



The Corporation of the Town of Milton

Report To:	Council
From:	Glen Cowan, Chief Financial Officer/Treasurer
Date:	December 9, 2019
Report No:	CORS-072-19
Subject:	Multi-year Budget Strategy
Recommendation:	<p>THAT the Town of Milton adopt an initial residential property tax rate target that is 15% below the lower of the City of Burlington and the Town of Halton Hills;</p> <p>AND THAT the Town of Milton's progress towards achieving the target be reported annually as part of the budget process;</p> <p>AND THAT as part of future master and strategic planning exercises, service level options be identified for Council to provide the related service at a cost that is at least 20% below the average of the municipal comparators selected;</p> <p>AND THAT once achieved, the long-term sustainability of the 15% target be reassessed with consideration for the results of master and strategic planning exercises that will be undertaken as outlined above.</p>

EXECUTIVE SUMMARY

This report has been prepared in accordance with direction approved by Council through the 2020 Budget Call report (CORS-049-19). It outlines the Town's existing multi-year financial planning framework, the Town's positioning within Halton Region and the Greater Toronto Area with respect to property taxation rates, as well as current challenges with respect to providing sustainable services to the public. Based on several scenarios outlined herein, recommendations are provided with respect to establishing an initial target and additional measures that are intended to ensure that the community's needs are met.

Both the levels of service to be provided to residents and the levels of property taxation 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 multiple options.



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REPORT

Background

The Town of Milton has a long history of undertaking multi-year financial planning in various formats, including but not limited to:

- Long-term fiscal impact assessments have been undertaken with each phase of development within the Town
- Master plans and condition assessments have evaluated specific program areas with the results being consolidated in studies such as asset management plans and development charge studies
- The annual budget process has incorporated a 10 year forecast for the capital program, reserves and debt, as well as a 3 year forecast for the operating budget

With each fiscal assessment, master plan or long term study, the findings are generally endorsed in principle with implementation being subject to Council approval of the associated 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.

In report CORS-049-19, the 2020 Budget Call report, the following observations were noted:

- Services are important, this is reflected in the public feedback and in Council's previous deliberations of various staff reports and the budget decision packages where there has been a reluctance to reduce services.
- Sustainability is also important and the analysis available suggests that the Town's infrastructure funding has not kept pace with the growth in assets.
- Given that service levels and taxation levels are correlated, the majority of residents identified a preference for Milton to be positioned around the average level of taxation in the GTA.
- The year-to-year percentage change in budget is important, but so too is the Town's overall positioning and the Town's ability to sustainably fund the services requested by the community.

CORS-049-19 also noted that the Town's local residential tax rate was 30% below the average of neighbouring municipalities. Put another way, the Town's existing tax rate would need to increase by 43% in order to equate to the average rate of the comparator group.

As a part of the 2020 Budget guidance, Council approved the following resolution:



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THAT staff be directed to present to Council a multi-year budget strategy that will both:

- ensure that the Town's local residential property tax per household remains the lowest in Halton Region, and
- reduce the magnitude of difference between local residential property tax per household in Milton relative to the neighbouring municipalities in Halton and the Greater Toronto Area.

Discussion

Within Halton Region, the average assessment values for properties vary between the four municipalities as follows:

Table 1: Average Current Value Assessment (Residential) by Municipality in 2019

Municipality	Average Current Value Assessment - Residential Property*	
	\$	As % of Milton
Milton	\$626,430	100.0 %
Burlington	\$644,533	102.9 %
Halton Hills	\$580,710	92.7 %
Oakville	\$906,000	144.6 %

* Values for single family detached properties (property code 301) as provided by each municipality as of October 2019.

