



**The Corporation of the Municipality of Wawa
Report**



**Office of the CAO /Clerk-Treasurer
Chris Wray**

Prepared For: Mayor and Council	Report No.: CAO-2018-04
Agenda Date: April 10, 2018	Report Date: April 6, 2018

Subject

The subject of this report is the Management Recommended Operating Budget for 2018.

List of Stakeholders

The list of Stakeholders includes:

The Municipality of Wawa
Residential, Commercial and Industrial Ratepayers

Summary of Recommendation

To adopt the Management Recommended Operating Budget for 2018 as presented.

Background

Budget Process

The process for the 2018 Budget is in keeping with the past several years and direction given by Council. Memorandums and worksheets were distributed in October 2017 (for the Capital Budget) and in December 2017 (for the Operating Budget). Staff had hoped that our timelines could be moved to earlier dates for 2018 but time and resources dedicated to the action filed by Gerry and Tamara Liddle have frustrated these efforts. Regardless, staff were required to adhere to the following timelines:

Respectfully Submitted By:	
Chris Wray CAO / Clerk-Treasurer	

Event	2017	2018
Distribution of Capital Budget materials	October 30, 2017	October 31, 2016
Distribution of Operating Budget materials	December 10, 2017	November 27, 2016
Submission of preliminary Capital Budget	December 1, 2017	December 18, 2016
One-on-one meetings with CAO	January 8, 2018 (week of)	January 9, 2017 (week of)
Review Management Approved Budget (Capital & Operating)	January 22, 2018 (week of)	January 16, 2017 (week of)
Presentations & Meetings with Committee & Review of Management Approved Budget (Capital & Operating)	Did not meet with Committee in 2018 at this stage.	February 6 - 10, 2017
Council Approved Budget (Capital & Operating) noting that dates are subject to change.	March 13, 2018 – Capital April 10, 2018 - Operating	March 7, 2017

During the months of November, and December, staff met with the Finance Committee to obtain guidance and other pertinent information that might be needed to assist in preparing the 2018 Budget. It is through these meetings that the following basic assumptions were agreed to:

1. Any increase¹ in the tax levy must follow the changes in the CPI notwithstanding decreases or stagnation in assessment values.
2. Service levels were to be maintained at 2017 levels and any enhancements noted.
3. In developing the 2018 Budget, staff were to give consideration to the Council adopted; Asset Management Plan, Community Strategic Plan and Municipal Business Plan.
4. Consideration was to be given on the requirements of the new Asset Management Planning Regulation and its effect on both the Capital and Operating Budgets.

A Staff recommended Capital Budget² was presented to Committee on February 20, 2018³. There was considerable discussion at this meeting after which Committee recommended the Staff Recommended Capital Budget 2018 to

¹ Meaning an increase in the levy over and above that created by assessment growth

² Report CAO-2018-01

³ 2017 was presented on January 17, 2017

Council. At the March 13, 2018 Regular Meeting, Council adopted⁴ both Report CAO-2018-01 and the staff recommended Capital Budget 2018.

During this time, staff continued to work on the 2018 Operating Budget by gathering information that typically is received early in the New Year such as; DSSAB Premiums, APH Premiums, assessment adjustments and estimated costs for larger items. In the absence of these material numbers it would be very difficult to obtain enough information to make a recommendation to Council on the Operating Budget.

Staff have now concluded the necessary work and are pleased to present the Management Approved Operating Budget 2018 for the consideration of Council.

Analysis

The following pertinent facts should be noted with respect to the Management Recommended 2018 Operating Budget (the "budget").

1. The document that is being presented to Council is pertinent to the Operating Budget only; although there is an amount of \$433,098 that is noted as being transferred from the Operating Budget for Capital purposes. The \$433,098 is being funded as follows (2017 comparisons noted):

Description	2017	2018
Local Taxes	325,000	326,943
OCIF Formula Based	75,044	106,155
Total	400,044	433,098

2. This amount and the 2018 Capital Budget was approved on March 13, 2018.
3. The Management Approved version attached to this report is a balanced budget.
4. Our budgeted levied taxes (municipal only) in 2017 were \$4,719,257. Due to a larger than expected increase in assessed values⁵, the assessment base will produce \$4,737,086 in taxation revenue in 2018 without a rate increase. An additional \$12,172 can be added due to the retention of a portion of the Commercial Education Taxes that are retained by the Municipality⁶. A 1% increase in the levy in 2018 would bring in an additional \$47,192 (\$46,593 in 2017). However, unlike in the past few years, staff have balanced the budget without the need of a self-imposed

⁴ This is one month later than in 2017.

