

2022 2023

MUNICIPAL BUDGETS

LONG TERM FINANCIAL PLANNING & POLICIES





Why do we prepare a **Budget**

Legal Requirement under the Municipal Act (Section 290(1)) for a local tier municipality to prepare and adopt a budget including estimates of all sums required during the year for the purposes of the municipality.



Fiscal Accountability
to the Towns home owners, businesses, creditors, investors, developers and residents



Internal Controls
to assure the towns objectives in operational effectiveness, efficiency and compliance with policy and regulation are met



Reporting Obligations
required to report Annual Financial Statements, Publication of the Financial Information Return (FIR)



Management
to provide resources and a communication tool for Management & staff to carry on the day to day business of the Town

Section 290(2) & (4) of the Municipal Act states that a Municipality shall provide all current year estimated revenues and expenses including any surplus or deficit, which resulted from the previous year.....**meaning a balanced budget**

What is a **Budget**



The budget provides the financial resources to implement:

Essential, Mandated & Preferred Services

Police, Fire, Library,
Recreation, Conservation,
By-Law Enforcement,
General Government
Services

Communication & Engagement

The budget serves as a tool
to inform, educate and
engage residents,
businesses, and all
community stakeholders

Policies, Strategic Goals, Business Plans

Implement
recommendations from
Master Plans, Community
Improvement Plans, Website
Design, Parks Master Plans,
Roads Needs Studies, Asset
Management Plans, etc.



Cash Budget **VS. PSAB** **(Accrual) Budget**

- Municipalities have historically worked on a Cash Based Balanced Budget
- With the introduction of PSAB 3150 in 2009, Municipalities had to change the way Financial Statements were prepared and presented
- At the Town of Shelburne, we continue to prepare a Cash Based Budget for Tax Rate determination – however we also prepare a PSAB compliant budget which takes into account the following:
 - Tangible Capital Assets (TCA's)
 - Amortization Expense
 - Landfill Post Closure Expense
 - Post Employment Benefits

Permitted Exclusions from the Cash Budget:



Amortization Expenses



Post Employment Benefit Expenses



Landfill Post Closure Expenses

PSAB – Public Sector Accounting Board



Budget Components

The Town of Shelburne has four main budget components:



**General
Operating**



**General
Capital**



**Water/Sewer
Operating**



**Water/Sewer
Capital**

The **Operating Budgets** contain the expenditures for the day to day operations of the town such as salaries & wages, supplies, services, insurance, etc.; The **Capital Budgets** contain the major expenditures for construction, improvement or acquisition of such things as equipment, buildings, land & infrastructure

What's the **Difference :**

OPERATING

- Provides for the annual cost to provide and deliver services and to maintain them
- Assessment fluctuations can affect the operating budget in both negative and positive ways
- Similar to running a household budget – subject to annual inflation costs
- Opportunity to set aside funds in reserves for future capital needs – a savings account
- Legislated changes (ie: AODA Compliance)



CAPITAL

- Projects may be major in size and can span over several years (Well Project)
- May require debt financing
- Some capital projects will have future operating cost implications (ie: a splashpad or interest payments on acquired debt)
- Opportunity to use Development Charge Funds
- Subject to growth pressures (ie: splash pad; additional water storage needs)
- Legislated changes (ie: Ministry of Health Drinking Water Regulations)

Where does the **money** come from?



Operating Revenue Sources:

- Grants & Subsidies
- Reserves & Reserve Funds
- User Fees & Rentals
- Donations / Fundraising
- Taxation

Capital Revenue Sources:

- Grants & Subsidies
- Reserves & Reserve Funds
- Development Charges
- Debenture Loans / Financing
- Infrastructure Levy
- Donations / Fundraising
- Taxation – Pay as you go.....

The **General Budgets** are administered & collected through taxation billings;

the **Water & Sewer Budgets** are managed and collected through user fee billings





Municipal Expenditures

For reporting purposes, municipal expenditures are classified by nine major functions in accordance with the FIR – Financial Information Return.

