

| Type of Decision                        |                      |                  |   |    |                 |                        |      |  |        |
|---|----------------------|------------------|---|----|-----------------|------------------------|------|--|--------|
| Meeting Date                            | Friday, June 3, 2011 |                  |   |    | Report Date     | Thursday, May 26, 2011 |      |  |        |
| Decision Required                       |                      | Yes              | X | No | Priority        | X                      | High |  | Low    |
| Direction                               |                      | Information Only |   | X  | Type of Meeting | X                      | Open |  | Closed |
| REPORT TITLE                            |                      |                  |   |    |                 |                        |      |  |        |
| Budget Presentation Report #3/06/11/501 |                      |                  |   |    |                 |                        |      |  |        |

Subject: Rationale for proposed budget with various options for consideration by Council.

The following is an updated and edited version of the report to Council presented at the meeting of February 18, 2011. For that report in its original version, please request a copy from the office or view it on-line at

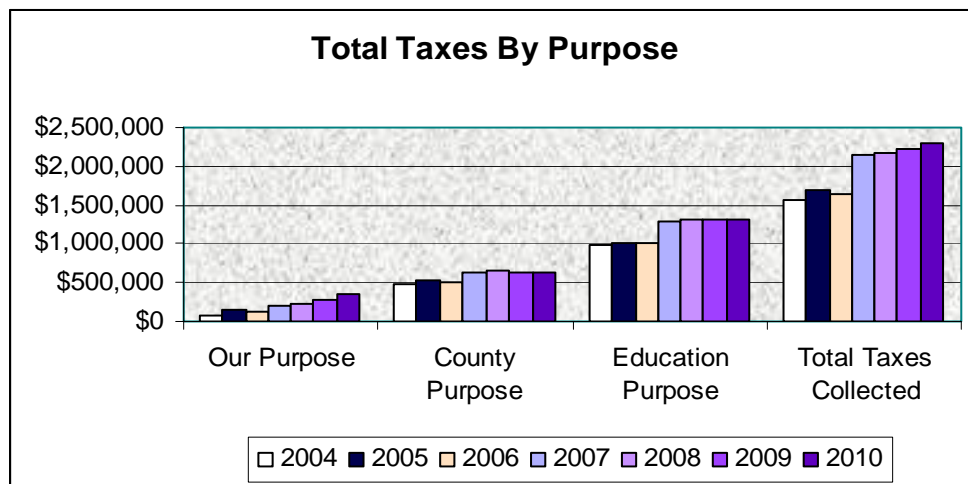
<http://www.townshipsofheadclaramaria.ca/Agenda%20and%20Reports%20to%20Council.html>.

#### BACKGROUND/EXECUTIVE SUMMARY:

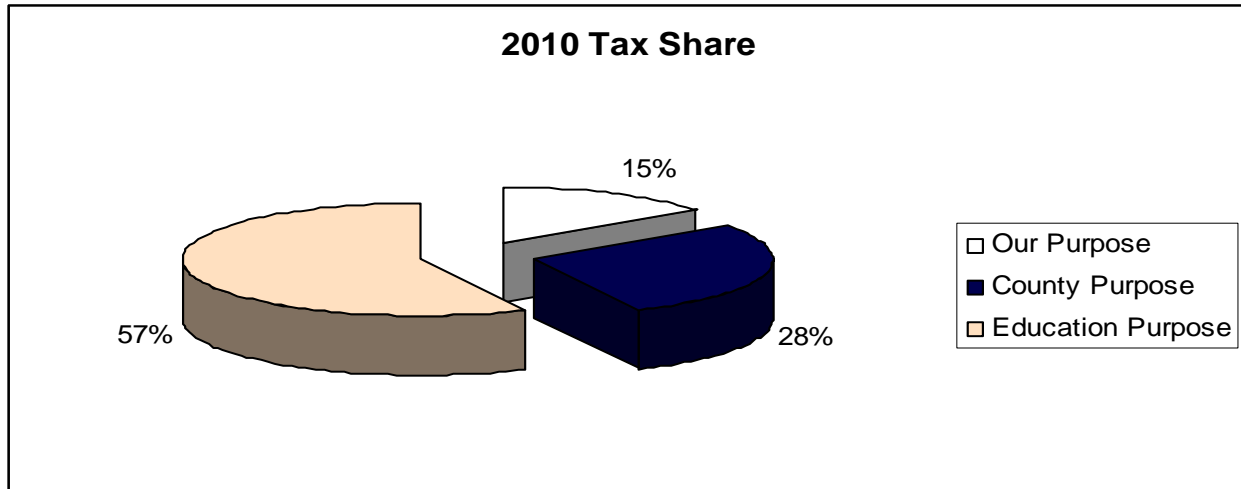
This report is intended to provide a history and background of the evolution of the level of taxes within the municipality and the rationale for suggestions for the 2011 budget. The report has been modified from the 2010 report. You have each been provided with a copy of the working document which is a line by line itemization of the actual budget working document.

