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Mayor and Members of Council
Town of Gravenhurst
3-5 Pineridge Gate
Gravenhurst, Ontario P1P 1Z3

January 24, 2020

Dear Mayor Kelly and Members of Council:

Re: Town of Gravenhurst 2020 Municipal Budget

The Muskoka Lakes Association (MLA) is an active participant in municipal affairs across the District. Regularly, we comment on municipal budgets on behalf of our 2,300 member families consisting of both permanent and seasonal residents.

The Town of Gravenhurst (the “Town”) is asking for a 5.8% increase in property taxes for 2020, compared with inflation rate of just 1.9% in 2019. Having reviewed the Town’s budget for this and past years, we would like to draw attention to our four main concerns:

1. Property taxes collected by the Town have grown at a rate far exceeding its population and household growth;
2. Gravenhurst’s property tax rate has significantly increased while District and Provincial Education property tax rates have declined;
3. High property taxes are impacting property values in Gravenhurst, which after accounting for taxes and inflation, have lost value in the past ten years; and
4. The urgent need to adopt accrual accounting to properly cost services provided by the Town.

Each of these concerns are discussed further in the following paragraphs.

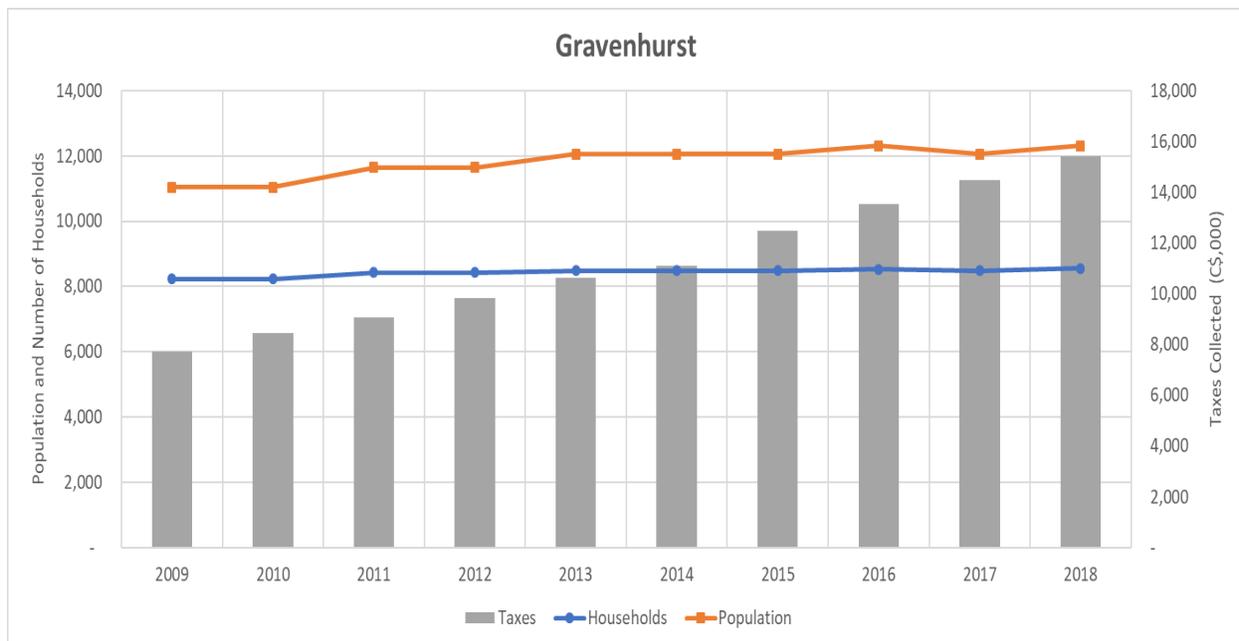
Municipal Property Taxes versus Population and Household Growth

Property taxes are calculated and charged by the household. In Gravenhurst, over the past 10 years (2009 - 2019), the number of households has increased by just over 4%, while the population has grown by less than 13%. During this same period, property taxes have more than doubled as illustrated in the table and chart below. The tax rate has increased 25 times that of the household growth rate, 9 times the population growth rate and 5 times the rate of inflation. It should be noted that for 2019, the overall inflation rate was at the provincial long-

term average of 1.9%, while the cost of services, the majority of the Town’s expenses, increased by just 1.6%.

