



# 2021 BUDGET Basics

# Budget Basics

- Section 290 of the Municipal Act
  - *“for each year, a local municipality shall, in the year or the immediately preceding year, prepare and adopt a budget including estimates of all sums required during the year for the purposes of the municipality”*
- O. Reg 284/09 – Budget Measures-Expenses
  - *“municipality may exclude amortization expenses, post employment expenses and solid waste landfill closure and post closure expenses in preparing their budget, however if municipality choose to do so, the municipality before adopting the budget for the year shall prepare a report about the excluded expenses and adopt the report by resolution”*

# Budget Basics

- *What is the difference between Operating versus Capital*

## **Operating budget:**

- Pays for all of the day to day activities of the corporation;
- Examples of operating expenses include; wages, benefits, insurance, supplies, general repairs and maintenance, fuel, utilities, etc

## **Capital budget:**

- Pays for all large investments, replacements or rehabilitation of assets under the municipality's control
- Examples of capital expenditures include; rehabilitation of roads, watermains and sewer mains, new facilities, rolling stock and/or equipment

# Budget Basics

*What is the difference between **Levy** based budget **Special Area Rate** budget and **User fee** budget?*

**Levy** based budgets are supported mainly by property tax dollars collected on all assessed property and include the following;

Policing, Planning, By-Law Enforcement, Fire, Transportation, Recreation, Economic Development, Conservation Authorities, Library, General Administration, Council, Community Grants, Cemetery, Animal Control

**Special Area Rate (SAR)** budgets are supported by property tax dollars collected from specific areas. Streetlighting budget is a special area rate budget

**User Fee** based budgets are supported by user fees and permits and include the following services;

Water, Sewer, Solid Waste and Building

# Budget Basics

- *How are municipal services funded?*



- Property taxes (fund approximately 80% of the total levy-based budget requirements)
- User Fees
- Permits and License Fees
- Grants (OMPF, OCIF, Gas tax, etc)
- Interest on investments
- Sales (ie cemetery lots)
- Donations

# Budget Basics

- Budget Document
  - Strategic document for Council in moving municipality forward
  - Budget numbers contained in the document are 'budget estimates'
  - Through procurement process will receive actual cost
- Operating Budget
  - Budget Estimates Adopted
  - Quarterly reports of YTD status and explanation of variances
  - Detailed report from Department Manager on any budget lines anticipated to be over
  - Year end report advises of any overall surplus/deficit
  - Surplus/deficit is transferred to/from working fund reserves

# Budget Basics

- Capital Budget
  - Budget Estimates Adopted
  - Procurement method used to determine actual costs
    - Request for Tender, Request for Proposal, Request for quotes
  - Council authorizes the award of the project, including any amount over the budget estimate
  - Year end report advising of any projects to be carried forward
  - Year end report advises of any overall surplus/deficit
  - Surplus/deficit is transferred to/from respective capital replacement reserves

# Budget Basics

## Assessment

- 2016 was last reassessment year, based on a valuation date of January 1/16
- Market increase was phased in equally over 4 years - 2017-2020
- 2021 was to be a re-assessment year, however postponed at this time
- Any assessment changes for 2021 taxation will be minimal
  - based on new construction
  - impacted by reductions from Assessment Review Board decisions



# Budget Basics – Tax Rate vs Tax Levy

## Tax Rate

- Assessment Value \* Tax rate = \$Taxes payable

There are 3 tax rates on tax bill;