**General
Government
Services**

**Protection
Services**

**Transportation
Services (Roads)**

**Environmental
Services**

**Planning &
Development**

**Health Services
(Cemetery)**

**Recreation
& Culture**

**Social & Family
Services (*County*)**

**Social Housing
(*County*)**

Municipal Expenditures



If you stop and think about a day in your life, you will soon realize just how many of these categories cross your path in the course of a normal day:



Assessment & **Taxation**



- Assessment x Tax Rate = Annual Taxes Levied against a property
- MPAC (Municipal Property Assessment Corporation) works on a four year phased in assessment based on Current Market Values. Visit mpac.ca for valuable assessment related information
- The Upper Tier (County) and the School Boards determine their own Levy and Tax Rates. The Lower Tier (us) collects these funds on their behalf, including our own, and remits 100% of their portion to them on a quarterly basis.
- Any unpaid taxes remain the responsibility of the Lower Tier even though not all of the uncollected portion belongs to the Lower Tier
- An Assessment Growth & Property Tax Explanation as provided by MPAC is available at [Property Assessment and Property Taxes | MPAC](#)



Collection Policies



- To assist staff with collection of property taxes the Town has a **Tax Collection Policy**.
- Through Bill 68, the province recently made changes to Section 373(1) of Municipal Tax Sales by:
 - **reducing the time that property taxes on a property have to be owing before a municipality can start a tax sale of the property from three (3) years to two (2) years.**
- To assist staff with collection of water and sewer billings the Town has a **Water & Sewer Collection Policy**. This policy helps to administer water and sewer aging (cut-offs) and helps keep administration costs low.
- Copies of these policies are available on the Town's web site



What's the **Difference :**

RESERVES

- A reserve is an allocation of accumulated net revenues
- It can be built up over several years; or for use specifically for an earmarked project for the following year – *discretionary reserve*
- A reserve does not require a separate bank account
- It does not earn its own interest
- Example is a Contingency reserve which is meant to be large enough to cover outstanding tax arrears
- Purpose to avoid large fluctuations in the tax rate



RESERVE FUNDS

- A reserve fund is a separate bank account and is kept for specific purposes
- It does earn its own interest
- Usually obligatory in nature meaning it is tied to specific legislated rules
- Examples include:
Development Charges, Gas Tax now referred to as Canada Community Building Fund (CCBF), Cemetery Perpetual Care
- Finance keeps a separate and complete set of accounting records for each reserve fund
- Annual reporting requirement attached to reserve funds

Further information is included in the Town's Reserve & Reserve Fund Policy



Avoiding Budget **Fluctuations**

Election Expenses

Setting up an election reserve avoids large increases every 4th year

Tree Replacements

Schedule 10 Boulevard Tree Replacements every year rather than 40 all in one year

Tax Stabilization Reserve

Build to pull from in lean years

2022

2023

2024

2025

2026

2027

Project Duration

Larger projects that can span over a number of years are not as hard on the budget

Personnel Hires

HR Reserve to help offset new staff positions due to growth; succession planning

Capital Assets

Capital Asset Replacement Plan to provide for future capital needs; 5 Year Capital Plan

Unavoidable **Cost Drivers**



Assessment Base Changes

Large assessment appeals (ie: big box stores, golf courses); Industry closing or leaving; How much do you need in a tax stabilization reserve should you lose a major employer

Legislation Changes

Federal and Provincial changes to legislation that filter down to the municipal level – Cannabis for example; or changes to Minimum Maintenance Standards

Boards of Management

Library, Police, Fire, CDRC, Conservation all submit their own separate budgets adopted by their own boards of management

New or Improved Service Levels; Implementing Community Improvements

Adding a new service to the budget such as a dog park or splash pad; tennis courts. Capital projects that have ongoing Operational cost impacts



Investment Policy

The Town of Shelburne's Investment Policy establishes procedures that govern the investment of public funds in a way that adheres to the statutory requirements of the Ontario Municipal Act, 2001, as amended

- **Policy meets the goal of:**
 - Preserving capital
 - Maintaining liquidity
 - Maximizing rates of return (without compromising rules of the policy & risk)



- **Internal Control & Delegation of Authority:**
 - The CAO and Treasurer have overall responsibility for the prudent investment of the Municipality's funds and shall supply an annual investment report outlining investment activity and returns





Procurement & Disposal Policies

The Town of Shelburne's Procurement and Disposal Policies both establish procedures that govern in an open and accountable manner and in a way that adheres to the statutory requirements of the Ontario Municipal Act, 2001, as amended, and serves to supplement for issues when the legislation is silent

- **MUNICIPAL PROCUREMENT POLICY:**
 - Acquiring of goods and services
 - The right to bind the Corporation
 - Competitive & transparent process
 - Sole Sourcing / Single Sourcing
 - Limits and Authority to Award



- **MUNICIPAL DISPOSAL OF ASSETS POLICY:**
 - Surplus, Obsolete and Scrap Assets
 - Transfers between departments
 - Sealed Bids, Public Auction, Donation
 - Return to original vendor with certificate of destruction required



Records Retention By-Law

The Town's Record Retention By-Law was updated in 2022 and replaced the 1990 By-Law that was non-compliant with current legislation.

