



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: June 24, 2024

Report No: ES-016-24

Subject: Multi-Year Financial Strategy

Recommendation: THAT Council approve a multi-year financial strategy wherein the annual target for the total property tax rate increase (inclusive of the Town, Region and Province) be established between 4.5% to 7.0% until such time that the following outcomes are achieved:

- The Town has eliminated the use of non-sustainable funding sources (such as the Tax Rate Stabilization Reserve) for on-going operating costs.
- Further progress towards reducing the annual infrastructure deficit has been achieved, and other annual funding deficits (such as development charge exemptions and property tax write-offs) have been eliminated.
- The Town's local property tax rate falls within the range of the comparator municipal group, while remaining lower than the average of those peer municipalities.

EXECUTIVE SUMMARY

- Multi-year financial planning has been a central component of the Town of Milton's management of growth, and has taken several forms (budget forecast, fiscal studies, master plans, etc.)
- The Town currently has annual funding deficits in areas such as infrastructure renewal, development charge exemptions and property tax write-offs, and utilizes stabilization reserves to fund on-going operating costs. The timing of implementing various Council approved master plans is also affected by the availability of funding.
- The Town's current residential property tax rates remain below those of neighbouring municipalities, and Milton's levy per capita and municipal burden as a percentage of household income both remain amongst the lowest in the province.

EXECUTIVE SUMMARY

- If approved by Council, the recommendations herein would establish a framework that could be utilized by staff in the preparation of the annual budget call report. Once realized, the additional revenue generated would improve the Town's financial sustainability and strengthen the Town's ability to deliver the levels of service that are established by Council to the growing community.
- The Mayor would retain the authority to present a budget at any property tax rate that is preferred (whether it is in the above noted range for tax rate increases or not), and similarly Council would have the ability to make any amendments they prefer (including to the tax rate) through the budget process. This flexibility would allow the Mayor and Council to consider organizational priorities, market or economic conditions, changing legislation or other factors that may influence any particular budget year.
- Even if the Town transitions to a property tax rate that is aligned with the low to average range of the comparator municipalities, pressure can be expected to continue in the Town's budget processes for the reasons outlined herein.

REPORT

Background

Through the deliberation related to the 2024 Budget and Business Plan, the following resolution (Resolution 166-23) was passed by Council:

THAT staff be directed to prepare a report for Council that outlines alternatives for a multi-year financial strategy for the Town that can be used as a basis to guide future budget processes.

AND THAT a Council Workshop to discuss the alternatives be held in advance of the presentation of the report to Council.

AND THAT the staff report be presented to Council for consideration no later than June 2024.

AND FINALLY, that an annual financial workshop occur in June or July to discuss pertinent financial information as well as facilitate pre-budget discussions.

A Council workshop was subsequently held on February 26, 2024 in order to discuss alternatives in relation to a multi-year financial strategy. This report and the

Background

recommendations contained herein are being presented to satisfy the directions provided in Resolution 166-23.

Discussion

Multi-year budgeting is contemplated under section 291 of the Municipal Act, 2001. In that section, it describes how municipalities may adopt a budget covering a period of two to five years. It also notes that the municipality must annually review the budget for that year, make such changes as required to comply with other sections of the Act, and re-adopt the budget for that year and subsequent years.

Multi-year financial planning also occurs at the Town of Milton in various forms, including:

- Fiscal Impact Studies - undertaken periodically (usually every 5-10 years) with forecasting over a period of 20+ years for capital spending, operating budget, debt and reserve levels, assessment and taxation, etc.
- 10 Year Capital, Reserve and Debt Forecasting - undertaken annually through the budget process
- 3 Year Operating Budget Forecasting - undertaken annually through the budget process, including projected changes in property tax rates
- A variety of other study processes, including asset management planning, development charge studies, master planning exercises, etc.

With each fiscal assessment, master plan or long term study, the findings are generally endorsed in principle with implementation being subject to the inclusion of funding in the Town's budget. This approach allows for Council to identify the preferred service level to be pursued for each program area based on a comprehensive review, while ensuring that the resources available can be appropriately prioritized between competing demands. As financial pressures increase, implementing the directions received through the various studies can become more challenging and a backlog of opportunities or required investments can result.

The adoption of a multi-year financial strategy for the Town of Milton was also contemplated in report CORS-072-19.