⁵ Assessment increases come from two main sources; the legislated phasing in of assessment values due to changes identified in re-assessment years and changes due to changes to structures, new structures or loss of structures.

⁶ The retention of these taxes are in keeping with the legislation.

levy increase or through the use of the Rate Stabilization Fund. The required taxes have been supplied by the assessment increases in 2018. While Council should be reminded that costs do increase each year due to changes in CPI, we are pleased to report that we were able to achieve a balanced budget with no service cuts while actually reducing the levy⁷ created by the annual assessment changes – by \$5,175.

5. In 2017, there was an up swell of objection when the Province failed to establish the education tax rates in a timely fashion, thereby delaying many municipal budgets – including Wawa. This year, the Province issued the rates early, allowing us to include them in the budget. While the Education Rates do affect the overall tax burden they do not affect the municipal portion of the budget. Each year, any reduction in the Education Tax Rate will have the effect of reducing burden on the ratepayer while any increase will increase the burden.
6. The operating budget is a collection of about 1,500 general ledger accounts that are split into various activities and departments. You may wish to review these. The remainder of this document will not focus on a line by line discussion but rather on the more appropriate discussion on general issues that affect the budget. It may refer to line items as the need arises.

Revenues

Taxation

Our growth in assessment was surprisingly larger than in previous years. This was caused by the effects of the second year of the MPAC four-year assessment cycle that started in 2017. In the first year, the effects of the phase-in by MPAC⁸ also included 100% of any reductions – thereby limiting the effects on any increases. Assessment growth in 2017 for 2018⁹ is as follows:

Description	2018	2017	Variance	Δ %
Taxable	147,700,723	140,176,389	7,524,334	5.37%
Exempt	124,240,800	117,859,250	6,381,550	5.41%
Total	271,941,523	257,986,753	13,954,770	5.41%

On a very positive note, the largest growth occurred in the Commercial (New Construction) at 12.5%, while Commercial increased by 9.1%. The Residential assessment increased by 4.4% while Multi-Residential increased by 1.5%. Industrial (New Construction) increased by 3.1% while Industrial increased by 1.1%. Through the property assessment activities of MPAC, we continue to discover that there are an increasing number of locations that are conducting improvements without obtaining building permits from the Municipality. Those

⁷ Please see the attached Tax Levy Change 2018 Schedule

⁸ The 2017 re-assessment year is applicable to the taxation years 2017-2020.

⁹ MPAC growth table has been attached

not obtaining building permits place the municipality in a position of liability and also defer the resulting increase in assessment that would benefit the Municipality. These are being addressed by the Chief Building Official.

It would appear that we are beginning to pick up assessment based on New Construction. It will be interesting to see if this is an anomaly or if it is part of a new trend. Typically, assessment growth pays for the growth of required resources for a community. In Wawa and other northern communities, assessment values have been typically falling as they relate to inflation and other factors. Combined with drops in population and a reduction in economic activity, Wawa has, until 2018, had to increase taxes from a decreasing assessment base just to pay to keep services in place and maintain an infrastructure that was meant for a much larger population.

In 2017, Council approved budgeted municipal taxation revenue of \$4,719,257. The Management Recommended 2018 Operating Budget includes municipal taxation revenues of \$4,737,086, an increase of \$17,829. This increase is detailed as follows:

Description	Tax	\$ Δ	% Δ
Budget 2017	\$4,719,257	-	-
Returned Roll 2018 (Assessment Growth)	\$4,737,086	\$17,829	0.38%
Staff Reduction	(\$5,175)	(\$5,175)	100.00%
CPI Increase ¹⁰	-	-	0.00%
Recommended 2018¹¹	\$4,731,911	\$12,654	0.26%

The 2018 returned roll reflects the results of the second year of a new four year phase-in cycle. While any decreases in assessment are 100% effective in the year granted, any increases are spread over the four years of the cycle – or 25% in each year of the cycle. As noted earlier, this may explain the unanticipated increase in assessment in 2018.

