



2022 BUDGET Basics

September 27, 2021
COW Budget Meeting

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, are full cost recovery 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'
- 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
 - Monthly capital project status report
 - 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, 2016
- Market increase was phased in equally over 4 years - 2017-2020
- Re-assessment postponed for 2021 and 2022
- MPAC has not provided any definitive information on strategy for next re-assessment
- Any assessment changes for 2022 taxation will be minimal

Budget Basics – Tax Levy vs Tax Rate

Tax Levy

- Tax levy is the amount of money collected through taxes that is required to fund services and support capital plan

Tax Rate

- Tax rate is the rate used to calculate taxes to be collected based on levy amount required to fund services.

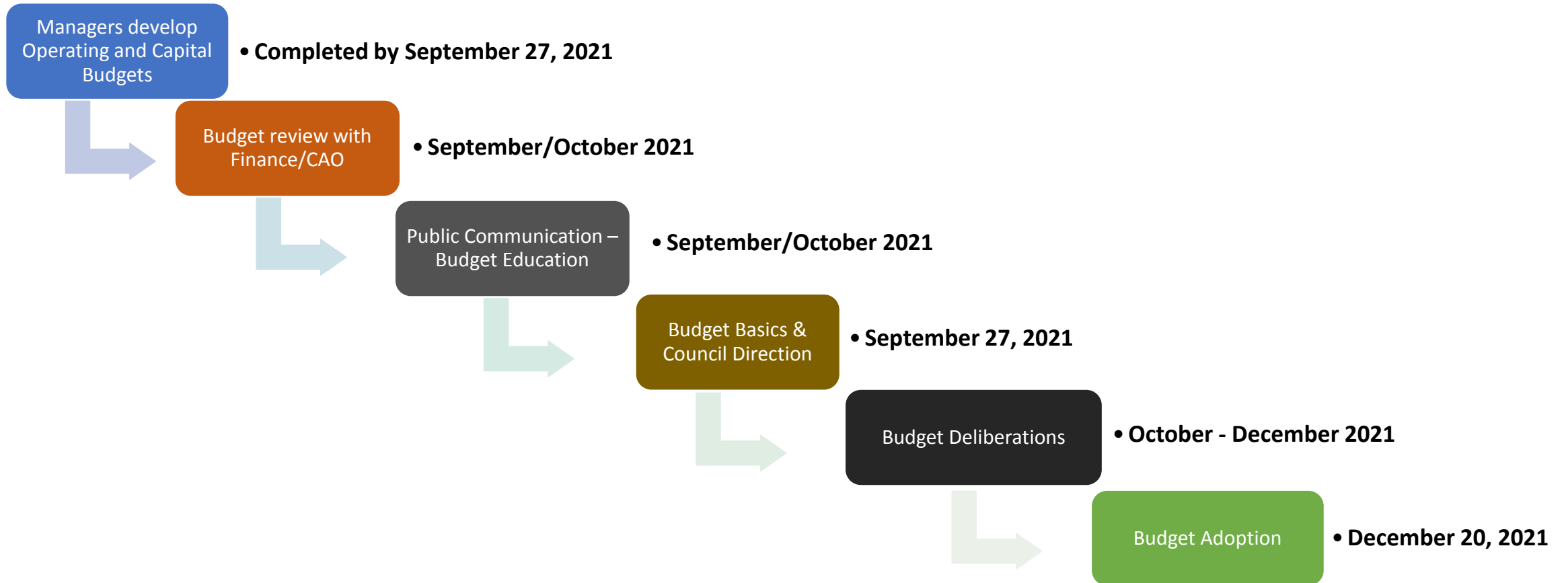
Assessment Value * Tax Rate = Tax Levy (amount of Tax \$ collected)

How property taxes are calculated

The following you tube video produced by the City of Ottawa demonstrates how property taxes are calculated based on how much your home is worth.

