



TO: Chair Mazan and Members of Committee

AUTHOR: Mark Donaldson, Director of Financial Services

SUBJECT: 2023 Draft Operating and Capital Budget and Forecast

RECOMMENDATION

THAT the Township of Muskoka Lakes 2023 Draft Capital Budget and Forecast attached to the staff report FIN-2023-001, as amended, be endorsed in principle;

AND THAT the Township of Muskoka Lakes 2023 Draft Operating Budget and Forecast attached to the staff report FIN-2023-001, as amended, be endorsed in principle;

AND THAT continued public engagement on the 2023 Draft Operating and Capital Budget and Forecast be sought through the scheduling of a Special Council Meeting to elicit public comments.

REPORT HIGHLIGHTS

This report provides an overview of the Draft 2023 Operating and Capital Budgets, including forecasted reserves.

The 2023 Operating Budget, as presented, is within the budget guideline as endorsed by Committee at their December 14th, 2022 meeting.

The resulting net required levy for the 2023 Draft Budget is \$14,005,100. The projected tax rate increase would be 6.2%, or \$38.66 per \$500,000 of assessment.

BACKGROUND

Legislative Requirements

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

- 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, provide Council direction to staff to deliver services at specified costs, to make expenditures, to raise revenues, and if desired, to invest and to borrow.

Budget Components

The 2023 draft budget presentation is broken down into 3 main sections:

Operating Budget and (2 year) Forecast;

The Draft Operating Budget contains the funding required to support current programs/service levels, accounting for estimated cost pressures and inflation.

Staff are presenting a current year Operating Budget along with a 2-year forecast. The forecasted years (2024, 2025) are projections based on the best available information and specific assumptions. These numbers are intended to provide Committee Members with a projection of future years operating financial information, but are not being formally approved and will be updated annually for future consideration, as new information becomes available.

Past resolutions of Council regarding service level changes stemming from accepted reports are not included in the draft budget presentation and would be incremental to the Draft Budget presented (see SERVICE LEVEL ENHANCEMENTS below).

Capital Budget and (9 Year) Forecast

The Capital Budget identifies the proposed current year (and subsequent nine years) projects, which may involve rehabilitation/replacement of infrastructure or major studies/plans. Funding projects through the use of reserves and reserve funds mitigates large fluctuations in the tax rate as capital spending varies from year to year.

Reserve Fund Forecast

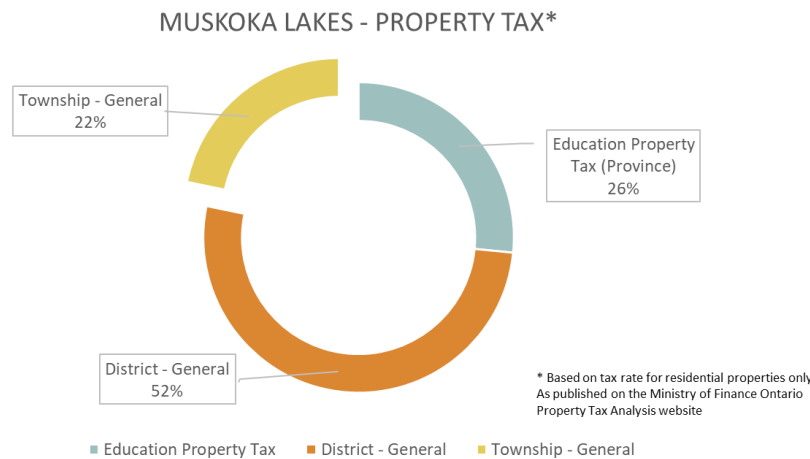
Funding of reserves and reserve funds from the Operating Budget and other sources (e.g. external grants) ensures the availability of adequate financial resources for capital projects (planned or otherwise) when needed. The level of funding required is derived from the Draft 10-year Capital Budget and Forecast, as well as the Township's Asset Management Plan requirements, with a small buffer for unplanned capital needs and/or unavoidable events (e.g. floods).

