



TO: Mayor Kelley and Members of Council

AUTHOR: Mark Donaldson, Director of Financial Services

SUBJECT: 2023 Draft Operating and Capital Budget and Forecast

RECOMMENDATION

THAT the 2023 Report on Excluded Expenses – Ontario Regulation 284/09 regarding expenses excluded from the 2023 Draft Budget and Forecast, as included in Report FIN-2023-006, be approved;

AND THAT The Township of Muskoka Lakes 2023 Operating Budget and Capital Budget and Forecast dated March 27, 2023, with:

- total operating expenditures of \$21,552,900;
- total operating revenues of \$7,927,300;
- a net levy of \$13,625,600; and
- gross capital expenditures of \$11,346,800 for 2022 and \$99,546,900 for the period from 2023 to 2032, be adopted;

REPORT HIGHLIGHTS

This report provides an overview of the General/Finance Committee budget meetings of January 30, February 1 and February 24 regarding the Draft 2023 Operating and Capital Budget and Forecast, and community input received during the public meeting held on March 7, 2023.

BACKGROUND

The following Staff reports chronicle the development of, and the deliberations on, the 2023 Draft Operating and Capital Budget and Forecast:

- [FIN-2022-021](#) – 2023 Budget preparation Guidelines;
- [FIN-2023-001](#) – Presentation of the 2023 Draft Operating and Capital Budget and Forecast;
- [FIN-2023-004](#) – 2023 Draft Operating Budget – Proposed Revisions;
- [FIN-2023-005](#) – Amended 2023 Draft Operating and Capital Budget and Forecast

General

During the General/Finance Committee meetings of January 30 and February 1, 2023, Staff provided a [presentation](#) on the 2023 Draft Operating and Capital Budget and Forecast that was prepared in accordance with the Council approved [Budget Guideline](#). Staff initiated the budget review process with an overview of the Draft Capital Budget by operating division.

Capital Budget

During the second day of review of the draft Capital Budget (February 1 meeting), the Committee agreed upon the following amendments:

- Defer Rosseau Lake Road #2 dock replacement (Project 23025)
- Defer Sunset Park (Queen's Walk) dock replacement (Project 23026)
- Defer Hazelwood Trail resurfacing (Project 23053)
- Advance Torrance Ball Diamond fencing for dog park (Project 24014)
- Add purchase of approved backhoe (Resolution GFC-1-14/12/22)
- Cancel Torrance Community Centre washroom renovation (Project 23132)

With these amendments, Committee endorsed the 2023 Draft Capital Budget in principle at a total of \$11,346,900 (Resolution SGFC-2-01/02/23).

The General/Finance Committee also requested a future report back from Staff on the following matters:

- Review and update of Policy C-FS-03 Reserves to include a formulaic calculation for the level of contribution of reserves required and additional detail related to reserve and reserve fund activity;
- Examine and determine the benchmark estimate of long-term inflationary assumption for capital budgeting;
- Prepare an inventory of all fire equipment and location;
- Fleet management study to review the vehicle replacement schedule, including fire apparatus and the impact on the Fire Underwriters Survey rating

Revised Operating Budget Guideline

Prior to consideration of the draft Operating Budget, Committee recommended amendments to the budget guidelines approved by Council on January 17, 2023 (Resolution SGFC-3-02/01/23). The amended direction was subsequently endorsed by Council on February 15 and included the following:

- reduce the net required levy by \$301,000 by reducing transfers to reserves from the tax levy to \$3,559,000 in 2023, and;
- reduce the net required levy by an additional \$300,000 by way of increased non-tax revenues and/or reduced expenses.

Revised Operating Budget

During the Special General/Finance Committee meeting of February 24, 2023, Staff presented an updated Draft Operating Budget by operating division in accordance with the revised budget guidelines. The proposed amendments to the Operating Budget included reduced expenses of \$180,900 and increase revenues of \$119,100. Committee endorsed \$246,000 of the \$300,000 in increased non-tax revenue and/or reduced expenses.

After making decisions on the above amendments, Committee considered and endorsed four (4) new service enhancements (staff positions), three (3) of which are to be funded from the tax levy and one from revenues raised through building permits. Committee also approved increase operating grant funding for both the Muskoka Lake Museum and the Muskoka Lakes Chamber of Commerce.