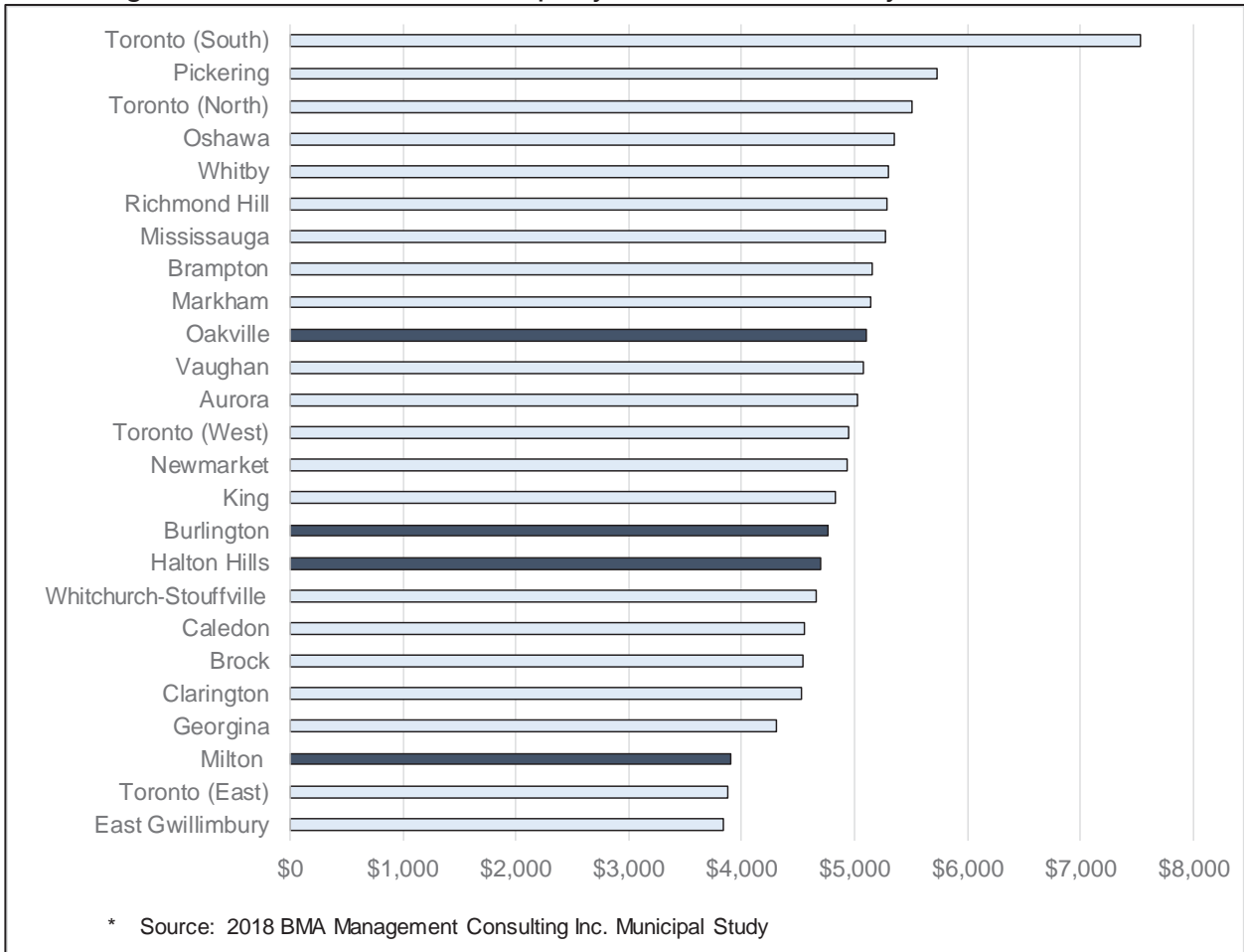
As shown above, while Oakville exhibits current value assessment amounts that notably exceed those of Milton, both Burlington and Halton Hills present values that are generally consistent.

With respect to the existing residential tax rates in the context of the Greater Toronto Area (GTA), the following graph presents the annual property taxes for a 2-storey home by municipality. It shows that both Burlington and Halton Hills are below average with respect to the cost per household.



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Figure 1 - 2018 Residential Property Taxes for a 2 Storey Home in the GTA*



Based on the findings above, a potential multi-year strategy has been developed with Milton’s residential property tax rates being benchmarked to Halton Hills and Burlington. The benefits that are expected to result include:

- simplify and ensure the transparency related to the annual benchmarking, as average property values are generally comparable
- ensure Milton’s position as having lowest residential property tax in the region is maintained due to benchmarking to the next lowest municipalities
- ensure that Milton’s position as being amongst the lowest in the GTA is maintained given that both Burlington’s and Halton Hills’ relative positioning is below the average

These last points align with the public survey results reported in CORS-049-19. Although the majority of respondents identified an interest in property tax rates that approximated the average in the GTA, of the remainder of the respondents there was a heavier weighting to below average than above.