Breakdown of Municipal Tax Bill

In addition to the Township portion of the tax levy, 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, and are therefore not included in the budget presented for deliberation. The amounts collected on behalf of the District of Muskoka and the Minister of Finance are based on annual tax rates set by each. The Township is required to collect and remit amounts using the respective tax rates in preparing the final tax bill for property owners.

Figure 1 below shows the proportionate billings in Muskoka Lakes based on the 2022 Tax Year:

Figure 1:



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

Public Works	
	Roads, winter control and road maintenance services
	Parks, docks and trails (including signage and lighting)
	Engineering and construction
	Recreation and culture services
General Government	
	Administration (Treasury, Human Resources)
	Information Technology
	Legislative Services
Emergency Management	
	Fire
	Emergency Management
Development Services and Environmental Sustainability	
	Economic Development

	Planning
	Building and Septic Inspection
	By-law Enforcement

Improving Financial Stewardship

Over the past few years, Council and Staff have worked diligently to refine the tax levy to better reflect the financial needs of the Township and avoid large, unplanned surpluses at the end of each year. In 2020, the approved budget reduced operations spending by nearly \$400,000 from the previous year and redirected the savings to reserves. While most of the year was impacted by the COVID-19 pandemic, the 2020 operating surplus was reduced from previous years to \$681,000, or 5.3% of the 2020 annual tax levy. In 2021, the year-over-year budget increase in net operating expenses (excluding transfers to reserves) was less than 2%. Again, in a year heavily impacted by the pandemic, the 2021 surplus was nearly \$1.2 million, of which approximately \$413,000 was a surplus from the tax levy, and the remaining from an external grant of \$419,000 of COVID-19 grant funding and \$368,000 in adjustments for development charges earned related to pre-2021 activities.

ANALYSIS

Draft Operating Budget and Forecast

The 2023 Draft Operating Budget attached to this report are in two formats - by grouping of category and by operating division (Schedule I). Definitions of categories in Schedule I are included in Appendix 1 and 2 at the end of this report.

Table 1 – 2023 Draft Operating Budget Breakdown

	2022 Approved Operating Budget	2023 Draft Operating Budget ¹	Year-over-year Impact to Levy	% Change
Operating Costs	14,355,400	15,036,500	681,100	4.7%
Non-tax revenue	(3,823,300)	(3,843,400)	(20,100)	0.1%
Other tax revenue	(851,500)	(878,000)	(26,500)	3.1%
Net Operating Expenditures	9,680,600	10,314,200	634,600	6.6%
Contribution to Reserves – levy	3,559,000	3,860,000	301,000	
Transfers from reserves	(210,000)	(170,000)	40,000	
Net Transfers from Reserves	3,349,000	3,690,000	341,000	10.2%
NET LEVY REQUIREMENT	13,029,600	14,005,100	975,500	7.5%

¹ Grant and interest revenue of \$2,873,000 transferred to reserves in 2023 have been omitted for comparative purposes to the 2022 Budget

The draft 2023 base Operating Budget has an overall net levy increase of \$975,500 over 2022, which reflects a 6.2% rate increase before assessment growth (7.5% including assessment growth).

As shown in Table 1 above, there is an increase of 4.7% in operating costs in 2023. Revenues from user fees are anticipated to remain constant in 2023, resulting in an overall

net operating expenditure increase of 6.6%. An increase in contributions to reserves of \$301,000 funded from the tax levy accounts for 2.3% of the increase in the tax rate.

