



**Staff Report FIN-2021-013**  
Special General/Finance Committee  
November 3, 2021

**TO:** Chair Zavitz and Members of Committee

**AUTHOR:** Mark Donaldson, Director of Financial Services

**SUBJECT:** 2022 Draft Operating and Capital Budget and Forecast

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## **RECOMMENDATION**

THAT the Township of Muskoka Lakes “2022 Draft Operating Budget and Forecast”, attached to the staff report FIN-2021-013, be endorsed in principle;

AND THAT public comment on the “2022 Draft Operating and Capital Budget and Forecast” be sought at a Special Council Meeting scheduled for November 23, 2021.

## **REPORT HIGHLIGHTS**

This report provides background on the process to develop the 2022 Operating and Capital Budget and Forecast as well as an overview of the Operating and Capital Budgets, including forecasted reserves.

The 2022 Operating Budget as presented meets the budget guideline of 5% (including transfers to reserve) as endorsed by Council at their September 15<sup>th</sup>, 2021 meeting.

The resulting net required levy for 2022 is \$13,211,300. With consideration given to the increase in assessment value in determining the net required levy, the projected tax rate increase would be \$21.26 per \$500,000 of assessment, or 3.5%.

## **BACKGROUND**

### **Municipal Budget**

Section 290(1) of the Municipal Act, 2001 requires local municipalities to prepare and adopt a budget including estimates required during the year for the purposes of the municipality. The *Municipal Act* requires that budget to include:

- a) Amounts sufficient to pay all debts of the municipality falling due within the year;
- b) Amounts required to be raised for sinking funds; and
- c) Amounts required for any board, commission or other body

The municipal budget serves three primary purposes:

- To set out the complete program with regard to all expenditures for the Township;
- To forecast non-tax revenues and establish tax revenue requirements; and
- To provide a method of tracking and controlling expenses.

The budget, along with related by-laws and policies, provides Council direction to staff to deliver services at specified costs, to make expenditures, to raise revenues, and if desired, to invest and to borrow.

## **Developing the 2022 Operating and Capital Budget and Forecast**

### **2021 Budget – Lessons Learned**

Subsequent to Council's adoption of the 2021 Budget, Staff reached out to members of Council and key stakeholder groups to solicit feedback on the 2021 Budget process. Improvements to the process and budget document included but are not limited to:

- The creation of an Engage Muskoka Lakes page dedicated to the budget and solicitation of public input prior to the budget creation; and
- Enhanced analysis and use of historical (2019 & 2020) actual and forecasted (2021) financial information to develop budget estimates.

In this regard, it should be noted that the budget software acquired in late 2020 enabled improved analysis of financial information included for this year's budget. In the future, there will be an on-going ability for enhanced variance analysis as part of staff's quarterly financial reporting in 2022.

### **Multi-year Forecast**

Staff are presenting a current year operating budget along with a 2-year forecast. The forecasted years (2022, 2023) are projections based on current available information and assumptions. These numbers are intended to provide Committee Members with a projection of future years operating financial information, but are subject to update and will be presented annually for approval based on newly available information.

## **2022 Operating and Capital Budget and Forecast Report Changes**

### **Operating**

This year's Operating Budget contains three reports, with the first being entitled "Operating Budget Summary", which provides an overall Operating Budget summary a grouping of key accounts. Committee will note that this summary includes two years of historical actual financial information (2019 & 2020), the approved 2021 Budget figures, as well as a forecasted projection of results to year end (based on 2021 actuals to date) for comparative purposes.