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The following table exhibits the local residential tax rates for each Milton, Burlington and Halton Hills.

Table 2 - 2019 Local Residential Tax Rates

Municipality	2019 Local Residential Tax Rate*	% Milton rate is lower than comparator	% Increase required in Milton rate to match comparator
Milton	0.00248082	N/A	N/A
Burlington	0.00345445	28%	39%
Halton Hills	0.00358824	31%	45%

* Note 1 - From local municipal by-laws for 2019 for urban areas.

This table shows that the Town of Milton's tax rate is 28% lower than the lower of these two. Put another way, the Town of Milton's rate would need to increase 39% in order to generate the equivalent property tax per each dollar of current value assessment.

A component of the potential multi-year strategy is the establishment of a target upon which the Town can develop its financial, operational and strategic plans. The target selected will ultimately affect the services the town is able to deliver on a sustainable basis. With time, the target will likely require re-evaluation based on considerations such as strategic goals, community priorities, financial conditions, etc. At this stage in the development of this strategy, the existing information available with respect to the preferred service levels, infrastructure deficit, and resource levels suggest that a target tax rate that is closer than the 28% difference that currently exists is likely appropriate.

The following table demonstrates the potential tax rate implications for Milton residents that are associated with reducing the differential below 28%.



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*Table 3 - Scenario Analysis - Average Annual Residential Tax Rate Change**

		# Years of Phase In				
		Immediate	2 Years	4 Years	6 Years	8 Years
Targeted % Lower than the next Lowest Municipality	20%	11.3% Local 4.1% Total	7.9% Local 3.7% Total	5.1% Local 2.7% Total	4.2% Local 2.4% Total	3.8% Local 2.0% Total
	15%	18.2% Local 6.6% Total	11.5% Local 5.0% Total	7.0% Local 3.4% Total	5.5% Local 2.8% Total	4.8% Local 2.4% Total
	10%	25.2% Local 9.1% Total	15.1% Local 6.3% Total	8.9% Local 4.0% Total	6.8% Local 3.3% Total	5.8% Local 2.7% Total
	5%	32.2% Local 11.6% Total	18.7% Local 7.6% Total	10.8% Local 4.7% Total	8.1% Local 3.8% Total	6.9% Local 3.1% Total
	0%	39.1% Local 14.1% Total	22.4% Local 8.9% Total	12.6% Local 5.4% Total	9.4% Local 4.3% Total	7.9% Local 3.5% Total

* For illustration purposes the total estimated annual change assumes 2.0% annual changes in Regional tax rate as well as the neighbouring local municipality's tax rate, and 0% in education tax rate.

Also for consideration, the following table presents for each of the potential target values the amount of additional property tax revenue that could have been generated in 2019 in Milton. The table also shows the amount of property tax revenue foregone by not fully closing the gap between the next lowest municipality and Milton. This second figure is intended as a preliminary proxy for the quantum of potential savings, efficiencies, service level reductions, or non-property tax revenue generation that Milton may have to achieve relative to the neighbouring municipality in order to ensure sustainability.

*Table 4 - Revenue Generation Associated with Scenario Analysis**

		Additional Property Tax Revenue in 2019 (if target was fully achieved immediately)	Difference in Property Tax Revenue relative to fully matching comparator municipality's tax rate
Targeted % Lower than the next Lowest Municipality	20%	\$7,181,190	\$17,696,503
	15%	\$11,605,315	\$13,272,377
	10%	\$16,029,441	\$8,848,251
	5%	\$20,453,567	\$4,424,126
	0%	\$24,877,692	\$ -