2023 Required Tax Levy

Table 2 - 2023 Budget Impact on a Residential Property Assessed at \$500,000:

2023 Budget Impact on a Residential Property Assessed at \$500,000					
2022 Tax Rate	2022 Taxes	2023 Effective Tax Rate	2023 Taxes	% Increase (Decrease)	\$ Increase (Decrease)
0.00125276	\$626.38	0.00133007	\$665.04	6.2%	\$38.66

Property Re-assessment Pause

In previous years, property assessments were revalued on a 4-year cycle with the increase phased in over that timeline. Last scheduled to occur in 2020, the Municipal Property Assessment Corporation (MPAC) was directed by the Province to pause the assessment cycle during the COVID-19 pandemic. As a result, the municipal levy is currently based upon 2016 property assessment values. At present, the only properties with updated assessment values are those stemming from construction projects and other property changes that are subject to MPAC inspection. For 2023, taxable property assessment has grown by 1.3% to \$10.55 billion, of which 97.2% is residential.

Sources of Information

In creating the proposed 2023 Operating and Capital Budget and Forecasts, Staff have analyzed historical audited results, 2022 year-to-date results, Statistics Canada data and conducted market research.

In some categories of the budget, items are based upon defined activities anticipated in the upcoming year and prior year activity is not a direct source of estimation (i.e. zero based budgeting). Such areas would include: conferences and travel, software licensing, and operating grants for local organizations. In other areas, historical trending is used to develop reasonable budget estimates, such as: material usage, legal and professional fees, and non-tax revenues such as user fees.

Expenditure Drivers

Contractors and Materials

Global events over the past year have triggered rising inflation not seen in over a generation. As a result, we have seen an increase in costs for contractors and materials used to deliver valued programs and capital improvements for the community. Staff issued a [report](#) to Committee in May 2022 advising of the impact of rising costs in the area of Public Works. Recent reports from Statistics Canada continue to reflect high year-over-year cost pressures

with the Non-residential Construction Price Index, which largely affects the Public Works area accounting for nearly 50% of operational expense, at 15.6% at September 2022 and more broadly, Ontario CPI at 6.0% in December.

Compensation (Salaries and Benefits)

The recent inflationary environment has also had an impact on compensation at a time when employers across industry-sectors in Muskoka are experiencing a shortage of workers. To attract, retain, motivate and reward qualified, skilled and committed employees, Council approved an updated Staff and Council compensation policy in July 2021. The approved policy set a cost of living adjustment for non-union staff and councillors equal to the Statistics Canada year-over-year consumer price index (CPI) for August of the year prior to the budget year.

That CPI adjustment for the current budget is 6.9%. The inflationary impacts for compensation are always one year in arrears as they are set at the start of the year (i.e. 2022 inflation applied in the 2023 Budget). For budget forecast purposes, the increase for compensation in 2024 and 2025 is assumed to be at 3.5% and 2.5% respectively. 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, resulting in a step increase in addition to their cost-of-living adjustment. For bargaining unit staff, salaries are in alignment with negotiated settlements.

Benefit costs are based upon the most recent information provided by our benefits advisor. The municipality has an Administrative Services Only (ASO) benefit program for paramedical, vision and dental coverages with Stop Loss coverage to protect against catastrophic health care claims. Results can fluctuate year-over-year based on utilization. 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.

The compensation budget is based on a full complement, however as Staff recognize that vacancies are likely to occur, to be prudent an allowance for staff vacancy has been included.

Insurance

The Township went to market in 2022 and awarded its insurance business to Marsh Canada through our broker, Municipal Insurance Services out of North Bay. The request for proposal yielded significant savings from our previous insurance coverage for the same coverage. As a result, the 2023 insurance rate has been reduced by over 40% from the 2022 Budget level. This decrease in insurance costs is helping to offset increases in other areas.

Staff Development

In-person conferences were cancelled in 2020 as a result of the COVID-19 pandemic, and learning opportunities were transitioned to virtual events during 2021 to support efforts to physically distance from others. In the current year, many events have returned to in-person

venues. As a result, participation rates for opportunities to catch up on deferred learning and networking opportunities (including councillors per [Township policy C-GG-09](#)) will be encouraged in 2023. In addition, new regulatory requirements related to mandatory firefighter certification is proposed for the upcoming budget to ensure the service is fully trained by the compliance dates as set out in the regulation. A [report](#) was recently presented by the Fire Chief regarding these new requirements.

