



# Township of Scugog Staff Report

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**Report Number:** FIN-2017-003

**Prepared by:** Dianne Valentim, CPA, CGA, Director of Finance / Treasurer

**Department:** Finance

**Report To:** Council

**Date:** February 13, 2017

**Reference:** September 12, 2016 – 2017 Budget Schedule and Council List of Items  
October 3, 2016 – 2017 Budget Guidelines  
October 24, 2016 – Council Member Remuneration  
Strategic Direction # 4 to “Provide quality public services that are efficient, effective, and affordable for residents.”

**Report Title:** **2017 DRAFT Operating Budget and Addendum to 2017 Capital Budget**

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## Recommendations:

1. **That** Report FIN-2017-002, 2017 DRAFT Operating Budget, be received for information;
  2. **That** Council approve the 2017 Addendum to Capital Budget in the amount of \$1,034,200.
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## 1. Background:

The purpose of this report is to present the 2017 Operating Budget and an Addendum to the 2017 Capital Budget for the Township of Scugog.

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Council endorsed the 2017 Budget guideline of a 1.5% tax levy increase, plus a 1.0% special levy dedicated to infrastructure asset management at its October 3, 2016 Council meeting.

This levy increase was based on Statistics Canada publications using August 2015 to August 2016 Consumer Price Index (CPI). It was noted in the Budget guideline report that many of the expenses incurred by the municipality do not align with the average basket of goods that a normal household purchases. Expenditures that will have an impact on municipal finances include utility costs, including hydro, gas and water, the new carbon tax, increasing health and dental benefits and costs associated with current collective agreements and arbitrated agreements and the new debenture principal and interest payment.

Some of the escalated increases have been built into this budget, but some are still uncertain and town staff will monitor expenditures through the year to ensure expenditures are in line with budgets.

The Township underwent a corporate restructure in September of 2016 – this restructuring was to re-align the corporation in order to position it for optimal performance. The 2016 Operating budget was restated in this budget document for comparative purposes to reflect the new corporate structure.

At the October 24<sup>th</sup>, 2016 Council meeting, Council requested that staff consider including proposed changes to the Council Member Remuneration in the 2017 budget. An increase in salary to the Mayor and all Councilors has been built into this operating budget.

## **2. Discussion:**

Each year, municipalities are required to adopt a budget which includes estimates of all sums required during the year. In addition, the budget shall provide that estimated revenues are equal to the estimated expenditures.

Preparing a budget forces the Township to plan for the future. This direction ensures efficient use of limited resources and that there will be an adequate source of funding available for operating and capital needs.

The adoption of the budget tax levy identifies the amount of money to be raised from taxation in the year, and serves as a basis for the calculation of the tax rates needed to generate these revenues. The 2017 budget identifies \$11,500,300 as the amount to be raised from taxation which results in a residential tax rate of .00318150 (2016 tax rate .00332559)

On a combined basis with the Region of Durham 2017 tax levy increase and the Board of Education (assuming no levy increase for 2017), the average residential property owner within the Township of Scugog will see an average of approximately 1.6% to their combined tax bill or approximately \$69 for 2017.

**Annual increase in Township Share of Tax Bill**

	<b>2016</b>	<b>2017</b>	<b>\$ Increase</b>
Average CVA	\$360,200	\$376,300	
Actual Tax Rate	.00325559	.00318150	
Township Tax	\$1,172.66	\$1,197.20	\$24.54

**Annual increase in Total average Residential Tax Bill**

	<b>2016</b>	<b>2017</b>	<b>\$ Change</b>	<b>%</b>
Average CVA	360,200	376,300		
Region of Durham	\$2,525	\$2,690	\$45	
Township of Scugog	\$1,173	\$1,197	\$24	
Education	\$677	\$677	\$0	
<b>Total Tax</b>	<b>\$4,375</b>	<b>\$4,570</b>	<b>\$69</b>	<b>1.6%</b>

**Local Municipality Comparators**

<b>Municipality</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Scugog</b>	<b>2.50</b>	<b>1.20</b>	<b>1.99</b>
Ajax	2.25	2.90	3.04
Brock	(0.24)	2.48	1.70
Clarington	3.15	3.89	2.65
Kawartha Lakes	2.60	8.15	3.30
Oshawa	2.37	2.94	3.79
Pickering	Not available	4.90	4.90
Uxbridge	3.80	4.90	4.90
Whitby	4.49*	4.59	2.94

\*pending final approval

The Township of Scugog Levy increase for 2017, as shown in the attached schedules, is 2.5% as follows:

Net operating	1.5%
Special 1% Roads & Roads Related Levy	<u>1.0%</u>
	2.5%

The 2017 budget breakdown is as follows:

