



Message from Sheila Strain, Director of Finance

This information package is part of the Town's continuing efforts to increase residents understanding of and participation in the annual budget process. Within the package you will find a wide range of information including:

- common budget and forecast terms
- how the Town plans for its financial future
- answers to frequently asked questions about budgets and tax rates
- how to have your say about the budget and other Town matters
- the important plans and studies that support the budget process
- how tax rates are calculated
- the many activities that make up the Town's budgeting and forecasting process

We hope you will find this information useful and would appreciate receiving your comments and suggestions on improvements or additional information that you would like to read about. Please e-mail us at finance@ajax.ca

Sheila Strain, CPA, CGA
Director of Finance/Treasurer

Common Budget and Forecast Terms

Assessment Growth

The additional taxation revenue the Town receives from the new homes and businesses that are built each year. This revenue is used to cover the cost of providing services to the new residents/businesses and for long term financial planning.

Capital Budget

One time expenditures for major projects (often referred to as “infrastructure”) such as roads, vehicles/equipment, parks, sidewalks, trails, streetlights, playgrounds and buildings. It includes both the development of new, and the maintenance/rehabilitation of existing infrastructure.

Debenture Debt

A type of long term loan used as partial financing for major capital building projects. The debt, including interest, is repayable over 10 to 25 years. Debenture debt spreads the project cost and related tax rate increase over a number of years and ensures that future taxpayers pay their fair share of capital projects being completed today.

Development Charges

A charge paid by developers to partially pay for the cost of new capital projects required as a result of growth (e.g., new roads, parks, trails, community centres, fire stations, etc.). Development charges do not cover the entire cost of a capital project, as legislation requires municipalities to fund a portion of most projects. In addition, certain expenditures are exempt from development charges and must be paid entirely by the municipality.

General Levy

Sometimes referred to as the “Tax Levy”, the general levy is the total of all expenditures funded by property taxes.

General Levy Forecast

Covering a four year period, a high level estimate of the expenditures, staffing and revenues required to maintain service levels, develop/maintain capital infrastructure and strengthen long term financial stability.

Long Range Capital Forecast (LRCF)

The same type of expenditures as the Capital Budget, with the only difference being that the forecast covers a four year period, while the capital budget is for a one year period.

Operating Budget

The expenditures (e.g., wages/benefits, supplies, contracted services, utilities, etc.) required to deliver day to day Town services. It also includes the revenues that the Town receives (e.g., user fees, interest income, building permit fees, etc.).

Operating Budget Forecast

Process used to calculate the estimated operating surplus or deficit for the current budget year.

Reserves/Reserve Funds

Monies set aside for specific purposes, including both operating and capital budget items. There are two main types of reserves/reserve funds:

Statutory/Obligatory – municipalities are required by legislation to establish certain reserve funds (e.g., Development Charges, Parkland)

Discretionary – can be established by Council for a specific purpose (e.g., Vehicle/Equipment Replacement, Debt Reduction)

Casino Ajax Revenues

All municipalities who have slots and gaming facilities, receive a percentage share of the revenues from Ontario Lottery and Gaming (OLG). It is up to each municipality to determine how it uses its revenues. For details on how the Town spends its slots revenues, please refer to the Slots Revenue Facts information sheet on the Town's website.

How the Town Plans for its Financial Future

The financial policies and practices adopted by current and past Councils, formed the foundation for the development of the Financial Sustainability Plan (the "Plan"). The Plan represents current municipal best practices, as well as "Made in Ajax" policies that reflect our specific and unique challenges/opportunities.

The Plan consists of a number of financial policies, with the following key policies approved by Council:

- Financial Sustainability Plan
- Discretionary Reserve Administration
- Discretionary Stabilization Reserves
- Discretionary Capital Reserves
- Long Term Debt Management

For more detailed information on the Plan, please refer to the comprehensive on-line tutorial available on the Town's website.

Key Documents, Studies & Plans that Support the Budget

Budgets and forecasts rely heavily upon the various studies, plans and strategies that have previously been debated and adopted by Council. These key supporting documents share one common characteristic - extensive public consultation.

Four of the core documents for the Town of Ajax are summarized below:

1) Community Action Plan

Adopted by Council at the beginning of each term, the plan sets out the priorities and goals for the Town over the four year Council term. Included in the Community Action Plan are four core objectives, supported by a number of strategies that form the basis for achieving the priorities and goals. The action plan is managed throughout the term of Council, with a formal status report presented once per year.

