



2023 Basics

November 28, 2022
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 permit fees, 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
- Interest on investments
- Sales (ie cemetery lots)
- Donations

Budget Basics — How are Municipal Services Funded?

- Grants - OMPF – Ontario Municipal Partnership Fund
 - Provinces main general assistance grant to municipalities
 - Primarily supports northern and rural municipalities , supporting areas with limited property assessment
 - Receive annual allocation notice specifying funding for the calendar year

Year	Funding Allocation
2023	1,512,600
2022	1,404,200
2021	1,344,700
2020	1,391,700
2019	1,420,400

Budget Basics — How are Municipal Services Funded?

- Grants - Canada Community-Building Fund (formerly known as Gas Tax)
 - Federal grant flowed through the province
 - Support local infrastructure priorities
 - Funds not used in any given year must be maintained in a reserve fund
 - Asset Management plan recommendation to utilize this source of funding for transportation asset replacement

Year	Funding Allocation
2023	334,118
2022	320,196
2021	628,010
2020	306,274
2019	306,274

Budget Basics — How are Municipal Services Funded?

- Grants - OCIF – Ontario Community Infrastructure Fund
 - Formula based – proposed changed to funding formula for 2023, however province has not finalized this
 - Receive annual allocation notice specifying funding for the calendar year
 - Asset Management plan – recommended this funding be used for transportation asset replacement

Year	Funding Allocation
2023	Unknown
2022	1,210,703
2021	688,269
2020	688,269
2019	673,392

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 if applicable
 - Monthly capital project status report
 - Year end report advising of any projects to be carried forward
 - 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, 2022 and 2023
- MPAC has not provided any definitive information on strategy for next re-assessment
- Anticipate some assessment growth, return roll by mid December