- Municipal tax rate
- County Tax Rate
- Education Tax Rate

### **Example:**

1.0% tax rate on \$260,000 assessment = **\$2,600** in taxes levied

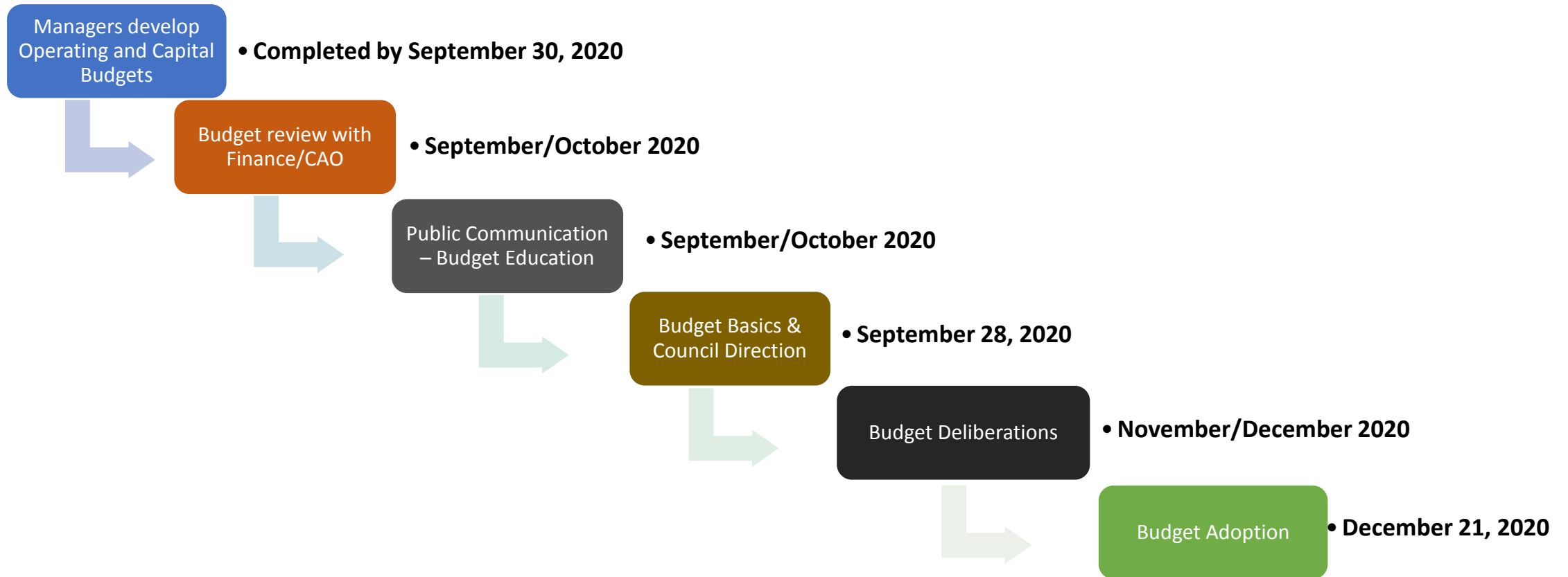
### **Note:**

With the tax rate held constant (0% tax *rate* increase) tax levy will increase as a result of assessment growth as per MPAC

## Tax Levy

- Total \$ expected to be collected by the Municipality
- Tax levy represents amount needed to meet tax funded services
- Increases proportionately with changes in assessment values and growth (new assessment)

# Building the Budget



# Budget Priorities

- Maintain current levels of service
- Information technology initiatives – recommendations from IT Service Delivery Review
- Climate change lens on overall operations and capital expenditures
- Levy increase on base budget for lines impacted by cost of living increases, contracts
- Continued investment in capital assets through;
  - Capital plan
  - Capital replacement reserve (future capital investment)

# Community Grants/Commitments

- \$50,000 to Community Fund  
(\$50,000 each for 2020, 2021 and 2022 recommended by committee)
- \$25,000/year Sponsorship Huron Country Playhouse (2020-2029)
- \$40,620 committed through Memorandums of Understanding
  - Exeter Lions
  - Exeter Business Improvement Area
  - South Huron Chamber of Commerce
  - South Huron Medical Recruitment
  - Thames Rd Elimville Community Park
- \$11,356 in-kinds (estimate based on 2019 actuals)



# How much debt is too much?

- Ministry of Municipal Affairs and Housing offers guidance in the form of a 25 percent Annual Repayment Limit (ARL) for municipalities as outlined in O. Reg 403/02
- Debt cannot extend beyond the lifetime of the capital work for which the debt was incurred and cannot exceed 40 years.