The key accounts included in the reports are outlined in Tables 1 & 2 as follows:

Table 1: Expense Category Definitions

EXPENSE CATEGORY	DESCRIPTION
Salaries and Benefits	All wages and employer costs, including payroll taxes, pension and employee benefit costs
Contract Services, Materials, Equipment	Vehicle maintenance, materials and equipment, rentals and small projects
Utilities and Facility Maintenance	Building and ground maintenance, caretaking, hydro, gas, water, waste disposal
Insurance	General insurance and VFIS coverages
Professional Fees and Honoraria	Legal, audit, consultants, including Tribunal, and committee honoraria; 2022 includes election expenses
Staff Development	Fees, conferences, memberships, training, recruitment and recognition
IT Hardware and Software	Software licenses and support service costs
Administration	General office expense, including telephone, advertising and tax adjustments
Debt Repayment	Debt servicing of District debenture
Grant and Community Programs	Community grants, operating grants, community support and beautification
Other Expense	Allowances, mileage (travel), general goods and services
Contributions to Reserves	Allocations to discretionary reserves from general taxation

Table 2: Revenue Category Definitions

REVENUE CATEGORY	DESCRIPTION
User Fees	Planning applications, facility rentals, docking fees and tax requests (e.g. duplicate tax bills, certificates, etc.)
Other Tax Revenues	Supplementary and Omitted billings (including past years), payments-in-lieu of taxes and street lighting levy
Licenses, Permits and Rentals	Fire, building, access and other permits; lottery and liquor licenses, road allowances, tower space and board rental/advertising
Fines and Penalties	Tax arrears and general fines
Cost Recoveries	Recoverable amounts from services provided or agreements (e.g. insurance, District services)
Grants and Subsidies	Federal and provincial grants and financial assistance (e.g. student employment, library, aggregate payments)
Investment Income	Earnings on cash holdings
Other Revenues	Donations, cemetery plots and markers and other general revenue
Transfers from reserves	Amounts drawn from reserves for operations

The second report is entitled “Operating Budget Summary by Division” and provides a break down summary of the net required levy by area of operation. This report includes all operating expenses (including reserve contributions) offset by revenues. A more detailed breakdown of information on operating expenses and revenues and reserve contributions is contained in the third set of reports “Division” (Department).

## Capital Budget and Forecast

In contrast to the 2021 budget, this year the 2022 Capital Budget and Forecast presentation has been updated to provide grouping and sub-totals for asset categories (e.g. buildings, vehicles, etc.) for each department. To assist in locating specific projects, items are now alphabetized by name.

## Reserves

Reserve Continuity Reports are included for all reserves, as well as summary presentations by reserve type. The inflows (reserve contributions) for 2022-2024 are derived directly from the Operating Budget with estimates made for the remaining 7 years. The outflows (expenditures) for all 10-years are directly linked to specific projects in the Capital budget. There is also an interest assumption which is based on an annual return of 1% in the first three years (2022-2024), increasing to 2% beyond 2025.

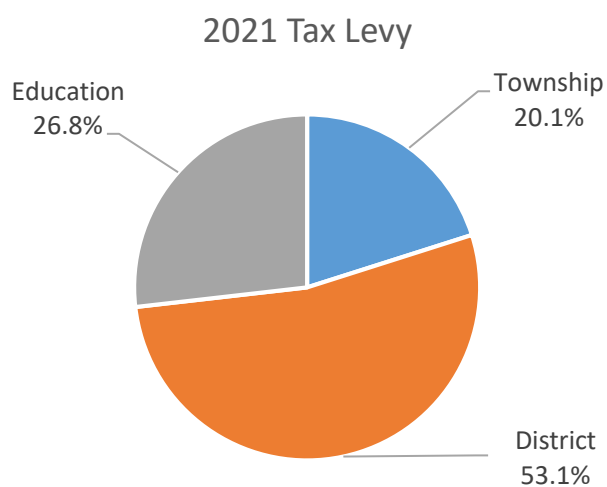
## Draft Operating Budget – Programs and Services

Consistent with previous years, the 2022 Draft Operating Budget funds ongoing Township programs and services and is predominantly based on funds collected through the property tax collection process. Other revenue sources include grants and user fees.