While CPI¹² continues to play a large role in our annual budget, we were able to cover such increases in 2018 through normal assessment growth.

OMPF

The contribution from the Province of Ontario through the Ontario Municipal Partnership Fund (OMPF) has dropped by \$91,100 which is a substantial drop from the decrease in 2017 (\$50,600) and 2016. The Province has been decreasing contributions through this fund for several years¹³, abandoning the municipal sector as it tries to grapple with its own budgetary deficit. The drop

¹⁰ CPI 2017 for Northern Ontario was 2.2% (all goods)

¹¹ Please see the attached Levy Change detail

¹² Source Government of Canada – represents change in Northern Ontario

¹³ \$91 million since 2012

was unanticipated as 2017 was to be the final year of several years of decreases. It is worth noting that this fund is provided to the communities which need it the most (some communities get nothing at all as they are self-sustaining). This begs the question why the Province continues to penalize communities that need these funds to survive. In 2018, places like Sault Ste Marie and Elliot Lake received increases while others in need were decreased. The manner in which the allocation is calculated continues to be a mystery while the Ministry of Municipal Affairs continues to suggest that the formula used is accurate. The unfortunate thing is that while the formula is available many of the numbers are very suspect.

I have a number of amounts (of reductions) from other communities across the North. Once staff has an opportunity we plan to analyze these amounts more closely.

Further decrease in our OMPF will only cause friction within our annual budget. As the realities of our failing infrastructure take hold the effect will be magnified many times.

The total OMPF for 2018 will be \$1,807,200.

Power Dam Compensation Payment¹⁴

The 2014 Provincial Budget announced that the Province would decrease the Power Dam Compensatory Payments by 25% over a period of 3 (three) years starting in 2015. Since that announcement, Wawa among a host of other communities fought hard to ensure the continuation of the Power Dam Compensation Grant and to have changes made to the program. In the fall economic statement of 2015, the Province of Ontario did just that while it continued to review the program and consider possible options for again implementing the right of taxation for dams. The affected communities had been supported by AMO as lobbying continued through 2015 including dedicating a portion of its pre-budget submission (Budget 2016) to the matter.

The 2016 Provincial Budget confirmed that some of our hard work had paid off in that not only had the Power Dam Compensatory Program clawback been deferred but was now being eliminated completely. The government then confirmed that there would be no plans to terminate or otherwise change the program. While this is very good news it still leaves the questions that existed prior to the clawback provisions of 2014 as follows:

1. Will the government continue to review the exempt assessment status of the subject power dams?
2. Will the government make the annual payments on a quarterly basis instead of annually in April or May?

¹⁴ Note that this grant is received because the Province of Ontario removed the right to tax power dams in 2000. While the grant has been increased a few times due to CPI it has stayed stagnant for the most part.

3. Will the government change the new OCIF formula based payments to remove the punitive nature of the calculation that includes power dam assessment?
4. Will the government review the program to include CPI escalators that will allow the increase of the compensatory payments so that the affected communities are not absorbing an unfair amount of incremental costs in programs such as DSSAB's and OPP contracts?

The amount of the payment in 2018 will stay the same as 2016 at \$2,350,908¹⁵.

Council may wish to note that because the subject payment has never kept pace with our costs; those cost increases have always been passed on to our ratepayers.

Council should also be reminded that a large portion of the Compensatory Dam Payment (approximately \$870,000) is directly tied to the DSSAB. This is set out in the Municipal Funding Formula approved by the DSSAB Board in 2000 or 2001. In 2017, the Province of Ontario undertook a review of DSSAB's and how they operated etc. Wawa took the opportunity to make a submission. While there were a number of issues that we commented on, we did dedicate a large part of our submission on a review of the Municipal Funding Formula and how that affects the Power Dam Compensatory Payment.