# How Does the Ministry Calculate the ARL?

The ministry calculates 25 percent of the municipality's annual own-source revenue:

$$\begin{array}{|c|} \hline \text{Municipal} \\ \text{Own-Source Revenue} \\ \text{(e.g. Property Tax, User fees, Investment Income)} \\ \hline \end{array} \times \begin{array}{|c|} \hline 25\% \\ \hline \end{array} = \begin{array}{|c|} \hline 25\% \text{ of} \\ \text{Own-Source Revenue} \\ \hline \end{array}$$

The ministry subtracts municipal debt and other financial obligations to determine the ARL:

$$\begin{array}{|c|} \hline 25\% \text{ of} \\ \text{Own-Source Revenue} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Annual payments for} \\ \text{Existing debt and other} \\ \text{financial commitments} \\ \text{(Principal + Interest)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Annual Repayment} \\ \text{Limit} \\ \hline \end{array}$$

Annual Repayment Limit = maximum amount that a municipality can pay each year in principal and interest payments for its long term debt and other long-term financial commitments.



# South Huron's Current Position

- Total Outstanding Debt as of December 31, 2019                      = \$ 21,342,293
- Total Debt Servicing as of December 31, 2019                      = \$ 2,029,036
  
- South Huron's ARL is 10.2% (Provincial maximum is 25%)
  
- South Huron's Annual Debt Repayment limit is \$2.7M

## Debt Allocation by Asset Category (as of December 31, 2019)

Water	\$ 10,303,630
Sewer	\$ 9,552,138
Recreation	\$ 1,486,525
 Total	 <u>\$ 21,342,293</u>

# Reserves & Reserve Funds

**Reserves** are an appropriation from net revenues at the discretion of Council

- ✓ Do not reference any specific asset
- ✓ Do not require segregation as in the case of a reserve fund
- ✓ Are often referred to as “contingency” funds
- ✓ Interest earned is reported as part of the general fund revenue
- ✓ Protects taxpayers from any major volatility in tax rates
- ✓ Drawn upon when unforeseen or non-recurring events occur

Examples

- ✓ Capital Replacement Reserves

Reserve and Reserve Fund Policy and Procedure adopted by Council

- Contains a schedule of purpose of the reserve and recommended reserve levels



# Reserves & Reserve Funds

- Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long term financial plan;
  - ✓ Strengthens its long term financial sustainability
  - ✓ Helps to minimize fluctuations in the tax rate
  - ✓ Provides funding to sustain infrastructure

Based on our level of debt it is important to continue to maintain a consistent commitment to reserves in order to have sufficient revenues for future capital needs