While the Township also collects taxes for the District Municipality of Muskoka (upper-tier) and for school board purposes, these amounts are treated as a flow-through by the Township of Muskoka Lakes. The amounts collected on behalf of the District of Muskoka and the Minister of Education are based on annual tax rates set by each, and the Township is required to use those tax rates in preparing the final tax bill for property owners in the Township of Muskoka Lakes.

Figure 1 below shows the amounts billed in Muskoka Lakes based on the 2021 Tax Year:

Figure 1:



Source: OPTA

The Township portion of the Tax Bill funds the following services:

- Public Works
  - Roads, winter control and road maintenance services
  - Engineering and construction
  - Parks, docks and trails (including signage and lighting)
  - Recreation and culture services
- General government
  - Administration (Treasury, Human Resources)
  - Information Technology
  - Clerk
- Fire and emergency services
- Library services
- Development Services and Environmental Sustainability
  - Economic development
  - Planning
  - Building and septic inspection and (re)inspection
  - By-law enforcement

#### Operating Budget Guideline

Committee will recall that Council endorsed a 2022 operating budget guideline of 5%, which was comprised of a 1.5% increase over the 2021 net required levy for operating expenses (i.e. day to day expenses only) and a 3.5% increase in contributions to reserves.

### ANALYSIS

#### 2022 Required Tax Levy

The draft 2022 base Operating Budget has an overall net levy increase of \$627,214 over 2021, or 4.98% which is line with Council's budget guidelines provided to staff in August 2021.

Assessment growth of properties in the Township in 2021 is projected to be 1.5% per MPAC. Because of the impacts of the COVID-19 pandemic in Ontario, the Municipal Property Assessment Corporation (MPAC) has continued its delay of the usual 4-year phase in of property assessment increases in 2021. MPAC did resume inspection of sites in 2021, which is the cause for the increase. The modest increase in assessment values results in an effective tax rate increase for 2022 of 3.5% over 2021.

The impact on the tax rate and the taxes paid by an individual property owner will vary depending on the property's assessment applied by MPAC relative to the average assessment. Table 3 shows that the estimated annual tax increase on a typical residential property assessed at \$500,000 is \$21.26.

Table 3 - 2022 Budget Impact on a Residential Property Assessed at \$500,000:

2022 Budget Impact on a Residential Property Assessed at \$500,000					
2021 Tax Rate	2021 Taxes	2022 Effective Tax Rate	2022 Taxes	% Increase (Decrease)	\$ Increase (Decrease)
0.00123029	\$615.15	0.00127281	\$636.41	3.46%	\$21.26

For the purposes of the forecasted years 2023 and 2024, the estimated increase in the required tax levy is \$1,243,700 for 2023 (9.4%) and \$522,400 for 2024 (3.6%). These forecasted future adjustments are based on current assumptions and will be reviewed as part of the development of future annual budgets.

## 2022 Base Operating Budget and Forecast Overview

### General

In developing the 2022 Base Operating Budget, staff reviewed the most recent actual financial information available (2019, 2020 and preliminary 2021) in relation to the approved 2021 Operating Budget to help inform an appropriate level of funding request for 2022. The draft Base Operating Budget contains the funding required to support current 2021 service levels accounting for estimated cost pressures and inflation.

Table 4 – 2022 Base Operating Budget Breakdown

	2021 Approved Operating Budget	2022 Draft Operating Budget	Year-over-year Impact to Levy	% Change
Operating Costs	13,781,268	13,964,200	182,932	1.33%
Non-tax revenue	(3,505,675)	(3,691,400)	(20,005)	2.41%
Other tax revenue	(831,495)	(851,500)	(185,725)	5.30%
<b>Net Operating Expenditures</b>	<b>9,444,098</b>	<b>9,421,300</b>	<b>(22,798)</b>	<b>(0.24%)</b>
Contribution to Reserves	3,558,990	4,000,000	441,010	12.39%
Transfers from reserves	(419,000)	(210,000)	209,000	(49.8%)
<b>Net Transfers from Reserves</b>	<b>3,139,990</b>	<b>3,790,000</b>	<b>650,010</b>	<b>20.70%</b>
<b>NET LEVY REQUIREMENT</b>	<b>12,584,088</b>	<b>13,211,300</b>	<b>627,212</b>	<b>4.98%</b>

