



**COMMITTEE OF THE WHOLE
AGENDA REPORT**

TO: Mayor Harding and Members of Council
MEETING DATE: May 1, 2020
SUBJECT: Follow up on Draft 2020 Operating and Capital Budget and Forecast

RECOMMENDATION:

THAT the 2020 Report on Excluded Expenses – Ontario Regulation 284/09 regarding expenses excluded from the 2020 Draft Operating Budget and Capital Budget and Forecast, as included in the staff report entitled “Draft 2020 Operating and Capital Budget and Forecast”, dated April 24, 2020, **be endorsed**, as amended, and forwarded to Township Council for final approval.

THAT the Township of Muskoka Lakes’ 2020 Draft Operating Budget and Capital Budget and Forecast attached to the staff report entitled “Draft 2020 Operating and Capital Budget and Forecast”, dated April 24, 2020, for the General Tax Supported Services **be endorsed, as amended**, and forwarded to Township Council for final approval.

APPROVALS:

	Date	Signature
Submitted by: D. Hammond, CAO	<u>30/04/2020</u>	<u>Original signed by D. Hammond</u>
J. Stevens, CPA, CA District Commissioner of Finance and Corporate Services	<u>30/04/2020</u>	<u>Original signed by J. Stevens</u>

SUMMARY:

This report provides an overview of the follow up to Council’s direction on April 24, 2020 respecting the Draft 2020 Operating and Capital Budget and Forecast.

ORIGIN:

Committee of the Whole reviewed the Draft 2020 Operating and Capital Budget and Forecast on April 24, 2020 and provided staff with feedback.

BACKGROUND:

Due to the economic uncertainty as a result of COVID-19, the consensus of the Committee of the Whole appeared to be that a net levy increase of 4.57% was too high. As a result, staff were directed to

review the Draft 2020 Operating and Capital Budget and Forecast with a view to:

- Estimating the financial impacts of COVID-19 on the Township’s operations;
- Completing another Departmental assessment to identify further opportunities for cost savings in the Draft 2020 Operating Budget; and
- Providing written responses to the submitted public comments.

DISCUSSION:

2020 Draft Operating Budget - COVID-19 Impacts

Staff have completed the requested analysis of COVID-19 related savings and costs. In completing the analysis, staff have identified two return to business case scenarios, the first being the beginning of July, 2020 and the second being the beginning of October, 2020. Staff has made the following assumptions:

- Physical distancing requirements will be lifted or modified at the dates noted above which would allow the reopening and utilization of facilities;
- Swimming programs would be canceled for the year under the October scenario;
- User fee revenues during the impacted period are reduced; however, the level of this reduction varies depending on the program or department;
- Part time wages have been reduced for programs during the impacted period;
- Wages for positions that have been deferred have been prorated; and
- Other expenditures have been reviewed and reduced where possible in order to potentially mitigate the anticipated revenue reductions.

Table 1 summarizes the impact on the levy under each scenario.

Table 1: COVID-19 Potential Impacts

Department	COVID-19 Net Levy Increase/ (Decrease)	
	Resume July 1	Resume October 1
Council	(3,000)	(6,000)
Clerk	(36,500)	(66,255)
Community Development	(6,500)	(13,000)
Information Technology	330	660
Fire	(1,250)	3,500
Cemeteries	6,000	6,100
Parks	(21,600)	(43,400)
Community Centres	(29,900)	(60,500)
Arenas	5,200	(10,500)
Swimming		(18,200)
Facilities	(700)	(1,000)
Library	(17,940)	(30,000)

Department	COVID-19 Net Levy Increase/ (Decrease)	
	Resume July 1	Resume October 1
Trails	(1,700)	(3,400)
Planning	(10,750)	(7,050)
Grants to Organizations		(60,000)
Health Hub/Wellness Centre	1,500	3,000
Other Revenue (Penalties and Interest)	190,000	360,000
Net Levy Impact - Increase/ (Decrease)	73,190	53,955

Based on the review completed, the impact of COVID-19 is estimated between approximately \$54,000 and \$73,200 respectively which represents less than 1% of the 2019 tax levy. It should be emphasized again that these are very high level, conservative estimates based on the assumptions as identified. The actual impacts will likely be different based on when the state of emergency is terminated and physical distancing protocols are relaxed.

