reserve to partially offset the pressure from the initial GPLNCAM debenture payment that was projected to happen in 2025.

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The most recent growth estimate for 2025 is 1.58% which has the following impact on the 2025 levy increase:

Revised Growth Estimate	$1,170,748	1.58%
Revised Levy Increase (after growth)	**$6,713,232**	**9.06%**

The multi-year budget policy requires that Council review and re-adopt the budget annually. This provides an opportunity to make appropriate changes to the budget. The following new items should be considered for inclusion in the 2025 budget. Some of these items have already been approved by council through other resolutions.

	Amount $	**Levy Impact %**	**Notes**
Public Works Issue Paper – Fire Radio System	$100,000	0.13%	Approved
Public Works Issue Paper – Security System Improvements	$162,500	0.22%	Closed Item
310 Division Shelter On-site Security	$400,000	0.54%	Approved
310 Division Shelter ECE By-law Compliance costs	$587,700	0.79%	Approved
Salaries and Benefits	$205,000	0.28%	Update budget estimates to payroll actuals
GPL Construction Funding Subsidy	$647,411	0.91%	Change due to updated schedule
GPL Level of Care Basic Premium	$78,840	0.11%	Change due to updated schedule
GPLNCAM Debenture change to 20-year term	$428,667	0.58%	Recommended by Finance and Audit Committee
TOTAL	**$2,637,118**	**3.56%**	

These new items add $2,637,118 (or 3.56%) to the levy requirement for 2025. With the addition of these new items (and no other changes) the total levy increase (after growth) would be $9,350,349 or 12.62%.

It should be noted that no levy funding has been allocated in the 2025 budget to the treatment bed program that was piloted in 2024. The 2024 Carryover by-law included $217,000 for the treatment bed program and based on the program activity in 2024, it is anticipated that a draw of $217,000 from reserves would be sufficient to fund the program in 2025.

The following is a list of savings and other adjustments (recommended by staff) that can be used to reduce the levy increase (after growth) down to $4,681,474 or 6.23% - which is slightly under the target of 6.5% set by council.

(Note: IP = Issue Paper)

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	Amount $	Levy Impact %	Notes
Issue Papers			
GPL Env Services Reserve Strategy IP	$217,500	0.29%	Reduction to the minimum requirement
GPL Life Enrichment Staffing IP	$26,970	0.04%	Reduce because of revised schedule
GPL Dietary Services Staffing IP	$28,945	0.04%	Reduce because of revised schedule
BECN and Tourism Tech Reserves IP (2)	$20,000	0.03%	Postpone
Waste – Lumber and Shingle Diversion Program IP	$250,000	0.34%	Postpone
Natural Heritage Weather Event and Land Acquisition Reserves IP (2)	$20,000	0.03%	Postpone
Natural Heritage Truck Replacement IP	$60,400	0.08%	Postpone
Legal/Legislative Services Assistant	$84,058	0.11%	Postpone
Made in Northumberland Rent Supp IP	$52,000	0.07%	Postpone
Information Management Strategy IP	$50,000	0.07%	Postpone

	Amount $	Levy Impact %	Notes
Other items			
Dedicated Infrastructure Levy Increase	$740,980	1.0%	Postpone Increase
Dedicated Housing Levy Increase	$740,980	1.0%	Postpone Increase
Increased Waste Revenue (bag tags and tipping fees)	$200,000	0.27%	Adjusting for increased activity (no price increases)
HSEP External Services Savings	$13,500	0.02%	
Interest Revenue	$250,000	0.34%	Adjust to be more in line with actuals
Reduce Transportation Base Levy by OCIF increase	$625,351	0.84%	OCIF Funding was higher than anticipated
473 Ontario Street Construction Financing Interest	$470,468	0.63%	Levy requirement shifts due to updated schedule
Elgin St Phase One Debt Servicing	$75,724	0.10%	Debenture was less than budgeted
Waste Collection Contract Indexing	$250,000	0.34%	Budgeted for increase but indexing reduced contract costs

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Transportation Construction – County Road 31	$492,000	0.66%	Postpone project
Total	**$4,668,876**	**6.30%**	

If all of the items above are adjusted to reduce the levy increase in 2025, the adjusted levy increase (after growth) will be $4,681,474 or 6.32% - which is slightly less than the council target of 6.5%.

The following items have also been updated in the revised 2025 budget to reflect updated schedules and to ensure accuracy of the budget in 2025. These changes do NOT have an impact on the levy increase - with the exception of the change in the 473 Ontario Street project that is noted above. This list is provided for council's information.

- GPLNCAM Redevelopment Project
- GPL Operating Costs – new building
- 473 Ontario Street Housing Project
- Brighton Emergency Services Base
- Internal Chargebacks (Will be adjust if council makes any other changes to the 2025 budget)

Additional items to be considered by council

Resolution 2024-11-20-835 asked staff to examine the following items and prepare reports for Council's consideration at the December 18th council meeting. There are separate reports in the agenda that discuss these items. The amounts related to these items are NOT included in the analysis above that results in the 6.32% levy increase.

Salary freeze – The potential costs avoided from the freezing of Council and Director salaries in 2025 are shown below.

	Amount $	**Levy Impact %**	**Notes**
Salary Freeze - Council	$4,025	0.005%	
Salary Freeze – Directors (Option 1)	$50,781	0.069%	Freezing Merit and COLA
Salary Freeze – Directors (Option 2)	$36,714	0.050%	Freezing COLA Only

It should be noted that Paramedics, and C&SS receive funding that covers portions of the director's salaries, so they are not entirely funded by levy. Similarly, a portion of the director's salaries for the support departments that are internally charged to Paramedics and C&SS are also covered by this funding. If the salary freeze were implemented the reduction in costs would not be purely levy funded and the County would forgo some funding for a portion of this amount.

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Hiring Freeze – The potential temporary reduction in expenses by implementing a hiring freeze are outlined in Closed Session Report CS 2024-171 'Staffing Report'. These amounts are NOT included in the revised draft 2025 budget and current 6.32% increase.

Items referred by Council to budget deliberations - The following items have been referred to the December 18, 2024 Budget deliberations and have NOT been included in the analysis above that results in the levy increase of 6.23%.

- The Finance and Audit Committee recommended that Council consider providing $100,000 in levy funding to the Art Gallery of Northumberland. If this is approved, it will add 0.13% to the 2025 levy increase.
- The Finance and Audit Committee referred Report 2024-158 Golden Plough Lodge and Northumberland County Archives and Museum Redevelopment Project Financing to budget deliberations. If Council decides to fund all (or part) of the anticipated shortfall of $16.6M with a new debenture from IO this will result in new debt servicing costs that will increase the levy. However, upon further examination, it is anticipated that by the end of the process to acquire a new debenture the initial payments for the new debenture would commence in 2026. Council could defer a decision on the additional financing to a future council meeting.

Other items for consideration – Council should also consider the following items during budget deliberations.

- Council approved the Northumberland Community Grant Policy at the November 2024 Council meeting. Staff need to develop the procedures for administering the grant program. If council would like to set aside an amount for community grants in 2025 that is currently not included in the revised 2025 draft budget.
- Amounts for a potential Municipal Restructuring Study are also not included in the revised 2025 draft budget. It is anticipated that a study of this nature would cost approximately $150,000 to $250,000 depending on the scope and would span 2025 and 2026. Staff would recommend that council allocate $100,000 in levy dollars in the 2025 budget if they would like to proceed with this study. That would be an additional 0.13% increase on the 2025 levy.

Economic Outlook

Inflationary pressures and high interest rates have cause challenges for Northumberland County in recent years. After historically high inflation in 2022, inflation gradually slowed during 2023 finally falling to the Bank of Canada target of 2.0% in October 2024. The Bank of Canada had raised its overnight lending rate to 5.0% in an effort to combat inflation. More recently it has decreased its overnight rate five times in 2024 down to 3.25%. Economists are expecting further reductions in the overnight rate in 2025.