2) Development Charges Background Study

Subject to the requirements of the Province's *Development Charges Act*, all municipalities are required to adopt and then update a study every 5 years. The study identifies the new infrastructure and vehicles/equipment required due to growth, including their estimated cost and approximate timing. Roads, bridges, street lighting and sidewalks required are identified to buildout, while all other projects (e.g., community centres, libraries, fire fighting equipment, etc.) are identified for a 10 year period.

3) Recreation, Parks & Culture Master Plan

The master plan determines the needs and priorities related to services and facilities for recreation, parks and culture demands within the Town. The plan provides an action plan for the development of future recreation facilities (indoor and outdoor), trails, parks, arts and cultural facilities out to 2021.

4) Transportation Master Plan

The master plan identifies the Town's transportation requirements (i.e., road network, trails, sidewalks, etc.). The plan is reviewed on a regular basis, with the timing of major updates driven by such factors as changes in land use assumptions, Provincial planning initiatives/legislation and transportation planning studies carried out by other levels of government such as the Region of Durham.

There are a number of other master plans, studies and strategies that feed into the budget and forecast process including those covering Community Safety, Diversity & Community Engagement, Fire, Library, Pedestrian and Bicycle and Economic Development & Tourism.

Other items that impact the Town's budget & forecast process are:

- Departmental User Fees & Charges By-Laws
- Quality System Policies and Procedures, Service Level Targets
- Provincial Legislation and Regulations

How the Town Identifies Future Tax Rate Pressures

Covering a four year period, the General Levy Forecast is a high level forecast of the estimated staffing, operating revenues and expenditures required to:

- maintain existing service levels
- repair, maintain and rehabilitate existing infrastructure
- build and develop new infrastructure
- strengthen the Town's long term financial stability

The general levy forecast is used as a guide by Council to establish the target tax rate increase for the upcoming budget year.

The forecast includes:

- 1) Base Operating Budget
 - Based on existing services and service levels, adjusted for the impact of growth
- 2) New Long Term Debt
 - Annual principal and interest payments on debt to be issued in the future
- 3) Staffing Forecast
 - The new Full and Part Time staff required to maintain existing service levels
- 4) New/Expanded Programs & Initiatives
 - Introduction of new or the expansion of existing programs, initiatives and services
- 5) Library Grant
 - Estimate of the operating grant required from the Town

How the Town Estimates the Projected Annual Surplus or Deficit

The Operating Budget Forecast is an estimate of the total operating expenditures and revenues for the current budget year. The difference between the forecast and the budget results in an estimated operating budget surplus or deficit for the current year.

This Forecast serves a number of short and long term financial planning purposes including:

- Preliminary identification of trends, issues, etc., that may need to be incorporated into the following year's operating budget and future general levy forecasts
- If an operating surplus (revenues > expenditures), the estimated amount available for transfer to capital reserves, an important revenue source for the upcoming Capital Budget and Long Range Capital Forecast
- If an operating deficit (expenditures > revenues), the estimated amount of the transfer that will be made from the Stabilization Reserve to offset the tax rate impact

What Makes up the Town's Budget

The Town's budget consists of the following six components:

1) Operating Budget

The operating budget includes all of the expenditures (e.g., wages/benefits, supplies, contracted services, utilities, etc.) required to deliver day to day Town services. It also includes the non-tax revenues that we receive (e.g., ice rentals, interest income, planning and development fees, etc.).

For budget purposes, the Town over 195 separate business units and over 3,400 individual line accounts. The operating budget is based on existing service levels adjusted for growth (i.e., providing services to the new homes and businesses).

The Town approves a Net Operating Budget, which is calculated as the Gross Operating Expenditures less Operating Revenues/Recoveries. Two significant expenditures in the operating budget are general levy funded Reserve/Reserve Fund Allocations and Long Term Debt Payments, which together make up approximately 13% of the net operating budget.

2) Capital Budget/Long Range Capital Forecast

The budget and forecast include one-time expenditures for major projects (often referred to as "infrastructure") such as roads, vehicles/equipment, parks, trails, playgrounds and buildings. It includes both the development of new and the maintenance/rehabilitation of existing infrastructure.

The budget covers a one year period (the upcoming budget year) while the long range capital forecast covers the following four year period. The four years of the forecast period are reviewed and revised annually as part of the budget process.

The funding for capital projects comes from a wide range of different sources, with the most common ones listed below:

- Development Charges
- Slots Revenues
- Reserves and Reserve Funds
- Debenture Debt
- Federal Gas Tax

3) Full Time Staff Requests

The salaries/benefits for the new full time staff required to maintain existing service levels, comply with Provincial and other legislation, undertake new initiatives, add new services, etc.