Information Technology

In 2022, Council received a 5-year [IT Strategic Plan](#) which outlined some priorities for the Township to enhance services and security. In 2022, the Township moved to a new managed service provider for IT support and data management. A focal point for immediate action was improving internet connectivity with the installation of fibre internet services at the Township office and installing business continuity and disaster recovery services. In 2023, part of the Township's recommended modernization strategy includes moving to MS365 as contained in our strategic plan. Additional licensing costs for new and enhanced products are recommended by staff in the 2023 Budget, along with approved costs related to improved internet connection services at service locations (e.g. garages).

Other Expenses

Staff have performed a review of historical costs to arrive at the 2023 Budget. On-going examination of costs for services at 2022 levels will occur during the year. Where unanticipated events occur during the year, Staff will look to mitigate impacts where possible.

User Fees

User fees and other non-levy related revenues are projected to remain constant despite losing over \$125,000 in site plan application fees resulting from the passage of Bill 23. Based on volumes, recreation activity participation has nearly returned to pre-pandemic levels with the relaxing of public health measures related to the pandemic. New fees were approved for 2022 through By-law 2022-152. A full review of fees is scheduled for 2024.

Draft Capital Budget and Forecast

The 2023 Capital Budget and Forecast is presented by division with projects grouped and sub-totaled by project type (e.g. buildings, vehicles, plans and reports etc.). To assist in locating specific projects, projects are alphabetized by name. Projects are defined as activities for which there is a defined beginning and end. To that end, multiple, consecutive projects may be seen for the same asset (e.g. a road) for related phases but would be tendered separately. Each project represents a decision point for Committee. Projects that were approved but not started in a prior year and still considered priority will be included in the current budget to provide Committee with an opportunity to reconfirm approval.

Summary

Total expenditures for 2023 are budgeted at \$11,561,200, an increase of \$3,009,188 (or 35%) over the 2023 Forecast presented in 2022. The increase is due to the updating for

costs, timing of previously identified projects being changed (advanced or deferred) and the identification of new projects.

Table 3 – Summary of Year-Over-Year Changes in 2023 Capital Budget

Division	Incr/(Decr)	Notable Changes
Economic Development	100,000	CIP Projects and Climate Mitigation Plan
Information Technology	79,563	Hardware scheduled refresh; implement MS365
Fire Services	362,881	Updating pricing (tanker in 2023); fire station feasibility study; implementation of cancer checklist recommendations
Building Services	(3,500)	Updated pricing (MNR aerial photos)
Cemeteries	62,790	Columbarium in Port Carling (new initiative)
Parks	92,775	Dock inspections; replace picnic tables
Community Centres	947,623	Milford Bay HVAC, Raymond accessibility upgrade, Torrance washroom upgrade
Arenas	(774,724)	Defer PC Arena concrete floor
Facilities	300,542	Ranwood Fuel System replacement
Library	(329)	
Trails	88,570	directional signage; Walker's Point brushing
Planning	(130,000)	Start of zoning bylaw review extended to 2024
Township Equipment	397,670	Brusher head for grader; 3 new ½ ton trucks for garages (new initiative)
Roads	2,261,577	Updated pricing; changes in timing for Russ Hammell Road, Beaumaris Road, East Bay Road, Sagamo Blvd; new guiderail for Boyce Road; other drainage improvements
Bridges	(776,250)	Bala Falls Bridge moved up to 2022 last year
TOTAL	3,019,188	

10-year Capital Forecast

The total 10-year Capital Forecast (2024 – 2032) includes \$99,456,900 in capital needs. This represents an increase from the 2022 Capital Budget and Forecast of \$22,622,858 (29%). Project costs have been updated for inflation pressures and based on best available information.

