



Special Meeting of Council
AGENDA

Tuesday, November 21, 2023

4:00 p.m.

Council Chambers

Morinville Civic Hall

Pages

1. **Call to Order**

2. **Adoption of Agenda**

Presenter: Mayor S. Boersma

2.1 **Adoption**

Recommended Motion:

That Council approves the agenda as presented.

3. **2024 Budget**

3.1 **Budget 2024 Update**

Presenter: N. Narayan, Chief Administrative Officer

Recommended Motion:

That Council move into Committee of the Whole.

Recommended Motion:

That Committee move into the Regular Council Meeting.

3

4. **Closed Session**

Presenter: Mayor S. Boersma

Recommended Motion:

That Council move into Closed Session to discuss item 4.1. 2024 Budget.

4.1 **2024 Budget**

FOIP s.17 (Disclosure Harmful to Personal Privacy), 24 (Advice from Officials), and 25 (Disclosure Harmful to Public Body) of the *Freedom of Information and Protection of Privacy Act, RSA 2000, Ch. F. 25.*

4.2 **Return to Open Session**

Recommended Motion:

That Council move into Open Session.

5. **Business Arising from Closed Session**

Presenter: Mayor S. Boersma

Recommended Motion:

That Council provide direction to Administration to inform the December 12, 2023, budget deliberations.

6. Adjournment

Report to Council

- For Council Decision
- For Council Direction
- For Council Information



TOPIC:	Budget 2024 Update for November 21, 2023	November 21, 2023
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PURPOSE:

To provide additional information to inform Budget 2024 budget deliberations, including Administrative challenges and options for moving forward.

RECOMMENDATION:

That Council provide direction to Administration to inform the December 12, 2023, budget deliberations.

RATIONALE:

- Administration's recommended budget and long-term fiscal plan represent a balanced approach, mindful of both service delivery and fiscal prudence.
- Any alterations without considering service reductions risk compromising strategic alignment, service quality, financial stability, and the municipality's overall risk management and resilience to unforeseen challenges.
- The data presented through the budget show our expenses are well below our comparators, our FTEs are comparable, and we continue to outperform our budget. Morinville's per-capita operational expenses are 15% or \$397 below the average, meaning Morinville spends \$4.12 million less to provide services.
- Together we've worked to make Morinville one of the region's most cost-efficient communities, but the organization requires resources aligned to service levels and that address external pressures beyond our control.

REPORT INFORMATION:

At the November 14, 2023, Council meeting, Administration was asked to provide the implications of specific monetary reductions to the recommended budget. The proposed budget must align with the service levels previously defined by Council through policies, bylaws, and resolutions. Upholding these service levels ensures the continuity of the Council's strategic directives without compromising operational efficiency.

Administration has had numerous touchpoints with Council over the last six months where support to provide a maintenance budget was provided. If an overall reduction to services, and by extension the budget, was desired, it necessitated messaging that intent much earlier in the process and, in keeping with Council's governance role, needs to identify what services should be explored for reduction.

The motions provided are not aligned with public engagement results, where 73.8% of respondents wanted services maintained or increased and the increased service levels approved by Council through business cases.

As a result, Administration cannot deliver a comprehensive response to the motions by December 12, 2023, that would support informed and prudent decision-making.

IMPACT:

Long-term Municipal Success

Council's responsibilities extend beyond immediate considerations, encompassing the critical task of ensuring our municipality's long-term success and sustainability. Council focus should be on strategic, long-term planning relying on the expertise of administrative personnel.

Council's role inherently includes a mandate for long-term decision-making, where the focus extends beyond the immediate fiscal year or Council term. The *MGA* mandates long-term planning for the community, including multi-year financial plans and long-term capital plans. Upholding this responsibility involves the following:

- Strategic vision - Council sets the strategic direction for the municipality, envisioning its growth, development, and community wellbeing over the long haul.
- Policy formulation – Council develops policies that capture the municipality's values, aspirations, and sustainable development goals, guiding decisions for generations to come.
- Safeguarding future viability - Making decisions that ensure the municipality's viability and resilience in the face of future challenges, fostering an environment conducive to sustained growth and prosperity.