4) New/Expanded Programs & Initiatives

This section includes the details of new or the expansion of existing programs, initiatives and services being proposed.

5) Library Grant

The grant provided by the Town to the Library accounts for approximately 93% of the Library's annual operating budget.

6) Other Taxation Revenue

These revenues reduce the general levy amount that must be raised by property taxes. It includes supplementary taxes, which is the taxation revenue raised during the year from new homes and businesses, Payments in Lieu of Taxation (PIL), Linear Properties (Railway Lines and Hydro Corridors) and Taxable (Shared PIL) properties.

How Reassessment Affects the Town's Budget

While assessment is the responsibility of the Municipal Property Assessment Corporation (MPAC), the rules and regulations about assessment are set by the Province of Ontario. Reassessments are completed every four years, with assessment increases phased in equally over the four year period.

Impact on Town – The Town does not get any additional tax revenue as a result of reassessment (i.e., it is revenue neutral). The first step each year is to lower the existing Town tax rate to reflect the fact that the Town now has a higher assessment base.

Impact on Individual Taxpayer – Taxpayers may see an assessment related increase or decrease, depending on their assessment increase relative to the Town and Region averages. The Province has mandated that assessment related increases be phased-in equally over four years, while assessment related decreases are granted immediately.

How Tax Rates are Calculated

The following is a simplified explanation of the complicated process of calculating property tax rates:

Step 1) Calculate Total General Levy Requirement

Net Operating Budget (includes Allocations to Reserves)
+ Full Time Staff Requests
+ New/Expanded Programs & Initiatives
+ Library Grant
= Total General Levy Requirement

Step 2) Calculate Amount to be Raised by Taxation

$$\begin{aligned} & \text{Total General Levy Requirement} \\ & - \text{Other Taxation Revenue} \\ & = \text{Amount to be Raised by Taxation} \end{aligned}$$

Step 3) Update Tax Ratios

All property classes have a defined ratio, relative to the Residential class which is set at 1.000. By comparison, the ratio for the Commercial class is 1.4500. Tax policy refers to changing (usually lowering) a non-residential ratio, which transfers the tax burden to other property classes, primarily to the Residential class. Tax policy decisions are the responsibility of the Region of Durham, in consultation with the area municipalities.

Step 4) Tax Rate Calculation

$$\frac{\text{Amount to be Raised by Taxation}}{\text{Total Assessment \& Tax Ratios}}$$

Overview of the Town's Budget/Forecast Process

A continuous, often complex twelve month process, budgets and forecasts draw information and direction from a wide range of sources. The budget is not an isolated event; rather it is an ongoing integrated process that translates the Town's services, service levels, policies, public input and plans into a single, consolidated financial road map.

The following chart summarizes the key events and dates in the budget/forecast process:

Date	Event(s)
March - June	<ul style="list-style-type: none">• Planning begins for next year's budget/forecast
July	<ul style="list-style-type: none">• Council approves budget/forecast timetable• departments begin work on their General Levy Forecast
August	<ul style="list-style-type: none">• Work begins on Operating Budget Forecast
September	<ul style="list-style-type: none">• Deadline for submission of General Levy Forecast and Operating Budget Forecast• Work begins on Operating Budget submission and preliminary Capital Budget/Long Range Capital Forecast (LRCF) information
October	<ul style="list-style-type: none">• Deadline for submission of Capital Budget/LRCF• Work continues on Capital Budget/LRCF

November	<ul style="list-style-type: none"> • General Levy Forecast presented to General Government Committee and target tax rate increase established by Council • Operating Budget Forecast presented to General Government Committee • Deadline for submission of Operating Budget • Work continues on Capital Budget/LRCF
December	<ul style="list-style-type: none"> • Capital Budget/LRCF and General Levy Reserve Allocations presented and reviewed by General Government Committee at Public Budget meeting • Capital Budget/LRCF and Reserve Allocations approved by Council • Work continues on Operating Budget
January	<ul style="list-style-type: none"> • Work continues on Operating Budget • Departments begin current year approved capital projects
February	<ul style="list-style-type: none"> • Operating Budget presented and reviewed at General Government Committee Public Budget meeting • Operating Budget approved by Council

How to Have Your Say !