As shown in Table 4 above, there is an increase of 1.33% in operating costs year-over-year in 2022, with an overall net operating expenditure decrease of 0.24%. Non-tax revenues are anticipated to rebound in 2022 as the province emerges from the COVID-19 pandemic. The increase in contributions to reserves is the primary driver of the increase in levy required in 2022.

## Expenditure Drivers

### Compensation

An updated Council compensation policy was approved in July 2021 by Council setting a cost of living adjustment equal to the StatsCan consumer price index as of the previous August. That CPI adjustment is 4%. For budget forecast purposes, the increase for this expenditure for 2023 and 2024 is assumed to be at 2%. There have been no change to Council benefits from 2021.

Council approved an updated Compensation Policy for non-union staff that sets a cost of living adjustment equal to the StatsCan consumer price index as of the previous August. That CPI adjustment is 4%. For budgeting purposes, the budget forecast years for 2023 and 2024 have been assumed at 2%.

The Township and OPSEU ratified a new five-year agreement during 2021. This agreement provided for an average 1.5% increase in wage rate, plus an adjustment to bring similar positions to relative parity across the district (approximately an additional 1%). Also negotiated were some benefit enhancements. This increase in costs for the Township's union staff are included in the 2022 Budget.

As part of Council's approval of the 2021 Budget, three new full-time positions were approved, including a Planner 1, a Chief By-law Officer and a Mechanic. The compensation costs related to these positions were pro-rated for 2021, based on the date of budget approval and time needed to recruit for these positions. The 2022 Budget accounts for the full year salary and benefits cost of these positions. In addition, job evaluations were performed on four positions during 2021 related to Council approved department re-organizations. These job evaluations resulted in these positions being moved to higher pay bands due to increases in responsibility. These reclassifications are also reflected in the 2022 Budget.

In addition to cost-of-living adjustments, staff who are not at the top step of their pay band are eligible to move within the pay band in a year. Staff hired within the past three years generally will also have a step increase in addition to their cost-of-living adjustment.

Benefit costs are based upon the most recent information provided by our advisor. Government changes to the Canada Pension Plan contributions will go into effect in 2024. Benefit costs proportionate with salary costs (e.g. Employer Health Tax is a % of payroll) have been increased accordingly.

### Gapping

To prudently address the impacts of compensation noted above, staff undertook an analysis of the past three years of the staff vacancy rate in comparison to budget requests. As it appears that this area was modestly underspent, a staff gapping estimate has been included in the salary and budget forecast for 2022. Staff will monitor any savings related to vacancies during the year against this estimate, and will report back to Council on the results. If savings, which cannot be covered off by other cost reductions or increased



revenues do not materialize, Staff will report on the impact of that variance with recommendations.

### Insurance

Another significant expenditure driver is the current municipal insurance market, which continues to present challenges for municipalities across Ontario. This year, the Township's insurance premium increased by over 15%. Other District of Muskoka municipalities experienced higher increases than the Township received last year. Anecdotal discussions by industry experts suggest the market continues to be challenged, with some insurers requiring municipalities to increase deductibles to curtail rising costs. Out of prudence and given the current insurance market conditions, an increase of approximately 16% over 2021 has been used in the draft budget.

### Election

The 2022 Budget includes \$110,000 of expenses related to the municipal election which will take place on October 24, 2022. These costs will be fully funded from the operating Election reserve. These are presented in the budget as higher expenses in Professional Fees and Honouraria and revenues included from Transfers from Reserves. Additional costs of \$15,000 in 2023 are also expected, which are also offset by the Election reserve. Reserve contributions are made annually so to mitigate the impact of these costs incurred every 4 years.