The individuals noted below participated in creating this document and the budget for 2011. Estimates were considered, department needs were analysed and compromises were made. Data for assessed values, tax rates, and historical rates are all from OPTA which is an On-line Property Tax Analysis Tool created by the Ministries of Finance and Municipal Affairs and Housing. Although it does not accurately reflect actual assessed values from MPAC at any given time due to reassessments, supplementals etc. it is the data used to compare tax rates across the province. It will be used in the future to maintain consistency.

*The following chart shows the historical level of taxes collected by and for the municipality, the county and the province (education rates)...*



The portion of taxes collected by the municipality that stay with us. Of a total of \$2,291,724 collected in 2010, \$1,308,843 goes to the School boards, \$640,246 to the County and only \$342,635 is for municipal purposes.



**NOTE:** On a smaller scale, let's say that your total tax bill is \$800 and HCM keeps a share of 15%, the County keeps a share of 28% and the Province (Education) keeps a share of 57%. The shares will be allocated as follows: the Twp portion will be \$120, the County portion will be \$224 and the Education portion will be \$456 totalling \$800.

## Ontario Municipal Partnership Funds

2010 saw the first of the cuts to the annual provincial funding for our municipality in the amount of \$43,800. 2011 funding has been set at \$157,700. Since 2005, this municipality has received \$219,000 annually as non-conditional funding from the province. The decrease expected in 2011 was not realized at the full level with the province reconsidering funding levels. There is no guarantee for the future.

It is staff recommendation to increase taxes slightly to provide for the decreased funding that we will receive from the province and meet our basic operational needs. This amount allows us to meet our current expenses with little going toward special projects or reserves.

This level of funding will require the municipality to put a hold on any additional major purchases or projects (aside from those already committed to) for the near future.

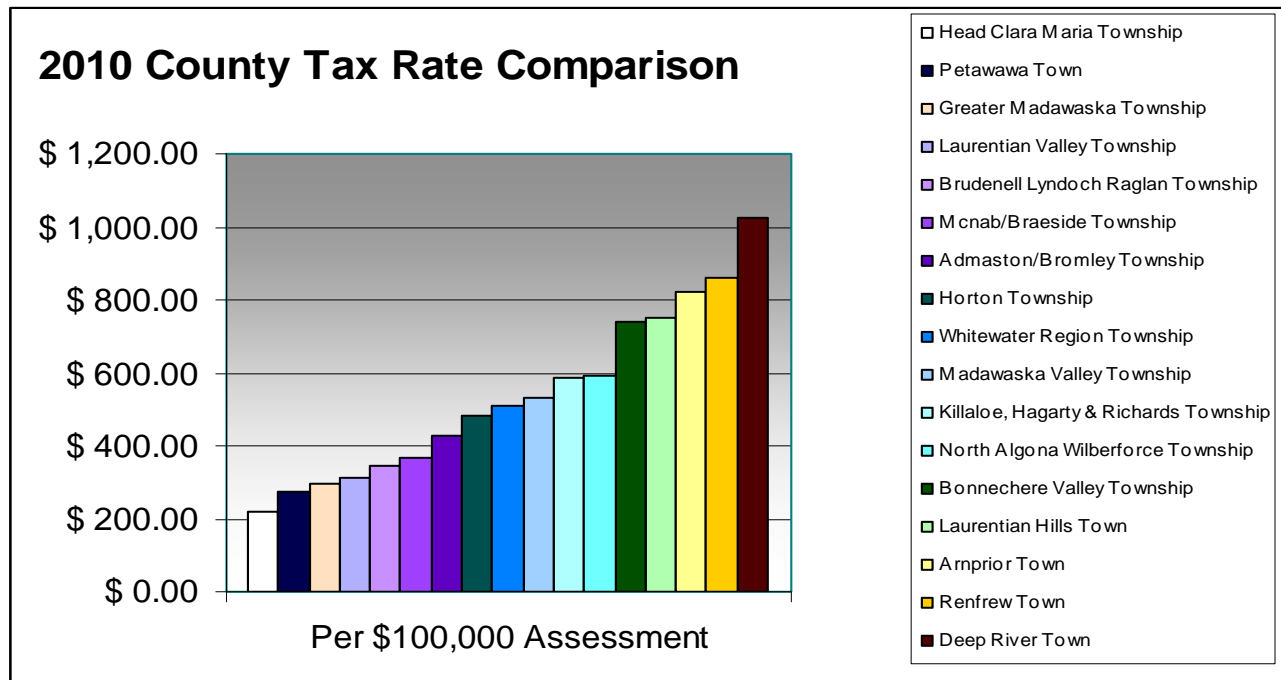
Although we will not have an audited figure until sometime in early April, it is expected that there will be significant surplus for 2010, somewhere upwards of \$40,000. Current policy allows any surplus to be automatically deposited to the Working Capital Reserve which is near its target amount. Should we realize this size of a surplus, it is suggested that these funds be reallocated to various reserves. This conversation can take place at that time however the reserve list you have shows where funds are needed to meet targets set in years past.