Summary

The budget amendments endorsed by the General/Finance Committee from the [original 2023 draft budget](#) resulted in a reduction in the net levy from \$14,005,100 to \$13,625,600, or from 6.2% to 3.3% over the 2022 Budget. The table below summarizes the changes from 2022 of the amended 2023 Draft Operating Budget.

Table 1: Year-over-Year Changes

	2022 Approved Operating Budget	2023 Original Draft Operating Budget ¹	2023 Revised Draft Operating Budget ¹	2023 Revised vs 2022 Budget Impact to Levy	2023 Revised vs 2022 Budget % Change
Operating Costs	14,355,400	15,036,500	15,120,000	764,600	5.3%
Non-tax revenue	(3,823,300)	(3,843,400)	(4,005,400)	(182,100)	4.8%
Other tax revenue	(851,500)	(878,000)	(878,000)	(26,500)	3.1%
Net Operating Expenditures	9,680,600	10,314,200	10,236,600	556,000	5.7%
Contribution to Reserves – levy	3,559,000	3,860,000	3,559,000	-	0.0%
Transfers from reserves	(210,000)	(170,000)	(170,000)	40,000	(19.0%)
Net Transfers from Reserves	3,349,000	3,690,000	3,389,000	40,000	1.2%
NET LEVY REQUIREMENT	13,029,600	14,005,100	13,625,600	596,000	4.6%

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 impact on the tax rate (excluding growth in assessment value) is shown in Table 2:

Table 2 – Tax Rate Impact – Updated Base Operating Budget

2023 Budget Impact on a Residential Property Based on Assessment						
Assessment Value	2022 Tax Rate	2022 Taxes	2023 Effective Tax Rate	2023 Taxes	% Increase (Decrease)	\$ Increase (Decrease)
100,000	0.00125276	\$125.28	0.00129403	\$129.40	3.29%	\$ 4.13
500,000	0.00125276	\$626.38	0.00129403	\$647.02	3.29%	\$ 20.64

Community Feedback

Council held a public meeting for comments on the 2023 Draft Operating and Capital Budget on March 7, 2023. There were 15 presenters that addressed Council regarding their comments on the draft budget.

Notable community feedback received during the public meeting is outlined in Table 3.

Table 3 – Community Feedback of the draft 2023 Operating and Capital Budget and Forecast

Proposal	Considerations	Estimated Cost
Discontinue Burgess Dam project	The Burgess dam is a Township asset. To mitigate community risk, a safety review concluded that rehabilitation work is required. On October 13, 2021, Council authorized this rehabilitation process to commence.	\$250,000 in 2023 and \$2.1 million over 2024/2025 to be funded from Reserves
Increase contributions to reserves and reserve funds	Understanding the financial implications of the Asset Management Plan, during its deliberations on the draft Capital Budget and Forecast, General/Finance Committee requested an update to the current Reserve Policy .	Not specifically quantified
Increase subsidy to Muskoka Lakes Chamber of Commerce	During their deliberation of the draft Operating Budget, Committee considered the funding increase request of the Muskoka Lakes Chamber of Commerce (MLCC). Committee recommended and an increase from \$40,000 to \$50,000 in 2023, which represents a twenty five percent (25%) increase. During the public meeting, a variety of MLCC representatives advocated for the balance (\$12,000) of the total \$62,000 MLCC request.	+\$12,000 to Committee endorsed Operating Budget
Add pickleball playing facilities	Two individuals representing the broader Township pickle ball community requested provision of further outdoor playing space. Additional financial resources would need to be allocated to add capacity to outdoor courts.	Not specifically quantified (Staff estimated +\$10,000 to Committee endorsed Operating Budget for additional capacity)