### Other Expenses

Staff have performed an in-depth review of historical costs to arrive at the 2022 Budget. On-going examination of costs for services at 2021 levels will occur during the year. Where unanticipated events occur during the year, Staff will look to mitigate impacts where possible.

### Revenue Drivers

User fees and other non-levy related revenues are projected to increase by 4.74% based on some volumes of activities increasing with the relaxing of public health measures related to the pandemic and new fees taking effect on January 1 as approved through By-law 2021-122.

The 2022 Budget includes \$100,000 of financial support provided by the Province of Ontario in 2021 to offset additional costs related to enhanced cleaning protocols in emergency vehicles and facilities which are expected to continue into the first half of 2022 as the province emerges from the pandemic.

### Impact of COVID-19

The Township received \$739,000 from the federal and provincial government in 2020 through the Safe Restart Agreement funding to offset extraordinary costs related to the COVID-19 pandemic. Those funds were fully applied in the 2021 Budget. In March 2021,

the province provided to the Township an additional grant of \$394,000 to provide additional financial support to offset incremental operating cost pressures.

Staff have identified \$100,000 of direct costs related to time and materials required to maintain public health measures, such as additional cleaning, that will remain in effect for the first half of 2022. As a result, a portion of these provincial funds have been included as Transfer from Reserves to offset these costs. The remainder of the funds will remain as part of the Township reserves.

### **Service Level Enhancements**

The following proposals, which will improve existing services or create new services and referred to as “à-la-carte” items were requested by Planning Committee for deliberation. These items are considered as incremental expenses to the Draft 2022 Base Operating Budget:

#### **Proposed New Positions:**

- Communications Officer (Communications).
- Planner I (Planning);
- GIS Specialist (Planning); and
- Seasonal By-Law Enforcement – (By-Law);

The following items were also either requested by General Finance or Planning committee, or by community partners and would constitute an enhancement to an existing service level:

#### **Proposed New Items:**

- Community Improvement Reserve;
- Climate Change Reserve;
- Muskoka Lakes Chamber of Commerce Funding Increase;
- Habitat for Humanity Funding Request; and
- MAHC Funding Request.

### **2022 Capital Budget and Forecast**

#### **2022 Capital Budget**

Total expenditures for 2022 are budgeted at \$8,210,483, down from \$8,585,981. Notable changes from the 2021 Capital Budget related to 2022 capital expenditures include:

- Council previously approved an investment in a new accounting system (in conjunction with receipt of a Municipal Modernization Grant); projection hardware for meeting rooms and software implementation projects approved in 2021 were not completed and were deferred to 2022 [Information Technology];
- Purchase of replacement for Tanker 77 (Raymond) advanced from 2023 to 2022;

- Addition of several new projects in 2022, including the construction of new launch ramps at Baycliffe Park (Milford Bay) and Birch Avenue (Port Carling) and the commercial ramp at Appian Way [Parks];
- New investments for the Milford Bay Community Centre and Raymond Community Centre were added in 2022; these investment will be partially funded by grants received in the year, with one already confirmed earlier in 2021 [Community Centres];
- Major repairs to the concrete slab in the Port Carling arena were deferred to 2023 [Arenas];
- Investments in renovations to the Township Office were removed from the 10-year Forecast [Facilities];
- Addition of Glen Gordon Road [Roads]; and
- Refinement of the Bala Falls Bridge replacement [Bridges].

## 2022 Capital Forecast

The total 10-year Capital Forecast outlines \$77,079,042 in capital needs. This represents a minor increase from the 2021 Capital Budget and Forecast of \$76,900,286. Projects costs have been updated based on new information. Significant capital infrastructure costs over the 10-year horizon include:

- \$2.5 million at the Port Carling and Bala Arenas in 2023 and 2025 respectively for concrete floor replacements;
- Construction of new fire halls in Minett and Torrance at an estimated of \$4 million; and
- Construction of a Records Document facility for \$1 million.