Interest and bond 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 $96.8M and the current approved 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 as of June 2024 was 4.8%. This is a decrease from the significant increases of 14.5% and 15.3% that it occurred 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.

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.

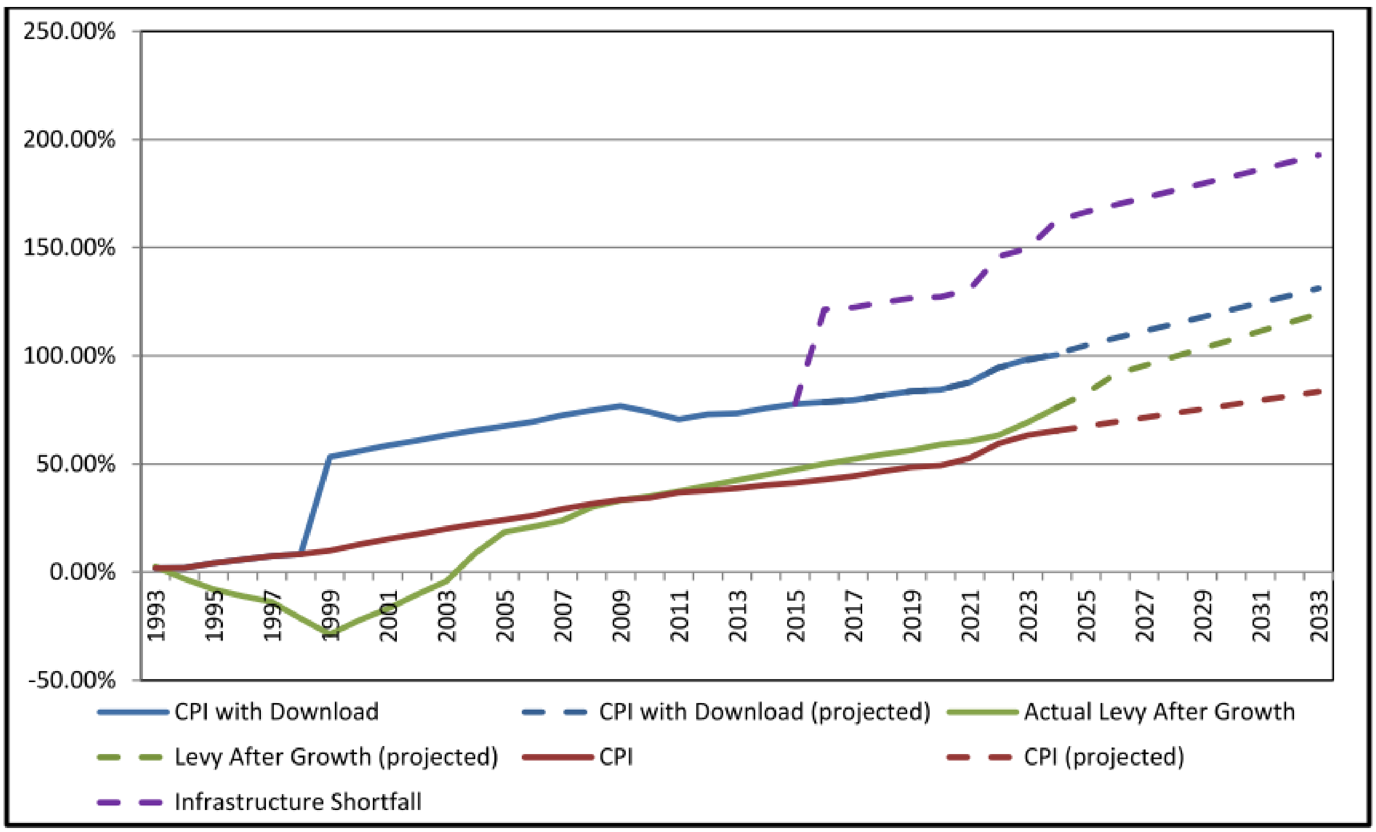
As a full service upper-tier municipality, the County is responsible for several mandated services that receive funding from various Provincial ministries. The 2025 budgeted proportionate share of revenues from grants and subsidies is significant at 36%. Fiscal challenges at the Provincial level are at risk to likely impact the County over future years as the province attempts to reduce 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 2024 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 recent trend of heightened inflationary pressures within the economy for construction type activities, as evidenced by the Non-residential Construction Price Index, has made 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). There is an increase in the purple line again in 2023 due to the new asset management requirements for all of the County's non-core assets. 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



The proposed increase in 2025 puts a pause on the increases in the dedicated infrastructure and housing levies. We had been making some gains with the increases to the dedicated

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infrastructure levy and the introduction of the housing levy in 2024 as shown by the upward 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. Recent 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 recently updated contracts for the continuation of the OCIF funding. 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.

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 2025 draft budget (**cash basis**) is as follows:

	2023 (M$) Budget	2024 (M$) Budget	2025 (M$) Draft
Revenue			
Levy	68.0	74.1	80.0
Grants & Subsidies	60.2	59.6	65.4
Other Revenue	22.8	25.8	34.1
Total Revenue	151.0	159.5	179.5
Borrowing			
Debenture/Construction Financing	47.3	40.3	19.6
Internal Borrowing	0	0	0
Total Borrowing	47.3	40.3	19.6
Total Revenue & Borrowing	198.3	199.8	199.1
Expenditures			
Operating	127.2	143.0	147.3
Capital	75.8	71.0	80.6
Debt Principal Repayment	1.2	1.1	2.4
Total Expenditure	204.2	215.1	230.4
Reserves			
Transfer to Reserve	9.2	9.6	11.2
Transfer from Reserve*	(15.1)	(24.9)	(42.4)
Net Change in Reserves	(5.9)	(15.3)	(31.2)
Total Expenditures & Reserves	198.3	199.8	199.1

* Inclusive of prior year carryover items

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The 2025 draft budget (**accrual basis**) is as follows:

	2023 (M$) Budget	2024 (M$) Budget	2025 (M$) Draft
Cash Budget	198.3	199.8	199.1
Less:			
Debt Principal Repayment	1.2	1.1	2.4
Capital	75.8	71.0	80.6
Internal Borrowing	0	0	0
Debenture/Construction Financing	47.3	40.3	19.6
	(124.3)	(112.4)	(102.6)
Add:			
Amortization	9.5	9.7	9.8
Future Employee Benefits Liability	0.4	0.4	0.4
Landfill Post Closure Liability	0.6	0.6	0.6
	10.5	10.7	10.8
Accrual Based Budget	84.5	98.1	107.3