<https://youtu.be/EeaBJXB55BM>

Building the Budget



Communication Strategies

- Focus on Budget education
- Series of posts on social media over 6 weeks
- Budget schedule on website

2022 Budget Development strategy

- Maintain current levels of service
- Debt Management Strategies
- Principles of Asset Management Plan
 - Long term capital plan
 - Recommended financial strategies for Council consideration
- Levy increase on base budget for lines impacted by cost-of-living increases, contracts, utilities, etc

Community Grants/Commitments

- \$50,000 to Community Fund
(\$50,000 each for 2020, 2021 and 2022)
- \$25,000/year Sponsorship Huron Country Playhouse (2020-2029)
 - Due to COVID sponsorship extended to 2031 at no additional cost
- \$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, 2020 = \$ 20,260,515
- Total Debt Servicing as of December 31, 2020 = \$ 2,029,036
- South Huron's ARL is 10.1% (Provincial maximum is 25%)
 - Ministry considers anything over 10% high risk
- South Huron's Annual Debt Repayment limit is \$3M
- South Huron's Debt per household is \$4,332



South Huron's Current Position

Debt Allocation by category (as of December 31, 2020)

Water Infrastructure	\$ 9,857,989
Sewer Infrastructure	\$ 9,106,137
Recreation Facility Infrastructure	\$ 1,296,389
Total	<u>\$20,260,515</u>



Debt Management strategies

- Debt Management policy
 - ✓ Provide a working framework
 - ✓ Articulate goals with respect to debt
 - ✓ Enhance our ability to make decisions on entering into debt obligations
 - ✓ Demonstrates a commitment to long-term financial planning that will ensure prudence and financial stability
 - ✓ Demonstrates well managed financial plan, and capability of meeting debt obligations



Debt Management Strategies

- Debt Management policy
 - Overview and draft decision points presented to COW August 2021
 - Feedback on debt management decisions received September 22
 - Follow up report to September 29th COW meeting

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
- ✓ Winter control stabilization reserve