Consider environmental initiatives	One community member advocated for resources to develop an environmental plan initiative to support future policy direction. It is noted that the Township is monitoring the District of Muskoka led Integrated Watershed Management initiative and to avoid duplication, there may be opportunities for future synergies with those projects/process.	Not specifically quantified
Make road investments a priority	General/Finance Committee endorsed \$5.8M in investments for proposed road and bridge in 2023, which represents fifty percent (50%) of the total capital spend in this calendar year. However, it is acknowledged that a significant backlog of rehabilitation work remains outstanding and must be addressed.	Not specifically quantified
Review staffing and compensation	Council approved a compensation policy in 2021 to peg non-union and Council annual economic adjustments to the consumer price index. A Market Compensation review is planned for 2024. Approval of appropriate annual inflationary adjustments lessens the risk of potential spikes in the annual Operating Budget in response to Market Compensation Review study results.	Not specifically quantified
Reinstate goose control services	A number of individuals either verbally or provided written requests to reinstate the removal of funds in 2023 for goose control that was endorsed by General/Finance Committee during their February 24 meeting.	+\$55,000 to Committee endorsed Operating Budget
Increase support for community centres and user groups	Feedback was received requesting reinstatement of funds in 2023 that the General/Finance Committee endorsed being removed related to Hall Board requests. It is also noted that Committee did not support increasing community centre user fees. In this regard, the applicable fees would remain the same in accordance with Resolution No. COW-10-14/06/18 .	+\$10,000 to Committee endorsed Operating Budget

Other general points of input provided by members of the public included references to budget assumptions, quality of forecasting, infrastructure financing, trend analysis and benchmarking.

A full summary of all presenter's comments received is attached to this report in Appendix II.

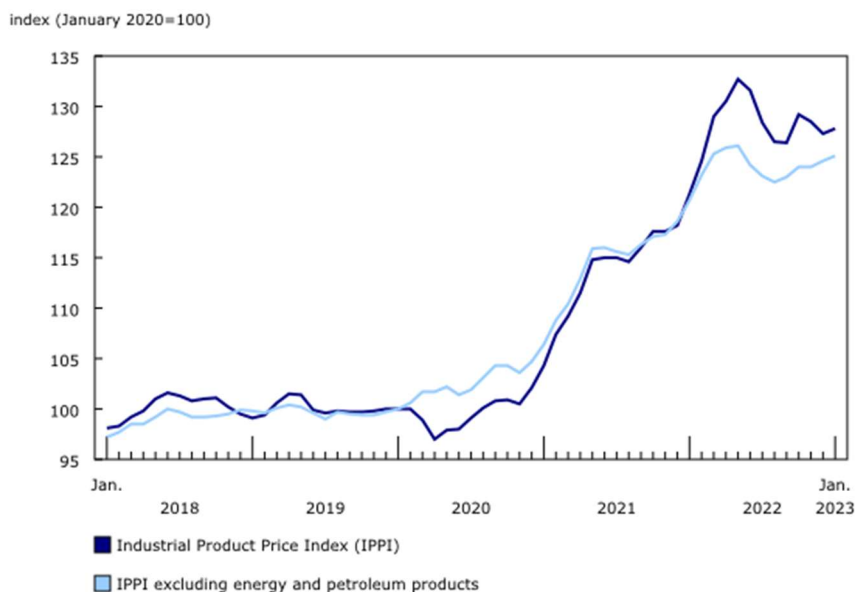
ANALYSIS

Capital Budget Commentary

Forecast Assumptions and Benchmarks

The commentary respecting budget assumptions, quality of forecasting, infrastructure financing, trend analysis and benchmarking capital is acknowledged. Interestingly, while consumer price index (CPI) is typically reported in the media, pricing pressures affecting the municipality relate also to non-residential building pricing index and product price index. Below is a chart sourced from Statistics Canada showing the historic trend of product pricing in Canada.

Chart 1: Prices for industrial products increase



Source: [Statistics Canada. Table 18-10-0265-01; Industrial product price index, by major product group, monthly](#)

The products in the above chart include such items as lumber, energy and petroleum, machinery and equipment, and cement, glass and other non-metallic mineral products. While generally prices are looking to stabilize over 2023, price volatility and cost pressures remain a concern primarily in the area of energy and petroleum due to several geopolitical factors¹.

While inflationary indicators have begun to level off for commodities, the permanency of the increases experienced over the past 12-18 months are not showing signs of retreating to pre-pandemic levels. While higher interest rates is expected to slow demand, scarcity of local labour resources continue the drive the cost of capital works projects for the Township. With regards to equipment, and notably fire service apparatus, shortages of raw materials, labour and other inputs such as shipping are creating backlogs and driving significant price increases².

