Municipal Budgeting and Taxation 101 June 2014

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The United Townships of

Head, Clara & Maria

Landowner's Meeting

- Jeff Foss from the County has explained how the County comes up with their budget and tax rate. He spoke about provincial limits, ratios between classes, increased valuations etc. etc. County rates are then sent to each municipality.

- MPAC has presented an overview of how properties are assessed. How properties are evaluated based on location, how increases are phased in over 4 years. How final assessment values are provided to the municipality.
- This will be a high level explanation of how a municipality comes up with a tax rate.

Where to Start?
A Budget Definition

- A statement of a municipality's priorities!
- Sets spending limits on programs and services the municipality will offer!
- A political document representing the collective judgment of Council who is ultimately responsible for the final budget document that is adopted, based on community needs and demands !

Common Budget Pitfalls

- Being focused on the short-term and being reactive.
- Assuming that whatever has been done in the past has continued relevance.
- Approaching adopting a budget as if its primary purpose is to find a way to hold the line on taxes.
- Providing services on a one off basis and not as a part of an overall long term strategy or plan.

What is Important to Council?

- An important first step is to develop a strategic plan – determine what the priorities of Council truly are!
  - Do you want a budget for this year alone? (The Municipal Act allows for a 5 year budget.)
  - Do you want to plan for this term?
    - … for the next ten years?
    - …or for the indefinite future?
- What are municipal objectives and priorities? What do the people want?

What is Council willing to risk?

- With provincial cutbacks continuing, a municipality will likely have substantially less money from the province in the future **as well as** increased responsibilities.
- How high is Council willing to raise taxes in any given year? (To offset loss of provincial funding or for capital expenditures.)
- What programs or services are Council willing to cut?
- What other sources of revenue are available?

Operating or Current Budget

Under the *Municipal Act* a current budget must estimate all amounts required:

- To pay all debts falling due within the year;
- To provide for sinking funds and retirement funds;
- To provide for any local board, commission or other body.

It Also…

- Reflects municipal priorities.
- Sets forth the revenues expected to be generated from all sources during the year.
- Determines the amount of money to be raised from taxes in any year.
- Is limited in usefulness by the traditional means of it's being prepared.

Financing Capital Expenditures

Options available:

- Long term borrowing;
- Current revenues;
- Debt Issuance;
- Grants;
- Reserve funds;
- Equipment leasing; or
- Private sector funding.

Links Between Capital and Current Budget

- Pay-as-you-go approach – will result in increased costs in **this year.**
- Need to plan for the costs of the future and how you are to finance them.
- Borrowing means carrying charges, using current funds means increased taxes.
- Council needs to determine a policy to direct capital spending.
- In the year that a capital project is to occur, increased operating costs in wages, utilities and/or materials will likely also be a factor.
- Decisions made in capital and operating budgets must be coordinated.

Council Sets the Budget

- After consideration of many different variables, many mandated, Council must set its budget for the year.
- Through the budget, Council has decided the amount of money which is required to be raised from taxes.
- MPAC has provided the total available assessment.
- The province and County provide a set of rules which set the ratios between classes and limits on the ranges for specific classes.
- Simple math is used.

- A formula is applied to then come up with a rate which will provide the required revenues.
- Once the municipality's rate is calculated it is added to the County and Education rates to come up with a total rate.
- Municipalities are then responsible for calculating and printing tax bills and collecting taxes for their own needs as well as for the province for education purposes and the County for their needs.

Increased Municipal Needs

- Sometimes Councils have to increase annual revenues simply due to circumstances outside of their control such as:
  - Reduced funds from the province;
  - Increased responsibilities;
  - Loss of grant funding;

Assessed Value Increases or Decreases

- Revenues from taxation may increase or decrease simply due to assessment changes without any change in the actual tax rate.
- Causes:
  - property re-evaluations and reassessments;
  - growth from new builds;
  - Reductions from requests for reconsiderations;
  - demolitions;
  - or changes of use/class change.

Ontario Municipal Tax Rate

- Taxation Revenue Required (determined by Council's Budget decisions) divided by
- Total Municipal Weighted Current Assessed Value (determined by MPAC) equals
- Tax Rate
- Although the actual calculation is simple, it does get complicated once classes, ratios and ranges are considered. For this reason, the Online Property Tax Analysis tools, which considers all variables and calculates the final rates, is used.