On a more positive note, we had been concerned about a potential settlement with Great Lakes Power on the thirty (30) year old Assessment Review Board case on the subject of the value of the dams in Wawa. At risk was over \$4 million of municipal taxes that had been previously paid by Great Lakes Power. The settlement in 2017 of this issue without any financial consequences to the Municipality now removes that concern.

Tax Arrears Interest

Budgeted interest from tax arrears will increase to \$230,000. This is a key indicator that Council should be aware of as it relates directly to the amount of taxes that are either being paid late or not at all. The following chart shows past years:

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
140,091	155,182	166,799	148,499	152,145	180,409	198,701	231,806	249,828	245,382	230,000

*All years are actual except 2017 which is a budget figure

In the early years shown in the chart, much of the interest would either be captured due to a successful tax sale or a payment by the ratepayer. However, more properties are not selling at tax sale and the arrears for multiple years are increasing. This fact is reflected in our write-offs which reflect unsuccessful tax sales and the write-off of the associated taxes and interest.

¹⁵ It is unlikely that Wawa will see any portion of the Compensatory Payment until April or beyond.

It is interesting to note that activity with respect to the interest in many commercial properties has been increasing. In 2016, we sold two properties that had previously been offered, unsuccessfully, at tax sale. In 2017, we sold three additional commercial properties. This allows us to recapture some of the taxes written off due to the unsuccessful tax sales. More importantly, it puts the subject properties back into a tax producing situation. Moreover, funds are being dedicated by new owners to refurbish these properties.

IT Revenues

The NITGC lost one member (Manitouwadge) in 2016 but we were able to compensate for the loss by increasing the annual fees and decreasing some costs. Further, the NITGC combined with the agreement to service the Family Health Team, WAVS, work on the FireSmart Program and the Chadwic Home that gave a boost to our revenues

In 2017, we signed five (5) additional communities to our GIS "Family". This has brought additional revenues into our community which has assisting in offsetting our costs of our IT area. This will now provide additional opportunity for us to make application to NOHFC for projects that will support our initiative and better the community.

The advent of the new Asset Management Planning Regulation has now brought new opportunity for our IT Department. We have drawn interest from many across the Province on how we are moving toward combining our GIS / IT offering with a developing partnership to assist in the implementation of the new Regulation. Recently we were provided the free use of the MDW (Marmak Technologies) product that assists with asset management. Wawa was also featured in "*Milestones*" the monthly publication published by the Ontario Good Roads Association.

Shared Services

We continue to provide shared services not only through the NITGC but also through our CBO and CAO with agreements with White River and Dubreuilville. We also have fire protection agreements with Rentech, Hawk Junction, the MNRF and Michipicoten First Nation that provide opportunity to recapture costs.

In the past year, we have received several requests for service sharing. While we do the best to cooperate with other communities and organizations, at times we simply do not have the capacity to provide the necessary service.

We now have agreement from White River, Dubreuilville and Hornepayne to share in a position for asset management. We are now turning our attention to the actual agreement. This will allow all of the participating communities (including Wawa) to manage their assets in keeping with the new Regulation.

Federal Gas Tax Fund

The amount allocated through the Federal Gas Tax Fund increased to \$189,513 in 2018. The amount is still down from \$196,585 in 2013. The drop is due to the drop in population and we should expect that when the fund is renewed we will again be subject to a reduction due to our drop in population. Regardless the funds are welcomed and this year will be used to help pay towards a number of small capital projects.

Solar Panel Revenue

Budgeted revenue for the solar panels is set at \$63,656. These funds however are used to service the related debt with the remainder going back into reserves, continuing to make a positive contribution to the Municipality.

Airport Fuel Sales

Airport fuel sales are projected at \$250,000 for 2018. Total fuel sales at the airport in 2017 was \$184,381 on a budget of \$250,000. We are seeing an increase in activity at the airport which should assist in fuel sales in future years.

Sewer & Water Revenues

The pace of loss of users in our water system seems to have slowed. Our costs however continue to increase. To that end, the budget includes a 4% increase in water and sewer rates.

While the recent water rate study that was completed by KPMG identified a system surplus before capital expenditures, once overhead and full staffing costs are added into the mix, we show a deficit of approximately \$169,000. This is after the 4% increase is considered and does not include any capital costs.

