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March 30, 2019  
Mayor and Members of Council

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

### **Re: Town of Gravenhurst 2019 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. This year we have added Gravenhurst to our formal budget review.

#### **Process**

To begin with, we must commend Val Sequeira and his team for putting together a thorough presentation with an excellent level of detail in both the capital and operating budgets. It serves as the standard which we will encourage others to follow.

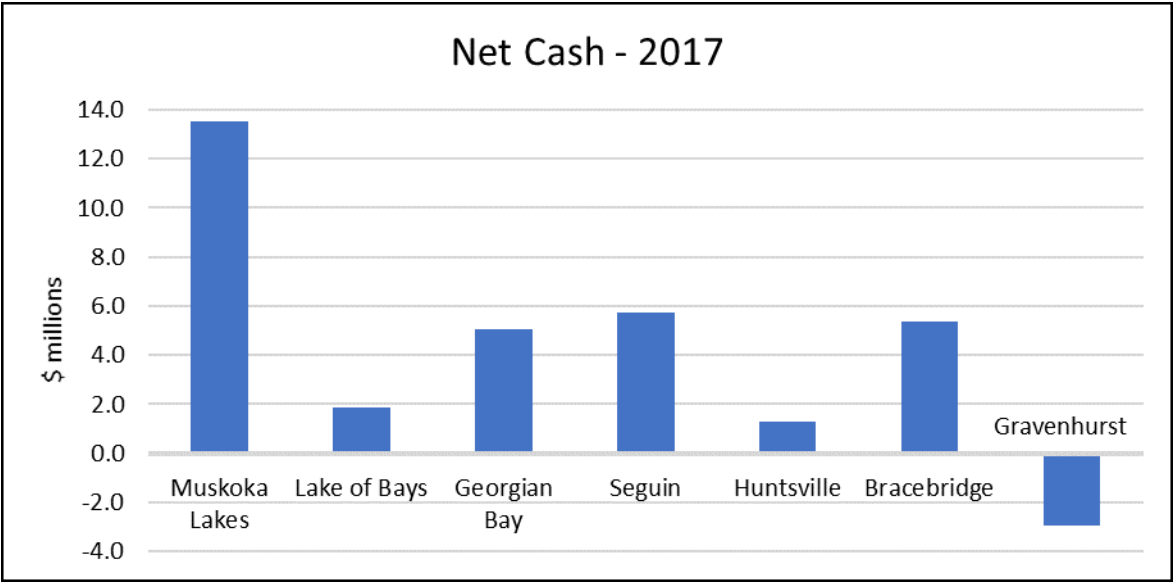
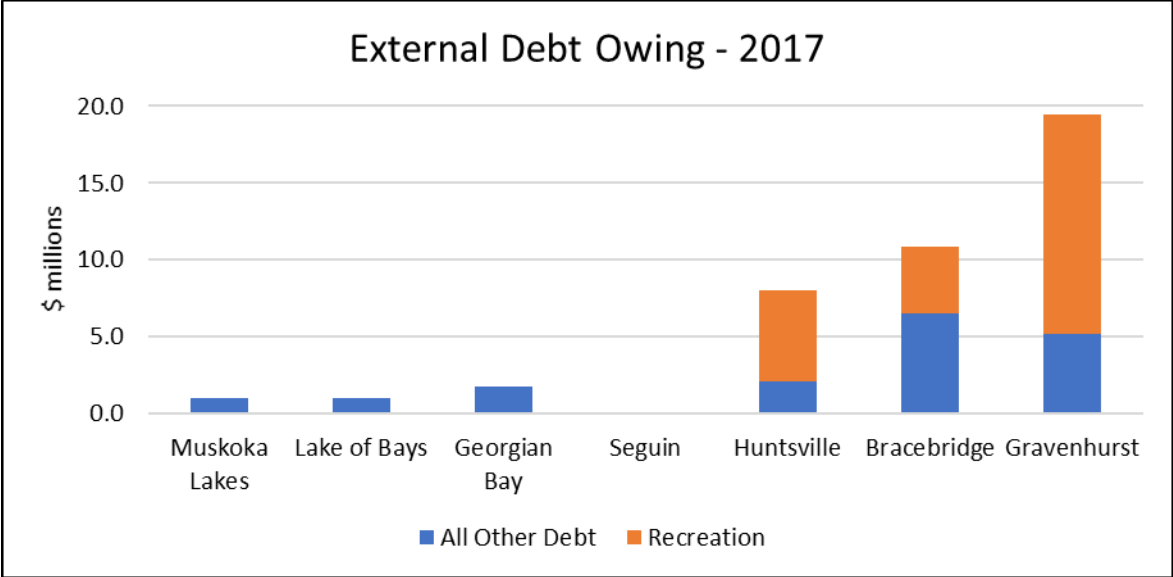
However, we note that Gravenhurst released its operating budget two months later than all other municipalities and the District in the Muskoka region and are having deliberations on a budget period that is already one quarter completed. The MLA strongly supports the practice of prudent financial management whereby budgets are approved before the applicable time period commences.