Total Tax Bill Formula

Current Year Phased-in Assessment Value x Municipal Tax Rate = **Amount of** Municipal **Property Tax**	Current Year Phased-in Assessment Value x County Tax Rate = **Amount of County Property Tax**	Current Year Phased-in Assessment Value x Education Tax Rate **=** **Amount of Education Property Tax**

Municipal Property Tax	**+**	**County Property Tax**	**+**	**Education Property Tax**	**=**	**TOTAL PROPERTY TAX**

Comparisons are Dangerous

- For Head, Clara & Maria the increase of taxation for residential properties for 2011 over 2010 was 7.8%.

Percentage Increase	Budget	Proceeds
7.9%	$1,000,000	$79,000
7.9%	$5,700,000	$450,000
7.9%	$7,400,000	$584,000

- Not a valid comparison with other community increases using percentages.

% Increase

Budget	Increase Needed	Percentage Increase
$ 1,000,000	$40,000	4%
$5,700,000	$40,000	.71%
$7,400,000	$40,000	.54%

- In each case you are still raising only $40,000.
- You need to consider this when comparing increases reported as percentages.

Comparisons are Dangerous

- Any comparison of tax rates is usually misleading and does not tell the whole story because of the constant change in **Current Value Assessment** (CVA).
- E.g.. The CVA year over year can change and using the same tax rate as the previous year, may result in increased or decreased Revenues from Taxation.
- It may look like your Council increased its spending due to an increased tax rate but it might just be that the CVA was reduced and Council needed the same amount of money.

Tax Rate Misinformation

- $37,406,801 x 10% = $41,147,481
- 10,539,333,768 x 20% = 12,647,200,522
- Old tax rate - 0.00354994
- New tax rate – 0.00325348
- Tax Rate Drop of -8.35%
- But your Total Revenues from Taxation (from municipal budget) increased by 10% and the total weighted CVA increased by 20%. Very misleading.

Apples to Apples

There is no way a true comparison using percentages can be used between municipalities or year over year for your own municipality. There are too many variables.

The most accurate comparison is a comparison of taxes per $100,000.

Municipality 2010 taxes / $100,000 property value (residential rates)

Head, Clara & Maria	$221
Laurentian Hills	$749
Deep River	$1027

Another Example - Comparison Table

- Each property's tax rate changes at a different percentage than it's neighbour.

2010 Current Value Assessment (Value of your home)	2011 Active Current Value Assessment (Value of your home)	CVA Percent Change (In the Value of Your Home)	2010 Total Taxes Owing	2011 Total Taxes Owing	Total $Tax Change for property with this value	Total Tax Percent Change from 2010 to 2011 for specific property values
$124,000	$124,000	0.00%	$1,085.71	$1,087.42	$1.71	0.20%
$88,500	89,750	1.40%	$774.88	$787.06	$12.18	1.60%
$93,489	93,745	0.30%	$818.57	$822.1	$3.53	0.40%

Duties and Responsibilities of Municipal Staff and Council – HCM 2014

- Even though we are a small rural municipality, we are responsible for many of the same tasks downloaded by the province as the largest city in the province is.

Consequences

So, what happens if we don’t fulfill our obligations as created by the province? Since municipalities “exist at the pleasure of” the province, depending on the legislation contravened or ignored, the options might include: law suits, increased liability, bankruptcy, loss of provincial funding, fines, forced amalgamation or individual jail time. For your information and consideration.

- Customer Service
- Municipal library
- Policing
- Health and Safety
- Accessibility
- Emergency Management
- Waste Management
- Facility Management
- Recreation, Health and Safety and Well Being of Residents
- Energy

- Small Drinking Water Systems
- Accounting
- Grants and Funding
- Purchasing and Procurement
- Taxation
- Information Technology
- Fire Safety and Public Education
- Building services
- Economic Development –
- Governance

- Human Resources
- Cemeteries
- Insurance and Risk Management
- Council Meetings and Administration
- Roads
- Planning
- Freedom of Information and Protection of Privacy Act
- North Renfrew Emergency Services
- Deep River and District Hospital Physician Recruitment
- Elections and Bi-Elections

- Questions?