## How we Compare to the County Municipalities

Head, Clara & Maria is in the envious position of having the lowest residential taxes in the County. You would be hard pressed to find lower taxes in many municipalities in Ontario, save and except

for the much more remote Northern locations. This municipality also has the benefit of receiving a significant portion of its taxation revenue from the pipeline. **Without those contributions, the residential tax rate in this municipality might be the highest in the county.**

*Comparison of our tax rates for 2010 with the other municipalities within the county.*

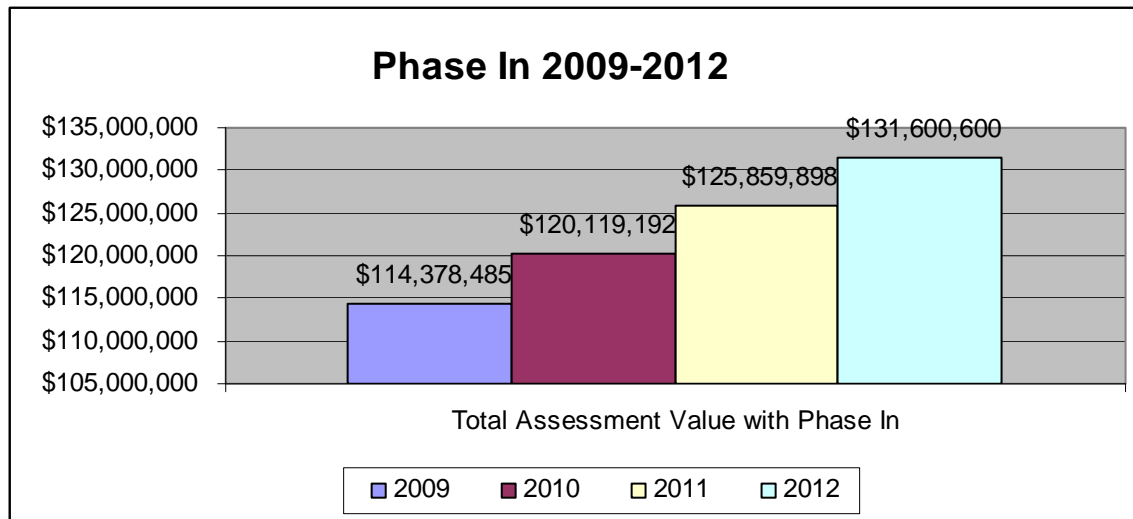


## 2011 Suggested Options for Consideration

Staff has prepared and presented what we believe is a balanced budget with limited room for adjustment. We have reduced costs where possible. We have increased costs where necessary short of seriously reducing service levels and keeping to Council's previous levels of commitment. Please advise of omissions, deletions and changes.

Below is a chart of the actual tax rates for 2007 – 2010 with three options for the municipal portion of taxes for 2011. This rate is the residential rate and all others will be set as per the ratios set by the County. The County rates are not presently known and we are obligated to apply them according to legislation.

*The following chart shows the increase in assessment value adjusted for the already calculated and legislated phase-in. It does not include increases due to reassessments, new builds etc.*



The Clerk's recommendation is option 1 which will allow minimal transfers to reserves but will fill in the gap created by minor OMPF funding and increased operating costs.

This increase does give consideration to the increase in assessment that will occur in 2011 with an additional 25% of the 2008 CVA to be included as illustrated above.