Community Services

Revenues in the Community Service area such as arena rentals and the drag races are expected to exceed the levels seen in 2016. Given the continued increase in the utilization of our facilities it is possible that we will exceed the 2017 levels in 2018.

Garbage Collection & Landfill

Fees associated with the landfill are expected to be at the same levels as in 2017 at \$137,474. There is a noticeable increase in the use of the landfill particularly for commercial waste.

Transfer from Reserves

A projected transfer from Reserves in the amount of \$85,000 will be required in 2018 to fund several studies such as an "Organizational and Compensation Study" and the "Building Hub" Further details on the studies can be found later in this document.

Summer Student Program

The MNDM summer Student program was cancelled in 2016. The Canada Summer Jobs Program is still in operation and we have made a number of applications in support of our summer positions. Typically, smaller communities do not do well in these programs with the results not being known until late in the spring.

We are budgeting for a total allocation of \$6,400 from the Canada Summer Jobs Program and other supplementary programs.

Total Revenues

Total revenues in the recommended 2018 operating budget break down as follows:

Revenue Type	2017 Budget	% of Sub-Total	2018 Recommended Budget	% of Sub-Total	△
Municipal Taxation	\$4,719,257	36.19%	\$4,731,911	36.15%	↑
OMPF	\$1,898,300	14.46%	\$1,807,200	13.80%	↓
Power Dam Compensation	\$2,350,908	17.90%	\$2,350,908	17.96%	↔
Sewer & Water	\$1,335,095	10.17%	\$1,389,297	10.61%	↑
Airport Fuel Sales	\$250,000	1.90%	\$250,000	1.91%	↔
Federal Gas Tax	\$180,899	1.38%	\$189,513	1.44%	↑
Tax Arrears Interest	\$215,000	1.64%	\$230,000	1.75%	↑
Transfer from Reserves	\$16,041	0.12%	\$88,031	0.67%	↑
Garbage Collection & Landfill	\$136,299	1.04%	\$137,474	1.05%	↓
Drag Races	\$169,500	1.29%	\$170,000	1.29%	↑
Land Sales	\$200,000	1.52%	\$7,100	0.05%	↓
Miscellaneous Fees & Charges	\$1,109,283	8.45%	\$1,211,100	9.25%	↑
Sub-Total	\$12,613,827	96.06%	\$12,562,534	95.93%	↓
Collected on behalf of Schoolboards ¹⁶	\$517,021	3.94%	\$526,280	4.07%	↑
Total Projected Revenues	\$13,130,848	100.00%	\$13,088,814	100.00%	↓

Expenditures

Salaries & Benefits

The single largest expenditure that the Municipality of Wawa has is human resources. Total costs for salaries & benefits in 2018 are expected to be \$3,780,930 representing 28.88% (27.39% in 2017) of our expenditures.

¹⁶ Revenue collected on behalf of the Schoolboards and is paid to them save and except that which is retained by legislation

This amount supports 32 full-time employees, 31 part-time or seasonal positions, 5 Council Members, 3 Police Service Board Members and a Volunteer Fire Department of 24 positions.

The amount has increased by \$184,843 over 2017. There are a number of reasons for the increase in the compensation:

1. Two (2) part-time positions qualified for the OMERS pension plan in 2017. The effects are perpetual.
2. A change in benefit carriers (Mosey & Mosey, LAS Program) reduced our benefits plan by 16.7% and has saved Wawa about \$40,000 per annum for the past three budget years. The rates for 2018 have increased by 8% over 2017 and thus our costs have increased.
3. Two (2) NOHFC Interns (six months in 2018) have been added to the NITGC and Community Services. These will be the subject of an application that will support a re-submission of our drone project and to support the expected expansion to the five (5) additional communities of the NITGC. Community Services will use their position to enhance and improve a new Tourism and Recreational Master Plan. NOHFC will fund 90% of these costs so the net effect will be minimal.
4. A new full-time position has been added to manage our Asset Management Plan and deal with the now released Asset Management Regulation. The position has been budgeted for the full year. The budget includes provisions for funding 50% of the costs through the Federal Gas Tax (25%) and service sharing (25%) with other communities that include Dubreuilville, White River and Hornepayne.
5. OMERS premiums have remained at historical highs as OMERS attempts to deal with an increasing number of members retiring.
6. Bill 148 has had a large effect on the 2018 Budget. The vast majority of the effects are related to provisions of the Bill that speak to an increase in minimum wage, equal pay for equal work and increased vacation pay provisions. The details of the effects will be contained in a separate report to Council. The financial effects are over \$75,000¹⁷ annually.

