Muskoka Lakes Association
Preserving Muskoka for Future Generations

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February 5, 2019

Mayor and Members of Council
Township of Muskoka Lakes
1 Bailey Street, P.O. Box 129
Port Carling, Ontario P0B 1J0

Dear Mayor Harding and Members of Council:

Re: Township of Muskoka Lakes 2019 Municipal Budget

The Muskoka Lakes Association (MLA) is an active participant in municipal affairs. Regularly, we comment upon Council's municipal budget on behalf of our 2,300 member families consisting of both permanent and seasonal residents.

As a matter of reflection, having witnessed the January 22nd introductory budget meeting, we are encouraged by the new Council's determination in dealing with its fiscal challenges, and we are hopeful that this represents the "dawning of a new day". Our comments on the 2019 Budget are presented below.

Process and Timeline

As was raised by a council member during the January 22nd meeting, we feel strongly that the timing of the budget deliberations should occur in the autumn such that the budget is finalized prior to the commencement of the period for which the budget applies. Clearly "election years" provide other challenges, but for "non-election" years in particular, the budget process should be completed by calendar (and fiscal) year end. As was also raised by another council member during the council meeting of January 22nd, we support the notion that budget documents under consideration should emphasize actual performance versus proposed budget, rather than current budget versus proposed budget comparisons.

Lastly, in terms of the duration of the "window" in which the public is able to evaluate the proposed budget (in this case representing the period from January 22nd till today, February 5th), we feel that a slightly longer timeframe, such as three weeks would be more appropriate.

Trend Analysis - Background Information

Tax Base: As presented by the TML, residential properties make up >97% of the dollar value of the tax base with seasonal residents accounting for >80% of the population. Assuming the average assessed value of a seasonal properties is 2x to 4x that of permanent residences (Re/Max 2018 Recreational Property Report), seasonal recreational residents contribute from >88% to >94% of the total tax base for the TML. Seasonal residents are also the single largest contributor to the local economy.

Inflation: The Ontario CPI increase for 2017 was 1.5% and for 2018 was 2.3%. The TML is using the historic Ontario long-term inflation rate of 1.68% in its 10-year capital budget. For the purposes of this budget discussion, the MLA is using a conservative inflation rate of 2.0% for 2019 due to a the slowing economy.

Year over Year Comparisons: For the purpose of this budget discussion, year over year comparisons are made using the latest 2019 budget numbers and 2018 YTD or estimate numbers that were determined in January 2019, after the 2018 fiscal year had ended. We note year over year comparisons in the 2019 budget were carried out using 2018 budget numbers that were determined a year ago and not based on actual spending that occurred in 2018.

Tax Base: The value of the residential tax base (>97% of the total tax base) as determined by MPAC has increased by 3.8% y/y and greatly exceeds any expected increase in inflation for 2019. Accordingly, the tax rate would be expected to decrease for 2019 while maintaining all service levels.

Capital Budget Reserve: **T**he township is proposing an additional $567,000 increase in taxation to increase reserves. This entails an increase of 1.34% in the tax rate for a total increase in taxes of 5.16% to tax payers in 2019, above expected inflation of 2.0%.

Residential Township Tax Rates:

Year [4]	**Tax Rate**	**MPAC**	**Assessment**		**Taxes**	**Inflation** [1]
		y/y	**$mm**	**y/y**	**y/y**	**y/y**
2014	0.097970%	1.04%	$8,336	1.7%	2.8%	1.9%
2015	0.104870%	7.04%	$8,511	2.1%	9.3%	1.7%
2016	0.106670%	1.72%	$8,717	2.4%	4.2%	2.0%
2017	0.113290%	6.21%	$8,897	2.1%	8.4%	1.5%
2018	0.120140%	6.05%	$9,217	3.6%	9.9%	2.3%
2019b	0.121750%	1.34%	$9,569	3.8%	5.2%	2.0%
Six year [2] **Total**					**46.7%**	**12.0%**

Year [4]	**Spending** [5]		**Inflation** [1]
	$mm	**y/y**	**y/y**
2014a	8.50	11.8%	1.9%
2015a	8.54	0.47%	1.7%
2016a	8.84	3.5%	2.0%
2017a	9.62	8.8%	1.5%
2018e /a	10.20	6.0%	2.3%
2018b /a	11.35	18.0%	2.3%
2019b /e	11.93	17.0%	2.0%
2019b /b	11.93	5.1%	2.0%
Six Year [2,3] **Total**		**56.9%**	**12.0%**

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(1) Ontario inflation rate: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000401&pickMembers%5B0%5D=1.14
(2) TML Budgets available only to 2014 https://muskokalakes.civicweb.net/filepro/documents/108622
(3) Using annualized 2019 budget over 2017 actual or 2019 and 2018 budget yields the same result.
(4) a – actual, b – budgeted, e – estimate, b /a – budget over actual y/y increase
(5) Total spending net of non-tax revenues also known as tax levy

Operating Budget

After reviewing the budget, we can only conclude that spending is not under control by the municipality. As the above table illustrates, the Township's spending or levy requirement (expenses net of non-general tax revenues) has grossly exceeded the rate of inflation it costs to provide those services. In the past six years (periods for which data is available on the municipality's website), **spending by the municipality has increased by 56.9%, while inflation has only increased by 12.0%.**

In 2018, a substantial increase in the operating budget was approved. In absence of actual 2018 expenditures, **the 2019 budget is a 24.0% increase over 2017 or an annualized increase of 11.4% in both 2018 and 2019** ($9.62 to $11.93).