Levy

Each County department is funded through multiple sources. The proposed $80.0M levy is split across the County operating departments as outlined in the graph below. Approximately 30% of the levy is directed to the Transportation department as the Federal Gas Tax and OCIF funding are the only other significant source of revenue for roads maintenance and construction projects. Paramedics require 12.8% of the levy to fund the County's portion of operating costs as well as capital. The Waste division receives about 8.6% of the levy which is a decrease since the closer of the MRF. Waste has other sources of revenue such as bag tags and tipping fees. About 13.6% of the levy goes to the Community and Social Services department with the NCHC garnering a further 5.2%. The GPL is allocated 13.8% of the levy and also receives a Provincial subsidy and accommodation revenue from residents in addition to the levy. A further 5.2% 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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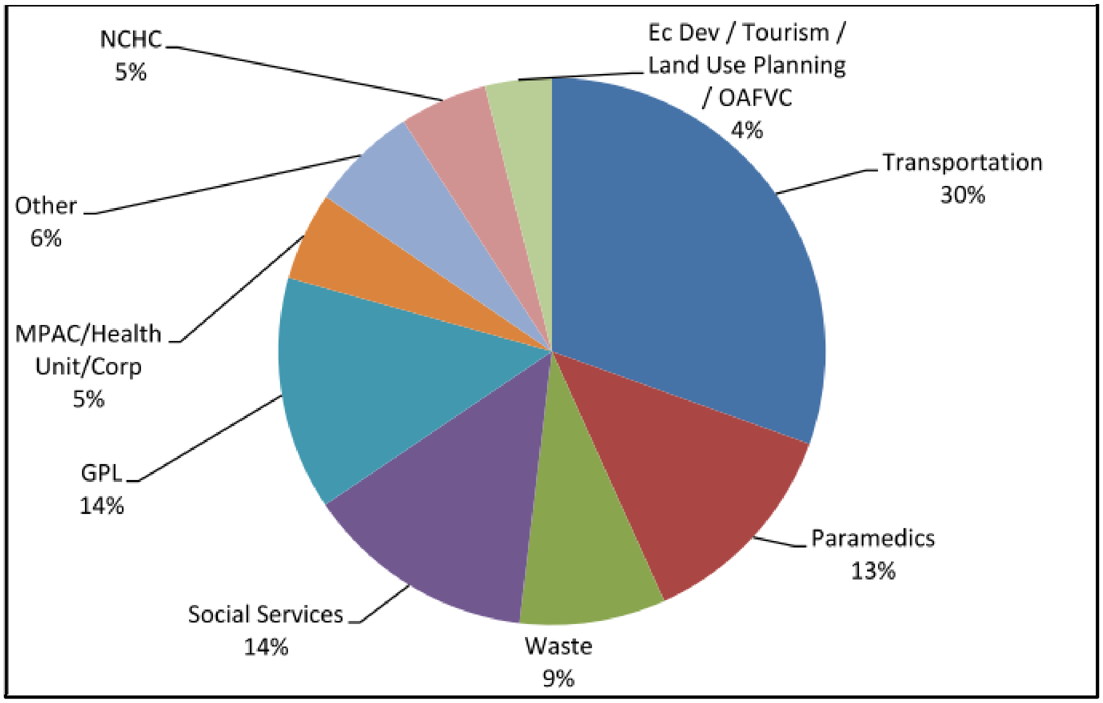
2025 Levy by Department



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 45%. An additional 36% 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

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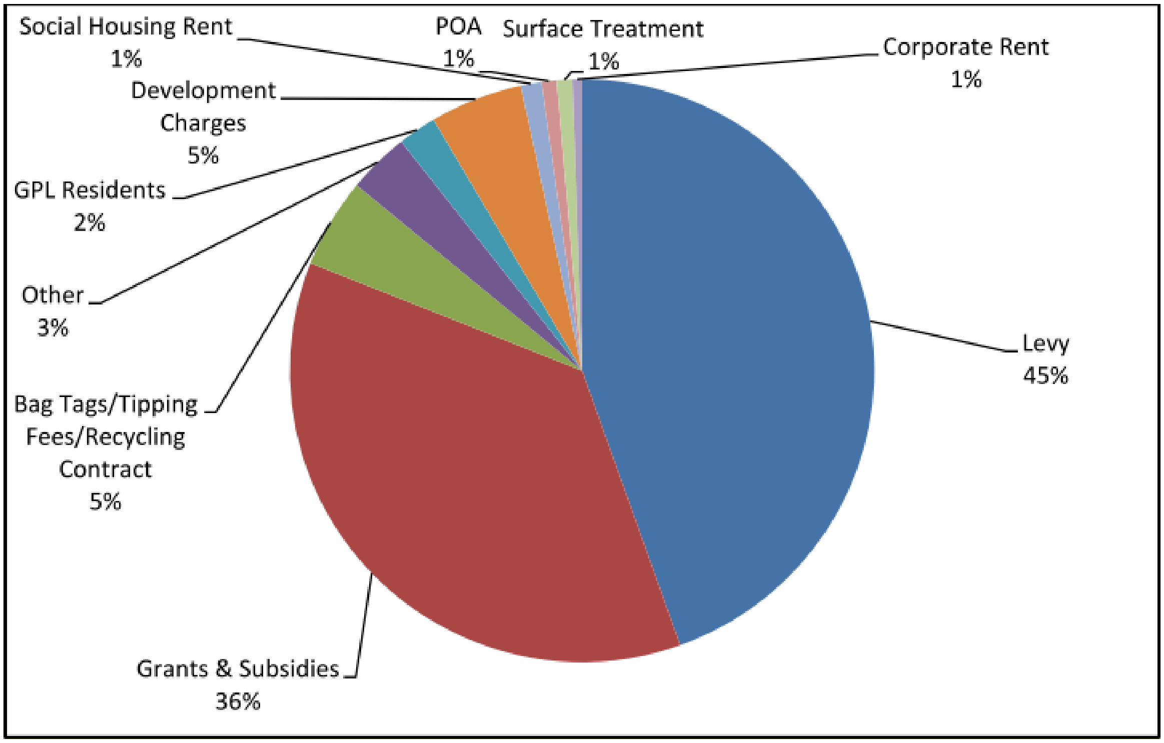
contract with Circular Materials Ontario to administer the waste collection contract for recyclables, and Provincial Offences fines. Although Provincial Offences revenues have not quite recovered to pre-pandemic level based on ticketing volumes, the budget assumes this will occur in 2025. The 2025 draft budget represents the fifth year with D.C.'s representing 5.1% 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.

2025 Revenue Sources



Expenditures

In 2025, 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 19% 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 16% of 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 2022. Materials and supplies account for 5% of operating expenditures and consist of medical

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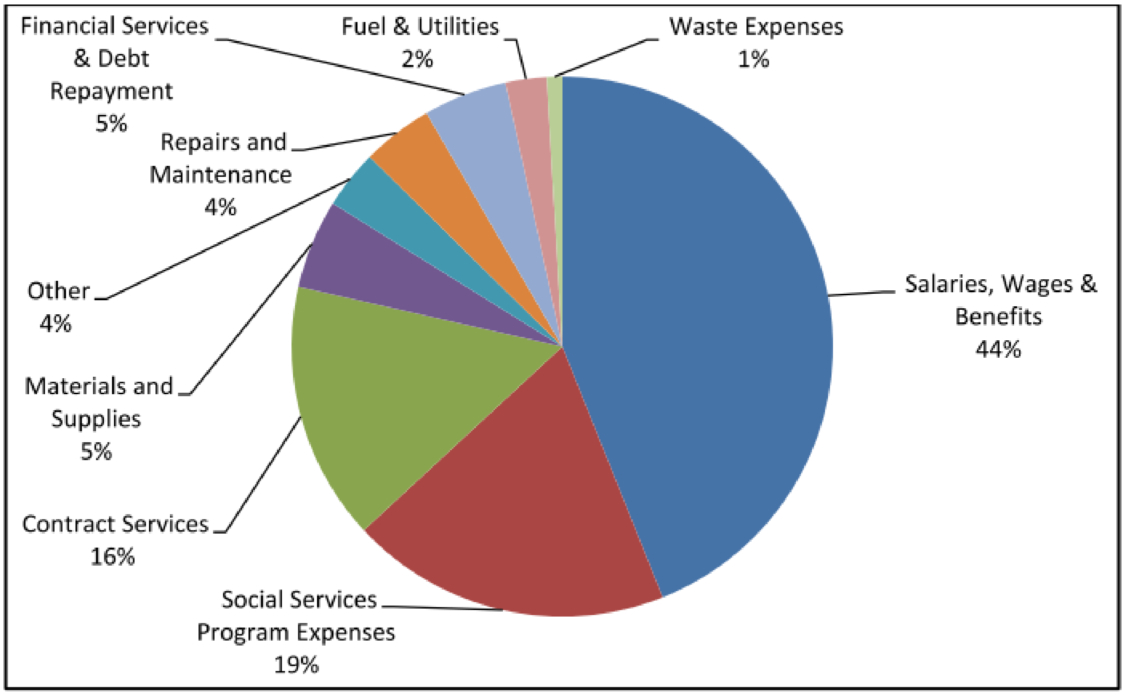
supplies, raw food for the long-term care home, sand and salt for roads, maintenance materials, office supplies and many other goods required for County operations. The balance of operating expenditures includes repairs and maintenance, fuel, utilities, waste expenses (primarily leachate management)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