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

RESERVES	Asyst Account NUMBER	BALANCE DEC.31,2019	Transfers In			Transfers Out		BALANCE DEC.31,2020	2021 Estimate	
			Contributed from	Interest	Contr from	Transfer to	Transfer to		Estimated Amounts Committed to	ESTIMATED BALANCE
			General	Earned	Capital	General	Capital		Projects(Contribution)	Dec 31, 2021
WORKING FUND RESERVE	10-000-0000-3100	(3,002,325.34)	(556,517.21)		(650,090.60)		420,390.36	(3,788,542.79)	1,065,610.30	(2,722,932.49)
BENEFITS CONTINGENCY RESERVE	10-000-0000-3102	(169,923.84)						(169,923.84)		(169,923.84)
INSURANCE CLAIMS CONTINGENCY RESERVE	10-000-0000-3104	(5,939.50)						(5,939.50)		(5,939.50)
GREEN INITIATIVES (Energy MgmtPlan)	10-000-0000-3108	(9,175.86)						(9,175.86)		(9,175.86)
ELECTION RESERVES	10-000-0000-3110	(4,747.00)	(4,747.00)					(9,494.00)	(4,747.00)	(14,241.00)
COMMUNITY IMPROVEMENT-INCENTIVE PROGRAM	10-000-0000-3112	(140,000.00)	(35,000.00)					(175,000.00)		(175,000.00)
OPP CONTRACT STABILIZATION RESERVE	10-000-0000-3114	(303,839.00)						(303,839.00)		(303,839.00)
WINTER CONTROL STABILIZATION RESERVE	10-000-0000-3116	(207,687.00)	(149,704.00)					(357,391.00)		(357,391.00)
SHRC RODEO	10-000-0000-3118	(55,801.47)						(55,801.47)		(55,801.47)
CANADA DAY PROGRAM	10-000-0000-3119	(4,056.05)						(4,056.05)		(4,056.05)
SH EARLY CHILDHOOD LC	10-000-0000-3120	(9,915.75)						(9,915.75)		(9,915.75)
HURON PARK FIRE (Dept Specific Reserve_	10-000-0000-3124	(7,681.00)						(7,681.00)		(7,681.00)
ROADS RESERVE (Dept Specific Reserve)	10-000-0000-3126	(57,332.00)						(57,332.00)		(57,332.00)
TREE REPLACEMENT RESERVE	10-000-0000-3128	(10,000.00)						(10,000.00)		(10,000.00)
STREETLIGHT RESERVE (Dept Specific Reserve)	10-000-0000-3130	(120,788.05)	(40,612.66)					(161,400.71)		(161,400.71)
EXETER POOL (Dept Specific Reserve)	10-000-0000-3132	(12,000.00)						(12,000.00)	12,000.00	-
KIRKTON WOODHAM POOL (Dept Specific Reserve)	10-000-0000-3133	-	(528.00)					(528.00)		(528.00)
SOUTH HURON WATER (Dept Specific Reserve)	10-000-0000-3136	(2,857,520.94)						(2,857,520.94)	313,802.00	(2,543,718.94)
STEPHEN WATER (Dept Specific Reserve)	10-000-0000-3138	(110,092.79)						(110,092.79)		(110,092.79)
SOUTH HURON SEWERS (Dept Specific Reserve)	10-000-0000-3140	282,089.86	(282,089.86)					-		-
SOLID WASTE (Dept Specific Reserve)	10-000-0000-3144	(40,059.00)				30,580.41		(9,478.59)		(9,478.59)
EXETER CEMETERY FENCE	10-000-0000-3145	-	(24,310.00)					(24,310.00)	(49,100.00)	(73,410.00)
TOTAL		(6,846,794.73)	(1,093,508.73)	-	(650,090.60)	30,580.41	420,390.36	(8,139,423.29)	1,337,565.30	(6,801,857.99)

MUNICIPALITY OF

South Huron

Reserves – Capital Replacement Reserves

			Transfers In			Transfers Out			2021 Estimate	
CAPITAL REPLACEMENT RESERVE-USER FEE PRGS		(6,447,589.56)	Transfers In			Transfers Out			(2,728,585.38)	
Sewers Capital Replacement Reserve	10-000-0000-3146	(1,305,386.00)	(524,712.00)				1,830,098.00	-	913,001.00	913,001.00
Water Capital Replacement Reserve	10-000-0000-3150	(4,951,229.53)	(1,210,248.00)				3,524,364.23	(2,637,113.30)	164,347.00	(2,472,766.30)
Landfill Capital Replacement Reserve	10-000-0000-3152	(190,974.03)	(19,296.96)				118,798.91	(91,472.08)	(19,297.00)	(110,769.08)
CAPITAL REPLACEMENT RESERVE-LEVY PRGS		(5,929,615.74)						(6,854,036.76)		
General Admin Capital Replacement Res	10-000-0000-3154	(283,445.39)	(47,565.72)					(331,011.11)	(47,566.00)	(378,577.11)
Dedicated Capital Levy	10-000-0000-3155		(44,650.00)					(44,650.00)	(44,650.00)	(89,300.00)
Fire Capital Replacement Reserve	10-000-0000-3156	(1,108,410.48)	(172,231.32)				49,226.40	(1,231,415.40)	60,769.00	(1,170,646.40)
Building/Dev Capital Replacement Reserve	10-000-0000-3158	(28,069.45)	(2,458.80)					(30,528.25)	(2,459.00)	(32,987.25)
Bridges/Culverts Replacement Reserve	10-000-0000-3160	(265,000.00)						(265,000.00)		(265,000.00)
Transportation Capital Replacement Reserve	10-000-0000-3162	(3,191,284.17)	(864,890.19)				387,202.32	(3,668,972.04)	(630,854.00)	(4,299,826.04)
Streetlighting Capital Replacement Reserve	10-000-0000-3164	(252,404.43)	(28,518.72)					(280,923.15)	(28,519.00)	(309,442.15)
Cemetery Capital Replacement Reserve	10-000-0000-3166	(112,214.16)	(17,362.47)					(129,576.63)	18,321.00	(111,255.63)
Recreation Capital Replacement Reserve	10-000-0000-3168	(688,787.66)	(183,172.52)					(871,960.18)	266,827.00	(605,133.18)