Although a multi-year financial planning framework has been utilized to inform the Town's annual budget process, the formal adoption of a multi-year financial strategy could potentially add further value. It could further strengthen the Town's ability to communicate with the public, enhance the alignment between current decisions and future outcomes, and create further efficiencies in the annual budget process.

Discussion

For the purpose of this report and the development of the proposed strategy, it should be noted that:

- 1) Non-property tax based revenues have already been largely maximized (as the Town has undertaken user fee studies and development charge studies, pursued provincial and federal grants, etc.).
- 2) Programs and services are being delivered relatively efficiently (as the Town has utilized a number of service delivery reviews to identify areas of potential opportunity).
- 3) The existing allocation of funding between the Town's program areas is reasonable due to the fact that annually as part of the budget process opportunities are reviewed to reduce budgeted areas of spending relative to historical actuals (where possible) and prioritize resources to areas of greatest need or benefit.
- 4) Benchmarking to neighbouring municipalities is relevant from a competitiveness perspective (as the services offered and tax rates charged could affect locational decisions in the non-residential and residential sectors), and due to the degree of similarity in service delivery within the sector.

Given the above, the primary revenue tool available to Council to influence the future financial strategy is the property tax rate. When contemplating a financial strategy, key questions to consider include:

- 1) What amount of revenue is required to deliver the levels of service that Council expects for the community?
- 2) If that level of revenue differs from existing property tax rates, how quickly should the Town proceed to the target level?
- 3) How should any new revenues generated be utilized (examples: to fund existing deficits in infrastructure funding, development charge exemptions, staff resources, etc., to fund service level enhancements, other alternatives)

Existing State

Prior to exploring various alternatives that are available to Council, a brief summary of several relevant aspects of the Town's current position are worth noting. These points are explained in more detail as part of the Town's 2024 Budget.

- The most recent Citizen Engagement Survey found that:
 - 77% of respondents rate the value of Town's programs and services as fairly good or very good;
 - 66% of respondents favoured tax increases to enhance or maintain services, while 34% favoured cutting services to maintain or reduce the tax rate;
 - 59% of respondents felt that Milton should pay about the average property tax within the GTA
 - 96% of respondents indicated that it is important or somewhat important to set aside funding to replace infrastructure

Discussion

- Town Council has established a strategic plan with a focus on investing in people, innovation in technology and process, quality facilities and amenities, connected transit and mobility and planned community growth.
- The local portion of the Town of Milton’s property tax rate is 25% lower than the average of neighbouring municipalities, and the total property tax on a 2 storey home (including the Regional and Educational portions) is 18% lower than the average.
- Pressure on the Town’s existing property tax rate is expected to continue in order to maintain existing service levels. Even with the Town’s gradual strategy to reduce existing deficits, the pressure on the local portion of the tax rate in 2025 and 2026 is projected to be 12.38% and 11.88%, respectively.
- Existing estimates of the Town’s annual infrastructure deficit reflect a shortfall of approximately \$35 million per year. Other funding deficits exist in areas such as the annual cost of development charge exemptions, property tax write-offs, etc.
- Funding pressures have resulted in a delay in the implementation of recommendations that were approved as part of the Town’s various master planning exercises (e.g. fire master plan, transit master plan, etc.).
- The Town has relied on Tax Rate Stabilization Reserve funding to mitigate pressures on property taxes, and the funding of on-going operating cost from reserve is not a sustainable practice.

Alternatives

Two specific alternatives have been quantified for the purpose of this report as follows:

- Scenario 1: Residential Property Tax Aligned with Low End of Comparator Group
- Scenario 2: Residential Property Tax Aligned with Average of Comparator Group

These alternatives are also compared to the Town’s current state.

Scenario 1: Residential Property Tax Aligned with the Low End of the Comparator Group

In order to more closely align with the next lowest comparator from the neighbouring municipalities, an increase of approximately \$600 per year to the average house would be required (or approximately \$100 per \$100,000 of residential Current Value Assessment (CVA)). Impacts of this alternative are summarized in the following table:

	Current (2024)	Revised	Difference	% Change
Local Residential Property Tax per \$100k of CVA	\$323	\$423	\$100	31%
Total Residential Property Tax per \$100k of CVA	\$778	\$878	\$100	13%



Discussion

Total Annual Residential Property Taxes for CVA of \$600,000	\$4,671	\$5,271	\$600	13%
Local Tax Revenue Generated	\$99,180,872	\$129,914,618	\$30,733,746	31%

If adopted, the pace at which the new target was achieved would have the following estimated incremental impacts to the total and local residential property tax rates (noting that the actual rates would vary based on the actual rates of inflation and property tax changes at the Regional and Provincial levels).