# Reserves - Activity schedule

<b>RESERVES</b>	BALANCE	Contributed from	Transfer between reserves	Contr from	Transfer to	Transfer to	BALANCE	Estimated Amounts Committed to Projects (Contribution)	ESTIMATED BALANCE
	DEC.31,2018	General		Capital	General	Capital	DEC.31,2019		Dec 31, 2020
WORKING FUND RESERVE	(2,876,673.24)	\$ (156,021.00)	160,000.00	(381,449.75)	230,981.00	20,837.65	(3,002,325.34)	676,056.00	(2,326,269.34)
BENEFITS CONTINGENCY RESERVE	(169,923.84)						(169,923.84)		(169,923.84)
INSURANCE CLAIMS CONTINGENCY RESERVE	(5,939.50)						(5,939.50)		(5,939.50)
GREEN INITIATIVES (Energy Mgmt Plan)	(9,175.86)						(9,175.86)		(9,175.86)
ELECTION RESERVES	-	(4,747.00)					(4,747.00)	(4,747.00)	(9,494.00)
COMMUNITY IMPROVEMENT-INCENTIVE PROGRAM	(105,000.00)	(35,000.00)					(140,000.00)		(140,000.00)
OPP CONTRACT STABILIZATION RESERVE	(303,839.00)						(303,839.00)		(303,839.00)
WINTER CONTROL STABILIZATION RESERVE	(114,538.00)	(93,149.00)					(207,687.00)		(207,687.00)
SHRC RODEO	(65,841.26)	(8,960.21)				19,000.00	(55,801.47)		(55,801.47)
CANADA DAY PROGRAM	-	(4,056.05)					(4,056.05)		(4,056.05)
SH EARLY CHILDHOOD LC	(9,915.75)						(9,915.75)		(9,915.75)
HURON PARK FIRE (Dept Specific Reserve)	(7,681.00)						(7,681.00)		(7,681.00)
ROADS RESERVE (Dept Specific Reserve)	(57,332.00)						(57,332.00)	57,332.00	-
TREE REPLACEMENT RESERVE	(10,000.00)						(10,000.00)	2,000.00	(8,000.00)
STREETLIGHT RESERVE (Dept Specific Reserve)	(94,758.14)	(26,029.91)					(120,788.05)		(120,788.05)
EXETER POOL (Dept Specific Reserve)	(11,264.20)	(12,000.00)				11,264.20	(12,000.00)		(12,000.00)
MACNAUGHTON PARK WASHROOMS	-						-		-
SOUTH HURON WATER (Dept Specific Reserve)	(2,857,520.94)						(2,857,520.94)		(2,857,520.94)
STEPHEN WATER (Dept Specific Reserve)	(110,092.79)						(110,092.79)		(110,092.79)
SOUTH HURON SEWERS (Dept Specific Reserve)	-	282,089.86					282,089.86		282,089.86
SOLID WASTE (Dept Specific Reserve)	(86,821.00)				46,762.00		(40,059.00)	53,890.00	13,831.00
	(6,896,316.52)	(57,873.31)	160,000.00	(381,449.75)	277,743.00	51,101.85	(6,846,794.73)	784,531.00	(6,062,263.73)

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# Reserves & Reserve Funds

- **Reserve Funds** are established by Council and/or when a statute requires
  - ✓ Must remain segregated from general operating funds
  - ✓ Based on statutory requirements or future financial commitments
  - ✓ Usually have restrictions and rules around collection and use

## Example

- ✓ Development Charges Revenues

# Types of Reserve Funds

## **Obligatory**

- ✓ Created when provincial or federal statute requires that revenues are segregated from general municipal revenues
- ✓ Can also be created as a result of a legal agreement
  - e.g. Federal Gas tax reserve fund

## **Discretionary**

- ✓ Created when Council wishes to earmark revenue to ensure funds are available as required to finance a future expenditure
  - e.g. Exeter-Cemetery Columbarium