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

OBLIGATORY RESERVE FUNDS-DEFERRED REVENUE			Transfers In			Transfers Out			
DEVELOPMENT CHARGES-Other Services	10-000-0000-2240	(6,684.21)	(4,521.29)	(78.13)				(11,283.63)	(11,283.63)
DEVELOPMENT CHARGES - Fire	10-000-0000-2245	(25,554.19)	(8,802.32)	(298.68)				(34,655.19)	(34,655.19)
DEVELOPMENT CHARGES-Transportation	10-000-0000-2250	(172,963.92)	(28,485.57)	(2,021.65)				(203,471.14)	(203,471.14)
DEVELOPMENT CHARGES-Sewers System	10-000-0000-2255	(296,016.80)	(20,347.47)	(3,459.93)				(319,824.20)	296,016.80
DEVELOPMENT CHARGES-Water System	10-000-0000-2260	(29,411.96)	(35,428.44)	(343.78)		10,900.00		(54,284.18)	10,900.00
DEVELOPMENT CHARGES-Parks & Recreation	10-000-0000-2265	(115,844.24)	(62,828.76)	(1,354.02)				(180,027.02)	(180,027.02)
TOTAL DEVELOPMENT CHARGES	Sub Total	(646,475.32)	(160,413.85)	(7,556.19)	-	10,900.00	-	(803,545.36)	306,916.80
PARKLAND RESERVES	10-000-0000-2270	(83,742.22)	(12,320.00)	(978.80)				(97,041.02)	64,000.00
FEDERAL GAS TAX REVENUE	10-000-0000-2275	(428,936.43)	(306,274.62)	(5,013.53)			469,493.54	(270,731.04)	(75,459.87)
OCIF Funding	10-000-0000-2280	(346,804.09)	(688,269.00)	(4,053.55)			758,380.10	(280,746.54)	147,406.00
OCLIF Cannabis	10-000-0000-2285	(18,450.00)	0.00	(215.65)				(18,665.65)	(18,665.65)
MAIN STREET REVITALIZATION	10-000-0000-2286	(47,801.37)	0.00	-		47,801.37		-	-
Safe Restart (COVID19)	10-000-0000-2288	-	(286,900.00)	-				(286,900.00)	286,900.00
TOTAL OBLIGATORY RESERVE FUNDS & DEFERRED REVENUE		(1,572,209.43)	(1,454,177.47)	(17,817.72)	-	58,701.37	1,227,873.64	(1,757,629.61)	729,762.93

