2009

Financial Strategic Plan

CORPORATION OF THE TOWNSHIP OF

ADJALA - TOSORONTIO

June 2009

2009 Financial Strategic Plan

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2009 Financial Strategic Plan

Introduction

Adjala-Tosorontio claims a unique position that has been carefully nurtured and promoted through its history. With a rural lifestyle throughout the Township, Council has been careful to reflect a sense of rural independence which has been treasured by our residents. Council has ensured that this sense of independence is reflected not only in the services that we provide, but most importantly, in the annual budget that Council sets.

It is because of this sense of rural pride of independence that our Township can boast many significant policy and economic benchmarks that are the envy of other municipalities. It is also a driving force that makes our Township such a desirable place to live.

> *"Adjala-Tosorontio is a municipality where the rural/agricultural/hamlet lifestyle is valued. To protect this lifestyle, growth in all facets will be controllable, sustainable, and affordable… A variety of economic opportunities which protect the natural environment and contribute to and enhance the rural/agricultural/hamlet lifestyle will be established and promoted. These activities will support sustainable growth that will be consistent with the existing character of the community"*
>
> *Strategic Plan, 1995*

We can proudly boast that our Township has consistently maintained the lowest or one of the lowest tax rates in the region. Conversely, a 2008 survey of home values in the GTA has shown that median home values in Adjala-Tosorontio are the highest in Simcoe County[1] , and that Adjala-Tosorontio is one of three areas which has the highest house price gains in the Toronto market[2]. This, despite the presence of other Simcoe County municipalities with equal or better accessibility to the GTA and other key destinations. It can be readily and fairly concluded from these factors that Adjala-Tosorontio provides some of the best quality of life in Simcoe County and the GTA.

In 2008:

Median Resale House Price: $ 450,375

2008 Residential Tax Bill: $ 7.51per $1,000 assessed value

Average 2008 Residential Assessment for taxation: $280,067

One of Council's greatest challenges will be to promote a planning strategy which will endorse our Township's heritage, unique environment, and independent rural lifestyle.

[1] *Toronto-area Resale House Prices, March 2009,* Toronto Real Estate Board
[2] Catherine Farley, *Toronto Star,* July 12, 2008

More importantly however, will be Council's task of creating a financial strategy which will strengthen our Township's position, support our planning strategy, and to ready ourselves for the future.

The Effect of Growth on Our Current Position

Our growth rates have, historically, proven to be ideally measured and manageable. Growth has averaged about 2 % annually and is projected to grow from the current 3800 households to 5600 households by 2016, a growth rate of about 95 to 115 households per year[3].

Growth can be a substantial benefit to a municipality, but it can also be a substantial burden.

Growth is necessary to offset increasing demands for service, increasing legislation requirements, and to provide an economy of scale necessary to maximize service efficiencies.

Growth can also create unyielding burdens upon a municipality through the requirement of new infrastructure, often necessitating large sums of capital investment which may take years to recuperate.

Through the thoughtful foresight of Councils past, we have seen a steady growth pattern which has not burdened the Township with unmanageable debt.

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[3] *Official Plan of the Township of Adjala-Tosorontio,* July 2008, pp 7.

Through the direction of the Province, growth will now be directed almost entirely to our settlement areas, in a more intensified manner, and with the need for full municipal services [4].

> "Population and employment growth will be accommodated by ... directing major growth to settlement areas that offer municipal water and wastewater systems..."
>
> *Places to Grow, 2006*

Council has established the rate and pattern of growth within the Township, and should now consider growth as a necessary component in determining the Township's financial future and in determining a financial strategy.