2025 Operating Expenditures



A large portion of the capital expenditures will be directed to the GPL/NCAM Redevelopment project at 30.7% with construction of the building scheduled to be complete in 2025. Another large proportion of capital expenditures occurs within the Transportation department at 51.6%. This department manages the vast majority of the County's infrastructure. In addition to Road construction projects, there are amounts for the Trent River Bridge in 2025. 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 construction on phase 2 is ongoing. This work represents a 2.9% share of the capital budget. There are expenditures in 2025 for the 473 Ontario Street housing project withing social housing representing 10.2% of the capital spending. 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 2025 include:

- Continuation of the GPL/NCAM Redevelopment project
- Continuation of the Elgin Park Redevelopment project
- The 473 Ontario Street Housing Development project
- Roads and bridge work
- Equipment and fleet replacement in Transportation, Waste & Paramedics

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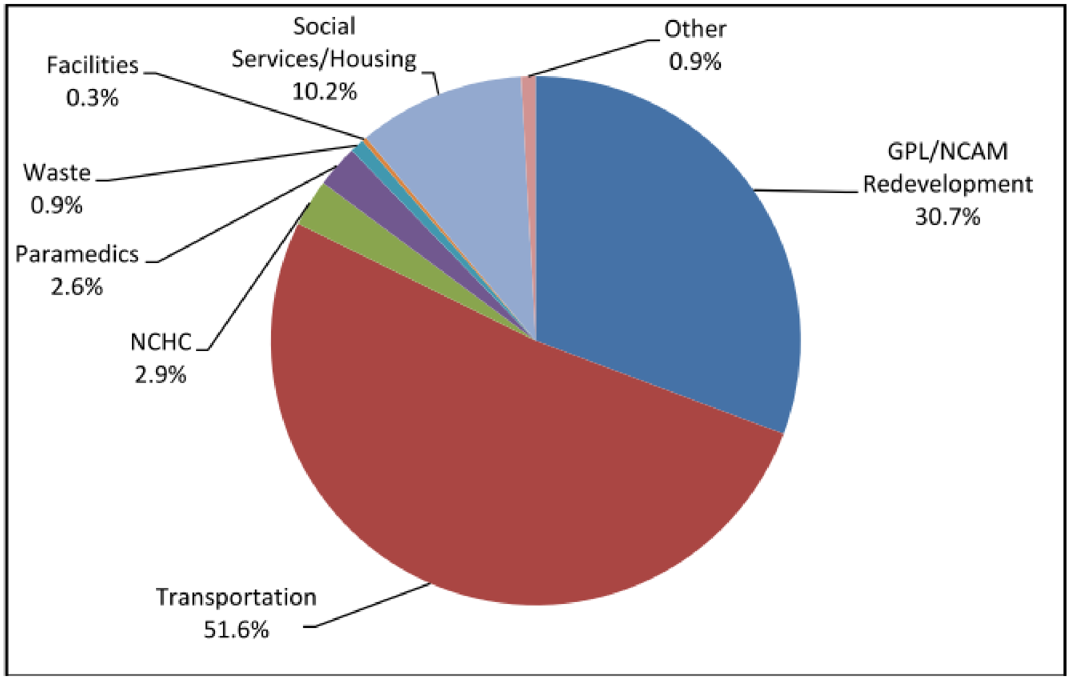
- Social Housing and corporate building upgrades and equipment replacement

2025 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.

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The Cityworks software is used for life cycle modeling that informs the current approved County asset management plans

Tax Impact

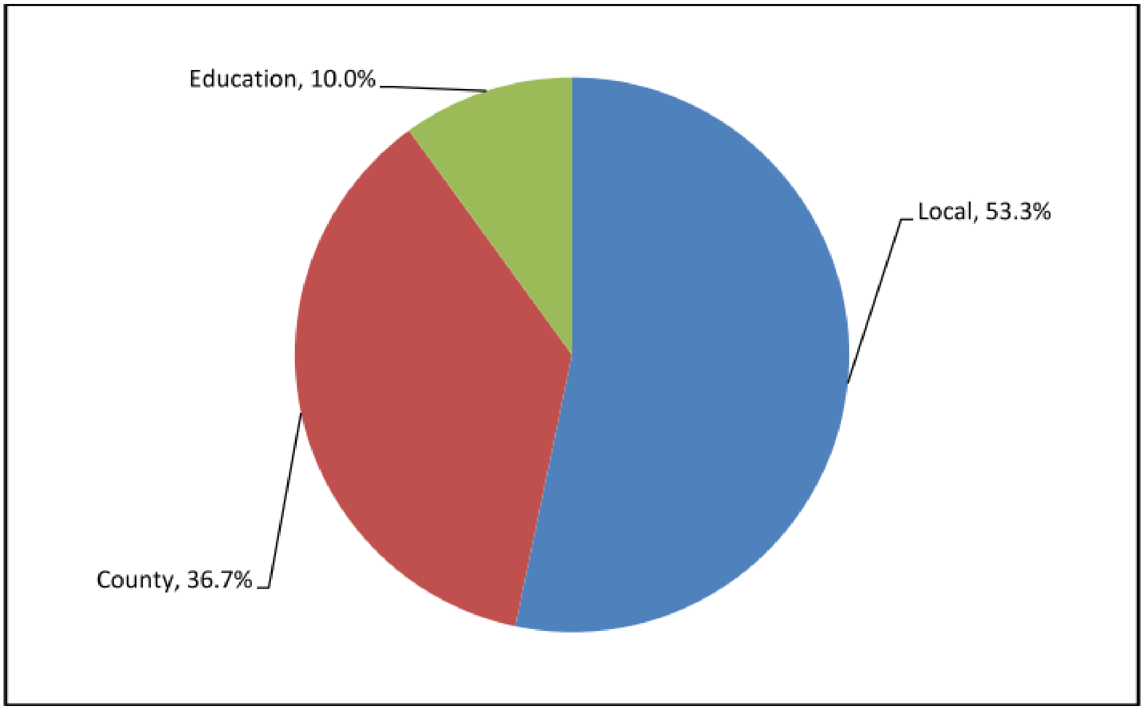
Each year it is difficult to balance the need to increase property taxes to ensure the continuation of service and maintenance/upkeep of assets with the challenging economic circumstances of the County. The EOWC identified in a white paper some of the challenges faced by rural Eastern Ontario when setting 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 2025 is approximately $92.70 for the median single-family home or $7.73 per month.

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 53.3% with the County and Education making up the balance at 36.7% and 10.0% 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?