The Treasurer's recommendation is option 1 as well.

Council could consider increasing taxes to provide for increased reserves; however it is felt that reserves for planned expenses are within reach with additions to be made once a surplus has been determined by the auditors in early April.

*The following chart shows the actual rates and amounts owing over the past three years. It shows the increases in taxes on a property assessed at \$100,000. It further shows the same data for the 3 options that staff has prepared for Council's consideration for 2011.*

*Note: In addition, the chart explains the residential rates only; it does not include the Education and County rates. It is also an estimate as the chart was introduced before the County and Education rates were finalized.*

**Here is an explanation on tax ratios:** *Each time a tax ratio is changed, all property classes are affected. The tax ratios for commercial, industrial and pipeline classes are above the ranges of fairness (provided by Ontario Regulation 386/98- amended by O. Reg. 176/00) in most municipalities, and the residential class generates a large portion of taxation, moving ratios will usually mean reducing non-residential taxation and increasing residential taxation.*

**In the short of it all, when the commercial, industrial and pipeline rates decrease the result is an increase to the residential rates as the same amount of money still has to be collected by the municipality.**

**Now that the County, Education and HCM rates have been finalized, and considering the change in ratios as set by the county, decreasing the commercial rates; the rate increases for HCM are as follows: the taxation total change for the residential rate is and increase of**

**7.8% and the overall rate increase which includes all classes (the residential, commercial occupied and vacant land, industrial occupied and pipelines) is 2.9%.**

**Because the amounts of taxes actually collected in HCM are so low compared to our neighbours, in order to increase the amount raised by taxes for the entire municipality by as little as \$40,000 a year over year increase of over 18% is required. To raise that same amount in other municipalities, the year over year increase may only be .5 %.**

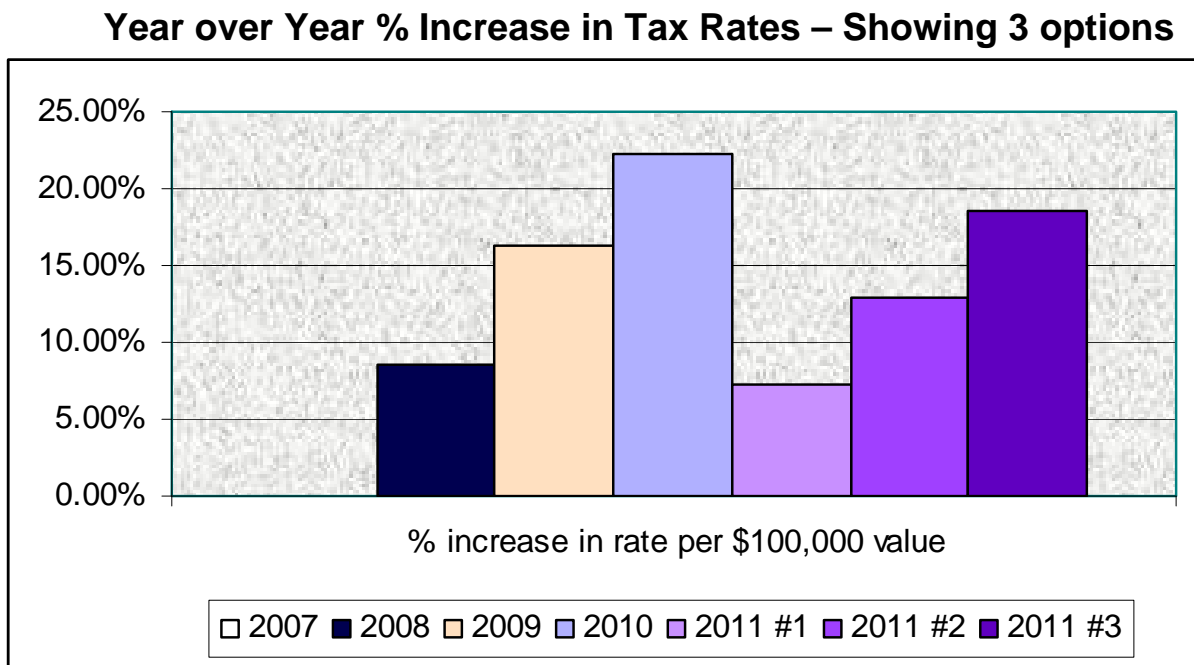
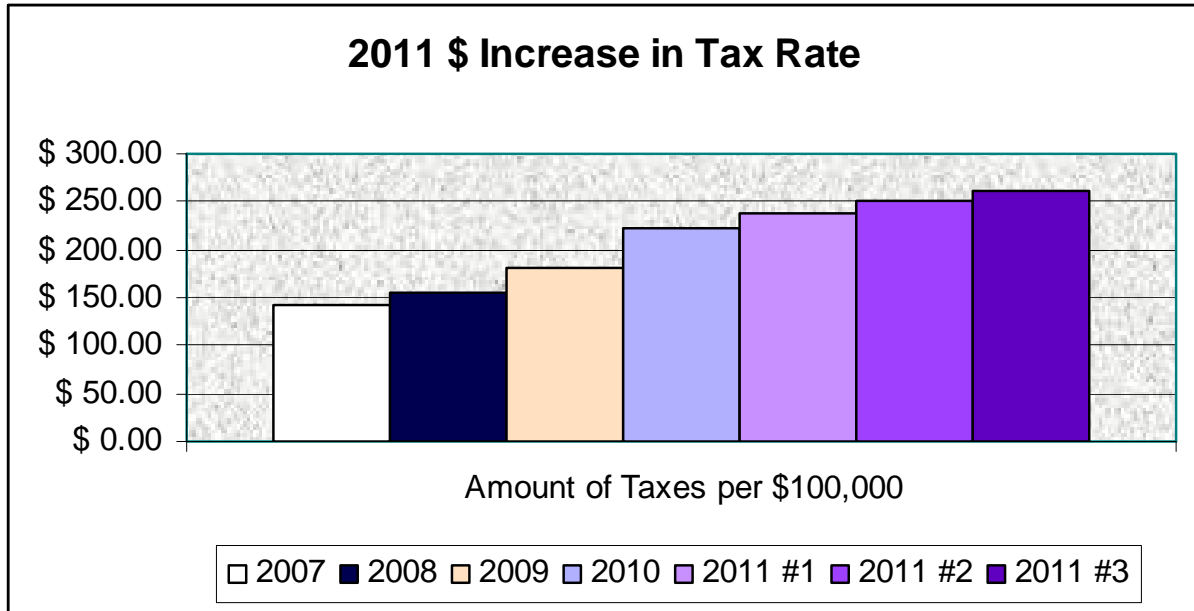
**You have to compare apples to apples, hence the rate per \$100,000 figure as shown above. Here you can see that for a property valued at \$100,000 – HCM residents pay just over \$200 and Deep River residents pay just over \$1,000 with places somewhere in the middle like Whitewater where they pay \$500.**