In 2021, Staff were hopeful that the program master plans undertaken in 2021 would be completed to provide guidance in developing the 2022 Capital Budget and Forecast. As these plans are still in development and final recommendations have not yet been considered by Council, the Capital Budget and Forecast has not yet been updated to reflect updated capital expenditures. Pending completion of those master plans, the impact on future capital requirements will be assessed and the Capital Budget and Forecast will be updated accordingly. This will include a forecast for the redevelopment of the Township's administrative building in Port Carling as noted earlier this year in staff Report No. PW-2021-020 on Space Optimization.

## Reserves

The new reserve by-law approved by Council in 2021 enabled a reduction in the number of discretionary reserves, as well as a refinement of the definitions related to the reserve's purpose. The 2022 Reserve forecast presentation reflects these new reserves.

The estimated opening balance for all reserves held by the Township is nearly \$15.5 million which breaks down as follows (in thousands):

Obligatory reserves	\$ 3,348
Restricted reserves	\$ 4,202
Discretionary (capital) reserves	\$ 5,839

Operating reserves                      \$ 2,084

Contributions to Obligatory reserves are derived from development changes and park in-lieu payments. These are estimate to increase to \$699,000 per year starting in 2025.

Contributions to Discretionary (capital) reserves include provincial grants received under the Ontario Municipal Partnership fund and federal grants provided through AMO for the Canada Community Building Fund (formerly Gas Tax Funding). The annual contribution forecasted from these two grants is \$1,688,500 per year.

Budgeted interest to be earned on reserves over the next 10 years assumes a modest 1% return in 2022 and 2023, increasing to a 2% in 2024 and beyond. These assumption generate approximately \$2.3 million in interest over 10-year period.

Based on the current assumption related to capital expenditures, grant contributions and interest returns, contributions to reserves funded through the property tax levy will need exceed \$4.5 million by 2024, and reach \$5 million per year by 2028.

### **Accumulated Surplus**

In Report FIN-2021-009 to present the 2020 Audited Financial Statements, it was noted that approximately \$4,000,000 of the Township's accumulated surplus has not been allocated to any reserve. A portion of this balance should be held unallocated for cash flow purposes. Staff will be coming forward will be a future report on how these accumulated surplus funds should be allocated.

### **Next Steps**

Following the Special Meeting of General/Finance Committee on November 3<sup>rd</sup> and 4<sup>th</sup>, amendments recommended by Committee will be reflected in the presented budget documents at a Special Meeting of Council on November 23. Input from the public at that Special Council meeting will be brought back to General/Finance Committee for consideration at a special meeting scheduled for December 9. Should Committee endorse the draft budget as amended, Council consideration would occur at the regular meeting of Council on January 10, 2022.

### **ALTERNATIVES**

There is no alternative recommended at this time.

## **FINANCIAL IMPLICATIONS**

The 2022 Budget will increase the Net Required Levy from property taxes to \$13,211,300, an increase of 4.98%. This increase is within the 5% guideline approved by Council in September 2021.

## **STRATEGIC PLAN**

The development of the budget is required under the Municipal Act and is set to prioritize and deliver on priorities established by Council through the Strategic Plan.

## **COMMUNICATIONS**

This staff report was distributed to Council and all those registered to receive notification through the meeting agenda electronic notification system, and was published on the Township's website in accordance with the Township's Procedural By-law.

## **ATTACHMENTS**

Appendix I – 2020 Operating and Capital Budget

## **PREPARED BY**

ORIGINAL SIGNED BY \_\_\_\_\_

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## **APPROVED BY**

ORIGINAL SIGNED BY \_\_\_\_\_

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