In fact, growth will now play the greatest role in the Township's financial strategy ever. It will be used to create economies of scale which will provide greater efficiencies in operations. It will also provide the financial returns necessary to allow us to construct capital projects which are necessary not only for future growth, but for our residents that we serve today.[5]

Growth, however, will have at least a short-term financial cost. Adjala-Tosorontio is currently undertaking its greatest period of capital investment in history, and will require careful financial planning strategies in order to ensure escalating

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[4] *Places to Grow, Growth Plan for the Greater Golden Horseshoe, Province of Ontario, 2006, pp. 14*

[5] Growth will be used to finance legislated capital upgrades to the Rosemont and Colgan water systems and to help in cost reduction strategies in water operations as identified in CN Watson's *Water and Wastewater Study, 2005.*

rewards to our mutual benefit in the years to come. Failure to plan our financial strategy carefully and diligently can lead to increased financial burden with no net gains.

Investment in capital growth will require that we borrow investment capital from outside the Municipality. Such investment will require the annual allocation of funds for debt servicing in the form of interest payments, and debt retirement in the form of principle repayments, all as an integral part of the annual financial planning process. This budget strategy will anticipate our current and projected capital investment needs and plan for growth as our key investment tool.

Providing sufficient revenue for program delivery is now becoming more complicated with multiple grant programs, the stacking of grants, debt financing, debt repayment, and alternative funding sources such as Development Charges and additional fees.

The Effect of Additional Legislated Burden on Our Current Position

As operational authority for municipalities is granted by senior levels of government, we are subject to legislated burden through regulations entirely outside of our control. Such legislation is daunting, highly restrictive, and often very expensive to the Municipality. Over the last few years, a great deal of additional burden has been placed upon the Township through downloading of responsibility. This burden becomes readily apparent in our budget, primarily within the water department.

Of significance is the increased cost of operating our water systems through the requirement of increased vigilance, testing, and equipment upgrades.

The Province's mandate of "user pay" is slowly being cast upon municipalities as the province enables legislation which requires financial plans and system sustainability. For this reason, water and wastewater rates are dealt with in a separate financial plan.

The Township has had to respond to two Provincial Officer's Orders which require new water supplies for the Colgan and Rosemont water systems. The financial impact of these orders will be felt with this year's budget as we seek outside financial assistance to help pay for these capital upgrades.

Construction of the Rosemont upgrade has reached substantial completion. Work is proceeding on the first phase of the Colgan upgrades, with substantial completion for the first phase slated for late spring/early summer. The next phase, which involves construction of the standpipe, has no set construction date and will be dependent upon the timing of any further development in Colgan.

We are aware that additional legislated burden is likely still pending, such as source water protection and full-cost recovery for water and wastewater systems. Source water protection will require the implementation of land use controls through the Official Plan, Zoning Bylaw, and various inspection regimes to enforce activities on a declining scale of distance from municipal wellheads. The full effect of this is unknown, but will be shouldered by the Municipality.

The Effect of Federal/Provincial Grants on Our Current Position

Federal and Provincial grants are utilized by the Township to offset the municipal levy and/or user rates. Although such offsets can substantially improve the overall budget picture, Council must be cognizant of potential pitfalls.

Of primary concern is that funding assistance not be used to artificially inflate service levels or decrease tax rates at such a level that cannot be sustained in future years after the funding program ceases. Such a situation would likely cause the need for significant, burdensome tax increases beyond Council's control following the end of the program.

Of secondary concern is that senior grant programs often require significant financial partnering from the municipality. Although a grant could be hard to pass up, it may be necessary for the municipality to tie up or borrow funds for the municipal share. Such actions lessen the availability of future funds for other projects which may prove more necessary. Projects should therefore be chosen carefully.

Summary of Current Grants

Fund/Grant Name:	Grant Total:	Allocation for:
Investing in Ontario Grant	$ 792,414	Capital Improvements
Road/Bridge Infrastructure Investment Grant	$ 427,507	Road Improvements
Gas Tax Fund	$ 327,596 (2009 value)	Infrastructure & PSAB
JEPP	$ 17,345	Emergency Services
Hydro Grant	$ 5,000	Municipal Office Park
Build Canada Fund	$ 1,177,000	Capital Improvements
OSWAP	$33,757.38 X 4 yrs	Water Operations Subsidy
Partnership Grant	$ 842,100	Offset municipal levy
Total:	**$ 3,619,719**	

The COMRIF grant for Bridge 15 and Bridge 8 on Concession Road 3 and Concession Road 4 has essentially been concluded in 2008 and therefore is not shown as an active grant.