The extent of COVID related adjustments seen in larger more urban municipalities within Muskoka and elsewhere are not applicable to the Township. This is because the Township does not provide transit, or extensive recreational and cultural programming which are revenue generation dependent. Where such services are provided, the fiscal impacts experienced as a result of the COVID-19 emergency on operations and revenue streams will be more significant in comparison to those of the Township. In addition, where there is a programming revenue stream, it is usually heavily subsidized by the levy (i.e. arenas and swim program).

Given the results of the review completed, staff are proposing that the budget be adopted without making amendments to account for the impacts of COVID. This approach may allow the municipality to take advantage of any grant programs that may be established by Federal or Provincial governments to assist municipalities that have experienced an unfavourable variance or deficit as a result of COVID-19. Staff will make every effort to reduce discretionary expenditures to mitigate any unfavourable variances related to revenue shortfalls.

2020 Draft Operating Budget - Additional Program Based Cost Savings Opportunities

As indicated in the staff report dated April 24th, the recommended Draft 2020 Operating Budget currently:

- Fulfill its existing contractual obligations;
- Maintain legislative compliance;
- Maintain current service level standards for continuing programs;
- Maintain the financial position of the Corporation and continue to fund its infrastructure reserves; and
- Work towards the achievement of Council's stated priorities and address emerging needs.

However, given the current circumstances with COVID-19, staff appreciate Committee's desire for a further examination of the proposed Operating Budget with a view to achieving further cost savings. The results of staff's most recent review are listed in the Table 2 below.

Given the detailed review and cost saving identification that was completed by staff during the creation of the Draft 2020 Operating Budget, in order to achieve even more cost savings, it is likely that service levels will need to be reduced. Staff have broken down the potential cost savings measures into three areas as shown in the columns in Table 2 below.

Table 2 - Additional Potential Cost Savings

Program Area	Description of Impact	Ongoing Program/ Services	Planned Service Level Improvements	Human Resources
Council	Wage Increase - Defer to 2021		(18,700)	
	Benefits Increase - Defer to 2021		(15,100)	
	Conferences - Reduce to 2019 actual	(2,000)		
Clerk	Legal - Reduce to 2019 adjusted actual	(18,000)		
	Purchase of Goods & Services - Defer offsite records storage project		(5,000)	
	Survey - Reduce to 2019 adjusted actual	(3,000)		
	Consultants Fees	(3,000)		
	Eliminate septic re-inspection for 2020	(22,625)		
Community Development	Contracted Services - Video Development - Defer project to 2021		(13,000)	
	Communications - Community Guide – Eliminate for 2020	(6,500)		
	Communications - Brochures (Downtown Map & Trails) – Eliminate for 2020	(3,000)		
	Visitor Centre Kiosk		(2,500)	
Information Technology	Consulting Fees - Defer budget software project		(50,000)	
	Fully Managed Services - Reduce to 2019 adjusted actual	(1,300)		
	Annual License Fees - Defer 3 IT projects (budget software, community engagement platform and email compliance)		(21,200)	

Program Area	Description of Impact	Ongoing Program/ Services	Planned Service Level Improvements	Human Resources
Fire	False Alarm Revenue - Change Fees by-law to charge recovery on first false alarm resulting in increased revenue	(20,000)		
	Remuneration (Fire Pay) - Defer all new recruits for 2020	(12,000)		
	Personal Wellness and Safety - Cancel programs for 2020	(5,000)		
	Public Education - Cancel provision of free smoke detectors for 2020	(3,500)		
	Vehicle & Boat Maintenance - Reduce use of vehicles for events like parades, patrols, licensing and public education	(10,000)		
Swimming	Eliminate program for 2020	(18,200)		
Library	Advertising - Reduce to 2019 actual	(500)		
	Purchase of Goods and Services - Reduce to 2019 actual	(1,000)		
	Programs - Reduction in programs offered	(500)		
Planning	Heritage Committee - Reduction in proposed activities		(15,000)	
	Official Plan Review - Defer OP review until 2021		(70,000)	
	Advertising - Reduce as related to OP review deferral		(3,000)	
	Transfer from Reserves - Reduce inflow to operating budget to partially offset the Official Plan review		25,000	
Grants to Organizations	Events and Festivals - Eliminate grants	(20,000)		
	Bala Cranberry - Eliminate support	(12,650)		
	Community Grants - Eliminate grants	(20,000)		
	Operating Grants - Chamber Annual Request - Eliminate grant	(27,000)		
	Operating Grants - Visitor Centre Operations - Eliminate grant	(20,000)		