No budgetary consideration has been given to any change in costs due to the results of the Organizational and Compensation Review that will be completed this year. Such changes, if any, are likely to be in effect for 2019.

¹⁷ Equates to a 1.53% increase in the tax levy

Algoma DSSAB

Again this year, we were able to obtain our DSSAB premium early in the budget process. Draft information was received in late February. This amount continues to be the last amount needed to complete the budget and staff appreciate the efforts of the DSSAB to provide this in a timely fashion.

We understand that the Province continues to upload the costs of social services from the DSSAB's and other delivery agencies. The 2018 premium is \$1,515,880, an increase of \$21,602 (1.44%). We must remember that while the change in DSSAB costs includes the reduction in costs due to the upload to the Province of Ontario, it also includes changes in the remaining costs that are subject to such pressures as CPI and wage settlements. The following chart shows the progression of the DSSAB premiums since 2009.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1,895,947	1,740,114	1,578,489	1,555,610	1,512,365	1,497,739	1,497,729	1,469,463	1,494,278	1,515,880

The projected and actual uploads that were to benefit Wawa are shown on the annual OMPF statement. It would be an interesting exercise to analyze these uploads to see if they actually match the annual change in DSSAB premiums.

APH & MPAC

The total costs for Algoma Public Health has increased by \$104 (0.10%) while the costs payable to the Municipal Property Assessment Corporation have increased slightly, \$649 to \$55,204.

Wawa Public Library

The Wawa Public Library levy has increased by \$14,001 (8.26%). The detailed budget has been received and we have loaded this into our accounting system so that it is consistent with our accounting and budgeting process. Final approval from the Board has not yet been received.

It should be noted that significant issues have been identified with the budget of the Wawa Public Library. The vast majority of costs have been dedicated to staffing costs while little is dedicated to programming. The Board and staff are grappling with this issue and hopefully will resolve these matters in short order.

Economic Development Corporation

The Economic Development Corporation has requested \$160,000 in core funding; an increase of \$5,000 from 2017 and an increase of \$10,000 from previous years. To this we have added \$12,727 for in-kind rent.

Ontario Provincial Police

The OPP billing reform project is a continuing bright spot in our annual budget. Gross costs in 2018 are expected to be \$745,332, a drop of \$283,449 from 2017 and a drop of \$447,704 from 2016!!!!

Since replacing the Wawa Police Service with the OPP in 2010, the amount of our annual budget for policing (not including the costs of the Police Services Board) has decreased from \$1,608,593 (2010) to a remarkable \$745,332, a reduction of \$863,261 or 53.6%!

Reserve Contributions

Total contributions to Reserves in 2018 are budgeted at \$806,065. In 2017, the budget amount was \$964,196 supported by \$200,000 in projected land sales.

Reserves are set aside for future anticipated expenditures (capital) and for unforeseen circumstances (i.e. unexpected capital costs). Wawa also has a Rate Stabilization Reserve that has been used in the past to limit the effect of overly burdensome tax increases. This fund was used in 2017 to offset abnormal increases in the budget.

Our level of Reserve Contributions may place us in the top end of tax rates for communities of our size in Northern Ontario. However, this is necessary as we face a declining economy, no assessment growth, a severe infrastructure deficit and high tax arrears. It is anticipated that the use of Reserves in 2018 and beyond will be incremental in nature as we try and deal with our circumstances.

Transfer to Capital.

A total of \$433,098 (up from \$416,193 in 2017) has been budgeted for capital expenses in 2018. This will only be a small part of our capital expenditures for 2018 as we will use a combination of Reserves and Grants for the remaining costs.