Future Updates

In 2022, Council was presented with the [Asset Management Plan](#) for core assets (i.e. roads, bridges, drainage). Current replacement value for all Township core assets is nearly \$400 million. Staff will note for Committee that in Section 5.1 of the Asset Management Plan, there is currently a \$24.2 million backlog of work to address assets in a poor or very poor rating category. An annual capital investment of \$6.7 million per year (in 2022 dollars) is needed to maintain current service levels for the Township's road network over the next 25

years. The Draft Capital Budget and Forecast includes \$48.9 million of investment for roads and bridges, which is less than that identified in the Asset Management Plan.

Knowing that significant investments in the Township's core and non-core infrastructure is on the horizon, Council authorized the completion of a number of studies and master plans. The intent was to ensure that sufficient information is available to inform a conversation about future service levels, in advance of failures and immediate negative impact on service levels. In this regard, Council received a [Recreation, Parks, Trails and Facilities Master Plan](#) and the [Fire Master Plan](#). Owing to the recommendations of these plans, Council directed that further feasibility studies related to fire stations and arenas be conducted in 2023. Further information regarding the roads and bridges network will come forward pending completion of the Transportation Master Plan in 2023, and regarding Township facilities pending completion of the non-core Asset Management Plan in 2024. The impact on future capital requirements will be assessed and the Capital Budget and Forecast will be updated accordingly.

Further, in 2021, Council received a [report](#) and approved a modest redevelopment of the Township's administrative building in Port Carling (Resolution Number GFC-2-15/09/21) with the acknowledgement that a longer term strategy is needed which would be correlated with these other capital plans and studies.

Given the on-going work to refine the requirements to address asset condition and service levels, Table 3 below estimates the future capital needs in addition to what is identified on a project-level basis in the 10-year Draft Capital Budget and Forecast:

Table 3 – Estimate Future Capital Requirements

2023 10-year Capital Budget and Forecast	\$98,615,900
Estimated capital costs not reflected	\$50,000,000
Estimated Future Capital Requirements	\$ 148,615,900

In future budgets, Staff will explore the ability to extend the Capital Forecast to a 25-year horizon in an effort to better capture the asset replacement and rehabilitation needs based on a defined level of service and to facilitate an improved ability to financially plan for future in expenditures.

Reserve and Reserve Funds

The Draft Operating Budget and Forecast includes an increase of \$301,000 in transfers to reserves from the levy over 2022. The increase in 2023 is in anticipation of the future capital needs and attempts to increase those reserves and reserve funds over a longer timeframe to reduce the year-over-year impact. Deferral of increases in contributions to reserves may result, depending on future Council direction, in more significant increases required in future budgets to ensure financing is available when needed.

Council approved By-law [2021-123](#) in 2021 that reduced and consolidated the number of discretionary reserves, as well as refining the definitions related to the reserve's purpose. To align with other municipal presentation, reserves and reserve funds are classified as follows:

Table 4 - Reserves

Reserve Type	Definition	Example	2022 Closing Balance (forecast)
Obligatory Reserve Funds	reserves that the municipality is required to set up to meet the requirements of a provincial statute or agreement with other entities such as the Federal or Provincial governments	<ul style="list-style-type: none"> - Development Charges - Parkland-in-lieu - Building Services - Canada Community Benefit Fund (formerly Gas Tax) 	\$8.1 million
Discretionary Reserves Funds	reserves established by municipal council by-law for a specific purpose	See By-law 2021-123	\$14.3 million
Discretionary Reserves	funds that have been set aside by Council resolution or allocation for an intended purpose, but not restricted by provincial or municipal legislation		\$1.9 million
			\$24.3 million

Funding for Obligatory Reserve Funds come from fees levied under the Development Charges Act, Planning Act, Building Code Act, and Gas Tax Funding Agreement with the federal government. Discretionary Reserves and Reserve Funds mainly come from the tax levy; however, contributions to Reserves and Reserve Funds also come from provincial and federal grants, proceeds from the sale of assets, and interest earned cash holdings for reserve and reserve fund balances. In 2023, \$3,860,000 of the total reserve contributions is sourced from the tax levy.