DEPARTMENT	2017 Tax Requirements	Percentage
Council	291,300	2.4%
Office of the CAO & HR	485,400	3.9%
Corporate Services	1,031,000	8.3%
Fire & Emergency Services	1,919,800	15.5%
Finance	266,800	2.2%
Development Services	711,200	5.7%
Community Services – Public Works	5,209,100	42.0%
Community Services – Recreation	1,237,800	10.0%
Community Services – Parks	619,600	5.0%
Library	620,100	5.0%
<b>NET OPERATING BUDGET</b>	<b>12,392,100</b>	<b>100.0%</b>
Growth	(65,000)	0.4%
Payment in Lieu – Estimate	(55,000)	
OMPF Grant	(304,000)	2.5%
MP Reserve Funding	(464,300)	4.3%
<b>TOTAL LEVY REQUIREMENT FOR 2016</b>	<b>11,500,300</b>	<b>92.8%</b>

Some of the year over year budget changes includes:

Salary/wage rate increases (1.25% per the CUPE collective agreement) and statutory and group benefit and IAFF contract estimates	\$107,300
Council remuneration	\$41,500
Three new Retirees entitled to group benefits	\$13,900
Conversion of HR Associate from PT to FT	\$23,000
Manager of Communications and Strategic Initiatives	\$47,500

New Management no longer eligible for OMERS	(\$42,365)
New debenture payment (partial year impact)	\$80,000
1% Special Roads & Roads Related levy	\$112,228
Elimination of reserve transfers to fund operating	\$222,649
Transfer of Gas tax to Capital	\$655,000

### **Ontario Municipal Partnership Funding**

The Township of Scugog received a grant for 2017 from the Ontario Municipal Partnership Fund of \$1,244,800 (in comparison with \$1,253,000 received in 2016 and \$1,241,300 received in 2015). Most of the funding has already been built into the operating budget and \$304,000 has been allocated directly for a levy reduction.

### **Gas Tax**

The Township of Scugog will receive gas tax funding in the amount of \$655,766 in 2017. The 2016 allocation of \$655,000 was included in the operating budget in 2016. Through the Federal Gas Tax agreement, reporting is required on how these funds are being utilized. For greater transparency and easier expenditure tracking, these funds will now be tracked separately through capital and have been included in the Addendum to the 2017 Capital Budget.

### **Council Member Remuneration**

This proposed 2017 operating budget includes an increase in the Mayor's remuneration to \$40,600 and to the Regional and Ward Councilors to \$25,400 effective Jan 1, 2017.

### **Addendum to 2017 Capital Budget**

Council approved the 2017 Capital Budget of \$9,846,700 on November 28, 2016, however, through the operating budget review and preparation, it was noted that there were several projects included in the operating budget that were special one time projects funded from reserves. These projects are capital in nature whereby they are significant dollar items that are one time occurrences or projects that are done on an ad hoc basis; however, they are not necessarily capital from a tangible capital asset perspective. Often times these projects are not completed in the budget cycle that the funding was approved and additional funding approvals and reporting is required to allow the project to continue in a seamless manner.

These capital-like projects are proposed to be added to the capital budget through the Addendum to the 2017 Capital Budget. Some of the projects identified were started in 2016 and will continue into 2017, others are new projects identified to be conducted in 2017. By separating these capital-like projects from the operating budget the project reporting will be

more transparent and they will be easier to track expenditures and funding. These projects will be included in the capital project status reporting and capital closings. The removing of these projects from the operating budget has no financial impact on the tax levy as the projects are funded from reserves and reserve funds.

<b>FUNDING SOURCE</b>	<b>2017 ADDENDUM TO CAPITAL REQUIREMENT</b>
MP Reserve	\$196,200
Gas Tax	\$600,000
CEF – Heritage	\$140,000
CEF – Facilities	\$45,000
DC Reserve Fund	\$53,000
<b>Total Funding Requirement</b>	<b>\$1,034,200</b>

### **New / Expanded Programs**

New or expanded programs are reviewed as part of the budget process. Due to budgetary constraints very few new or expanded items, or increased service levels, can be funded in the 2017 Operating Budget. For 2017 the following additions or enhancements have been built into the budget:

- increased grass cutting along roadways at intersections to help with sightlines
- debenture funding for Line 6 reconstruction
- online payment services and EFT
- annualization of the armoured car service
- the addition of Manager of Communications and Strategic Initiatives
- the conversion of the HR Associate from Part time to Full time

### **Core Services and Efficiency Review**

In 2017 there will be a core services and efficiency review of operations. This review will examine which services the Township should deliver and the service levels that best meet the needs and expectations of the community. The review will also strive to ensure that these services are delivered in the most efficient and cost effective manner. The impact of this review will likely be seen in 2018 and beyond budget cycles.

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## **Legal Matters and Assessment Review Board Decisions**

Litigation costs continue to pose a risk to the Township. There are several pending legal actions that Council has decided to pursue which are placing extreme pressures on the budget, the costs and timing of these legal actions are not known at this time and have not been built into this budget.

The Assessment Review Board (ARB) is an independent adjudicative tribunal whose main function is to hear appeals from property owners who believe that properties are incorrectly assessed or classified. The commercial and industrial property classes currently have appeals outstanding that date back to 2009. The pending decisions of this Board could have a direct impact on the assessment base of the Township. It is anticipated that the Township has exposure to ARB assessment adjustments that could reach a cost in the range of \$200,000. In 2016, there were ARB and minutes of settlements tax refunds in excess of \$86,000. These appeals have resulted in some non-residential property assessments being lowered and as a result will shift the tax burden onto the residential tax base. Further appeals are still outstanding and will likely have a further negative affect on the residential assessment base.