2024 Tax Rate Split

	Local	County	Education
Port Hope (Ward1)	61.7%	30.1%	8.2%
Cobourg	58.0%	33.0%	9.0%
Trent Hills	55.2%	35.2%	9.6%
Cramahe	54.2%	36.0%	9.8%
Port Hope (Ward 2)	54.7%	35.6%	9.7%
Brighton	51.2%	38.3%	10.4%
Alnwick/Haldimand	46.7%	41.9%	11.4%
Hamilton	44.6%	43.5%	11.9%
Average 2024	**53.3%**	**36.7%**	**10.0%**
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%

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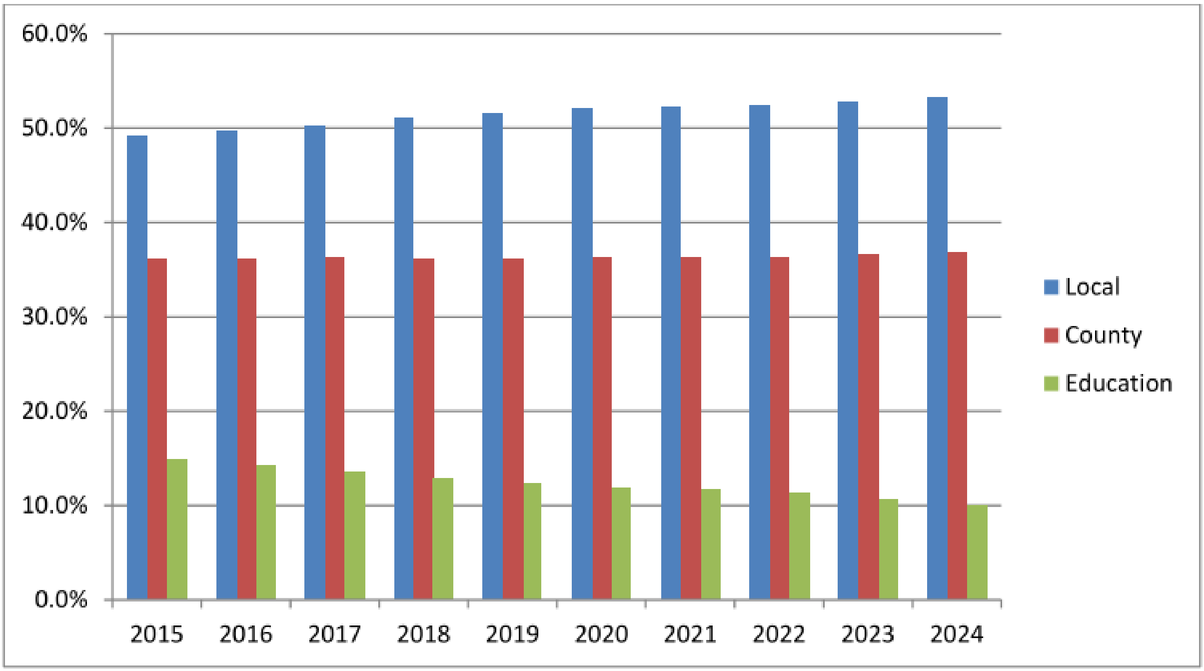
There has been a small but steady reduction in the allocation of the municipal tax dollars from education to the local municipalities between 2015 and 2024. During this time period the County portion has remained relatively unchanged despite the pressures on social services and healthcare needs.

Relative Share of Property Tax Dollars



The draft budget would see the actual County residential tax rate increase to an **<u>estimated</u>** 0.005962024 from 0.005612210 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 2025 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 has continued to postpone the Assessment Update pending a review of Ontario's property assessment and taxation system. The details of that review are currently unknown.

Property assessments for the 2025 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 2024 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 $265,000 (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 $92.70 from $1,487.24 to $1,580.94.** 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	9.75%	7,797,576
Brighton	13.07%	10,450,695
Cobourg	23.94%	19,138,858
Cramahe	6.85%	5,475,982
Hamilton	12.98%	10,375,611
Port Hope	19.23%	15,373,066
Trent Hills	14.18%	11,338,420
County Total	**100%**	**79,950,209**

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. A further decrease from 1.8 to 1.6 was approved by council in 2024 following the same rationale.

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 2025, 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 2025 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.

Capital Assets & Infrastructure Deficit

The County has made strides in recent years to rebuild capital and maintenance budgets despite many financial challenges. For a number of years there was a 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 has complied with Ontario Regulation 588-17 and completed an Asset Management Policy and Asset Management Plan for all assets – excluding the GPL that will have its own plan developed after the reconstruction. The Asset Management Plans are robust documents that includes a vast amount of information with even more data available in the asset management software system. 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.

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 are required to review and update the policy. Municipalities were also required to prepare new asset management plans in three phases:

1. Phase I to address core infrastructure assets was completed as required by July 1, 2022.
2. Phase II expanded on Phase I by including all infrastructure assets in the plan by July 1, 2024. The County completed this and adopted new plans for Corporate Facilities, Fleet, Road Infrastructure, NCHC, and Natural Heritage.
3. Phase III requires 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 significant numbers in the Asset Management Plans are the projected total replacement values of all assets. The chart below summarizes the projected replacement value by major asset type under our various plans. The numbers below exclude the GPL that will have its own asset management plan after reconstruction.

Asset Type	**Replacement Cost**
* Core Assets	$887,021,056
Corporate Facilities (excluding GPL)	$51,675,750
Housing (NCHC)	$50,165,279
Fleet	$30,102,900
Road Infrastructure (excluding road and bridges)	$49,993,587
Natural Heritage	$10,507,295
Total	$1,079,465,867

* road network, bridges/culverts and storm sewer

Over the next 50-60 years, the infrastructure need will be approximately $1.1 billion. 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 our asset management plans we should be spending an average of $48.3M annually on the maintenance, operations and replacements of our capital over the first 10 years of the AM plans. Our long term plan has us projected to spend approximately $36.3M on these activities leaving a total shortfall of $12.5M annually. It is important to note that our long-term plan includes roughly $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. Initiatives such as ramping up the annual roads and bridges construction program budgets and the implementation of the Dedicated

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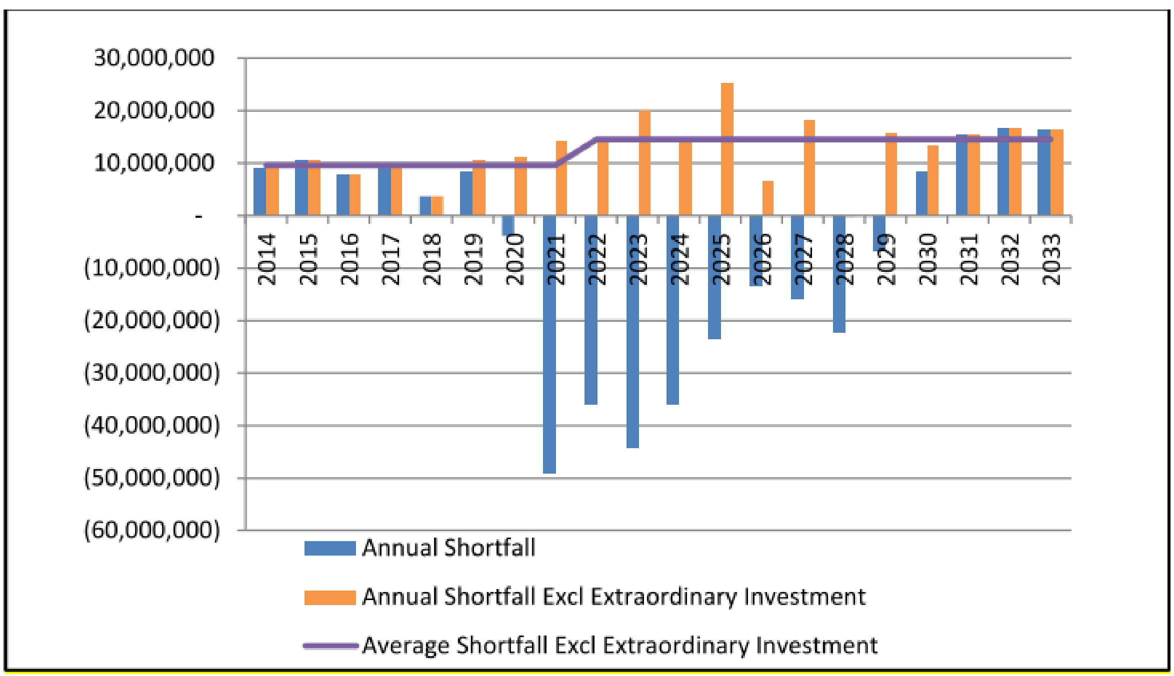
Infrastructure and Housing levies were starting to narrow this gap slightly. Cost escalations as evidenced by construction indices pose a significant threat to further expand the infrastructure deficit for the County.