Budget Basics – Tax Levy vs Tax Rate

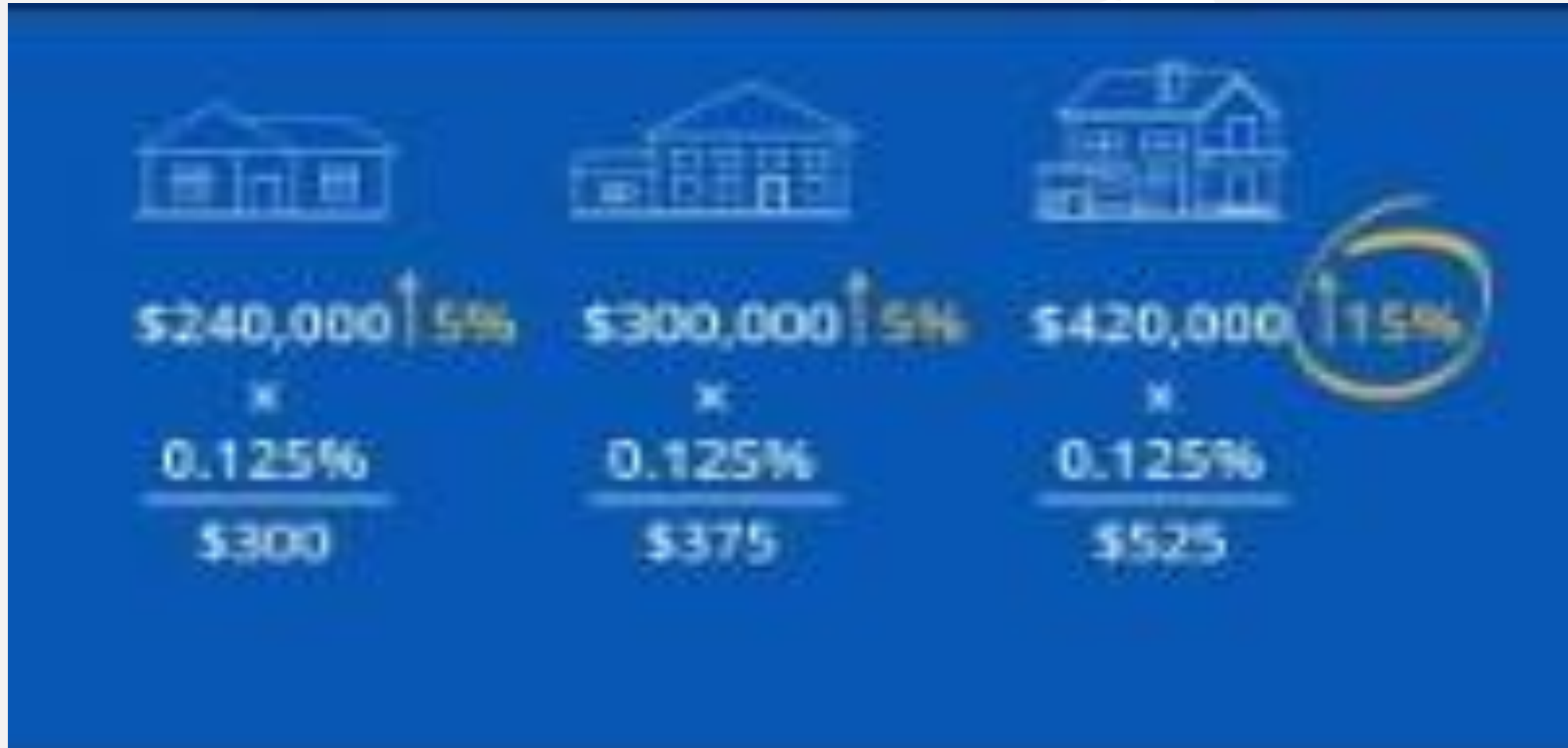
Tax Levy

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

Tax Rate

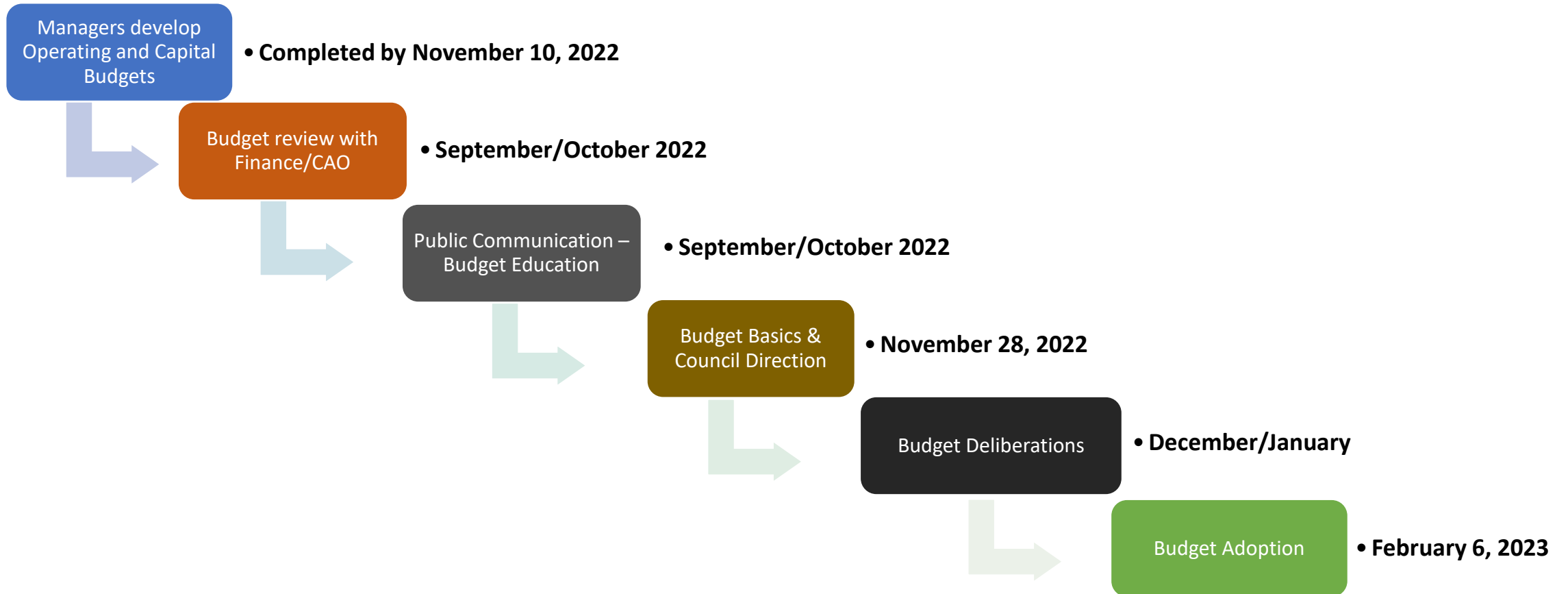
- Tax rate is the rate used to calculate taxes to be collected based on levy amount required to fund services.