- **RETENTION BY-LAW PERFORMS 4 FUNCTIONS:**

- Inventories Corporate Record Types
- Indicates retention standards for all record types
- Indicates records series that include Personal Information Banks
- Indicates series to which Routine Disclosure or Open Data principles may apply



- **RECORDS AND INFORMATION MANAGEMENT POLICY MANUAL:**

- Defines roles and responsibilities of records management staff
- Accompanies the Records Retention By-Law
- Is a living document which will be reviewed and updated as required
- Defines how municipal records are to be maintained, preserved, archived or destroyed



DEBT and Financial Obligation Limits

- Ontario Regulation 403/02, as amended, outlines Debt and Financial Obligation Limits for Municipalities
- In accordance with this regulation, the Ministry determines the annual debt and financial obligation limit, through a calculated formula, and reports this limit to the Treasurer of the Municipality in writing each year
- This document becomes Schedule 81 of the FIR and is called the **ARL – Annual Debt Repayment Limit**



- The Province gives Municipalities the authorization to incur long term debt for Municipal Infrastructure needs as long as the annual debt repayments do not exceed 25% of own source revenues
- Own source revenues includes taxes and user fees, but does not include grants, subsidies, contributions from reserves or DC's or proceeds from the sale of real property

Debt Policy



- Council needs to be aware that the Town's ARL *includes* revenues from the consolidated Boards of the town
- The Provincial “rule of debt capacity” has been recognized as being generously high since maintaining debt payments at 25% of self raised revenues would require tax increases in order to maintain core service levels & to avoid being *mortgage broke*
- For this reason, many municipalities have implemented their own debt policy to limit their borrowing to a level well under the Provinces rule.



- Generally accepted Debt Policies, set by some municipalities have set limits as low as 10% of the Provinces 25% limit or 2.5% of self generated revenues.
- The Town adopted a Debt Management Policy in 2019 choosing 40% of the Province's 25% rule or 10% of self raised revenues as the maximum allowable debt to accumulate.
- The County of Dufferin uses 40% as well.



FINANCIAL INDICATOR Review

The Ministry of Municipal Affairs and Housing provides an annual **Financial Indicator Review** for each municipality in Ontario. The results are based on the annual Financial Information Return (FIR) – and historically provides the level of Risk factors for the past five years

- **Sustainability Indicators:**

- Outstanding Taxes Receivable
- Reserves & Reserve Funds
- Net Debt
- Cash Ratios

- **Flexibility Indicators:**

- Debt Servicing Costs
- Amortization versus Capital Assets
- Annual Surplus or Deficit



Want to Know **How Much Interest you pay with a \$5 million debenture loan?**

**15 Years
@4.79%**



Annual Debt
Repayment Amount
\$467,939
Or
5.4% increase
In tax rate

**20 Years
@4.84%**



Annual Debt
Repayment Amount
\$390,689
Or
4.5% increase
In tax rate

**25 Years
@ 4.93%**



Annual Debt
Repayment Amount
\$348,311
Or
4.0% increase
In tax rate

- **Infrastructure Ontario Lending Rates are subject to change and reflect the movement of their cost of borrowing in the capital markets**
- **Debenture rates are fixed for the entire life of the loan once the debenture is purchased by Infrastructure Ontario**

Note: 1% of 2022 Tax Rate is \$86,387

Financial Sustainability



To be resistant to economic shock and fit enough to smoothly fulfill basic functions & service levels– how do we promote this.....





What is an **Asset Management Plan?**

** From the Building Together Guide*

“Asset management planning is the process of making the best possible decisions regarding **the building, operating, maintaining, renewing, replacing and disposing of infrastructure assets**. The objective is to maximize benefits, manage risk, and provide satisfactory levels of service to the public in a sustainable manner.

Asset management requires a thorough understanding of the **characteristics and condition of infrastructure assets, as well as the service levels** expected from them. It also involves setting **strategic priorities to optimize decision-making** about when and how to proceed with investments.

Finally, it requires the development of a Financial Plan, which is the most critical step in putting the Plan into action.”

https://mfoa-assets.s3.ca-central-1.amazonaws.com/Policy/20221011_AssetManagement.mp4

The Benefits of Long-Term Financial Planning

Similar to saving for your own retirement, Long Term Financial Planning provides you with many benefiting outcomes.