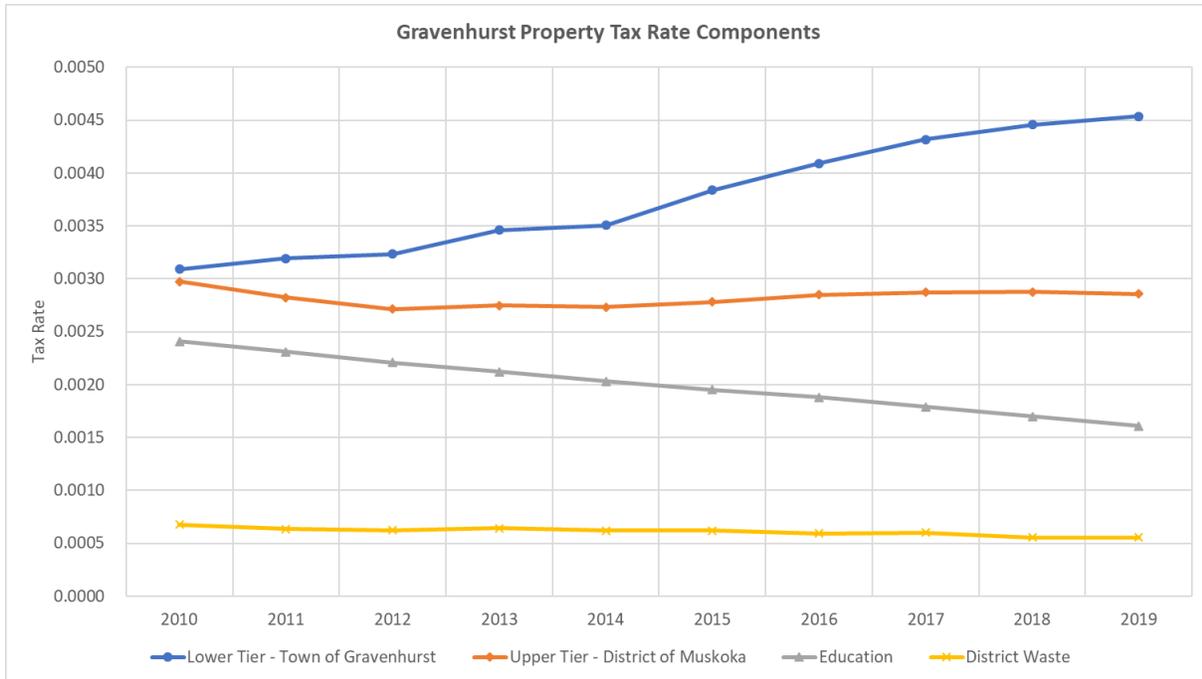
Even when population growth and inflation are taken in to account, the growth in taxes is still 4 times greater than the growth in costs to provide those same services.

	10 Year Growth Rate	Annualized	Relative to Taxes
Municipal Property Taxes	+110.5%	7.7%	
Number of Households	+4.4%	0.4%	25x
Population	+12.8%	1.2%	9x
Inflation	+21.0%	1.9%	5x



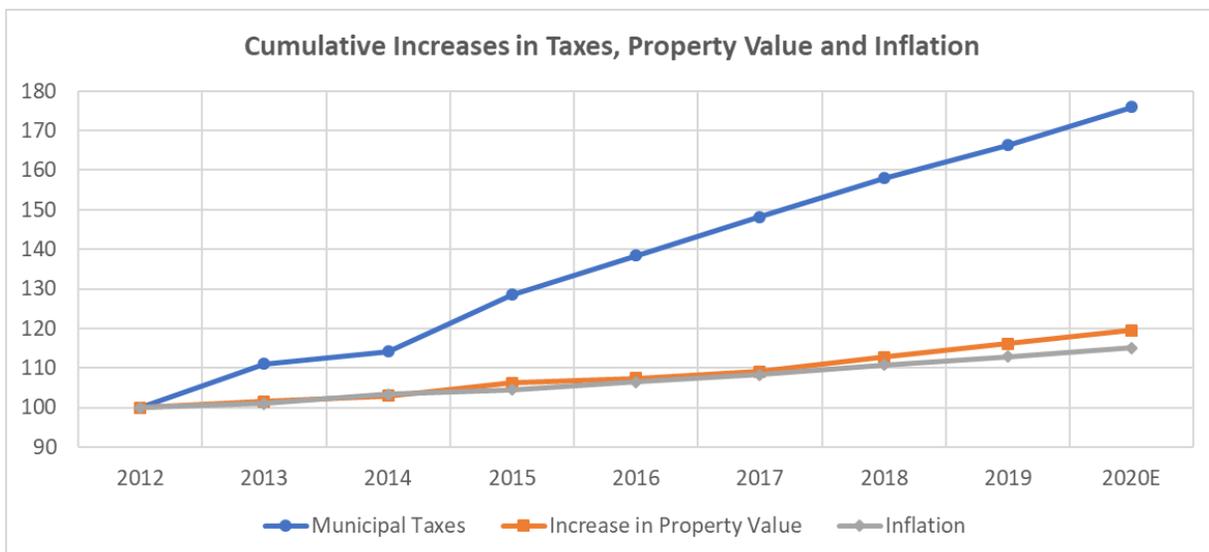
Municipal versus District, Education and Waste Tax Rates