# Reserve Funds – Activity Schedule

		Transfers In			Transfers Out				
	BALANCE	Contributed from	Interest	Contr from	Transfer to	Transfer to	BALANCE	Estimated Amounts Committed to Projects(Contribution)	BALANCE
	DEC.31,2018	General	Earned	Capital	General	Capital	DEC.31,2019		
<b>DISCRETIONARY RESERVE FUNDS</b>									
DASHWOOD CDF	(81,492.32)		(2,142.23)				(83,634.55)		(83,634.55)
WEBBER PIT RESERVES	(34,125.34)		(897.07)				(35,022.41)		(35,022.41)
EXETER-CEMETERY EXPANSION	(491.56)		(846.90)				(1,338.46)		(1,338.46)
EXETER-CEMETERY COLUMBARIUM	(32,382.52)	(7,267.50)	(17.28)				(39,667.30)		(39,667.30)
LANDFILL PERPETUAL CARE FUND	(504,672.66)	(66,288.78)	(13,266.58)				(584,228.02)		(584,228.02)
AMENITY FEE-COMMUNITY FUNDING -Goshen	(355,116.42)	(289,170.00)	(8,975.59)			84,500.00	(568,762.01)	(69,182.00)	(637,944.01)
AMENITY FEE-COMMUNITY FUNDING -GB	(61,339.57)	(60,833.50)	(2,243.90)				(124,416.97)	(60,833.00)	(185,249.97)
SHRC - RESERVE FUND DRESSING ROOM PROJECT	(27,554.69)		(724.34)				(28,279.03)		(28,279.03)
BLDG CODE-REVENUE STABILIZATION RESERVE FU	(586,776.34)		(15,424.88)		104,550.72		(497,650.50)	145,969.00	(351,681.50)
BLDG CODE-LEGAL/INSURANCE RESERVE FUND	(352,065.80)		(9,254.93)				(361,320.73)		(361,320.73)
BLDG CODE-CAPITAL RESERVE FUND	(234,710.51)		(6,169.95)			32,953.41	(207,927.05)		(207,927.05)
MODERNIZATION FUND	-	(625,482.00)	-		32,570.27		(592,911.73)		(592,911.73)
<b>RESERVE FUNDS - Sub Total</b>	<b>(2,270,727.73)</b>						<b>(3,125,158.76)</b>		<b>(3,109,204.76)</b>
KIRKTON WOODHAM POOL	-						-		-
EXETER CDF	(389,866.46)					389,866.46	-		-
<b>TOTAL DISCRETIONARY RESERVE FUNDS</b>	<b>(2,660,594.19)</b>	<b>(1,049,041.78)</b>	<b>(59,963.65)</b>		<b>137,120.99</b>	<b>507,319.87</b>	<b>(3,125,158.76)</b>	<b>15,954.00</b>	<b>(3,109,204.76)</b>
							<b>(22,349,158.79)</b>	<b>Total Reserves &amp; Reserve Funds</b>	
<b>OBLIGATORY RESERVE FUNDS-DEFERRED REVENUE</b>		<b>Transfers In</b>			<b>Transfers Out</b>				
DEVELOPMENT CHARGES-Other Services	(15,691.71)	(1,580.00)	(412.50)			11,000.00	(6,684.21)		(6,684.21)
DEVELOPMENT CHARGES - Fire	(21,904.38)	(3,074.00)	(575.81)				(25,554.19)		(25,554.19)
DEVELOPMENT CHARGES-Transportation	(200,828.70)	(14,072.00)	(5,279.28)			47,216.06	(172,963.92)		(172,963.92)
DEVELOPMENT CHARGES-Sew ers System	(286,051.23)	(2,446.00)	(7,519.57)				(296,016.80)	296,016.80	-
DEVELOPMENT CHARGES-Water System	(29,166.25)	(10,379.00)	(766.71)		10,900.00		(29,411.96)	10,900.00	(18,511.96)
DEVELOPMENT CHARGES-Parks & Recreation	(102,420.85)	(10,731.00)	(2,692.39)				(115,844.24)		(115,844.24)
<b>TOTAL DEVELOPMENT CHARGES</b>	<b>(656,063.12)</b>	<b>(42,282.00)</b>	<b>(17,246.26)</b>	<b>-</b>	<b>10,900.00</b>	<b>58,216.06</b>	<b>(646,475.32)</b>	<b>306,916.80</b>	<b>(339,558.52)</b>
PARKLAND RESERVES	(78,186.88)	(3,500.00)	(2,055.34)				(83,742.22)	64,000.00	(19,742.22)
FEDERAL GAS TAX REVENUE	(10,181.05)	(628,931.82)	(267.63)			210,444.07	(428,936.43)		(428,936.43)
OCIF Funding	(77,781.24)	(673,392.00)	(2,044.67)			406,413.82	(346,804.09)		
OCLI ( Cannabis)	-	(18,450.00)	-				(18,450.00)		
MAINSTREET REVITALIZATION	(46,576.98)		(1,224.39)				(47,801.37)		(47,801.37)
<b>TOTAL OBLIGATORY RESERVES FUNDS &amp; DEFER</b>	<b>(868,789.27)</b>	<b>(1,366,555.82)</b>	<b>(22,838.29)</b>	<b>-</b>	<b>10,900.00</b>	<b>675,073.95</b>	<b>(1,572,209.43)</b>	<b>370,916.80</b>	<b>(1,381,148.90)</b>

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# Reserves – Asset Management Strategy