	1 Year Phase-In	3 Year Phase-In	5 Year Phase-In	10 Year Phase-In
Average Annual <u>Local</u> Residential Property Tax Change	33.0%	12.3%	8.2%	5.1%
Average Annual <u>Total</u> Residential Property Tax Change	14.8%	6.5%	4.7%	3.4%

Note - figures above assume inflation in future years of 2.0% per year on the local, Regional and Provincial residential property tax rates.

In terms of the Town’s position relative to neighbouring municipalities, an immediate increase of \$100 per \$100,000 of CVA would position the Town in the low end of the range. Within the Province, the Town would also remain well below the median with respect to both the net levy per capita and with respect to the municipal burden as a percentage of household income. These results are presented in Appendix A.

Scenario 2: Residential Property Tax Aligned with the Average of Comparator Group

In order to more closely align with the average of the neighbouring municipalities, an increase of approximately \$1,000 per year to the average house would be required (or approximately \$167 per \$100,000 of residential Current Value Assessment). Impacts of this alternative are summarized in the following table:

	Current (2024)	Revised	Difference	% Change
Local Residential Property Tax per \$100k of CVA	\$323	\$489	\$167	52%
Total Residential Property Tax per \$100k of CVA	\$778	\$945	\$167	21%
Total Annual Residential Property Taxes for CVA of \$600,000	\$4,671	\$5,671	\$1,000	21%
Local Tax Revenue Generated	\$99,180,872	\$150,403,782	\$51,222,910	52%

If adopted, the pace at which the new target was achieved would have the following estimated incremental impacts to the total and local residential property tax rates (noting that



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the actual rates would vary based on the actual rates of inflation and property tax changes at the Regional and Provincial levels).

	1 Year Phase-In	3 Year Phase-In	5 Year Phase-In	10 Year Phase-In
Average Annual Local Residential Property Tax Change	53.6%	19.2%	12.3%	7.2%
Average Annual Total Residential Property Tax Change	23.4%	9.8%	6.8%	4.4%

Note - figures above assume inflation in future years of 2.0% per year on the local, Regional and Provincial residential property tax rates.

In terms of the Town's position relative to neighbouring municipalities, an immediate increase of \$167 per \$100,000 of CVA would position the Town in the middle of the range. Within the Province, the Town would also remain below the median with respect to both the net levy per capita and with respect to the municipal burden as a percentage of household income. These results are presented in Appendix B.

Utilization of Incremental Funding

The utilization of any potential new funding generated through the strategy could be decided through the annual budget process, in order to allow for consideration of the latest information available at the time of the decisions (with respect to market factors, Town priorities, etc.). It is important that the existing funding shortfalls (such as those related to infrastructure and development charge exemptions) be prioritized with respect to the allocation of funding should the Town continue to move towards financial sustainability.

Areas for potential additional investment include the infrastructure deficit (\$35M), development charge exemption deficit (\$3.1M), tax writeoffs (\$0.5M), and the implementation of the recommendations from the various Town master plans (Fire, Transit, etc. at various dollar amounts). There will also be new or additional pressures identified in the upcoming budget years related to the electrification of the Town's transit fleet, legislated changes, as well as inflationary and market pressures.

It is important to highlight that even if the Town were to implement a strategy in alignment with one of the two scenarios above and transition to a local tax rate that was commensurate with the low-end or average of the peer municipalities, continued pressure in the budget process is expected to remain. This is demonstrated by the fact that cumulative value of the Town's funding needs exceeds the annual revenue that would be available from those strategies. It is also confirmed by the fact that those same peer municipalities that already have those additional revenues incorporated into their tax rates face annual financial pressures of their own in the budget process, and approve tax rate increases that at times exceed the increases approved at the Town of Milton.

Discussion

Recommendation

The levels of service that are to be provided to residents and the levels of property taxation to collect are key decisions of the Council of a municipality. As there are numerous potential combinations of the two that may be appropriate, this report attempts to ensure sufficient information is available to support Council in its deliberation of potential options.