While the use of reserves are commonplace amongst Ontario municipalities, there is no 'one size fits all' approach to establishing an appropriate level of reserves as each municipality is unique and has different assets, condition index, needs and service levels. The use of debt financing is available to municipalities, but unlike the senior levels of government, municipalities have a borrowing limit imposed by the Province relative to own-source revenue.

The contributions noted in the 10-year Reserve Forecast assume contributions to reserves from the levy will double over forecast horizon to \$7.8 million per year. Despite this forecasted increase, the collective closing balance of all reserves at the end of 2032 will decrease by \$8 million from the 2023 forecasted opening balance. Additional funding will be needed to support the other capital needs not yet included in the Draft Capital Forecast (noted above in Table 3). Given the backlog of capital needs on municipal infrastructure,

once Council receives the requisite background information and makes decisions on future service levels, a comprehensive financing plan, required as part of the Province's regulation on asset management (O.Reg 588/17), will be developed. As part of that plan, future decisions related to financing options (i.e. debt vs reserves) and service levels will guide future iterations of both the capital budget and reserve requirements.

Service Level Enhancements

Table 5 below includes proposed service enhancements (also referred to as "à-la-carte" items) that will improve existing services or create new services. The items were requested in resolutions passed by Council. Acceptance of these items would be incremental expenses to the 2023 Draft Operating Budget presented and result in a higher tax rate than shown in Table 1.

Table 5 – Service Enhancement ("A-la-Carte") Items

Item	Department	Funding Source	Cost
OPERATING			
New positions			
IT Coordinator	Financial Services	Tax levy	88,100
Manager, Parks and Recreation	Public Works	Tax levy	139,800
By-law Administrative Assistant	Development Services and Environmental Sustainability	Tax levy	73,700
Sub-total			301,600
Incremental tax rate - Positions			2.3%
Septic Program Administrator/Enforcement Officer	Building Services	Permit fees	97,000
Sub-total			97,000
Incremental tax rate - Position (funded from permit fees)			0.0%
Operating Grants to recipients			
Muskoka Lakes Museum	Grants	Tax levy	5,000
Muskoka Lakes Chamber of Commerce	Grants	Tax levy	22,000
Sub-total			27,000
Tax rate increase - Operating Grants			0.2%
CAPITAL			
Columbarium	Cemeteries	Reserves	60,000
3 – ½ ton truck	Public Works	Reserves	115,000
Sub-total			175,000

Business cases for each position are attached in Schedule II to this report.

With respect to the addition of new positions, office space continues to be a major concern. Space restrictions, despite renovations performed in 2022, did not increase the seating for staff. This issue is currently being dealt with through other means, such as workspace sharing and remote work arrangements (see [Space Optimization Report](#)).

Next Steps

Following the Special Meeting of General/Finance Committee, amendments recommended by Committee will be reflected in the presented budget documents at a Special Meeting of Council. Input from the public at that Special Council meeting, to be scheduled in February, will be brought back for consideration at a future Special Meeting of General/Finance Committee. Should Committee endorse the draft budget as amended, the Draft Operating and Capital Budget would be adopted at the future meeting of Council in March.

ALTERNATIVES

There is no alternative recommended at this time.

FINANCIAL IMPLICATIONS

The 2023 Budget will increase the Net Required Levy from property taxes to \$14,005,100, an increase in the tax rate of 6.2% before growth. This increase is within the guideline approved by Council in January 2023. With service enhancements, the tax rate increase would be 8.7%.

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 General/Finance Committee 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

Schedule 1 - 2023 Draft Operating and Capital Budget and Forecast

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Appendix 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, contractor services, 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, minor equipment 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
Transfers to Reserves	Contributions to discretionary reserves and reserve funds

Appendix 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