### **Reassessment**

2017 is the first year of the next four-year reassessment cycle. Reassessment decreases are implemented immediately in 2017, while reassessment increases are phased-in equally over four years. While property owners should expect that the value of their property will increase over time, it is important to remember that an increase in a property's assessed value does not necessarily mean that property taxes will increase in the same proportion. After calculating assessment growth, the existing tax rates are lowered to reflect the higher assessment values.

The Township does not receive any additional revenue as a result of reassessment (i.e. it is revenue and budget neutral).

Residential homeowners will see their property taxes affected by reassessment by both a tax shift between non-residential and residential property classes and a reassessment increase compared to the average increase.

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## **Long Term Capital Maintenance and Replacement**

In 2013 / 2014, the Township completed an update of the Roads Needs Study. This study indicated that the Township would need to fund additional investments in the range of \$160 million to maintain the roads and bridges in a state of good repair. In recognition of the need to begin closing the infrastructure deficit of the Township, Council approved a 1% special levy. Staff recommends the continuation of this dedicated tax levy for 2017 and it has been built into this budget.

The 2016 Asset Management Plan for assets other than Roads and related infrastructure is being presented to Council on February 13, 2017. This study indicates that of the \$101.8 million of other assets supported by the Township, 27% or approximately \$27 million of infrastructure is considered to be in “Poor” or “Very Poor” condition and in need of immediate attention. Staff, therefore recommend that Council consider increasing the dedicated tax levy to help address the infrastructure deficit.

### **Line 6 Reconstruction and Servicing**

The Township was successful in obtaining an OCIF grant of just over \$3 million in Federal and Provincial grants for the Line 6 project. The overall project cost is currently estimated at \$5.4 million and includes potential Region of Durham participation. The Township will be seeking debenture funding to cover the remaining cost of this project. A partial year of interest and principal payment has been built into the budget.

### **Uncertainty of continued funding from Great Blue Heron Charity Casino**

For many years, the Township has received funds from the Casino in excess of \$1 million annually – a reflection of the great generosity of the Mississaugas of Scugog Island First Nations (MSIFN), and the strong relationship between the Township and the MSIFN community. Over time, the Township has come to rely heavily on the slots revenue from the Great Blue Heron, and those monies have become embedded within the Township’s annual budget process. In the 2016 budget, the Township relied on financing of over \$1.7 million from slots revenues (comprised of expected current-year revenues and some from previous years), which is equivalent to approximately 15.5% of our 2016 levy.

Given the recent announcement that the Great Blue Heron Casino will become part of the OLG family, there is a degree of uncertainty surrounding whether funds will continue to flow to the Township at historical levels. The Township is working productively and in close partnership with MSIFN, OLG and the Province to address this uncertainty.

The impact of this development may place unprecedented pressure on the Township’s future operating budgets and ability to maintain taxes at their current rate.



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## **New Revenue Sources and Adjusted User Fees**

Staff were tasked with undertaking a comprehensive review of the Township's user fees to ensure they are in line with comparator municipalities. The 2017 user fees and charges were endorsed by Council on January 23, 2017 and the new fees and charges have been incorporated into this budget.

## **3. Communication Considerations:**

Copies of the 2017 Draft Operating Budget and Addendum to the 2017 Capital Budget will be available at the Township Municipal Office and on the Township website the week of February 8, 2017. An Operating Budget Open House will be held on February 15, 2017 at the Scugog Memorial Library. The final presentation to Council of the 2017 Operating Budget is scheduled for March 2, 2017.

## **4. Conclusion:**

The recommended 1.5% levy increase and 1.0% special Roads and Roads related levy meets the budget guideline endorsed by Council on October 3, 2016. This levy increase does not cover the costs of running the municipality as reserve funding is still required to offset expenditures, it does not allow for the Township to grow its financial reserves and it does not address the further infrastructure pressures identified in the 2016 Asset Management Plan.

However, reserve transfers of \$222,649 utilized in 2016 to fund operating expenditures have been eliminated and the Gas Tax funding which was imbedded in the 2016 Operating budget has been transferred to Capital.

Through continued management and monitoring of the operating budget and the core services and efficiency review to be conducted in 2017, it is desired that further savings can be achieved and the reliance on reserves to fund the operating budget can continue to be decreased and eventually eliminated.

If Council wishes to address the ongoing infrastructure deficit especially in light of the new information outlined in the 2016 Asset Management Plan, then staff recommend Council increase the special infrastructure levy beginning in 2017.

Respectfully Submitted:

Reviewed By:

Dianne Valentim, CPA, CGA  
Director of Finance / Treasurer

Paul Allore  
Chief Administrative Officer

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**Attachments:**

2017 Operating Budget - DRAFT

ATT – 1 – 2017 Addendum to Capital Budget

ATT – 2 – 2017 Addendum to Capital Budget detail sheets