Based on the factors described above, and with consideration for the findings and recommendations from the various other plans that have been approved by Council (example - the annual budget, fiscal impact studies, master plans, etc.), the following approach is being recommended through this report:

- That Council approve a multi-year financial strategy wherein the annual target for the total property tax rate increase (inclusive of the Town, Region and Province) be established between 4.5% to 7.0% until such time that the following outcomes are achieved:
 - The Town has eliminated the use of non-sustainable funding sources (such as the Tax Rate Stabilization Reserve) for on-going operating costs.
 - Further progress towards reducing the annual infrastructure deficit has been achieved, and other annual funding deficits (such as development charge exemptions and property tax write-offs) have been eliminated.
 - The Town's local property tax rate falls within the range of the comparator municipal group, while remaining lower than the average of those peer municipalities.

The above noted target would provide a reference point for staff in preparing the annual Budget Call report for Council. Each year the Mayor would retain the authority to present a budget at any property tax rate that is preferred (whether it is in the above noted range for tax rate change or not), and similarly Council would have the ability to make any amendments they prefer (including to the tax rate) through the budget process.

Based on the financial forecast for the years 2025 and 2026 that was presented in the 2024 Budget process, and with consideration for additional pressures that have since been identified in relation to transit, fire, by-law enforcement, inflation, etc., it is expected that the Town's budget may need to remain at the high end of this range for several years. After which, the Town would strive to maintain annual incremental increases towards the low to medium portions of the range until such time as the three outcomes indicated above are achieved. For the reasons outlined previously in this report, upward pressure on property tax rates is expected to persist as future Councils manage the balance between service level demands, market pressures and the affordability of the Town's taxes for property owners.

It is important to note that there are several dependencies that affect the total property tax rate that could be volatile year-to-year, such as the level of annual assessment growth, the



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amount of assets assumed from developers, inflation rates, property tax changes at Regional and Provincial levels, etc. Town priorities (and the timing thereof) may also change. As such the recommendation has been presented as a range that can be considered as guidance for the Budget Call report process, in order to maintain appropriate flexibility in those future years.

Other Considerations

There are several programs currently available through the Town, Region and Province that provide financial relief in relation to property taxes, and these programs will remain available to property owners should Council choose to adopt the above noted strategy. Those programs are summarized in Appendix C. No change at the local level to those programs is recommended at this time.

Further, through the 2024 Budget process, the potential to establish an Operating Budget Income Fund and a Non-Growth Infrastructure Income Fund were raised through the question and answer process with Council. Those topics were further discussed as a part of the February 2024 workshop with Council in relation to the multi-year financial strategy and the Town's current investment management strategies. Appendix D has been included in this report in order to summarize these concepts and the planned next steps.

Financial Impact

Milton's 2024 Budget and local tax rates generate \$99.2 million per year in revenue for the Town to invest in service delivery and the preservation of Town infrastructure. As outlined in the report above, significant shortfalls remain relative to the amount of annual funding that is required to maintain the existing service levels on a sustainable basis in the longer term. Should the Town adopt and implement the strategy recommended herein, there will be an opportunity to reduce the annual funding deficits and implement Council approved master plan strategies over a period of time. Flexibility has been provided with respect to the pace at which the Town's levy would be increased, in order to provide the Mayor and Council with the ability to consider both organizational and community needs each year in the budget process. As demonstrated in the appendices, even with implementation of the recommended measures, the Town of Milton's residential property tax rate is expected to remain competitive both with neighbouring municipalities as well as within the Province.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer



The Corporation of the Town of Milton

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For questions, please contact: Jennifer Kloet, Manager Phone: Ext. 2216
Financial Planning and Policy /
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Attachments

Appendix A - Scenario 1 Graphs
Appendix B - Scenario 2 Graphs
Appendix C - Summary of Financial Relief Programs
Appendix D - Actions resulting from the consideration of the establishment of Income Funds

Approved by CAO
Andrew M. Siltala
Chief Administrative Officer

Recognition of Traditional Lands

The Town of Milton resides on the Treaty Lands and Territory of the Mississaugas of the Credit First Nation. We also recognize the traditional territory of the Huron-Wendat and Haudenosaunee people. The Town of Milton shares this land and the responsibility for the water, food and resources. We stand as allies with the First Nations as stewards of these lands.