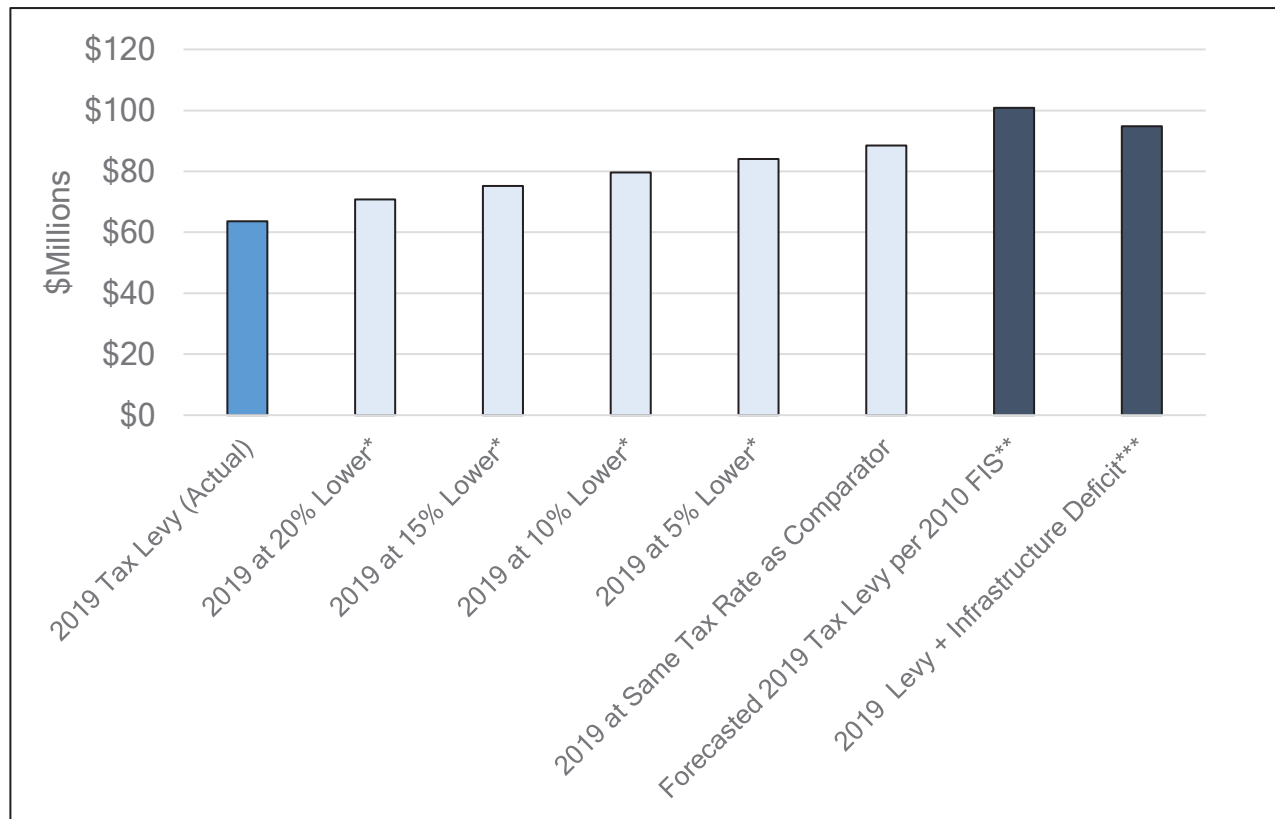
* Note - based on approved 2019 levy amount of \$63,604,822 and excludes supplementary revenue.



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The following table presents this additional revenue in the context of other relevant figures that have been previously identified through the Town’s long term planning.

Figure 2 - Milton Tax Levy Revenue Scenario Analysis



* Tax levy revenue calculated using Town’s 2019 levy amount of \$63,604,822 and % increases identified in table 3 above.

** Forecasted in the 2010 Fiscal Impact Study (CORS-081-10)

*** 2019 tax levy amount of \$63,604,822 plus the infrastructure deficit identified in the 2017 Asset Management Plan (adjusted for the two separate \$1.0 million increases in each 2018 and 2019)

The results above suggest that the sustainable level of funding for the Town of Milton based on current service levels and service delivery methods may be in the order of magnitude of the full tax rate currently utilized in the comparator municipality. As a result, the establishment of a long-term target tax rate that is below the comparator may require reduction in service levels, non-tax revenue generation, or some other form of mitigation in order to ensure sustainability.