The chart below shows the projected asset funding shortfall on an annual basis. Construction costs for the GPL/NCAM Redevelopment commenced in 2021 and will carry on through to 2026; 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 2025 and 473 Ontario Street Development over 2025-2027. The long-term plan includes extraordinary non-recurring type projects which have already been initiated or embedded as placeholders as follows:

- 2021-2026 GPL/NCAM Redevelopment
- 2022-2025 Elgin Park Housing Redevelopment
- 2024-2025 Ontario Street Housing Development
- 2025 Brighton Shared Emergency Base
- 2025-2027 Trent River Bridge
- 2026 New Housing Project
- 2027 New Housing Project
- 2028 New Housing Project
- 2025-2030 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 concerning in the chart below when excluding the extraordinary non-recurring investments to represent investments planned for the ordinary

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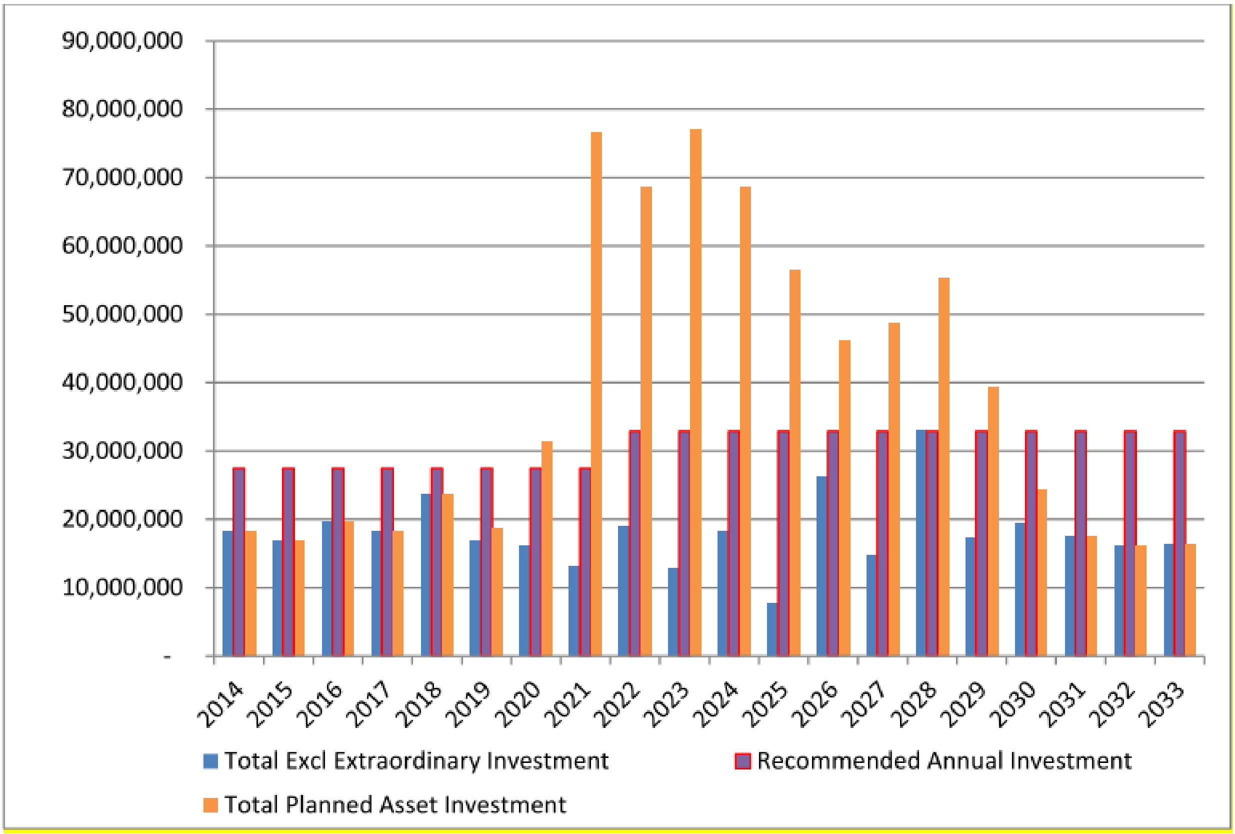
base infrastructure assets. In 2022 and onwards the recommended annual investment increases as a result of updating plans for core assets.

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. 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 2025 budget includes the dedicated infrastructure and housing levies. However, the 1% increase for both of the dedicated levies has been removed in the revised 2025 draft budget. 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 2025 budget is $2.2M as calculated based on 3% of the 2024 total levy. The amount set aside for the dedicated housing levy in 2025 is 1% of the 2024 total levy or $740,980.

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 and housing levies assist with building reserves 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 and a Rate Stabilization Reserve.

The County's reserve position has improved slightly through 2023. 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 Trent River Bridge, the consolidated operations facility, 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 2022.

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

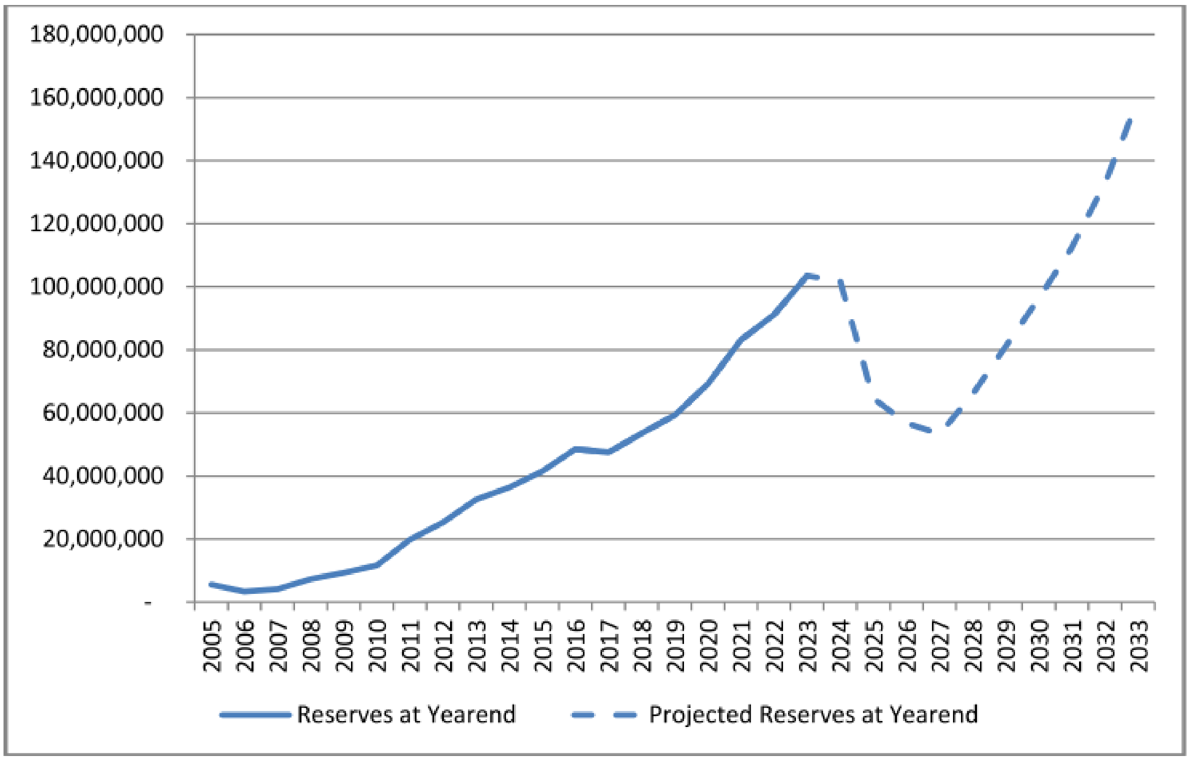
	County	Average
2008	10.0%	28.1%
2009	12.9%	30.7%
2010	24.8%	30.7%
2011	27.3%	32.9%
2012	31.2%	37.1%
2013	39.2%	33.2%
2014	41.5%	33.3%
2015	46.3%	34.5%
2016	54.0%	35.9%
2017	50.7%	37.8%
2018	53.4%	39.4%
2019	54.0%	42.6%
2020	65.0%	49.1%
2021	76.9%	52.9%
2022	79.8%	54.0%