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



MPAC How your property tax is Calculated Video
<https://www.youtube.com/watch?v=nrWry5i3TBU>

Building the Budget



Communication Strategies

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

2023 Budget Development strategy

- Maintain current levels of service
- Debt Management Strategies
 - Debt Management policy adopted November 2021
- Principles of Asset Management Plan
 - Long term capital plan
 - Recommended financial strategies for Council consideration

2023 Budget Development strategy

- Levy increase on base budget for lines impacted by cost-of-living increases, contracts, utilities, etc
- Replacement of rolling stock assets which may take 2 budget years before will receive – full financial commitment in the budget year in which the asset is ordered
 - ie – fire trucks, plows

Community Grants/Commitments

- Community Fund – Agreement expires November 2022
(\$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
- \$43,631 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
 - Huron Perth United Way



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

- “Projected” Debt amount as of December 31, 2022 = \$ 24,382,317
- “Projected” Debt Servicing as of December 31, 2022 = \$ 2,421,669
- South Huron's projected ARL with 2022 commitment 12.1%
 - Provincial maximum is 25%
 - Ministry considers anything over 10% high risk



South Huron's Current Position

Debt Allocation by category (including 2022 commitment)

Water Infrastructure	\$ 8,910,924
Sewer Infrastructure	\$ 8,152,255
Recreation Facilities	\$ 7,319,138
Total	<u>\$24,382,317</u>



Debt Management strategies

- Debt Management policy adopted November 2021
 - ✓ Established debt limits
 - Maximum annual debt servicing limit of 12.5%
 - With intention to reduce to 10% by the year 2030
 - ✓ Term restrictions
 - Term of debt will not exceed the lessor of (i) expected useful life of the capital investment and (ii) 30 years
 - ✓ Direction for retiring debt
 - ✓ Types of debt
 - ✓ Parameters on internal borrowing from reserves and reserve funds

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.31,2021	Transfers In			Transfers Out		BALANCE DEC.31,2022	2022 Estimate	
			Contributed from General	Interest Eamed	Contr from Capital	Transfer to General	Transfer to Capital		Estimated Amounts Committed to Projects(Contribution)	ESTIMATED BALANCE Dec 31, 2022
Working Fund Reserve	10-000-0000-3100	4,341,723.46	229,161.00					4,570,884.46	(1,090,072.65)	3,480,811.81
Benefits Contingency Reserve	10-000-0000-3102	169,923.84	41,262.01					211,185.85		211,185.85
Insurance Claims Contingency Reserve	10-000-0000-3104	5,939.50						5,939.50		5,939.50
Green Initatives (Energy MgmntPlan)	10-000-0000-3108	9,175.86						9,175.86		9,175.86
Election Reserves	10-000-0000-3110	14,241.00	9,500.04					23,741.04	(14,241.00)	9,500.04
Community Improvement Program	10-000-0000-3112	210,000.00						210,000.00		210,000.00
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	512,574.00						512,574.00		512,574.00
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)		-		-
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
Transportation Reserve (Dept Specific Reserve)	10-000-0000-3126	57,332.00						57,332.00	(12,689.88)	44,642.12
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	190,729.45						190,729.45		190,729.45
Exeter Pool (Dept Specific Reserve)	10-000-0000-3132	12,000.00				(12,000.00)		-		-
Kirkton Woodham Pool (Dept Specific Reserve)	10-000-0000-3133	-						-		-
South Huron Water (Dept Specific Reserve)	10-000-0000-3136	2,767,185.34						2,767,185.34		2,767,185.34
South Huron Sewers (Dept Specific Reserve)	10-000-0000-3140	98,593.42						98,593.42		98,593.42
Solid Waste (Dept Specific Reserve)	10-000-0000-3144	(46,778.73)						(46,778.73)		(46,778.73)
Exeter Cemetery Fence	10-000-0000-3145	110,150.00	14,565.47					124,715.47	(124,715.47)	-
TOTAL		8,844,082.41	294,488.52	-	-	(16,056.05)	-	9,122,514.88	(1,241,719.00)	7,880,795.88