**(The following chart shows the increases over the past 5 years, as high as 22.26% in 2010.)**

| Year      | Rate              | Amount taxes per \$100,000 | Increase over previous year | % increase in rate per \$100,000 value over previous year |
|-----------|-------------------|----------------------------|-----------------------------|---|
| 2007      | 0.00143311        | \$ 143.31                  | 0                           | 0   |
| 2008      | 0.00155496        | \$ 155.50                  | \$12.19                     | 8.50%   |
| 2009      | 0.00180944        | \$ 180.94                  | \$25.45                     | 16.37%  |
| 2010      | 0.00221217        | \$ 221.22                  | \$40.27                     | 22.26%  |
| 2011      |                   |                            |                             |   |
| Option #1 | <b>0.00237373</b> | <b>\$ 237.37</b>           | <b>\$16.16</b>              | <b>7.30%</b>  |
| 2011      |                   |                            |                             |   |
| Option #2 | <b>0.00249719</b> | <b>\$ 249.72</b>           | <b>\$28.50</b>              | <b>12.88%</b>   |
| 2011      |                   |                            |                             |   |
| Option #3 | <b>0.00262066</b> | <b>\$ 262.07</b>           | <b>\$40.85</b>              | <b>18.47%</b>   |

- 2011 #1 is the basic budget that meets needs but has no room for contingencies, special projects or reserves. It maintains current levels of service and programs and allows for no improvements or increases. The detailed document before you is a break down of this level of taxation for 2011. You can see on that working document the changes compared to 2010 budgeted and 2010 actual expenses.
- 2011 #2 shows the increase in the amount of taxes owing per \$100,000 of property value which would be required to net an additional \$20,000 in taxation revenue to be used to increase reserves.
- Option 2011 #3 would net \$40,000 additional in tax revenue for own purposes and mean an increase in taxes over 2010 of \$40.85 for a property valued at \$100,000.
  - There are 83 residential properties within the municipality valued at over \$100,000, the majority being significantly less. Of these 13 are hunt camps leaving 70 residential properties which would be affected by 100% (or more) of the increase or \$40.85.