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Recommendation

It is recommended that the Town target an initial tax rate that is 15% lower than the next closest municipality. This positioning is intended to:

- Better support existing service levels on a sustainable basis. At approximately \$11.6 million in additional annual revenue generation (in \$2019), once achieved this approach would allow for important investments in the Town's infrastructure deficit and resource shortfalls outlined in CORS-049-19 and previous reports, and better facilitate the timely expansion of services to new growth areas.
- Depending on annual budget approvals, this target could be potentially achieved in a 4 to 8 year time period assuming annual local tax rate increases in the order of 4.8% to 7.0% and total property tax increases to residents of 2.4% to 3.4%.
- Would leave approximately \$13.3 million in property tax revenue shortfalls (relative to the comparable municipality) that the Town would need to address through various strategies. These could include non-property tax base revenue (including the Ontario Lottery and Gaming Corporate (OLGC) revenue), different service level decisions, and/or efficiencies and savings.

In order to help the Town achieve sustainability at the target level, it is also recommended that all future master plan and strategic planning exercises consider options that are available to Council to achieve at least 20% savings relative the Town's comparable municipalities. 20% has been selected (vs. the 15% noted above) in recognition that:

- the average of the comparable municipalities will in many cases exceed the next lowest municipality in Halton upon which the property tax rate is benchmarked to; and
- not all of the options identified will likely be adopted given consideration of the other non-financial evaluation criteria and community expectations.

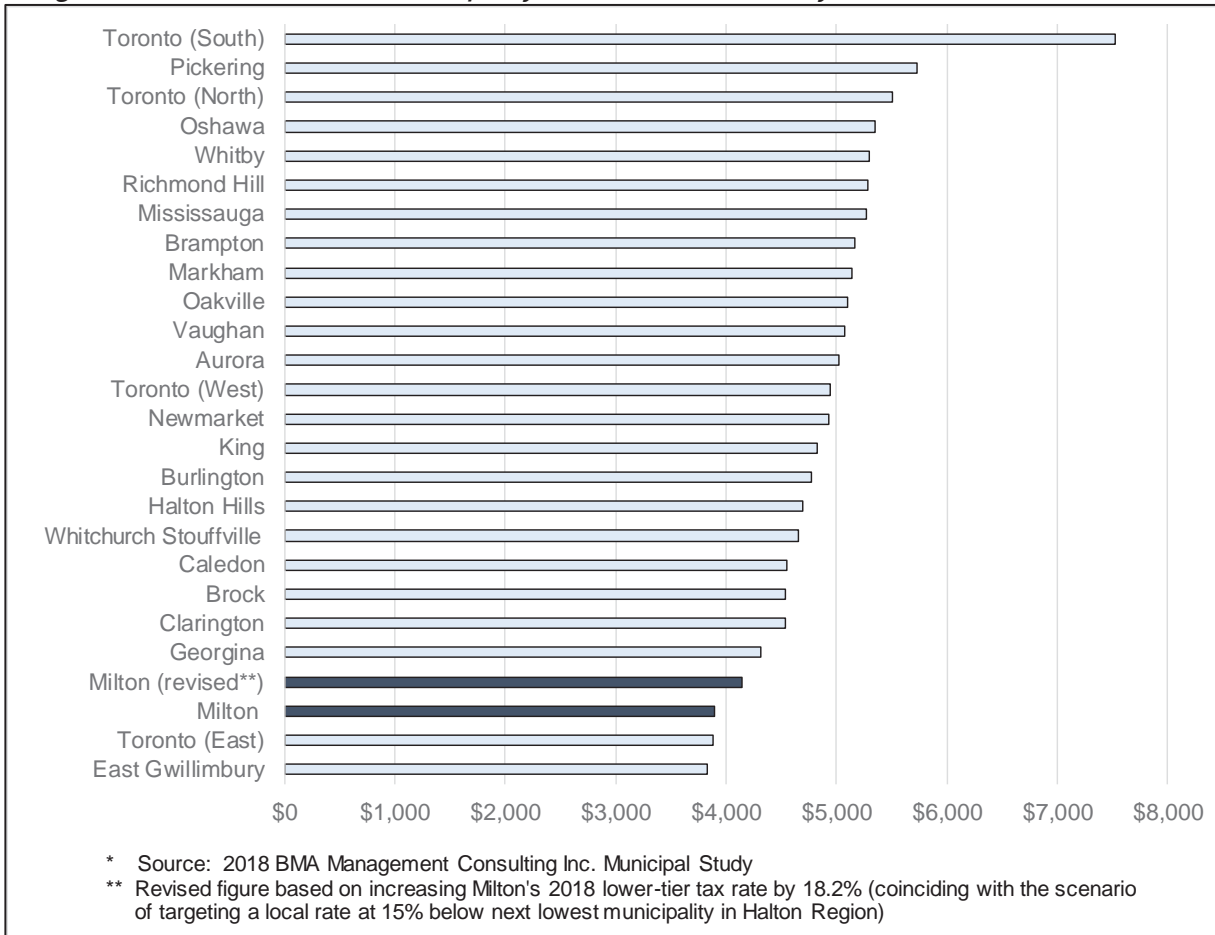
Another recommendation has also been included to ensure transparency is provided each year in the Town's progress towards achieving the multi-year target.