In the past six years (periods for which data is available on the municipality's website), **taxes paid by residences has increased by 46.7%, while inflation has only increased by 12.0%.** By definition, inflation not only represents the increased cost to provide those services, it also represents the increase in income of individuals that pay those taxes. Taxes have increased by almost four fold in the past six years over the incomes of those paying taxes.

Given spending over this period has increased by 56.9%, while tax revenues have increased by 46.7%, it is not surprising there is a reserve shortfall. This is due to excess spending and not insufficient tax increases.

We have conducted a bottom up review of the operating budget and detailed concerns have been submitted to staff in a separate email and available upon request. Wages once again are up substantially at $6.65 million up 11.5% or $687,495 over 2018 estimated expenditures. We have highlighted areas below where expenses are up substantially for 2019 with increases to roads having the greatest dollar impact:

Information Technology	$726k	up 64% or $282k
Building	$1,166k	up 15% or $153k
Consolidated Parks	$593k	up 23% or $110k
Community Centres	$561k	up 32% or $136k
Library	$465k	up 13% or $52k
Planning	$836k	up 51% or $282k
Roads	$4,492k	up 12% or $487k

Capital Budget

Firstly, we note that the capital budget has been provided with increased detail and clarity and is much appreciated. However, the presentation and determination of the capital budget continues to be a major area of concern for us.

Is the capital budget a table of amortization expenses or capital expenditures? For example, under General - Document Storage, yearly contributions to reserves are shown as $100,000 with a new facility presumably being built in 2024, with no further contributions. Yet under Information Technology – Cityworks Asset Management, it appears that the capital expense is one time item and being incurred in 2019. Similarly, under Emergency Management, the Port Carling generator replacement is indicated at $10,000 every year, while Minett and Torrance are onetime expenses in 2022 and 2023 respectively. In contrast, the treatment of capital expenses for Parks' vehicles was very well presented with four vehicles being replaced every five years, assuming these numbers are net of trade-in value.

More importantly, the application of transfers to and from reserves in the operating budget appears to be inconsistent from area to area. There is no capital budget per se, just as there is no separate operating and capital tax. Property taxes are collected and used to fund the municipality's operations. Transfer to reserves is effectively an operating expense intended to uniformly spread out the cost of large expenditures that have utility beyond one period. The so called 'capital budget' is really just a reconciliation of those transfers to reserves against future capital expenditures.

The functional areas in the operating budget should properly reflect the costs associated with providing services associated with those areas. The MLA recommends that individual reserves be established for each area with the operating budget recording consistent transfers to reserves being made each year. The capital budget should then reflect those contributions from each area and future capital expenditures incurred when required. This would insure the true cost of each operational area is properly reflected in the operating budget and all capital expenditures are properly funded for in each area.

It is difficult, if not impossible, to assess the 10 year capital plan as presented without any historic context on prior year capital expenditures, condition of existing assets and service level decisions. The Fire Department put forth a number of capital items that have now been determined to be unnecessary, which the MLA wholly agrees with. However, how would someone make that determination given the information provided?

The table of Park's vehicle capital expenses is an excellent example of how the MLA would prefer to see the capital budget presented. At a glance, one can easily determine the number of vehicles in use, the current age of each vehicle, the expected life span, and budgeted cost to replace each vehicle and when. Unlike public companies or higher levels of government, there is no formal oversight of budgets or taxation levels. Any public oversight is carried out by volunteers with no resources and thus It behooves municipalities to present budgeting information in a clear and understandable manner.

For 2018, Council put through a 9.9% increase in taxation to ostensibly support an increase in capital budget reserves of $517,000 as well as an increase in operating expenses. That increase, coupled with MPAC valuation assessment increase of 3.8%, results in an additional $536,646 in taxes for the capital

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budget in 2019 assuming no increase in the tax rate for 2019. In the absence of a capital budget plan that quantifies any sort of perceived shortfall in future capital spending, the MLA simply cannot support an additional increase in taxes of $567,000 on top of $536,646 in 2019. In the past six years, increases in taxation has outstripped inflation by an egregious amount and expenditures has managed to exceed even that.

The MLA strongly encourages the TML to seek reductions in operating expenses to fund any additional contributions to reserves in 2019 that council feels necessary. For the 2020 budget year, the MLA would be happy to revisit appropriate taxation levels to address future capital needs based on analysis from a comprehensive capital budget plan.

A Final Word

We would like to thank Shannon Johnson and her staff for their considerable efforts in putting this budget together. We are appreciative of the consideration and attention she has shown to us as we have asked our series of many questions. We also appreciate that many of our concerns have historic roots that were inherited by the current finance group and we appreciate that a number of changes have already been implemented.

The MLA appreciates the opportunity to provide input into the Township's draft 2019 budget.

Yours respectfully,

Lawton Osler
President

Deborah Martin-Downs
Government & Land Use Chair

Dayle Hogg
Budget Chai