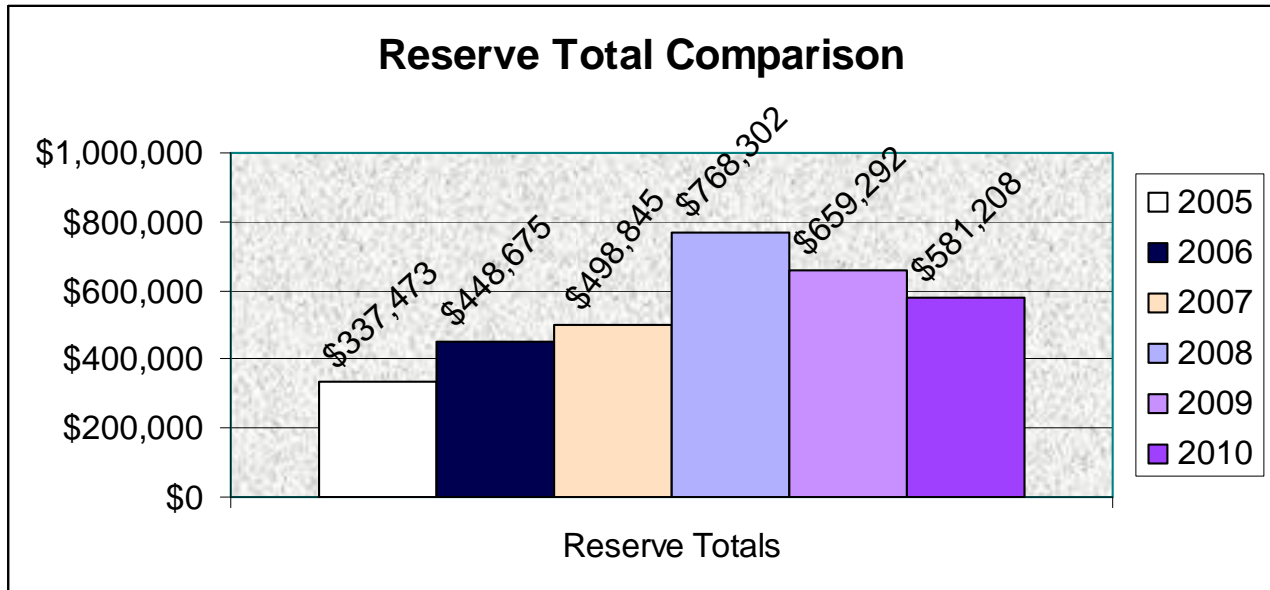
The following charts are simply a graphical representation of the data before you. They show the \$ increase and the % increase for the years 2007-2010 and for the 3 options for 2011.



## Reserves

Currently, we have reserves of \$584,208. The amounts required by legislation for our Disposal Site closure and Post Closure is currently at \$196,828 short \$84,832 of the \$281,660 required. That does not mean that this shortfall is required to be funded in its entirety at present. It is the amount of money that will be required to close and monitor our three sites for the next 30 years. Contributions towards these costs can be made over the next few years.

Further consideration should be given to the costs of expanding the current sites and looking at other options for waste disposal. There is certainly room to plan for the future; Council's decision needs to be how much it should save during this budget process.



The chart above shows an increase in reserves in 2008 and a corresponding drop in 2009. This was due in part to accounting practises which transferred unused special project funding to reserves at year end, only to remove them in the following year upon project completion.

As many municipal administrations and councils know, there are increasing demands made on municipalities to provide services legislated by the province including health and safety programs, accessibility requirements, accommodation requirements, emergency management and minimum maintenance levels for roads to name just a few. Add to this the need to plan for the future, to maintain aging infrastructure, to provide for waste management and the increased workload to administer all these programs and the level of taxes required at the municipal level rises accordingly.

When a ratepayer asks, "what do we get for our taxes?" these items need to be included, even if the ratepayer doesn't usually see them. This municipality has a unique challenge with its limited funding, limited population and relatively few discretionary services. The few discretionary services that Council does provide include the boat launches, parks, recreational facilities and the library. Most other expenditures are required to provide legislated functions and to administer those programs.