Tax Write-downs

Tax write-downs are budgeted at \$150,000 due to the amounts represented by failed tax sales. This has been reduced from \$250,000 in 2016 but increased from \$140,000 in 2017. In past years, any amount of write-offs would be funded from reserves. This is not the case in 2018 as any write-offs will be funded directly from municipal taxes.

Vacancy & Charitable Rebates

Rebates provided to Charitable Organizations total \$28,637 and Commercial Vacancies total \$36,620. These rebates are provided through a combination of legislation and Council Policy. These totals have been increased from 2016 and 2017 as more ratepayers apply.

Consulting, Professional Fees, Legal & Audit Fees

The amalgamated budget for Consulting, Professional and Legal Fees has decreased from \$2,056,839 to \$1,873,349 in 2018. Net of the Drag Races, OPP and NITGC, these costs will rise to \$982,552 in 2018 from \$889,365 in 2017.

Consulting and Professional Fees contain one-time studies or reviews that will be launched in 2017 (some previously approved, but not executed in 2017). Along with their associated budgeted costs they include:

Description	Amount	Note
Asset Management Plan	\$30,000	New Regulation & Update
Building Co-operative	\$25,000	Partnership with Province
Organizational Review	\$80,000	Municipality
Total¹⁸	\$135,000	

In 2019, among other potential study or plan costs, the Official Plan will need to be updated to keep compliant with legislation.

The fees for garbage collection were increased from \$273,427 to \$280,000 in 2018. The present contract expires in October and staff are working on alternatives for consideration.

The increasing complexity with municipal issues such as landfills and water & sewer require the use of engineering and environmental expertise. Such expertise does not exist within the current staffing structure and so it is necessary to pay for it when it is required. When we experience issues such as the ongoing THM's in our drinking water, the cost to engage necessary experts can be detrimental to our annual budget.

On the matter of legal expenses, costs have been kept at the budget level of 2017 (\$61,000). While some of the matter pertaining to Liddle will be picked up by our ratepayers directly, the majority of the cost will be borne by Frank Cowan Insurance with increase in premiums in future years.

Insurance

As part of the process of renewing our insurance annually, we had our broker search for the best available value. The result was that Frank Cowan returned with a premium of \$127,447 for 2018 which is a small increase from 2017 while maintaining the cyber-risk rider. The Wawa Airport has also maintained the same amount as last year at \$4,710.

Debt Payments

Debt Payments have decreased slightly to \$415,088 (principal and interest). This is a reduction of \$5,027 from 2017 due to the retirement of debt for the loader and snow-blower. Moving into 2019, long term debt payments will remain consistent with 2018. Any drop in debenture payments is converted to a contribution to Reserves.

¹⁸ There are a few other one-time studies that are not classified under Consulting and Professional Fees

Materials & Supplies

Materials and Supplies include such items as sand, salt and other materials needed to maintain roadways and parks. Costs in this category have gone from \$453,300 in 2017 to \$473,205 in 2018, an increase of \$19,905.

Building Maintenance and Maintenance & Repairs

There are several factors that contribute to pressures in these areas. None are more prevalent than the age and condition of much of our infrastructure and equipment. Buildings owned by the Municipality of Wawa are aging quickly and annually require more attention than in the past. We also have an unnecessarily large inventory of buildings. There was previous opportunity to sell some of these buildings but it was the direction of the Council of the day to hold these assets.

While we have made some strides in replacing some equipment, other pieces of our fleet are showing their age and now require a much higher level of maintenance than in the past. In many cases with both of the foregoing examples there are health and safety matters that need to be addressed. Council may also need to discuss and consider whether a replacement of these assets is justified considering the increasing maintenance costs.

We are also in a position where many of the trades and materials required to provide for the above noted maintenance are no longer available in Wawa and therefore we incur costs associated with travel to and from Wawa. Fortunately the recent purchase of some new equipment has assisted in reducing some of our annual costs.

Total costs in this area have increased from \$416,307 in 2017 to \$419,157 in 2018, an increase of \$2,850.