In addition, the budget was only available for public review and comment from March 19th until today, March 30th, 2019. Given that the combined operating and capital budgets are over 650 pages long, the MLA feels strongly that a time frame of at least three weeks is more appropriate for review and consideration by council and interested members of the public.

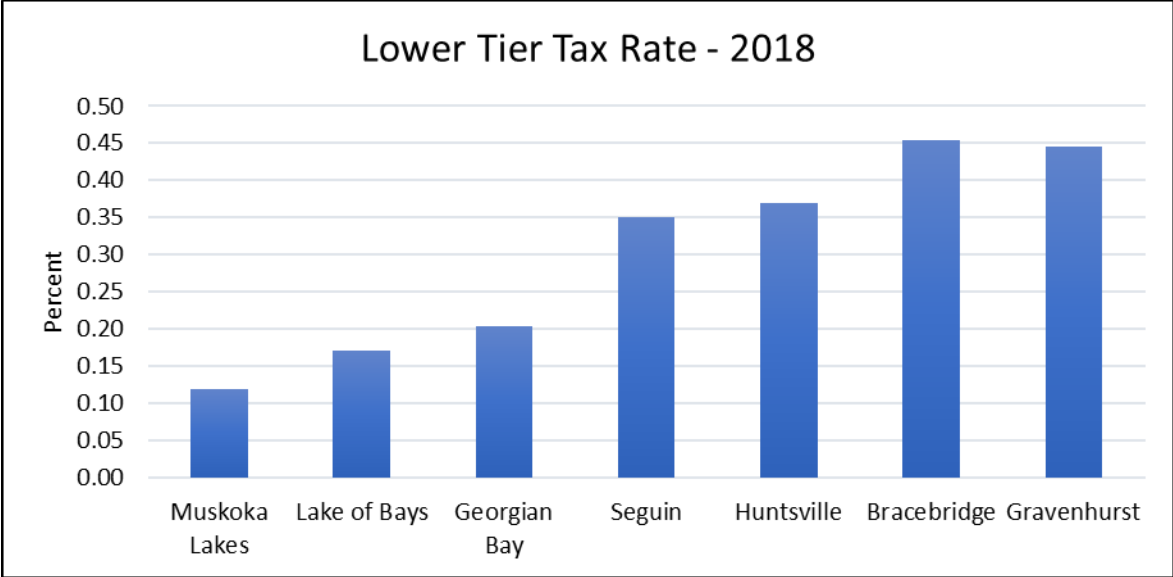
#### **Debt – The Elephant in the Room**

The MLA is excited to work with the new council and support responsible decision making going forward. Unfortunately, we are also saddled with the mistakes of the past and have to address them.

Muskoka and all of Ontario is blessed with the greatest number of lakes per square kilometer in the world providing unlimited access to summer recreation such as swimming, boating, fishing, hiking and camping. Come winter, a whole new world of recreation awaits from skiing, ice fishing and skating to snowmobiling. Yet, Gravenhurst has amassed a crippling amount of debt largely due to spending on recreational facilities it could not afford. The following chart illustrates the magnitude of the debt owed by Gravenhurst compared to other local municipalities. The next chart shows how Gravenhurst is the only municipality with a negative net cash position. (source: <https://efis.fma.csc.gov.on.ca/fir/ViewFIR2017.htm#4400>)



To address this debt, council has approved specific annual capital tax increases over the past four years of 5.0% to 5.5% and is proposing a further 3% increase for 2019 to address this debt. This has left **Gravenhurst residents paying the second highest tax rate in the region and over 3.5x that of what residents in Muskoka Lakes Township pay** as illustrated in the chart below.



### How did it get to position?

The following table reviews taxes and inflation for the past six years. During this time, **inflation in Ontario has increased by 12.1%**. This is not some abstract notion, but rather a real reflection of the increase in the cost of goods and services and equally important the aggregate increase in wages and salaries of those paying taxes. While rising prices in the housing markets of major cities captures headlines, **property values in Gravenhurst have appreciated by only 14.4% over this period. On an annualized basis, property values have increased by 2.3% annually, marginally better than average annual inflation of 1.9%**. Net of taxes, owning property has been a bad investment in Gravenhurst.

Yet during a period of low inflation and low property valuation growth, **taxes have skyrocketed by 49.7% or OVER 4x the rate of inflation**. In other words, Gravenhurst residents are paying over four times more for the same services as they did six years ago.