While overseeing and evaluating administrative performance is crucial, it's equally essential to refrain from intervention in operational matters. Delegating operational responsibilities to the capable hands of the Administration allows Council to focus on strategic direction. Trusting the expertise of administrative personnel ensures that day-to-day operations are handled efficiently while Council can concentrate on setting long-term objectives. As a result, the 2024-2026 Operating Budget, the 2024 – 2033 Long-term Capital Plan, and the 2024 - 2028 Long-term Operational Plan are the outworking of that effort.

Morinville's Long-Term Fiscal Plan & Budget 2024

As the newly appointed Chief Administrative Officer, tasked with scrutinizing organizational efficiency and effectiveness, I stand firmly behind the recommended budget and long-term fiscal plan. Any adjustments made without considering service level reductions would pose unwarranted risks that might undermine the municipality's stability and future prospects. I have spent the last year gaining a deeper understanding of the organization, asking tough questions, and appreciating the breadth and complexity of the considerations that go into municipal operations. I can assure you that our collective expertise has been applied to all of the preceding challenges and considerations, and we believe this budget to be aligned with and necessary to carry out what is best for the community. Further, we've taken a staged approach to developing and presenting the budget to ensure transparency for Council and the community and support engagement and understanding.

The recommended budget and long-term fiscal plan represent a balanced approach, mindful of both service delivery and fiscal prudence. Any alterations without considering service reductions risk compromising service quality, financial stability, strategic alignment, and the municipality's overall risk management and resilience to unforeseen challenges.

Service Levels

There seems to be a perception that maintaining the same service levels can be achieved with fewer personnel. The reality is that as a service-based organization, services require people to deliver them. While exploring efficiencies is prudent, maintaining service levels with fewer personnel is highly unlikely. Several critical considerations warrant attention:

- Impact on service quality - Reducing personnel while expecting the same service levels will compromise service quality, timeliness, or comprehensiveness. Stretching resources thin will impact service delivery standards and customer satisfaction and lead to increased workload per individual.
- Employee wellbeing and workload - Overburdening remaining staff affects morale, productivity, and retention, ultimately impacting service quality and increasing costs.
- Operational flexibility and adaptability - Operating with minimal staffing hinders the municipality's capacity to respond promptly to community needs or emerging challenges.
- Cost efficiency vs. service delivery - While optimizing resources is essential, achieving cost efficiency solely through staffing reductions may not always align with maintaining optimal service quality.
- Engaging in holistic assessment – We are continually assessing the organization for operational efficiencies with the goal of not compromising service quality and without solely relying on staff reductions.

Affordability

Property taxes are the primary funding source for crucial municipal services and ensure Morinville remains safe, functional, and vibrant. While addressing affordability concerns, sustaining artificially low property taxes compromises the quality and accessibility of these services.

Affordability is a complex issue influenced by many factors extending beyond the scope of municipal governance. While municipalities play a vital role in addressing local challenges, the responsibility for affordability is shared across various levels and sectors. We recognize that property taxes are one of many inputs into the affordability of a community.

Our approach is to strike a balance between managing affordability concerns and sustaining the quality and availability of services. Administration uses feedback from the engagement survey and statistics such as those below to distinguish Morinville's reality from perception:

- Morinville's median total household income (\$108,000) is 12.5% higher than the Edmonton Region (census metropolitan area) (\$96,000) and the province as a whole (\$96,000).
- Morinville's homeownership rate is 14.7% higher than the Edmonton Region and 12.5% higher than the province.
- 2.1% of Morinville's population lives below the low-income after-tax cut-off (LICO-AT).

Cost Escalation and Taxation

Maintaining service levels does not mean maintaining expense levels, particularly with current inflation levels. Everything costs more. The idea that we can achieve a low or non-existent tax increase while maintaining services, let alone implement service level increases, surfaces several challenges we have reviewed during the budget but need to be repeated. These include the following:

- Capital investment requirements and infrastructure - Neglecting capital investments has deferred maintenance and compromised long-term asset sustainability.