The chart below illustrates the four major components of property taxation in Gravenhurst. As a result of property values in the province increasing significantly over the past ten years, the **education tax rate has decreased by over 46%**, while still funding schools at a level greater than inflation. Similarly, over the past ten years the **Upper Tier or District tax rate has decreased by just over 8%** and the **District waste charge has decreased by over 22%**, while still funding increases in services above the rate of inflation. Yet, in the past ten years, **Gravenhurst has increased its tax rate by over 45%**.



High property taxes are impacting property values in Gravenhurst

The following chart illustrates the cumulative increases in Gravenhurst’s property taxes compared with the growth in value of properties as determined by MPAC and inflation using 2012 as the baseline year. Over the past 8 years, growth in property values has barely beat inflation and factoring in taxes, despite a province wide real estate boom, **property owners in Gravenhurst have lost money**. This higher tax burden appears to be hurting the value of properties in the municipality, which in turn can lead to the need for even higher tax rates.



The capital budget is a list of items the Town would *like* to spend money on in the current and future years, which includes a \$2 million aerial firetruck and \$2 million in renovations to the Town's lobby and offices. The challenge is to determine how much the Town *should* be spending on different services on a fully costed basis, which includes capital and operating expenses, and what is the appropriate level of taxation. It should be noted that staff were directed to present a budget with a 1% increase in the tax levy for the capital budget this year, yet presented a 3% increase.

The Urgent Need to Adopt Accrual Accounting

The Town's biggest expense each year is on roads. Yet, nowhere in the 539 pages of the budget is the total annual cost of maintaining roads indicated.

In the budget presentation, the capital budget is treated as a separate entity from the operating budget, which makes it difficult to assess the total cost of providing the Town's different services. Accrual accounting is a well-established method of translating money spent on capital items (anything that has a useful life of greater than one year or one accounting period) to the operating budget. All private and public companies use accrual accounting. The CRA (Canada Revenue Agency) uses accrual accounting when calculating business taxes. All Provincial and Federal governments use accrual accounting in presenting budgets and finances. However, similar to many municipalities in Canada, Gravenhurst does not use accrual accounting in presenting its annual budget.

The C.D. Howe Institute released an excellent report covering among other issues accrual accounting in municipal budgets <https://www.cdhowe.org/public-policy-research/show-us-numbers-grading-financial-reports-canada%E2%80%99s-municipalities> entitled: "*Show Us the Numbers: Grading the Financial Reports of Canada's Municipalities*"

We encourage anyone interested or involved in approving municipal budgets to read the report's one page summary, if not the entire report.

Each year the Town is required to submit financial statements to the province using accrual accounting and compare the most recent year, the previous year and the approved budget on the same basis.

For 2018, council approved an operating budget of \$15.4 million. However, on page 4 of the Town's financial statements, the audited budget shows total expenses of \$23.7 million. It appears that the Town spent \$8.3 million more than council approved. One could simplistically and incorrectly attribute the difference to the capital budget that was also approved by council. However, the approved capital budget was for \$5.5 million, still leaving \$2.8 million in spending

unaccounted for. This discrepancy illustrates how presenting separate operating and capital budgets can be misleading and outcomes dependent on the chosen accounting treatment.

For example, resurfacing gravel roads after spring thaw each year should properly be classified as an operating expense since gravel roads need to be resurfaced each spring. Yet, gravel road resurfacing could also be declared a capital expense, as some municipalities do, lowering the operating cost of road maintenance and hence the overall operating budget, while increasing the capital budget and the perception that capital reserves need to be increased.

Accrual accounting integrates capital and operating budgets, so that a true picture of the total cost of providing the Town's different services can be determined and informed decisions made concerning the appropriate levels of expenditures.

The MLA recommends that the Town of Gravenhurst:

1. Adopt accrual accounting in preparation of its budgets in order for council to accurately assess the total cost of providing the Town's different services;
2. Carry out an analysis to determine why the Town's expenses and hence taxation have been growing at a rate far greater than the cost to provide essentially the same level of service over the past ten years and identify steps to correct this problem; and
3. In light of inflation of 1.9% and an assessment base increase of 3.0%, consider keeping tax increases in line with inflation this year.

We appreciate the opportunity to provide comments and would welcome the opportunity to work with you to address some of our concerns. Please contact Dayle Hogg at wdhogg@rogers.com.

Yours respectfully,



Deborah Martin-Downs
Government & Land Use Chair



Dayle Hogg
Budget Chair