In 2022 Council adopted a 5 Year Capital Plan to be reviewed annually during the regular budget process

Tax Rate Stability

Helps to prevent that “hit” to the tax payers pocket with a stable budget – keeps the tax payers happy



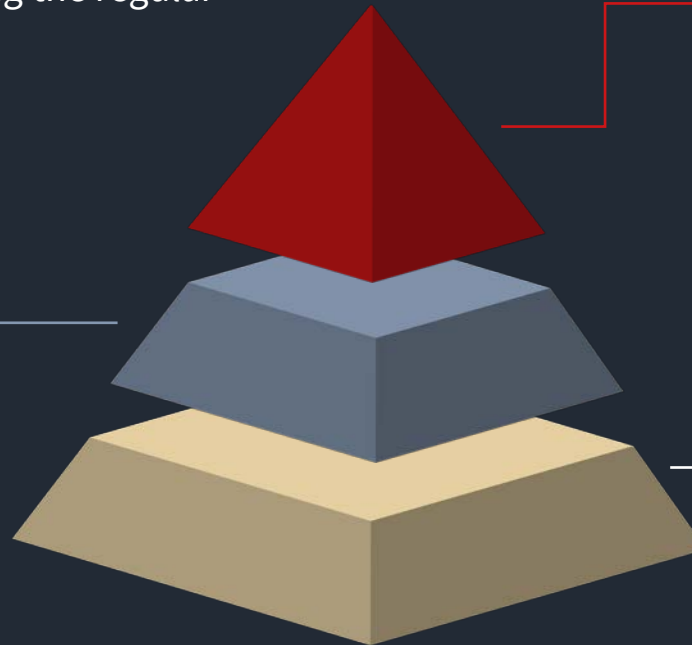
Seeing the Big Picture

Changes decision making from short term to long term and allows for priority setting



Assists Staff & Council

With preparing a financial program that links budget priorities with the resources needed or available to carry out the strategic vision



Budget **Schedule:**

NON -ELECTION YEAR



August 31st	Submission Deadline for Annual Grant Applications
September	Collection of data, quotes, estimates, etc., by department heads and senior management in preparation of preliminary budget meetings. All data to be submitted to Treasury no later than middle of September
September/October	Meeting with Department Heads to review preliminary information submitted for the Draft Budget along with five-year projected forecasts
October (not necessarily a meeting date)	Distribution of the Draft Budget for Council review only. Discussions will be scheduled for next Council meeting. Choice of hard copy, electronic or both
November	Presentation of Draft Budget to Council with an addendum of any revisions that have taken place since the distribution
November	Presentation of Draft Budget to Public followed by discussion at the regular meeting of Council to follow the same evening
November / December	Special Meeting (if needed)
December	Approval of Budget by Resolution with authorization to prepare By-Law for next meeting
December	By-Law to Adopt the Budget

Budget **Schedule:** ELECTION YEAR



August 31, 2022	Submission Deadline for Annual Grant Applications – Present Dec 12, 2022
September/October 2022	Collection of data, quotes, estimates, etc., by department heads and senior management in preparation of preliminary budget meetings. All data to be submitted to Treasury no later than Friday, November 4, 2022
November 2022	Meeting with Department Heads to review preliminary information submitted for the Draft 2023 Budget along with five-year projected forecasts
December 12, 2022	Inaugural Meeting of Council & Presentations by Grant Applicants
January 9, 2023	Budget & Financial Education Session for Council
January 18, 2023 (not a meeting date)	Distribution of the 2023 Draft Budget for Council review only. Discussions will be scheduled for January 23, 2023 Council meeting. Choice of hard copy, electronic or both
January 23, 2023	Presentation of 2023 Draft Budget to Council with an addendum of any revisions that have taken place since the January 18, 2023 distribution
Jan 30 or Feb 6, 2023	Special Budget Meeting (if needed)
February 13, 2023	Presentation of Draft Budget to Public followed by discussion at the regular meeting of Council to follow the same evening
February 27, 2023	Approval of 2023 Budget by Resolution with authorization to prepare By-Law for next meeting
March 13, 2023	By-Law to Adopt the 2023 Budget



Budget
Season is not
just once a
year, it's ALL
year long.....

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Municipal Finance Acronyms

- AMP** – Asset Management Plan
- ARL** – Annual Repayment Limit
- BIA** – Business Improvement Area
- CBC** – Community Benefits Charge
- CCBF** – Canada Community Building Fund (formerly AMO Gas Tax)
- DC** – Development Charges
- FIR** – Financial Information Return
- IO** – Infrastructure Ontario
- MPAC** – Municipal Property Assessment Corporation
- MVA** – Market Value Assessment
- OPTA** – Online Property Tax Analysis
- PIL** – Payment in Lieu
- PSAB** – Public Sector Accounting Board
- RFP** – Request for Proposal
- RFQ** – Request for Quotation
- TCA** – Tangible Capital Assets



Additional Resources:

Tax Collection Policy

Water & Sewer Collection Policy

Reserve & Reserve Fund Policy

Debt Management Policy

Investment Policy

Municipal Procurement Policy

Municipal Disposal of Assets Policy

Water & Sewer Rate By-Law

Asset Management Policy