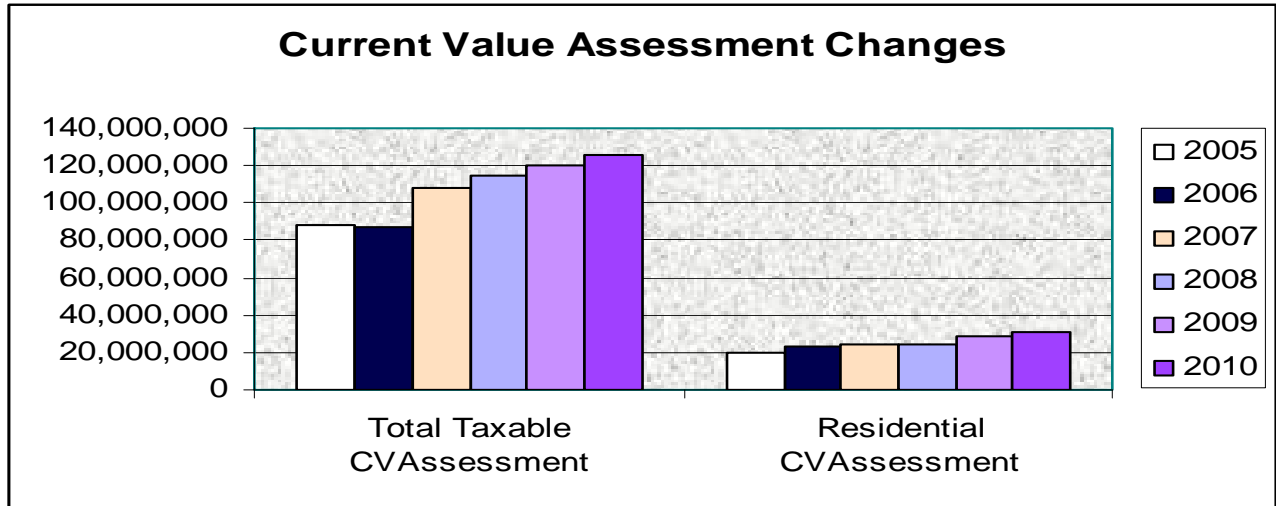
## Current Value Assessment

When considering the level of taxes, the tax rates, and tax ratios you must also consider the assessment of the property within the municipality. The current estimate for setting the tax rates was made using the most recent valuation of assessment for 2011. This assessment is an increase of 25% over 2010 based on the current method of phasing in the property values over 4 years. Another 25% increase will occur in 2012 when the 2008 assessed values have been phased in. New assessments are then to occur in 2012 to be phased in over the next 4 years unless the province, and potentially a new government makes changes to this process.

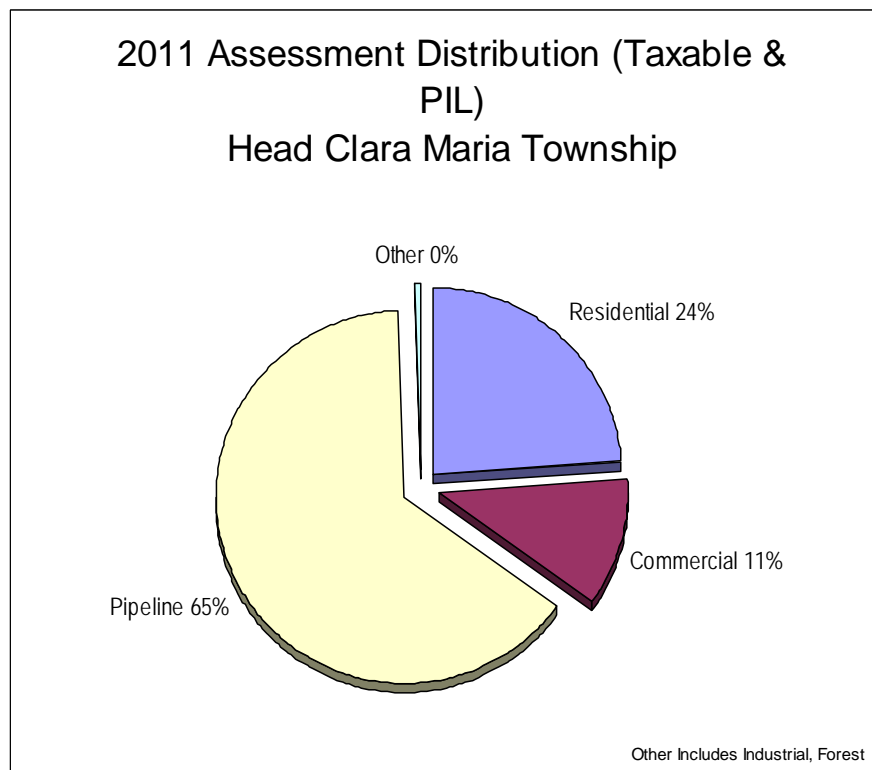
In addition to legislated phase in increases, we must also consider the possibility of reduction in values due to reassessment in 2012, increased assessment due to the increase in properties along our water front and increases in assessment due to severances and new builds.