MUNICIPALITY OF

South Huron

Reserves – Capital Replacement Reserves

CAPITAL REPLACEMENT RESERVE-USER FEE PRGS		3,343,775.56	Transfers In			Transfers Out		6,178,178.80		
Sewers Capital Replacement Reserve	10-000-0000-3146	545,707.26	964,472.04					1,510,179.30	(2,607,064.00)	(1,096,884.70)
Water Capital Replacement Reserve	10-000-0000-3150	2,694,265.59	1,850,634.24					4,544,899.83	(2,429,643.00)	2,115,256.83
Landfill Capital Replacement Reserve	10-000-0000-3152	103,802.71	19,296.96					123,099.67	(88,336.00)	34,763.67
CAPITAL REPLACEMENT RESERVE-LEVY PRGS		8,383,298.37						10,130,326.39		
General Admin Capital Replacement Res	10-000-0000-3154	378,576.83	47,565.96					426,142.79	(8,141.00)	418,001.79
Dedicated Capital Levy	10-000-0000-3155	89,300.00	90,868.92					180,168.92		180,168.92
Fire Capital Replacement Reserve	10-000-0000-3156	1,449,937.72	519,359.35					1,969,297.07	99,500.00	2,068,797.07
Building/Dev Capital Replacement Reserve	10-000-0000-3158	32,987.05	2,459.04					35,446.09		35,446.09
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	4,622,465.92	917,825.70					5,540,291.62	(516,445.80)	5,023,845.82
Streetlighting Capital Replacement Reserve	10-000-0000-3164	309,441.87	28,518.96					337,960.83		337,960.83
Cemetery Capital Replacement Reserve	10-000-0000-3166	124,206.28	6,678.96					130,885.24		130,885.24
Recreation Capital Replacement Reserve	10-000-0000-3168	1,111,382.70	133,751.13					1,245,133.83	(756,902.87)	488,230.96

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. Canada Community Building Fund (Gas tax)

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

								28,846,957.91 Total Reserves & Reserve Funds	
OBLIGATORY RESERVE FUNDS-DEFERRED REVENUE			Transfers In			Transfers Out			
DEVELOPMENT CHARGES-Other Services	10-000-0000-2240	19,720.94						19,720.94	19,720.94
DEVELOPMENT CHARGES - Fire	10-000-0000-2245	50,845.11						50,845.11	50,845.11
DEVELOPMENT CHARGES-Transportation	10-000-0000-2250	253,900.75						253,900.75	253,900.75
DEVELOPMENT CHARGES-Sewers System	10-000-0000-2255	365,621.82						365,621.82	(322,000.00) 43,621.82
DEVELOPMENT CHARGES-Water System	10-000-0000-2260	80,475.93				(47,000.00)		33,475.93	33,475.93
DEVELOPMENT CHARGES-Parks & Recreation	10-000-0000-2265	277,703.08						277,703.08	277,703.08
TOTAL DEVELOPMENT CHARGES	Sub Total	1,048,267.63	-	-	-	(47,000.00)	-	1,001,267.63	(322,000.00) 679,267.63
Parkland Reserves	10-000-0000-2270	113,545.45						113,545.45	(64,000.00) 49,545.45
Canada Community-Building Fund (gas tax)	10-000-0000-2275	901,029.21	320,196.09					1,221,225.30	(1,002,500.00) 218,725.30
OCIF Funding	10-000-0000-2280	641,611.44	1,210,704.00					1,852,315.44	(1,241,879.00) 610,436.44
Other Grants	10-000-0000-2281	14,175.00						14,175.00	(14,175.00)
OCLI (Cannabis)	10-000-0000-2285	23,823.42						23,823.42	23,823.42
Mainstreet Revitalization	10-000-0000-2286	-						-	-
Safe Restart (COVID19)	10-000-0000-2288	-						-	-
TOTAL OBLIGATORY RESERVES FUNDS & DEFERRED REVENUE		2,742,452.15	1,530,900.09	-	-	(47,000.00)	-	4,226,352.24	(2,644,554.00) 1,581,798.24