- Council was presented with two options regarding capital tax revenue requirements. The first would see a significant tax increase in year one but would achieve the required course correction immediately. The second option was a more gradual approach but created the risk that future Councils may not stay the course.
- In the recommended 2024 budget, 49% of the tax increase is directly tied to capital investment. With the increased expenses from the approved business cases, that drops to 37%.
- Inflationary pressures and specific sector costs - Inflation impacts operational expenses, especially in sectors like utilities and insurance, intensifying cost burdens on maintaining service quality.
 - In the 2024 budget, cost increases beyond our control amounted to \$659,000. These include insurance, utilities, regional water/wastewater charges, payroll taxes, and group benefits. The municipality has no option but to pay these amounts.
- The nature of local property tax - Property taxes are based on the value of residential and commercial properties, which do not increase in value in line with inflation. The only way revenues increase in a municipality beyond tax rate increases is through growth. Most growth in Morinville is residential, which typically brings more costs than revenue.
- Impact of community growth - Growth necessitates expanded services and infrastructure, straining budgets without corresponding revenue adjustments. To address the perspective that the organization's growth is outpacing the community, consider the following:
 - Four hundred and twenty-eight new dwelling units (exclusive of secondary suites) were approved since 2018, representing a 12% increase in the dwelling count of 3490 from 2016. When considering organizational growth, this would account for 9.3 of the additional 18.04 FTEs added since 2018. The remaining 8.74 FTEs represent increased service levels, such as the recreation facility.
 - None of that increase accounts for making investments necessary to position Morinville for growth.
- Impacts from other levels of government - Fluctuations or reductions in external funding streams further strain municipal budgets, affecting service provisions and financial stability. Similarly, added requirements, such as RCMP staff costs or the transition to the AFRRCS radio system, must be folded into the considerations.
- Evolving service expectations and standards – Regardless of population growth, community expectations for improved or expanded services grow over time, challenging sustained service provisions without corresponding revenues (ex., community recreation centres, improved snow clearing, community programming).
- Influence of Edmonton metro region - Being part of the Edmonton metro region brings opportunities but also heightened cost pressures and service expectations, impacting financial planning.
- Economic uncertainties and unforeseen events - Economic downturns or unforeseen events strain budgets; without financial flexibility, maintaining services becomes challenging during crises.
- Regulatory changes and compliance costs - Compliance requirements may demand additional resources, impacting budgets without proportional revenue adjustments.

- Staffing and talent retention challenges - Talent retention necessitates competitive compensation, posing workforce challenges without corresponding budget allocations.

Municipalities have repeatedly been expected to absorb cost escalation and related risks, like inflation. Simply put, the value of the organization's money decreases, resulting in reduced buying power, operational impacts, financial stress, and resident impacts through the incremental degradation of services. In the 2024 Budget, the net increase (excluding business cases and net of revenue) is \$737,000, representing an increase less than inflation—which, as outlined above, is a double-edged sword.

Surplus

Administration would like to address lingering concerns or misunderstandings regarding annual budget surpluses. Council is reminded that surpluses are derived from three primary sources: unutilized contingencies, staffing attrition (vacancies due to resignations and the timeframe for recruiting), and in-year efficiencies.

- To maintain operational efficiency and avoid deficits, Administration utilizes contingencies to ensure sufficient budget room to support the costs of providing municipal services. Without adequate contingencies, municipal operations can be ground to a halt when budgets become over-extended, requiring Administration to go to Council for approval to amend budgets or incur additional expenses. When such requests are made, the opportunity to recover those costs through property taxes is already passed for that fiscal year, meaning the extra costs are charged to Morinville's reserves. The current balance of Morinville's operating reserve is negative \$1.24M, meaning Morinville has no reserves to backstop operational deficits. Any deficits incurred would force the operating reserve into a further negative position and threaten the cash balance of the capital reserves. Needless to say, this is not a good stewardship on any front.
- Morinville's salaries, benefits, wages, and training budget is based on the cost associated with having all permanent positions filled for the entire year and an estimate of the number of casual hours required to provide the types and levels of services directed by Council. Variances between the budget and actual figures are created when positions are vacant or when casual hours are unfilled. As noted in the discussion regarding staff turnover, the turnover rate in Morinville is very high, meaning there are numerous instances over the year across all departments where positions are vacant and, therefore, related budgets are not fully utilized. Administration recognizes that these variances occur and includes a "contra account" or negative expense referred to as salary attrition in "Other Expenses" on the consolidated budget to recognize that the total staffing budget is unlikely to be fully utilized. This allows a portion of the variance to be recognized "up front" and takes pressure off the annual tax levy. The amount budgeted for attrition is an estimate based on historical information and, as with all other estimates, takes a conservative approach. The estimate for 2023 was \$350,000 but has been reduced to \$250,000 for 2024 as the organization has been working to reduce staff turnover.
 - In reviewing Councillor Richardson's comments regarding his motion, the rationale for putting forward a decrease of \$700,000 in salaries, benefits, wages, and training is that this amount represented the increase in this expense item from 2023 to 2024 (before the addition of the business case for the MLC and community bus) and that, in the past, Morinville has not always utilized the total budget amount for this expense line. The 2023 projected-to-year-end (PYE) column in the 2024 Consolidated budget may appear to indicate a projected surplus from salaries, benefits, wages, and training of \$641,997. However, to determine the actual surplus figure, we must first deduct the amount allocated to salary attrition in the 2023 budget, as shown below. To be clear, a