As all of these grants are temporary in nature, the grants should ideally not be used to offset the levy for general operating expenditures. For example, if the partnership grant were to be terminated, the Township would have to generate an additional $842,100 in the municipal levy to recover the loss in income, a municipal tax increase equivalent to about 29 % or an equivalent decrease in municipal program spending.

Council's Direction for the 2009 Budget

Through a series of Council workshops and strategy sessions, Council has directed staff to ensure that the 2009 budget maintains the current (2008) level of service for all departments.

Council has also directed that staff ensure that the annual municipal levy for 2009 is kept to less than a 3 % increase in keeping with a historic practice of ensuring minimal tax increases.

As our Municipality grows and its demographics change, Council can expect changes in the expected level of service. These demands are brought on by legislation as well as demands from the general population.

Strategic planning sessions are therefore a vital method for Council to review and weigh current service levels with current and future demands.

Five Year Municipal Levy History

Year	Net Municipal Levy Increase:
2008	6 %
2007	4 %
2006	2.21 %
2005	5.58 %
2004	4.1 %

Overall Expenditure Forecasting

In 2008, we witnessed sharp increases in the cost of doing business. The increase in the global commodities market, including fuel, drove many costs higher than originally budgeted for. Despite this, staff were able to maximize efficiencies and alter programs to adjust to pricing changes to minimize the impact on the 2008 budget. Although some prices have retreated to prior levels, some pricing has not shown substantial decreases, such as the price for asphalt cement, the binder used in new pavement. The general construction index rose 7.8 % in 2007[6] to affect the 2008 construction costs before the impact of increased petroleum prices.

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[6] Statistics Canada

Prices for contract services for the past few years have risen as a result of increased demand for such services, caused at least partially by funding programs through senior levels of government.

As part of the municipal levy, the Township serves as a collection agency for services provided to the Municipality, such as stewardship services from the Nottawasaga Valley Conservation Authority (NVCA), policing services through the Nottawasaga O.P.P, and purchased contract services.

For 2009, the NVCA initially sought a 6.1 % increase to its levy[7] but has since reduced its requisition to a 2.29 % increase in response to demands from member municipalities .

Five Year NVCA Levy History

Year	Levy Increase
2008	(.286) %
2007	12.8 %
2006	4.91 %
2005	2.07 %
2004	22.03 %

[7] Letter to Council Dec 5 2008

In 2004, the NVCA initiated a one-time capital improvement surcharge to replace its head office. The surcharge was rolled into the general operating budget the following year.

In 2008, Council resolved to support the acquisition of 3 additional police officers for our police service. The additional annual cost to our budget will be $ 56,160, equivalent to about a 2.1 % increase to the municipal levy.

All of these costs will be incorporated into the municipal levy.

Of the total tax levy collected by the Township, less than 27 % is collected for municipal programs and municipally supported programs such as policing. About 73 % of the levy collected is raised on behalf of the County and for Provincial education purposes.

Of the levy collected for municipal purposes, much of the funding remains non-discretionary as the Municipality is mandated to provided ongoing programs and services with fixed and growing costs attached.

Current Programs

Most capital works programs are conducted under direction of the public works department. Historically, Council has spent about $766,387 per year (about 9 % of gross municipal expenditures) for ongoing capital improvements to the Township's roads network with a historic average of $450,000 per year charged against the municipal levy.

In 2008, road improvements were subsidized through the use of grants and reserves to create $805,000 in budgeted capital improvements. Although such work is advantageous, it is important that we remember that such funding arrangements are temporary in nature and that funding from the levy or other sources will have to be found or the program will have to be downsized if funding should cease.

The budget focus for current programs should encompass the following priorities in subsequent order of importance and funding availability:

- To maintain the same level of service as a minimum;
- To maintain the assets that are currently in place;
- To prioritize capital projects that contribute to effectiveness and efficiency;
- To invest in areas that contribute to long-term sustainability and progress of the Township.
- Reserves maintained at a reasonable level.