Reserve Funds – Activity Schedule

	ACCOUNT NUMBER	BALANCE DEC.31,2021	Transfers In			Transfers Out		BALANCE DEC.31,2022	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 Community Development Fund	10-000-0000-3200	85,327.27						85,327.27		85,327.27
Webber Pit Reserve Fund	10-000-0000-3202	35,731.24						35,731.24		35,731.24
Exeter Cemetery - Expansion	10-000-0000-3204	1,366.58						1,366.58		1,366.58
Exeter Cemetery-Columbarium	10-000-0000-3206	57,567.42						57,567.42		57,567.42
Landfill Perpetual Care Fund	10-000-0000-3208	777,313.32						777,313.32		777,313.32
AMENITY FEE-Community Funding-Goshen	10-000-0000-3210	737,745.76	289,170.00			(169,987.92)	(224,694.48)	632,233.36	(339,975.84)	292,257.52
AMENITY FEE-Community Funding-Grand Bend	10-000-0000-3211	248,367.14	60,833.50					309,200.64	(50,000.00)	259,200.64
SHRC-RESERVE FUND Dressing Room Project/Upgrad	10-000-0000-3212	28,851.38						28,851.38	(28,851.38)	-
BLDG CODE- Revenue Stabilization Reserve Fund	10-000-0000-3214	440,994.22						440,994.22		440,994.22
BLDG CODE-Legal/Insurance Reserve Fund	10-000-0000-3216	355,932.53						355,932.53		355,932.53
BLDG CODE-Capital Reserve Fund	10-000-0000-3218	174,450.57						174,450.57		174,450.57
Modernization Fund	10-000-0000-3224	559,699.08				(85,759.83)		473,939.25	(473,939.25)	-
RESERVE FUNDS - Sub Total	Sub-Total	3,503,346.51						3,372,907.78		2,480,141.31
Kirkton Woodham Pool	10-000-0000-3220	43,030.06						43,030.06		43,030.06
		-	-					-		-
TOTAL DISCRETIONARY RESERVE FUNDS		3,546,376.57	350,003.50	-		(255,747.75)	(224,694.48)	3,415,937.84	(892,766.47)	2,523,171.37

Budget Pressures

- Asset Management
 - Infrastructure deficit
 - Annual Capital requirements to maintain existing assets
 - Inflation index
 - Contribution to reserves for future asset replacement
- Cost of Living
 - CPI = 6.9% as of September 2022
 - impacts on gravel prices, vehicle costs, fuel costs, utility costs, etc
- Supply chain issues continue

Budget Pressures

- No assessment increase
 - Re-assessment for 2021, 2022 and 2023 has been deferred
 - 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 12% increase (per Marsh)
- Increased debt service costs – Recreation projects

Budget Pressures

- OCIF grant funding – 2023 allocation notices expected in November.
 - 2023 funding formulas changing from previous years (details not yet released)
 - Changes due to transition will be limited to no more than + or- 15% of the previous year

Residential Tax Rates

Year	Urban Tax Rate Increase over previous year	Rural Tax Rate Increase over previous year
2022	1.72%	2.48%
2021	0.0%	0.0%
2020	1.66%	0.85%
2019	1.17%	0.15%



Questions/Comments

Tax rate target?