To effectively and efficiently deliver services to the community, public input, feedback, comments, suggestions, etc., are essential. There are numerous ways for the general public to be heard throughout the whole year, including:

- ongoing correspondence and interaction with Mayor and Council
- contact, correspondence, discussions, etc., with Town staff
- public forums such as Planning Open Houses, Community Action Plan session, etc.
- regularly scheduled Council and Community Affairs and Planning meetings
- quality system customer feedback
- citizen survey and website survey (on Town's website)

In addition to the above methods that are always available, the Town conducts formal customer polling every four years.

A more formal method for Council and staff to receive input is through the Town's six citizen advisory committees; Accessibility, Diversity & Community Engagement, Transportation, Environmental, Heritage and Recreation & Culture.

Finally, receiving comments and questions from the public is one of the first items on the agenda at both the December (Capital/Long Range Capital Forecast and General Levy Reserve Allocations) and the February (Operating Budget) General Government Committee public budget meetings.

Understanding the Town's Budget Process

Q&A

Q1. How do Ajax's recent tax increases compare to other municipalities?

A1. The Town has been a leader in the lower tier municipalities of Region of Durham for lower annual tax rate increases since 2007:

Years	Region of Durham Average Tax Rate Increase	Town of Ajax Average Tax Rate Increase
2007 to 2010	4.11%	3.13%
2001 to 2014	3.14%	3.00%
2015 to 2018	2.93%	2.57%

Q2. Why are the property taxes on a similar home in Toronto (e.g. same square footage, number of bathrooms, lot size, etc.) often much lower than a house in Ajax?

A2. There are three main reasons for this difference, not only between Ajax but between other GTA municipalities as well:

- 1) **Special Provincial Funding** – since amalgamation in 1998, the Province has given the City of Toronto millions of dollars in special grants and loans, funding which was not provided to any other municipality in Ontario.
- 2) **Toronto Business Taxes Subsidize Residential Taxes** – Toronto has historically taxed their businesses at much higher rates than other jurisdictions, which allows Toronto to keep residential taxes lower. A commercial business in Toronto pays 3.2 times more in taxes than a homeowner, while in Durham Region that same business only pays 1.5 times more.
- 3) **Special Taxing Powers** – The Province has granted Toronto the authority to charge special taxes or levies (e.g. land transfer tax), which also allows them to keep their residential property taxes lower.

Understanding the Town's Budget Process

Q&A

- Q3.** Why are municipal tax rate increases often higher than the rate of inflation?
- A3.** When people talk about inflation, they are usually referring to Statistics Canada's Consumer Price Index (CPI), a theoretical "shopping basket" of consumer goods. Unfortunately, CPI does not reflect the cost increases that all municipalities face for expenditures such as contracted goods/services, utility costs for streetlights and large facilities, insurance, building materials, asphalt, concrete, etc.
- Q4.** What specific budget pressures is the Town facing?
- A4.** While each budget year brings a new set of issues, there are four main challenges impacting both current and future budgets:
- 1) **Continuing Growth** - While providing services to new homes and businesses does come with a cost, growth does provide a number of revenues that help minimize tax increases. These revenues include assessment growth, supplementary taxes, development charges and planning & development fees.
 - 2) **Existing Infrastructure** - The Town has a vast network of existing roads, trails, sidewalks, buildings, playgrounds, parks, streetlights, etc. and that network is added to each year as new development occurs. It is essential that the Town spend the funds necessary to keep these assets in good repair and to avoid higher maintenance costs in the future.
 - 3) **New Town Facilities** – Audley Recreation Centre Phase 2 of 3 will include a branch library, active living area, community rooms, expanded park area and parking lot and is scheduled to be completed in 2019. All phases of the centre will have annual operating costs and will require long term debt to partially finance the construction. The operating costs (net of revenues) and the annual debt payments are both paid for through property taxes. The Town currently has two strategies in place to minimize the impact of debt on future tax rate increases. The main strategy is utilizing approximately 50% of the slots revenues to lower the amount the Town must borrow. Other upcoming new facilities which will impact future budgets are Paradise Park and Pat Bayly Square.
 - 4) **Increasing Costs** – As explained in Q3, Ajax and all municipalities are facing major cost increases on many of the core expenditures required for both day to day service delivery and capital projects.
 - 5) **Legislative Impacts** – A number of legislation requirements continue to impact the Town's Operating Budget including Bill 148 Fair Workplaces, Better Jobs Act, 2017 (increase in minimum wage and other employment requirements); updates to the rate frameworks for both Workplace Safety & Insurance Board (WSIB) the Canada Pension Plan (CPP) and; implementation of Asset Management Planning. The impact of these legislative impacts significantly impact the operating budget. For example, in 2018 the budget impact of Bill 148 was \$703,500 with additional costs expected in 2019.