If adopted, the Town's positioning relative to other municipalities in the GTA would be expected to change as follows for residential property taxes.



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Figure 3: 2018 Residential Property Taxes for a 2 Storey Home in the GTA - Revised*



Because of the magnitude of the remaining funding differential to the comparator municipality (i.e. \$13.3 million per year in \$2019), and the uncertainty of the potential opportunities that will allow for that target position to be maintained on a sustainable basis, it is also recommended that the strategy and related target be revisited and potentially revised. This will allow for Council to ensure that the decisions made with respect to tax rates and service levels continue to respond to the needs of the community.

Potential benefits of adopting this form of strategy include:

- Improved communication with the public. In order to move towards a more sustainable balance, additional revenue generation through property taxation or other sources and/or service level adjustments are likely required. Having an ultimate target may help clarify and provide transparency for the incremental changes as they occur.



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- Consideration of a target at the outset of planning and strategic exercises may improve the degree to which the resulting work plans align with Council's financial goals and expectations.
- Process efficiencies, which may be realized in the annual budget exercise.
- Reduced pressure related to future growth as the incremental revenue generated per unit moves closer to the related expenditures.

Potential detriments of adopting this form of a strategy include:

- Every municipality is different and benchmarking alone may not properly consider those differences. Milton, for example, receives OLG revenues, operates a national cycling centre, utilizes a different operating model for services such as fire and transit, etc. These factors will need to be considered in any final position or target.
- Similarly, other municipalities may also have infrastructure deficits or other budgetary shortfalls, which may also require consideration in any benchmarking.
- Milton's budget pressure in the early years of the forecast may exceed the incremental annual pressures that Council and the community deems tolerable, even within a multi-year strategy to achieve a target rate.
- Sustainable opportunities to provide the level of service desired by the community at tax rates below comparator municipalities may not be available, making any target below neighbouring municipalities a challenge to maintain.

Alternatives Considered

The levels of service to be provided to the community as well as the appropriate tax rates are both key decisions of Council each year. 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 multiple options.

The Town could choose to continue the multi-year financial planning exercises that have historically been undertaken with the budget process serving as the avenue to prioritize and allocate resources. This approach provides flexibility to Council each year to approve a budget that is responsive to the community needs within the context of the results of the various planning exercises that have been approved.

Council could also select a different long-term target against which to measure progress against, based on consideration of community need, affordability and sustainability.

Financial Impact

Each year in the budget process, the Town identifies various considerations with respect to service levels, affordability and sustainability. The commitment to a multi-year



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strategy is intended to strengthen the delivery of the Town's services in a sustainable fashion, while ensuring that Milton's property tax rates continue to remain affordable within the context of the GTA.

The strategy alone is not a solution for the Town's existing financial pressures. Even at 15% lower than the next lowest municipality within the Region, achieving sustainability may not be possible without changing service levels or increasing non-tax based revenues. Such changes will likely be required in the time period that the Town is progressing to any target established by Council, and the Town will need to periodically evaluate any target position with regard for the needs of the community.

Respectfully submitted,

Troy McHarg
Commissioner, Corporate Services / Town Clerk

For questions, please contact: Glen Cowan

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Attachments

CAO Approval
Andrew M. Siltala
Acting Chief Administrative Officer