¹ [Jakoby, Construction Costs, CBRE, December 2022](#)

² [Aiken, The Economics of Apparatus, Firefighting in Canada, October 2022](#)

Updating the Capital Forecast

As asset management plans, master plans, feasibility studies and other information becomes available, Staff forecasts have been updated to reflect new information. The volume and quality of the information used to project future capital needs has changed since 2019 and continues to do so. Staff have noted that the current 10-year Capital Forecast is still not all-inclusive and omits other infrastructure renewal projects that have been identified with no direction confirmed with Township Council. Work continues to refine the future capital needs of the Township and the projected cost of projects in order to present a comprehensive financial strategy as required under O.Reg 588/17. Staff will review forecast assumptions again for the 2024 Budget and continue to refine the assumptions used based on credible sources and the best information available.

Operating Budget Commentary

Through Report No. [FIN-2023-005](#), staff identified a series of proposed amendments would achieve the desired rate increase identified by the General/Finance Committee through its amended budget guidelines as outlined in Resolution SGFC-3-02/01/23. The amended draft Operating Budget endorsed by Committee and presented to the community during the recent public meeting, exceeded the rate increase outlined in the Committee endorsed amended budget guidelines.

At this point, Staff have not included any new spending as presented during the public meeting. The final budget presented for approval, attached to the report as Appendix I, is unchanged from the amended budget approved in principle by Committee on February 24, 2023.

As Council considers changes to service levels and requests received from the public, it is noted that Section C.1 of Council policy [C-FS-01](#) Budget Guiding Principles states that “financial resources identified in the Operating and Capital Budgets will support Township Council’s approved [Strategic Plan](#)”, and that “it will be necessary to prioritize those areas during the budget review process”. When considering any new or enhanced services such as those noted in Table 3 above, Council’s direction should be considered in relation to strategic priorities, including the [on-going projects](#) already endorsed/approved by Council. Consideration must also be given as to how services will be financed (e.g. through an increase to the tax levy, grants or non-tax revenues (i.e. user fees and charges).

2023 Report on Excluded Expenses – Ontario Regulation 284/09

For the purposes of establishing an appropriate net required levy, most municipalities, including the Township of Muskoka Lakes, prepare budgets on a modified cash basis where revenue and expenses for operating and capital budgets are balanced as per Part VII of the Municipal Act. However, under Section 291.1 of the Municipal Act, municipalities are required to prepare a final audited financial report in accordance with Public Sector Accounting Standards. For the purposes of financial reporting, a full accrual budget comparison is required.

As such, the Township of Muskoka Lakes is required under Ontario Regulation 284/09 ([O. Reg. 284/09](#)) to report on certain expenses that have been excluded from the approved budget prior to adopting a budget. The intent of O. Reg. 284/09 is to provide information to Council on balanced budgeting per the Municipal Act versus full accrual financial statement reporting. Council is required to adopt the report prior to approval of the annual budgets in accordance with the Regulation.

When a municipality excludes all or a portion of the prescribed expenses from its budget, O. Reg. 284/09 requires the municipality to prepare a report about the excluded expenses and adopt the report by resolution. In addition, the report must contain at least:

1. an estimate of the change in the accumulated surplus of the municipality to the end of the year resulting from the exclusion of any of the expenses listed above; and
2. an analysis of the estimated impact of the exclusion of any of the expenses listed above on the future tangible capital asset funding requirements of the municipality.

The Township has prepared the 2023 Draft Operating Budget excluding amortization of its tangible capital assets. In addition, other differences from a full accrual basis of accounting beyond those noted in O.Reg 284/09 included in the 2023 Draft Operating Budget are inflows and outflows related to discretionary reserves and reserve funds and debt principal payments.

On a full accrual basis, the operating surplus is noted in the accompanying Table 4.

Table 4 – Full Accrual Budget Reconciliation (per O. Reg 284/09)

Budget surplus per Municipal Act	\$	-
Add:		
Capital expenses		11,346,900
Debt repayment		104,900
Transfers to reserve funds		6,432,900
Less:		
Amortization		(3,290,900)
Transfer from reserve funds		(10,702,600)
Budget surplus per full accrual (PSAS)	\$	3,891,200

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 Council 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

Appendix I – 2023 Draft Operating and Capital Budget and Forecast
Appendix II – Summary of Public Comments – March 7, 2023

PREPARED BY

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