Fuel (Hydro, Gasoline, Propane, Heating Fuel)

Budgeted costs in this area have decreased from \$835,075 in 2017 to \$796,285 in 2018. Decreases in this area mostly due to the installation of LED's for streetlights, the other "fuels" are projected to increase due to the increase in the cost of oil, while general hydro has decreased due to a change in pricing by the Province of Ontario.

Notwithstanding the decrease in 2018, Council can expect this cost to increase on an ongoing basis. None of the costs here will decrease in the long run. The one hope is that the recent announcement by the Province on electricity rates will continue in assisting to bring down costs – the full, long-term effect of this announcement on municipalities is yet to be determined.

Total Expenditures

Total expenditures in the recommended 2018 operating budget break down as follows:

Expenditure Type	2017 Budget	% of Sub-Total	2018 Recommended Budget	% of Sub-Total	△
Salaries & Benefits	\$3,596,087	27.39%	\$3,780,930	28.88%	↑
Algoma DSSAB	\$1,494,278	11.38%	\$1,515,880	11.58%	↑
Policing ¹⁹	\$1,085,438	8.27%	\$799,126	6.10%	↓
Wawa Public Library	\$169,380	1.29%	\$183,381	1.40%	↑
EDC	\$176,227	1.34%	\$172,727	1.32%	↓
Airport Fuel Purchases	\$200,000	1.52%	\$200,000	1.52%	↔
Reserve Contributions	\$964,196	7.51%	\$806,065	6.15%	↓
Transfers to Capital	\$400,044	3.05%	\$433,098	3.30%	↑
Tax Write-downs	\$140,000	1.07%	\$150,000	1.14%	↑
Algoma Public Health	\$97,602	0.74%	\$97,706	0.74%	↑
Vacancy & Charitable Rebates	\$20,550	0.16%	\$65,257	0.74%	↑
Consulting & Professional Fees	\$889,635	6.78%	\$982,552	7.50%	↑
Debt Payments	\$420,114	3.20%	\$415,088	3.17%	↓
Maintenance & Repairs	\$416,307	3.17%	\$346,652	2.64%	↓
Materials & Supplies	\$453,300	3.45%	\$473,205	3.61%	↑
Fuels	\$835,075	6.36%	\$796,285	6.08%	↓
Drag Races	\$169,500	1.29%	\$170,000	1.29%	↑
Other Costs	\$1,086,094	8.27%	\$1,174,582	8.77%	↑
Sub-Total	\$12,613,827	96.06%	\$12,562,534	95.93%	↓
Collected on behalf of Schoolboards ²⁰	\$517,021	3.94%	\$526,280	4.07%	↑
Total Projected Expenditures	\$13,130,848	100.0%	\$13,088,814	100.0%	↓

Other Matters

Council should remember that while the attached budget is being recommended by staff, there could be unforeseen issues that may arise prior to or after the approval of the final budget. Material²¹ items appearing prior to approval will be brought forward as amendments while those that occur after approval will be brought forward through a staff report.

¹⁹ Includes cost of building and PSB

²⁰ Revenue collected on behalf of the Schoolboards and paid to them

²¹ Material means an issue or expenditure that in the opinion of staff could change the annual results in a negative way causing a deficit.

Policies Affecting Proposal

None noted

Recommendation

The attached represents the staff recommended 2018 Operating Budget, Council may wish to reduce or otherwise alter the budget as presented.

Due to the timing of meetings this year, the staff presentations will be scheduled after this document is provided to Council. At that point, Council will have an opportunity to add tangible information to this report.

As in previous years, changes to the operating budget should be considered on a service level basis, meaning; increases to the budget should be supported by service enhancements while cuts should be supported by service reductions.

Next Steps

The next steps in the process are:

1. Council to receive presentations by staff on the 2018 Operating Budget at a date yet to be determined.
2. If after the presentations, Council accepts the staff recommendation contained in this report, staff will prepare the necessary by-laws, including an updated fees and charges bylaw for the next Regular Council Meeting.
3. If Council does not accept the recommendation contained in this report, then direction would need to be provided on the service cuts necessary to achieve a reduction in the budget. If this is the case, staff will need to consider the directed cuts and then calculate the quantum of reduction. A supplementary report would be prepared for a Council Meeting at a date chosen by Council.