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STAFF REPORT: Finance & IT Services



REPORT TO: Council
MEETING DATE: August 27, 2012
REPORT NO.: FIT.12.45
SUBJECT: 2013 Budget Process
PREPARED BY: Robert Cummings, CMA
 Director of Finance & IT Services

A. Recommendations

THAT Council receive Staff Report FIT.12.45, "2013 Budget Process" for information purposes; and,

THAT Council direct staff to prepare a base budget for 2013 that will support the Town's current service levels; and,

THAT Council direct staff on new services to be included for consideration in the 2013 Budget Review; and,

THAT any new or redundant service be recommended to Council, at the proposed Budget Review meetings, separate of the Base Budget with valid descriptions, estimates and impact for Council's deliberation.

B. Background

Purpose: Inform Council of the Budget preparation process, budget factors, and key dates and to request any specific direction to staff on the 2013 Budget or process.

The Blue Mountains Budget Environment

In preparing for the 2013-15 Budget, it is clear that the challenges that confront The Blue Mountains are not unlike the challenges facing most Ontario municipalities. Ontario municipalities are making the best of providing demanded services in the wake of a world-wide economic crisis. As we slowly recover from this economic reality, municipalities continue to see lower user fee revenues, and a greater resistance to paying for services based on the average Ontarians' disposable income.

Comparatively, Canada is better off than many of our economic peers due to our resource-rich economic base. We continue to see low interest rates with little pressure to increase rates in the 1-2 year outlook. Resource prices will continue to cycle and provide some opportunities for recovery. Additionally, Ontario is certainly not lagging the other provinces in its recovery. And within Ontario, The Blue Mountains is in relatively good health when we look at a number of factors critical to a municipality's fiscal condition. The Town's infrastructure is a good mix of age, the Town has reserves and reserve funds (not necessarily at the level for sustaining our infrastructure) but better than most, debt is relatively low and of course the Town does have geography on its side being that The Blue Mountains is a very desirable location that continues to

attract new residents. Although lately development has been quiet, most are bullish on our development future.

Municipal budgets are different from Federal and Provincial budgets. A municipality cannot operate with a deficit budget. A deficit budget is presently a large issue in Ontario budgeting. The general theory on municipal budgeting is that it is the Town's services for its citizens and therefore the funding should come from the property taxes of those citizens and or users of the service.

Most recent financial information indicates that the Town is continuing to run within annual budgeted expenses. However, the downturn in the economy has impacted the Town's revenues negatively. This may impact the upcoming fiscal year depending on the scope of this shortfall.

The Blue Mountains' staff continues to find innovative and creative ways to ensure service expectations are being met within budget or better. A big part of this has been our commitment to investigating innovative service delivery options and our purchasing standards. After 4 years of restraint, it is not getting any easier to deliver existing services at a stable cost.

Base Principles

The Town has functions and services to provide on a regular ongoing uninterrupted basis. In 2011, Council and staff underwent a review of the services being conducted by the Town. There were service changes made after that review. It was also acknowledged that there were some services being under-delivered such as roads maintenance. Council directed additional funds in the 2012 budget process to meet those service requirements. Since the service review, little has changed in terms of service demand. Staff recommends preparing a budget based on the services currently in place as a result of the service delivery review in 2011. Any additional services will be presented in a separate budget document similar to the presentation in 2012.

Capital funding continues to face pressure as a result of past years' focus on operations. As a fiscally responsible Town, it is wise to ensure Town infrastructure is functional now and into the future. The Asset Management Program is not complete, but early indicators of our infrastructure deficit recommend that we continue grow our capital funding to ensure reliable asset utilization into the future. Add to this the cost of the Landfill mining and expansion and our Capital funding for 2013 is looking at a 10% increase of \$150,000 based on last year's projection. It should be noted that there is a general feeling that provincial powers have alluded to the fact that a municipality without an asset management plan and demonstrated execution of the plan may be at a loss when it comes to infrastructure grants in the future.

2013 Projected Budget

In the 2012 Budget presentation, the projection for 2013 was a 5.75% increase in Town levy over 2012. This projection will be examined closely in this budget period based on more current information. Please note that when the Town levy is blended in with the Provincial and County rate changes, the actual percentage increase to a Blue Mountain residential property owner is about a 3.2% increase to their property taxes. Of the

property taxes paid, about 35% funds Town services. (42% goes to the County and 23% goes to the Province) Since The Blue Mountains has one of the lowest tax rates in Ontario based on results from a recent survey of municipalities, the dollar change in property tax is not excessive depending on the assessment of the property.