Understanding the Town's Budget Process

Q&A

Q5. Do Development Charges cover the entire cost of the capital projects required for new development?

A5. No. Provincial legislation, specifically the *Development Charges Act*, requires municipalities to contribute a minimum of 5% to 10% to most development charge projects. Other legislative requirements can further increase the amount a municipality must contribute. In addition, certain capital items such as administration buildings and the acquisition of parkland, are exempt and must be 100% paid for by taxpayers.

Q6. Why do my total taxes sometimes increase more than the Town's tax rate increase?

A6. The Town only controls 30% of the total tax bill, with the Region responsible for 55% and the final 15% controlled by the Province for education. If the Region and Provincial increases are higher than the Town's, then your total increase will be higher than the Town's increase. Also, a reassessment related increase may cause your total tax increase to be higher.

Q7. How is Ajax using the Federal Gas Tax funding they get from the Federal government?

A7. In 2005, all municipalities signed an agreement in order to receive the Federal Gas Tax fund which was updated in April 2014. The 2014 agreement expanded the use of funds and increased annual funding. To date, Ajax has used the money to make the new Fire Headquarters/Training Facility, Operations & Environmental Services Operations Centre and the Audley Recreation Centre, green, energy efficient LEED certified buildings. The Town is focusing gas tax funds towards capital expenditures for road resurfacing/reconstruction, energy efficiency (e.g. LED Lighting), storm water quality, storm water management pond maintenance, Sportsfield and Recreation capacity, non-DC portion of Transportation and Recreation services, and Asset Management.

Q8. What external announcements or potential changes may impact the Town's budget?

A8. The Town's two major non-property tax revenues, Slots and Veridian are subject to potential changes.

Slots Revenues – In 2018, the Town's budget included \$7,687,500 for slots revenue. The majority of the slots revenue is dedicated to reserves that fund the construction and maintenance of infrastructure. In March 2018, the provincial government and OLG announced that Pickering would host a new Casino. Due to this, the Town is waiting for direction from the newly elected Provincial government regarding the future of the Ajax casino site.

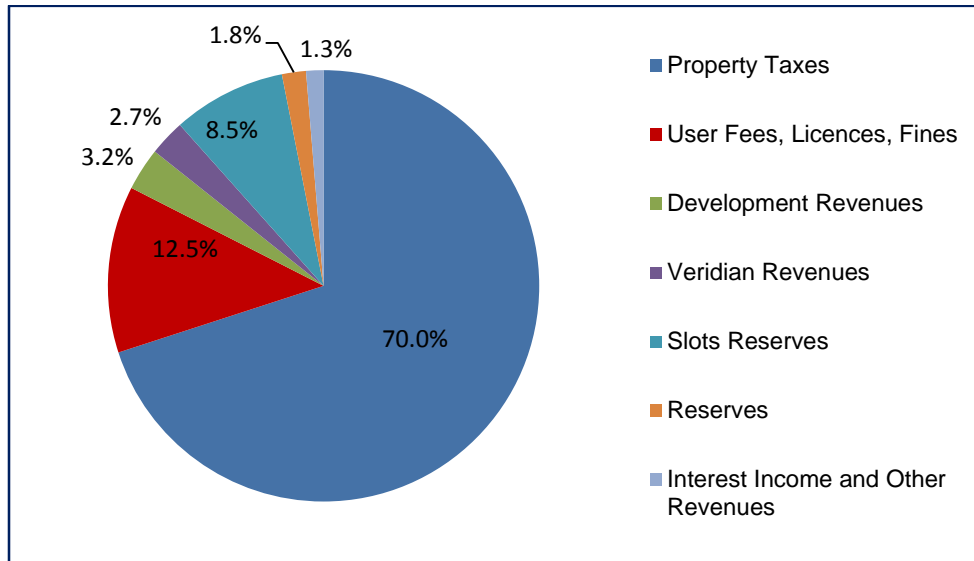
Veridian – In June 2018, the municipal shareholders of Veridian Corporation and Whitby Hydro Energy Corporation executed a merger agreement to be submitted to the Ontario Energy Board for regulatory review and approval. Currently, the Town's 32.1% share of Veridian generates \$2,470,100 in annual revenue for the Town. It is forecasted that Ajax, post-merger, will on average over the next 17 years, will receive additional revenue of \$630,000 per year.

Understanding the Town's Budget Process

Q&A

Q9. Where does the Town get the revenue for the General (Tax) Levy Budget?

A9. See following chart.



Q10. How does the Town spend their 30% portion of the tax bill?

A10. See following chart.