projected surplus is only Administration's best estimate at a point in time. The actual surplus may vary.

	2023 Budget
Salaries, Benefits, Wages and Training	\$11,526,114
Salary Attrition	(\$350,000)
Net budget for Salary, Benefits, Wages and Training	\$11,176,114
2023 PYE Salaries, Benefits, Wages and Training	\$10,884,137
2023 PYE Variance	\$291,977

- Administration works diligently to ensure that spending is prudent, directly supports approved budgets, explores efficiencies when identified, and scrutinizes expenditures to ensure they are necessary and provide the highest value possible. These efforts often lead to in-year efficiencies, allowing the organization to either outperform budgets or avoid contingencies, ultimately leading to surpluses that Council can then direct to subsidize future tax increases or fund further infrastructure investment. Unused budget is never carried over to pad future budgets or wasted on unnecessary spending. This approach to budgeting is transparent, accountable, and best practice to mitigate risks and ensure business continuity.

Organizational Growth and Staffing

As a small organization, many responsibilities are assigned to individual staff members with no redundancies, which is a risk to service delivery in itself. As a result, the elimination of one position, or FTE, in almost all cases impacts the delivery of several services. Currently, Morinville has 93.85 FTE with a headcount of approximately 188 employees (this number fluctuates based on seasonal operations). As noted during the budget presentation, in addition to being under the regional average for staffing costs, Morinville is far below the average for contracted service spending, having the lowest per-capita spending on contracted services of all regional comparators.

There are several factors we consider when reviewing our staffing complement and structure, including:

- Legislative compliance
- Approach to risk management
- Service levels
- Operation model (i.e. use of contracted services vs FTEs)
- External environment (i.e. Labour market, evolution of HR)
- Local context (i.e. Union/non-union, corporate priorities)

When looking at staffing levels, it is important to consider all of these factors. This demonstrates that community population is not necessarily the driving factor; however, it can provide economies of scale at certain thresholds that Morinville does not have.

Staffing Costs

To address the statement about HR salaries at the recent Council meeting, it is important to recognize the assertion that the average HR salary is \$175,000/annum is in error. Transparency is paramount, and the information presented by anyone must be accurate. The salaries, wages, and benefits line in the HR budget also accounts for the following:

- Employee benefits, including health and wellness benefits and contributions to the Local Authorities Pension Plan (LAPP).

- Payroll taxes, including employment insurance (EI), Canada Pension Plan (CPP) and Workers Compensation Board (WCB).
- Training costs for HR staff to ensure essential skills are maintained, and accreditations are kept up to date.
- The organizational training budget for areas such as customer service, workplace violence and harassment and leadership.
- Occupational health and safety training budget for items such as first aid, incident / inspection / investigation and WHMIS.
- Corporate claims and disability management to cover the cost of staff on short or long-term disability, allowing departments to backfill these positions without going over their staffing budgets.

As you know, the data presented through the budget show our expenses are well below our comparators, our FTEs are comparable, and we continue to outperform our budget.

Employer Risks

Like all employers, we face greater risks and pressures in carrying out our responsibilities to our employees (i.e., eliminating workplace harassment and discrimination, upholding human rights, supporting employee wellbeing, and responding to changing legislation).

Morinville has experienced multiple layoff-and-rehiring cycles during the pandemic, organizational restructuring in 2021, and the need to support our workforce in the wake of the pandemic. External trends include an unstable job market created by post-pandemic factors like career pivoting, job changes, leaving employment due to employee expectations shifts, and work-life balance prioritization resulting in less discretionary effort and engagement.