In 2010 and 2011, staff developed a comprehensive Water Financial Plan and a similar Wastewater Plan to deal with the sustainable delivery of these services. It was recommended that Water rates increase by 7.7% and Wastewater rates increase by 8% in order to meet the sustainable demands on the Water and Wastewater infrastructure. The actual rate increase adopted was 5% each. Staff will once again review and update the plans and the impact of being able to meet the deliverables contained in those plans as part of the 2013 Budget Process.

As stated earlier, in the 2012 Budget Process, Council and Committees examined all the services provided by the Town and Town Staff. This exercise proved beneficial in understanding the need for the service levels presently provided and the associated cost to delivery these services on an annual basis.

Given Council's recent review of the services of the Town and understanding that Town services are in line with the needs and wants of their constituents, staff is recommending a base budget approach to the upcoming budget process. This approach only looks at estimating the future cost of existing services. It does not rationalize each and every service the Town delivers from a \$0.00 starting point like a Zero-Based budgeting approach. Staff will do their very best to reduce costs where they can or inform Council of obsolete service. However, the primary driver of the 2013 Budget will be subject to external pricing inflation and the potential for a decline in 2013 revenue projections.

The Economy

The global economy will continue to be a drag on the Ontario economic recovery. Latest economic news has indicated that interest rates shall remain low for at least another 1-2 years given the expected fallout of the European problems. Low interest rates are good for borrowing if you have an expected cash flow but not so good for those on a fixed income trying to preserve capital through a conservative investment program.

Unfortunately, many of the businesses and companies the Town conducts business with such as utility providers, policing services and oil companies, continue to experience price pressures which ultimately mean The Blue Mountains is subject to similar cost pressures.

Additionally, the continual effect of running a business in a litigious economy means there remains pressure on insurance premiums. As we have witnessed over the past few years, a municipality's ability to pay has increased their exposure to the risk of litigation and ultimately costs. Insurance companies and their actuaries continue to safeguard against that risk with training and advice but ultimately, premiums will rise.

MPAC and Re-assessment

2013 is a re-assessment year for the Municipal Property Assessment Corporation. Properties will be assessed at the January 1, 2012 current value. Professionals in the field are not expecting big shifts in assessment but there will be changes. These changes will compound our understanding of the effect of budget changes. For example, assessment changes and budget changes cannot be viewed without looking at the how a property was re-assessed relative to another property in the Town or the average assessment change.

C. The Blue Mountains' Strategic Plan

To ensure long-term financial sustainability of the Town of The Blue Mountains

D. Environmental Impacts

The Blue Mountains is committed to environmental sustainability.

E. Financial Impact

The possible impact of the current 2013 Budget Projection is slightly over a 3.2% increase in the overall tax levy over 2012. Many factors will play a role in this number including the changes in provincial tax, County of Grey budget and revised estimates for the Town.

F. In Consultation With

Debbie Brown, Financial Analyst
Darcy Chapman, Capital Accountant
Renee Ouellette, Financial Accountant
Troy Speck, CAO

G. Attached

1. 2013 Budget Timeline

Respectfully submitted,

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Director of Finance & IT Services

For more information, please contact:

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2013 Budget Timeline

Task	Due Date
Budget team will distribute 2013-2014 Data to SMT & SAM for review and input of 2015 data	August, 2012
Budget Outlook Review with Council – Staff Report <ul style="list-style-type: none"> • Services • Tax rate • Water & wastewater rates 	August 27, 2012
SMT meeting to review Service Delivery Review Priorities / Outlook & Council Direction	September 7, 2012
All information from SMT & SAM pertaining to Capital and Operating Changes provided to Budget Team	September 21, 2012
Department Heads present Draft Budget to Respective Committees	October 15 to 26, 2012
Final Draft Budget to Serena for creation of Electronic Budget Document	November 2, 2012
Draft Electronic Budget Document distributed to SMT	November 7, 2012
SMT Review of Draft Budget	November 13 & 14, 2012
Update to Draft Budget	November 21, 2012
Grants & Donation Applications - Presentation to F&A Committee	November 13, 2012
Distribution of Electronic Budget to Council, Committee, SMT & SAM	November 27, 2012
Budget Meetings – Committee of the Whole (afternoon and evening)	December 5 & 12, 2012
Public Meeting Notice on Website and local newspapers	November 28, 2012
Statutory Public Meeting	January 2013
Budget By-law Enacted by Council	January 2013