The County's reserves as a percentage of operating expenses have increased substantially between 2007 and 2022. 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

At the end of 2024, the County's reserve balance is expected to be approximately $101.7M including carryover amounts. 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 10-15 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 $53.3M by 2027 or approximately 33.2% of the 2027 estimated operating budget expenses versus the most recent comparator average from MMAH at 54.0%. 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 factored in the utilization for the rate stabilization in 2025 and 2026 to help offset the increased levy requirements caused by the GPLNCAM debt payments. $500K in rate stabilization is in the budget in 2025 to coincide with an increase of $3.2M from these debt servicing payments.

Forecasted Yearend Reserve Balance



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 getting closer to the 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, a new reserve has been established towards funding the Landfill Closure and Post-closure Liability as identified within the County audited Financial Statements. As of 2023 the Landfill Liability is included in the new Asset Retirement Obligation (ARO) liability. This liability is significant at approximately $20M 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. Some 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.

Estimated 2025 yearend reserve balances (including carryovers) are detailed in the chart below.

Estimated Year End Reserve Balances

Reserve	2024 (est)	2025 Additions	2025 Reductions	2025 (est)
General / Rate Stabilization Reserves	31,328,280	2,418,014	23,410,295	10,335,999
Landfill Closure/Post-closure Liability Reserve	2,750,000	-	-	2,750,000
Social Housing Reserve	7,009,321	728,230	1,310,435	6,427,115
NCHC Reserve	2,520,372	150,000	430,000	2,240,372
Transportation Capital Reserve	28,497,301	4,045,762	17,942,841	14,600,222
GPL Rebuild Reserve	3,711,821	-	-	3,711,821
WSIB Reserve	6,824,407	-	-	6,824,407
Waste Services Capital Reserve	6,123,884	1,604,482	950,000	6,778,366
Paramedics Capital Reserve	2,347,438	1,290,000	2,060,200	1,577,238
Facilities Capital Reserve	2,567,702	183,448	292,000	2,459,150
Transportation Operating Reserve	1,551,217	-	-	1,551,217
Social Services Reserve	1,738,870	33,000	335,000	1,436,870
Planning & Inspections Reserve	646,690	71,000	129,206	588,485
Health Safety Emergency Planning Reserve	414,518	5,000	30,000	389,518
Insurance Claims Reserve	201,386	-	40,000	161,386
Ec Dev and Tourism Operating Reserve	408,678	-	161,000	247,678
Workforce Housing General Reserve	-	158,292	-	158,292
Natural Heritage Reserve	452,103	84,416	19,200	517,319
Human Resources Reserve	604,617	-	90,650	513,967
Corporate Service Reserves	550,000	-	-	550,000
Communications Reserve	210,000	-	300,640	(90,640)
GPL Capital Reserve	102,458	132,500	100,500	134,458
IT Reserve	1,075,031	250,000	679,443	645,588
GPL Donations Reserve	48,017	-	-	48,017
	101,684,111	**11,154,143**	**48,281,410**	**64,556,844**

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

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. 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.

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	16.6%	332.6%
2022	5.6%	255.2%

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

The additional $16.6M required in financing for the GPLNCAM project is shown as if it was drawn from reserves in the revised 2025 draft budget. This was done to show the impact on reserves of a potential decision to use reserves for this purpose. Those impacts are included in the charts above and in the attachments to the report. This information shows that the County has the capacity to draw the extra financing from reserves. This does not include potential surpluses in 2024 or 2025 or interest savings if the original debenture is finalized early. The tradeoff of using reserve funds will be that that money will not be available for other projects, opportunities, or unforeseen events.

The attachments to the report show the reserve accounts, their goals, balances and a 5-year continuity for reserve accounts that have significant activity in the budget and long-term plan.

Debt

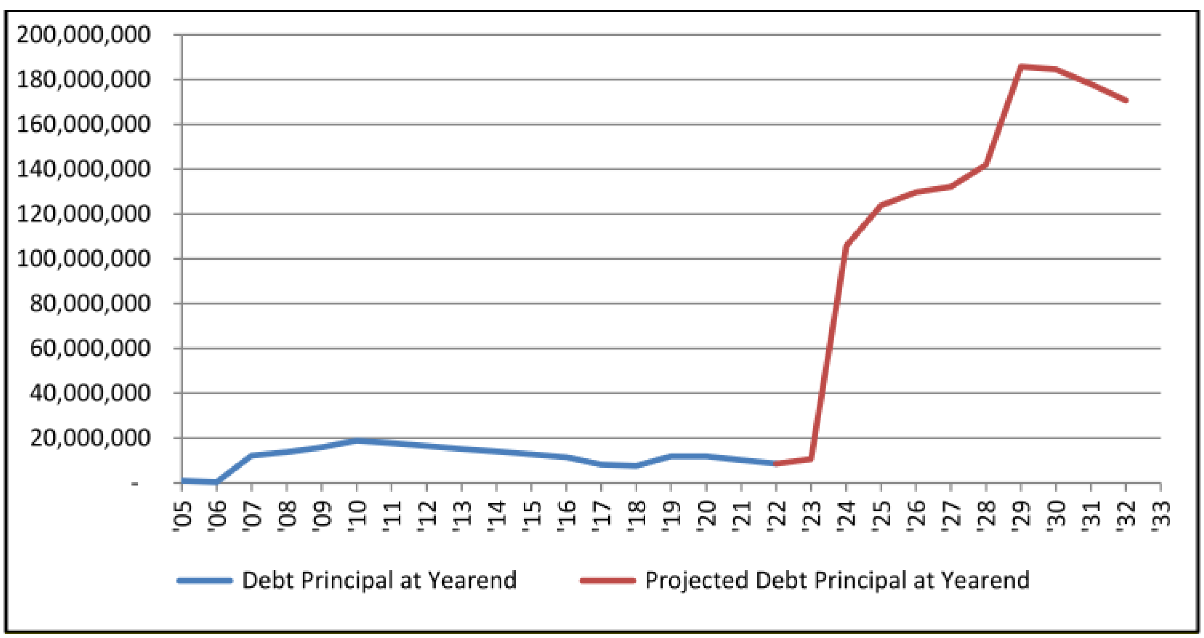
During 2022, Council approved the County's first Debt Policy that established the framework, processes and limitations for taking on debt financing. The County's current outstanding debt continues to be at a very manageable level. It is well below the Annual Repayment Limit (ARL) set by MMAH. The MMAH 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 for both phases. 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 has been using (and incurring interest costs from) construction financing for the GPL/NCAM Redevelopment with the final long-term debenture to be issued towards the end of the project. Economists had been forecasting that interest rates would start to decline 2024 and slowly decrease through 2025. While the BOC rate has started to come down and is forecasted to decrease further in 2025, the long term IO bond rates have not decreased significantly. Our investment advisors are predicting that the long term bond rates will started to increase in 2025. 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 bond 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)



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

The debt repayment schedule below also shows that the amount of budget dollars required to service the debt will remain relatively flat until 2025 when financing costs for the GPL & NCAM Redevelopment Project 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.