Retention has been a challenge, with turnover atypically high throughout 2020 – 2022, peaking at 35%, but it seems to be trending in the right direction through the support and efforts of HR and the leadership team. As a natural result, we have experienced the following:

- a high number of recruitments
- extended recruitment timeframes
- increase in employee leaves of absence (ex., short-term disability, long-term disability, WCB).
- an increase in employee and labour relations (ex., performance management, union grievances, etc.).
- workload management challenges
- declining employee morale and wellness (ex., increased lost time)

Retention and recruitment risks equate to increased costs, so it is critical that our employees feel valued and want to stay for business continuity and stability.

PREVIOUS COUNCIL ACTION:

At the October 17, 2023, Committee of the Whole Meeting, Council reviewed the draft budget, outstanding business cases, and funding scenarios put forward by Administration as well as the answers to questions put forward during the September 22 and 23, 2023, meeting. Council provided general direction regarding the redraft of the 2024 – 2026 Operating Budget and 2024 – 2033 Long-term Capital Plan and clarified its position on aspects of the Long-term Operational Plan.

At the September 22 and 23, 2023, Special Meeting, Council was presented with the proposed 2024 – 2026 Operating Budget, the 2024 – 2028 Long-term Operational Plan, and 2024 – 2033 Long-term Capital Plan, along with supporting documents that included responses to questions from Council at the

May 9, 2023, Regular Meeting of Council. During this session and in the following days, Council also put forward additional questions specific to the proposed 2024 Budget.

At the May 9, 2023, Regular Meeting of Council, Council received for information the 2024 Budget Update and provided Administration with a number of clarifying questions.

ALIGNMENT:

Morinville 2022 – 2025 Strategic Plan

- Goal 2: Community Safety and Wellbeing - Morinville is a community that collaboratively prioritizes the safety and wellbeing of residents and businesses
- Goal 3: Morinville improves its financial health while demonstrating value for money

CONSULTATION/ENGAGEMENT:

The 2023 Budget Engagement Survey was officially launched through EngageMorinville.ca in July 2022. The intent of the survey was to provide Morinville residents and business owners the opportunity to engage in the municipal financial planning process as Administration prepared a budget proposal and long-term financial plan for Council's review and consideration. Administration presented the findings at the September 2023 budget presentation.

ALTERNATIVES:

The decisions and deliberations around budget are about more than just numbers on a page—they shape how people see us and impact Morinville's appeal to satisfy our residents and attract investment. Administration remains committed to looking for ways to be efficient and continuously improve. Together, we've worked to make Morinville one of the region's most cost-efficient communities, but the organization is also under strain that cannot be ignored. For our part, we've focused on the following:

- Finding ways to continue service delivery with reduced resource
- Limiting the majority of recent increases to address external pressures –inflation, reduced provincial funding and increased RCMP costs
- Limiting municipally controlled operational increases to less than inflation
- Identifying potential service level reductions for Council's consideration
- Consistently outperforming the budget through careful use of budgets and contingencies.

As a result, our per-capita operational expenses are 15% or \$397 below the average, meaning Morinville spends \$4.12 million less to provide services. Again, Administration is prepared to move forward with the recommended budget with or without the approved business cases.

Your options to inform the December 12, 2023, meeting are as follows:

1. Approve the budget with the approved business cases.
2. Approve the budget without the approved business cases. This would reduce the total municipal tax levy by \$181,982 and not increase the salaries, wages, and benefits line.

If the preceding options are not acceptable, the potential next steps are as follows:

- Accept more risk by being less conservative about contingencies planning (ex., staff attrition). The effect would be a reduced tax revenue requirement up front but less in-year flexibility and risk mitigation, likely resulting in a reduced surplus at year-end. Adding this type of risk reduces our ability to respond to emerging issues and have the required flexibility to support business

needs. Administration notes that this conflicts with the principles outlined in the Budget Principles and Guidelines regarding estimates.

- Provide additional resources to conduct a third-party review of select services as identified by Council in 2024. Administration would subsequently work with Council to facilitate their selection of services. This option is predicated on a willingness to reduce services despite community engagement that notes otherwise and recognizes that Administration’s capacity and focus would be directed to those efforts.

PRESENTER:	N. Narayan, CAO	ATTACHMENTS: • N/A
PREPARED BY:	N. Narayan, CAO S. Edwards, General Manager of Community and Infrastructure Services M. Hay, General Manager of Administrative Services	
CLEARANCES:	N. Narayan, Chief Administrative Officer	