Year <sup>(2)</sup>	Tax Rate		MPAC Assessment y/y	Taxes y/y	Inflation <sup>(1)</sup> y/y
	MIL	y/y			
2014	0.350833%	1.3%	1.5%	2.8%	2.4%
2015	0.383868%	9.4%	3.1%	12.5%	1.2%
2016	0.409208%	6.6%	1.1%	7.7%	1.8%
2017	0.431655%	5.5%	1.6%	7.1%	1.7%
2018	0.445851%	3.3%	3.3%	6.6%	2.4%
2019b	0.456106%	2.3%	3.0%	5.3%	2.0%
<b>Six year Total</b>			<b>14.4%</b>	<b>49.7%</b>	<b>12.1%</b>
Annualized			2.3%	7.0%	1.9%

## Operating and Capital Expenses – Different sides of the same coin

Gravenhurst produces both an operating and capital budget. An operating expense is simply an item or service purchased that provides full utility during the year it was purchased in. Salaries and wages are a good example. A capital expense is similarly a purchase of an item, but it provides utility over more than one year. A \$100,000 truck that will last ten years effectively costs \$10,000 a year to own. Describing capital expenditures as “investments in the future” is entirely misleading and in the case of Gravenhurst, is really being used to pay back debt on past expenses.

As illustrated in the table below, over the past seven years **the Operating Budget has grown by 65.4% or 5x greater than the rate of inflation or the cost to provide those services.** Yet capital spending is even worse. In 2012, capital expenses were \$1.8 million. Since then, **the Capital Budget has ballooned by 228.9% or almost 18x the rate of inflation or cost to purchase those goods.** The capital budget has grown by more than 3.5x the already egregious increases in taxes and partially explains the town’s high level of debt.

Year <sup>(2)</sup>	Operating <sup>(3)</sup>		Capital <sup>(3)</sup>		Taxes y/y	Inflation <sup>(1)</sup> Y/Y
	\$mm	y/y	\$mm	y/y		
2013	10.62	8.6%	2.80	55.6%	8.5%	1.0%
2014	11.79	11.1%	3.09	10.2%	2.8%	2.4%
2015	12.12	2.8%	3.82	23.8%	12.5%	1.2%
2016	12.97	7.0%	5.14	34.5%	7.7%	1.8%
2017	13.76	6.1%	5.39	4.9%	7.1%	1.7%
2018	14.87	8.0%	5.51	2.4%	6.6%	2.4%
2019b	16.17	8.8%	5.92	7.4%	5.3%	2.0%
<b>Seven Year Total</b>		<b>65.4%</b>		<b>228.9%</b>	<b>62.5%</b>	<b>13.2%</b>
Annualized		7.5%		18.5%	7.2%	1.8%

(1) Ontario inflation rate: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000401&pickMembers%5B0%5D=1.14>

(2) b – budgeted

(3) Expenses as presented in the operating and capital budgets

## Looking Forward

The MLA fully appreciates that the newly elected council was not responsible for uncontrolled spending decisions of the past, some of which were made a number of years ago. Gravenhurst taxpayers are already burdened with some of the highest tax rates in the region with seasonal residents paying the bulk of taxes collected while receiving the least amount of benefit.

Four additional tax increases of 5.0% to 5.5% have been put through in as many years to address the town's debt situation. **It is the position of the MLA that taxpayers have made their contribution to repaying past spending decisions. It is now the town's turn to do its part in correcting past mistakes by reducing its spending.** Given material increases over the past number of years, the operating budget increases should be limited to the expected inflation rate of 2%. The capital budget increase of 7.4% for 2019, with a planned increase of 12.1% for 2020 and 7.6% for 2021 clearly indicates that the town is not doing its part to get its finances in order. The public was not afforded the opportunity to comment on the capital budget, which is one area where spending can be reduced with savings being used to address the town's considerable debt.

The MLA supports the move to unifying the operating and capital budgets in to a single document. Each line item needs to reflect the true cost of providing that service in the operating budget. To that end, the MLA requests that a separate capital account for each area be maintained and amortization of capital assets, or reserves for future capital expenses, be recorded. The town already provides an excellent description of capital expenses with amounts and timing in its current capital budget. A line below capital expenditures with an amortization schedule for those items would enable someone at a glance to understand the annual expense impact of those capital purchases. That amortization line could then be carried forward to the operating budget ensuring that costs for those purchases are properly reflected in the year that its benefits are received. Equally important, it would ensure it was properly paid for from taxes in that year and not left for future tax payers to pay for. This approach would also result in an operating budget that reflects all the costs to provide services in each area.

We would like to thank Val Sequeira and his team for their considerable efforts in creating the operating and capital budgets with a level of clarity and detail not found elsewhere. The MLA also appreciates the opportunity to provide input into the Town's 2019 budget. We will be sharing this letter with our membership. We believe it is important for taxpayers to be aware of the stewardship over their tax dollars so they can make informed decisions about how to spend their discretionary funds.

Yours respectfully,

Lawton Osler

Deborah Martin-Downs

Dayle Hogg



President

Government & Land Use Chair

Budget Chair