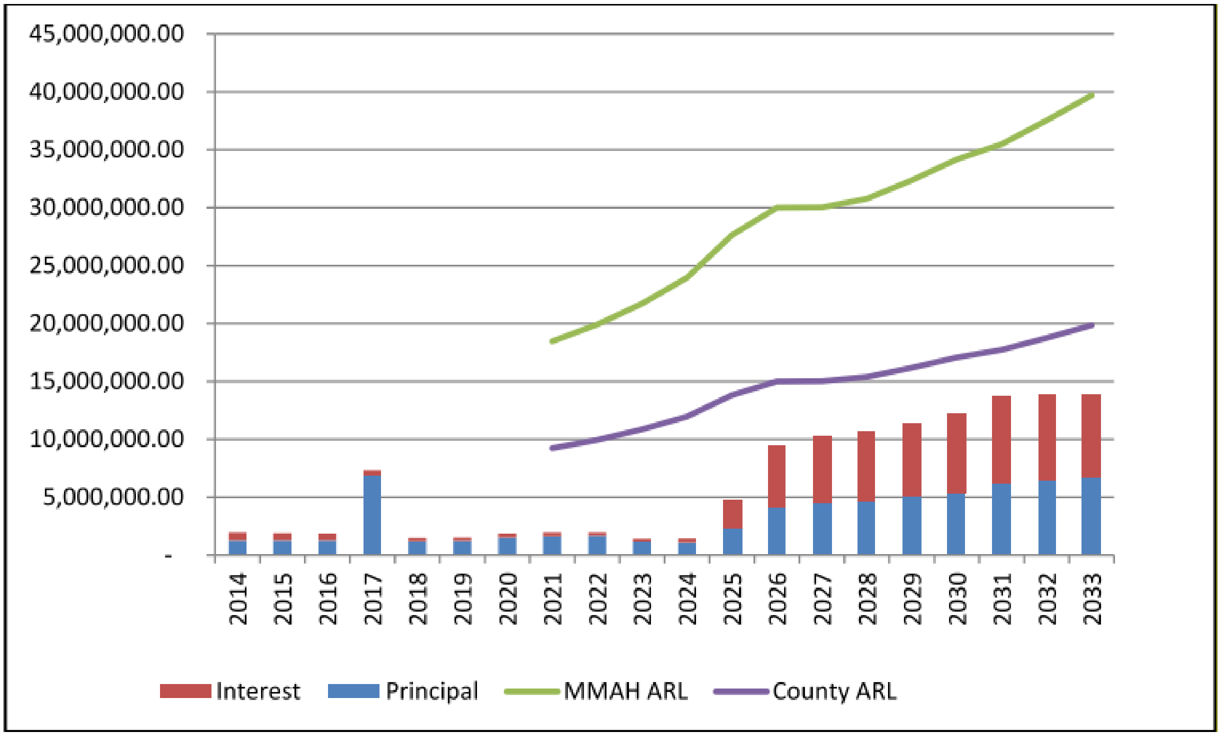
If Council decides to change the term of the existing debenture from a 25-year term to a 20-year term, the additional debt servicing cost in 2025 will be $428,667 which amounts to a 0.58% increase in the 2025 levy requirement. This change will result in a savings of approximately $15,289,159 in interest costs over the life of the loan. <u>This potential change in the term has been factored into the proposal for the revised 2025 budget and the current 6.32% levy increase.</u>

It should be noted that the County is not guaranteed to be approved for a second debenture with IO for the additional financing amount ($16,569,025) for the GPLNCAM project. After further discussion with IO, it has been determined that we likely wouldn't be able to finalize a second debenture (for the additional financing required) in time for it to have an impact on the 2025 budget. Given this fact, it is not critical for council to make a decision on the additional financing at the budget deliberation meeting on December 18, 2024. Council could defer a decision until after the 2024 audit to see if there are any surplus funds that could be used to offset the additional costs. The risk of deferring this decision is that bond rates could rise in 2025 and make potential debt servicing costs higher if a second debenture is eventually obtained.

Regardless of the decisions that Council makes on these two issues, the debt servicing costs will remain below the County internal debt limit and the ARL – as long as there are no significant changes in County revenue and/or assumptions made in our long-term model. If the County decided to change the term of the original debenture to 20 years AND take an additional 20-year debenture for the additional financing of $16.6M, the total debt servicing for 2026 would be estimated at $11.6M while our internal debt servicing limit would be estimated at $15M.

It is important to point out that Northumberland is eligible for the Construction Funding Subsidy (CFS) from the Ministry of Health and Long-Term Care over 25 years estimated at ~$1.3M per annum. This funding is intended to help offset the costs of debt servicing for new LTC home builds. Unfortunately, Northumberland is NOT eligible for the Construction Funding Subsidy Top Up funding that would have amounted to approximately $2.3M annually in additional per diem funding over 25 years.

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 worsened in 2022 for Net Financial Assets or Net Debt as a % of Own Source Revenues because of the construction financing debt for the GPLNCAM project.

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%	55.6%
2022	14.3%	49.2%

Data only available from 2014

Debt Servicing Cost as a % of Total Operating Revenue decreased slightly. Debt up until 2022 was at relatively low interest rates which are not reflected in the metrics. The Bank of Canada to the increased their overnight interest rate dramatically in 2022 as a response to high inflation. Interest rate increases in 2022 and 2023 reflect one of the most aggressive tightening cycles in the central banks history. Long term IO bond rates also increased and hovered in the 4.5 to 4.75% range and they remain in this range now. This will have significant impacts on future debt servicing costs for projects that will be financed.

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%
2022	1.4%	1.4%

Conclusion / Outcomes

The revised draft 2025 budget results in a 6.32% levy increase. There are other items that need to be considered by council that may impact the total levy increase.

The biggest item impacting the levy increase in 2025 is the first (semi-annual) payment for the GLPNCAM project debenture from IO. The rebuild of the GPL is mandated under legislation and this is the original debenture that was approved by a previous council. The first payment amounts to $3,228,207 or a 4.36% increase on the levy. The Finance and Audit committee have recommended that we change the term of the debenture from 25 years to 20 years. This will save approximately $15.3M over the life of the loan but will increase the amount of the payments. Each (semi-annual) payment will increase by $428,667. This will bring the impact of the first debenture payment in 2025 up to $3,656,874 or a 4.94% increase. The change to the term of the debenture is included in the revised 2025 draft budget that is coming in at a 6.32% increase.

The levy increase in the revised 2025 budget excluding the GPLNCAM debenture payment is 1.38%. This increase is less than inflation (both CPI and NRCPI) and covers all County programs and services. Staff have been able to reach this target by delaying previously approved issue papers, delaying increases to the dedicated levies, delaying some construction projects and other adjustments to operating items. Otherwise, this target has been achieved without cutting any County services. Balancing inflationary pressure against ratepayer affordability and maintaining service levels are our key considerations. The budget and supporting documentation are aligned with the 2023-27 strategic plan and will advance the priorities established in that document.

Attachments

Attachment 1 – County Reserve Summary

Attachment 2 – Reserve Continuities