Reserve Funds – Activity Schedule

	ACCOUNT NUMBER	BALANCE DEC.31,2019	Transfers In			Transfers Out		BALANCE DEC.31,2020	Estimated Amounts Committed to Projects(Contribution)	BALANCE
			Contributed from General	Interest Earned	Contr from Capital	Transfer to General	Transfer to Capital			
DISCRETIONARY RESERVE FUNDS										
DASHWOOD CDF	10-000-0000-3200	(83,634.55)		(977.55)				(84,612.10)		(84,612.10)
WEBBER PIT RESERVES	10-000-0000-3202	(35,022.41)		(409.35)				(35,431.76)		(35,431.76)
EXETER-CEMETERY EXPANSION	10-000-0000-3204	(1,338.46)		(14.38)				(1,352.84)		(1,352.84)
EXETER-CEMETERY COLUMBARIUM	10-000-0000-3206	(39,667.30)	(12,694.75)	(464.91)				(52,826.96)		(52,826.96)
LANDFILL PERPETUAL CARE FUND	10-000-0000-3208	(584,228.02)	(76,155.58)	(6,828.63)				(667,212.23)	(105,000.00)	(772,212.23)
AMENITY FEE-COMMUNITY FUNDING -Goshen	10-000-0000-3210	(568,762.01)		(6,643.71)		169,987.92	50,000.00	(355,417.80)	(315,099.52)	(670,517.32)
AMENITY FEE-COMMUNITY FUNDING -GB	10-000-0000-3211	(124,416.97)	(60,833.50)	(1,458.37)				(186,708.84)	(10,833.00)	(197,541.84)
SHRC - RESERVE FUND DRESSING ROOM PROJECT	10-000-0000-3212	(28,279.03)		(330.53)				(28,609.56)		(28,609.56)
BLDG CODE-REVENUE STABILIZATION RESERVE FU	10-000-0000-3214	(497,650.50)		(5,816.68)		30,299.26		(473,167.92)	232,544.00	(240,623.92)
BLDG CODE-LEGAL/INSURANCE RESERVE FUND	10-000-0000-3216	(361,320.73)		(4,223.22)		12,594.66		(352,949.29)		(352,949.29)
BLDG CODE-CAPITAL RESERVE FUND	10-000-0000-3218	(207,927.05)		(2,430.31)			37,368.94	(172,988.42)		(172,988.42)
MODERINZATION FUND	10-000-0000-3224	(592,911.73)		(6,930.13)				(599,841.86)	599,841.86	-
RESERVE FUNDS - Sub Total	Sub-Total	(3,125,158.76)						(3,011,119.58)		(2,609,666.24)
KIRKTON WOODHAM POOL	10-000-0000-3220	-	(42,669.40)					(42,669.40)		(42,669.40)
EXETER CDF	10-000-0000-3222	-	-					-		-
TOTAL DISCRETIONARY RESERVE FUNDS		(3,125,158.76)	(192,353.23)	(36,527.77)		212,881.84	87,368.94	(3,053,788.98)	401,453.34	(2,652,335.64)

Asset Management Strategy

- What are we contributing to Asset Management?
 - 2021 investment in capital infrastructure \$7.8M
 - Contribution to Capital Replacement Reserves \$3.2M
 - Dedicated Asset Management budget \$175,000
 - Dedicated capital levy – ½ % \$44,650

Budget Pressures

- Asset Management
 - Infrastructure deficit
 - Annual Capital requirements to maintain existing assets
 - Inflation index
 - Contribution to reserves for future asset replacement
- COVID-19
 - Realizing user fee revenues
 - Increased expenses

Budget Pressures

- No assessment increase
 - Re-assessment for 2021 and 2022 has been deferred
 - Minimal growth likely for 2022
 - New construction assessment values usually take 2 years before included in our tax roll
 - Unknown write offs from ARB decisions
 - Impact of the property sales boom unknown at this time
 - Dependent on how MPAC handles reassessment
- Insurance projected at 15% increase (per Marsh) - \$33,610
- Cost of Living – estimated at over 4% (August 2021)

Budget Pressures

- Policing Costs – unknown
- Conservation Authorities – unknown
- OMPF – 2022 allocation is unknown (notice usually October)
 - 2021 Allocation = \$1,344,700 (3.4% reduction)
 - 2020 Allocation = \$1,391,700 (2% reduction)
 - 2019 Allocation = \$1,420,400 (2% reduction)

Residential Tax Rates

Year	Urban Tax Rate Increase over previous year	Rural Tax Rate Increase over previous year
2021	0.0%	0.0%
2020	1.66%	0.85%
2019	1.17%	0.15%
2018	0.84%	0.16%



Questions/Comments

Tax rate target?