- 2008 – 2018 Strategy
  - 10 year phase-in strategy for contributions to the capital replacement reserves
  - Annual contribution dependent on budget pressures, with a minimum contribution equal to previous year
  - Contribution based on previous year's amortization values
  - 25% of amount contributed can be used for current year capital asset replacement
- Strategy 2020 and 2021
  - Maintain 2018 level of contributions
  - Develop revised strategy in 2020 as we update our asset management plan to meet provincial regulations

# Reserves – Capital Replacement Reserves

		Transfers In			Transfers Out			2020 Estimate	
<b>RESERVES</b>	BALANCE	Contributed from	Transfer between reserves	Contr from	Transfer to	Transfer to	BALANCE	Estimated Amounts Committed to Projects(Contribution)	ESTIMATED BALANCE
	DEC.31,2018	General		Capital	General	Capital	DEC.31,2019		Dec 31, 2020
<b>CAPITAL REPLACEMENT RESERVE-USER FEE PRGS</b>	(6,607,297.33)	Transfers In			Transfers Out		(6,447,589.56)		
Sew ers Capital Replacement Reserve	(1,386,426.99)	(428,677.92)				509,718.91	(1,305,386.00)	1,305,386.00	-
Water Capital Replacement Reserve	(5,018,262.48)	(867,349.78)				934,382.73	(4,951,229.53)	3,548,850.00	(1,402,379.53)
Landfill Capital Replacement Reserve	(202,607.86)	(19,296.96)				30,930.79	(190,974.03)	(19,297.00)	(210,271.03)
<b>CAPITAL REPLACEMENT RESERVE-LEVY PRGS</b>	(4,384,012.60)						(5,929,615.74)		
General Admin Capital Replacement Res	(235,879.67)	(47,565.72)					(283,445.39)	(47,566.00)	(331,011.39)
Dedicated Capital Levy								(44,650.00)	(44,650.00)
Fire Capital Replacement Reserve	(920,919.97)	(187,490.51)					(1,108,410.48)	(172,231.00)	(1,280,641.48)
Building/Dev Capital Replacement Reserve	(24,791.05)	(3,278.40)					(28,069.45)	(2,459.00)	(30,528.45)
Bridges/Culverts Replacement Reserve	(265,000.00)						(265,000.00)		(265,000.00)
Transportation Capital Replacement Reserve	(2,312,385.74)	(820,703.19)		(161,281.34)		103,086.10	(3,191,284.17)	(612,045.00)	(3,803,329.17)
Streetlighting Capital Replacement Reserve	(63,885.59)	(28,518.84)	(160,000.00)				(252,404.43)	(28,519.00)	(280,923.43)
Cemetery Capital Replacement Reserve	(105,535.44)	(6,678.72)					(112,214.16)	(6,679.00)	(118,893.16)
Recreation Capital Replacement Reserve	(455,615.14)	(258,172.52)				25,000.00	(688,787.66)	(8,173.00)	(696,960.66)

# Asset Management Strategy

- What are we contributing to Asset Management?
  - Annual investment in capital infrastructure \$9.3M
  - Contribution to Capital Replacement Reserves \$2.7M
  - Dedicated Asset Management budget \$175,000
  - Dedicated capital levy – ½ % \$44,650



# Budget Pressures

- Asset Management
  - Infrastructure deficit
  - Fire service assets (facility, rolling stock)
  - Annual Capital requirements to maintain existing assets
- No assessment increase
  - Re-assessment for 2021 was deferred
  - Minimal growth
  - Unknown write offs from ARB decisions

# Budget Pressures

- Maintaining current service levels
- COVID
  - Realizing user fee revenues
  - Increased expenses
- Insurance projected at 15% increase (per Marsh) - \$35,747
- Payroll (grid movement, COLA minimal)

# Budget Pressures

- Policing Costs
- Information Technology – Recommendations from IT Service Delivery Review
- Conservation Authorities – unknown
- OMPF – 2021 allocation is unknown
  - 2020 Allocation = \$1,391,700
  - 2019 Allocation = \$1,420,400
  - 2018 Allocation = \$1,453,300

# Public Communication

- Focus on Budget education
- Series of posts on social media over 6 weeks – starting September 24th
- Budget schedule on website

# Council Questions/Comments



## Determine tax rate target