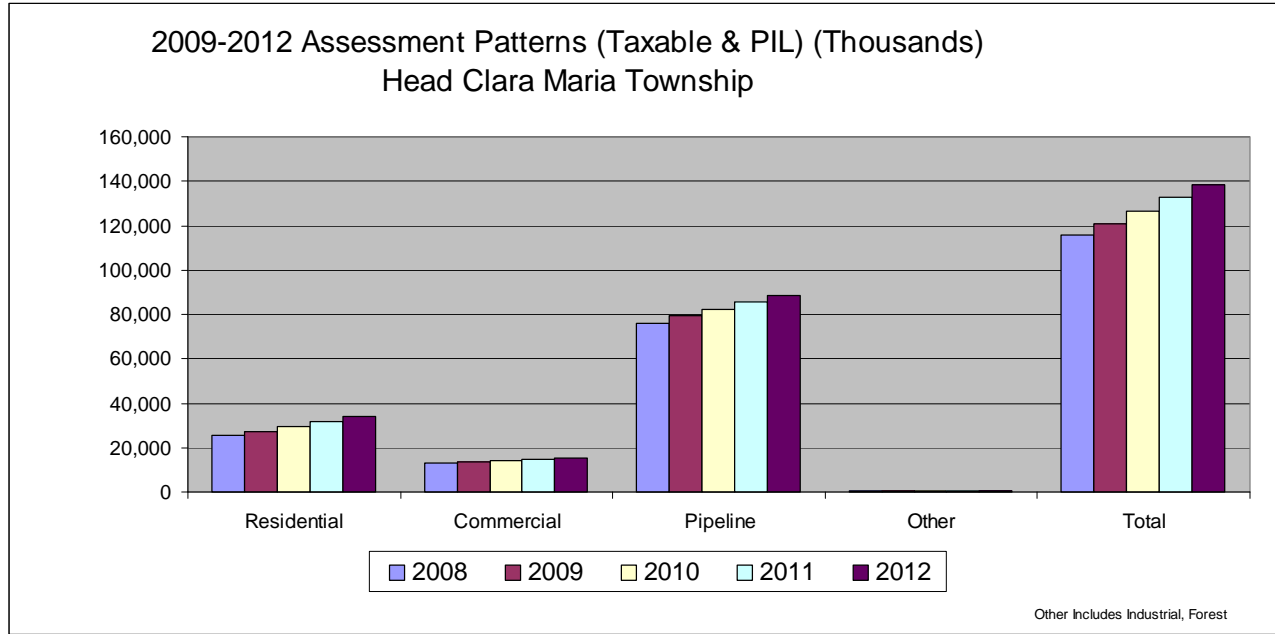
Depending on how individual properties compare to the average assessment will determine if their municipal taxes will increase or decrease in any given year.

*The following is a chart of the changes of assessed values over the past 6 years.*



*The following chart shows the division amongst the various tax classes within the municipality. The Pipeline contributes a significant portion of municipal and county taxes.*





## 2011 Proposed Budget Explanation

In general, we have limited new projects, have allocated little funding for future reserves and for minimal new purchases. With Council's approval we will begin a fundraising and donation campaign to solicit funds for special projects and improvements to our recreational facilities.

The proposed budget meets our basic operational needs but does not allow for many contingencies, unforeseen cost increases or special projects aside from those already funded by 2010 grants and commitments. It maintains current levels of programs and services with no increase or changes.

As a final note we must remember that the total amount we collect in taxes depends also on the education tax rate and the County tax rate. As yet we have not received the County levels and there has been no news on a reduction by the province to the education rate.

Others Consulted: Ruth Morin - Treasurer, Wilfred Lamure - Road Superintendent.

Approved and Recommended by the Clerk

Melinda Reith,  
Municipal Clerk

*Melinda Reith*