Program Area	Description of Impact	Ongoing Program/ Services	Planned Service Level Improvements	Human Resources
	Operating Grants - Muskoka Lakes Museum - Eliminate grant	(35,000)		
	Operating Grants - Walker's Point/Milford Bay Libraries - Eliminate grant	(6,000)		
	Operating Grants - South Muskoka Hospital - Eliminate grant	(9,000)		
	Operating Grants - Habitat for Humanity Bala Build - Eliminate grant		(20,000)	
	Operating Grants - Electronic Wait List - Eliminate grant		(2,000)	
Corporate Human Resources	Cost of Living Increase at 1.9% for full year			(80,270)
	Market Compensation Review Implementation for full year			(78,000)
Subtotal by Category		(279,775)	(210,500)	(158,270)
Total of All Categories		(648,545)		

The service change options highlighted in Table 2 are not recommended for approval as there is a direct impact on legislative compliance (Official Plan review), current service levels (swim program and grants) and planned improvements to service levels (budget software). It should be noted that some of the items identified will have to be reinstated in the future (Official Plan review) to meet legislative requirements.

2020 Draft Operating Budget - Reserve Contributions

Another, or additional approach that Committee could consider for additional cost savings would be a one time reduction in the contributions to reserves. As indicated in the staff report dated April 24th, the recommended Draft 2020 Operating Budget includes an increase in the contributions to reserves of \$1,161,014 that will be used to fund the rehabilitation and replacement of infrastructure throughout the Township. Staff believes that this contribution is prudent given that the Township's infrastructure is aging and in anticipation of continued reductions in funding from senior levels of government, any increased adjustments to the capital forecast will need to be funded by the Township. As a result, an increase to reserve contributions will be likely be required in the future.

Summary

Based on its previous direction, Committee should review the service change options noted in Table 2 and identify those cost savings which it believes are necessary during its budget deliberations on May 1, 2020. In addition, although also not recommended, should Committee wish to consider a reduction in the contribution to reserves, the allocation created through the Capital Financing section (page 47 of

the April 24, 2020 staff report) is \$699,882 (Transfer to Reserve of \$132,882 and Capital Levy Transfer of \$567,000). Based on direction from Committee, staff will then amend the budget for final approval at Council scheduled for May 15, 2020.

Committee should be aware that the impact on the proposed budget will vary based on Committee's amendments, however, for information, a 1% change in the levy is the equivalent of approximately \$120,000. Lastly, Committee should be aware that implementation of further cost reductions will place pressure for an increase on the 2021 budget if Council wishes to reinstate any of the service reductions approved in 2020.

2020 Draft Capital Budget and Forecast

There was some discussion by Committee respecting cancellation of certain projects and the acquisition of fleet equipment in the 2020 Capital Budget. These projects or fleet acquisitions are funded from existing reserves and therefore, their delay or cancellation would not result in any costs savings in the Operating Budget. Furthermore, while a delay, or cancellation of completion of an infrastructure project, or fleet equipment replacement will result in no reserves used, there is a risk that the deterioration to the asset may exponentially increase the cost of its repair or replacement when the decision to do so is made.

Although the Asset Management Plan will enable staff to refine the financial estimates and timing for the capital projects identified in the Capital Forecast, if Committee and Council's ultimate goal is to reduce the overall funding needs of the Capital Forecast, thereby achieving reduced annual contributions to reserves in the Operating Budget, a fulsome review of the service levels related to the infrastructure assets should be undertaken. For this to occur, it will be important to identify such a commitment in an updated Strategic Plan.

ATTACHMENTS:

Appendix "I" - Council Question Responses

Appendix "II" - Public Question Responses

[Agenda - April 24, 2020 COW Meeting - Draft 2020 Operating and Capital Budget and Forecast](#)