Capital Spending 2004 to 2008 by Major Category

Year:	2008	2007	2006	2005	2004	Annual Average:
Roads General:	$ 586,040	$ 679,450	$ 600,046	$ 504,195	$ 479,925	$ 569,931
Bridges:	$ 326,522	$ 1,054,604	$ 50,537	$ 4,400	0	$ 287,213
Admin	$ 45,360	$ 102,986	$ 67,398	$ 132,450	$ 73,572	$ 84,353
Parks	$ 123,460	$ 90,375	$ 36,512	$ 39,441	0	$ 57,958
Fire Rolling Stock	$ 48,743	$ 299,217	$ 67,054	$ 203,747	$ 37,025	$ 131,157
Roads Rolling Stock	$ 202,440	$ 247,856	$ 79,737	$ 191,324	$ 67,647	$ 157,800
Total:	$1,332,565	$2,474,488	$ 901,284	$ 1,075,557	$ 658,169	**$6,442,063**

Council has directed staff to ensure that we "*do more with less*", with the emphasis on ensuring the greatest benefit to the greatest number of people. Projects are chosen based on net gain versus investment cost, readiness to construct, and integration with other works and infrastructure. The Township has further benefitted through recent years with volunteerism.

Revenue

Revenue is generated from three income generating sources:

1. The general levy;
2. User fees and charges;
3. Grants and Payment in Lieu of Taxes (PILT).

The municipal levy is the Township's primary and most predictable means of revenue generation. Generally speaking, If municipal programs remain constant on an annual basis and there is no growth, the municipal levy should only rise in response to inflationary trends. Limited growth has the capacity to help subsidize or offset inflationary pressures on the levy by increasing the assessment base from which to draw the levy.

User fees and charges are usually dependent upon service demands.

Reserves

Reserves act as savings accounts for various municipal functions as determined by Council. They are typically used to finance larger capital purchases or to bridge finance projects to minimize or eliminate rate increases, or to provide working capital between periods of income generation. The PSAB program recognizes this need by allocating financial reserves to offset depreciation of capital assets.

It is important that the Municipality maintain sufficient reserves to cover these expenses as they occur, as well as to maintain a cushion in case of unexpected capital expenditures. Municipal infrastructure is expensive, and the sudden failure of a piece of infrastructure (such as a bridge) can devastate a reserve account. Withdrawals from reserves could continue for future years and should be withdrawn with caution.

Reserves have benefitted our Municipality by providing us with the ability to take advantage of funding programs which require financial input from the Township. Many municipalities have turned down funding programs because they cannot generate their share of the capital needed for a project.

The Township's reserves are generated through four instruments:

1. Direct allocation of a portion of the annual budget toward reserves as a savings account for a specific purpose such as a new fire truck;
2. Contribution through development charges to cover costs incurred by the Township related to growth;
3. Allocation of funds which haven't been spent in the year for a departmental use;
4. Contributions through the Planning Act and other specialized contributions.

In recent years, numerous reserves have declined due to accelerated capital spending, declining revenue generation, and maintaining/improving service levels with inflation and a limited capacity to generate enough income to offset inflation. From January 1 2006 to January 1 2009, total reserves have decreased in excess of 35 percent.

PSAB, Depreciation Allocation and Equipment Replacement

The Province is now requiring municipalities to report all tangible assets commencing in 2009 as per Public Sector Accounting Board PS 3150[8]. Highlights of requirements include:

- Inventories of all capital assets with an initial dollar value applied to those assets;
- Depreciated asset values over their remaining useful lives;
- Classification of assets, financial reporting, and budget implications;
- Planning for subsequent acquisitions and dispositions according to anticipated lifespans, including the building of reserves for asset replacement.

The challenge for Council in the near future will be to incorporate a budget for depreciation into our operating budget without having to substantially increase the levy. Although details of reporting structure and how the program will be mandated are currently not available, it is anticipated that future funding assistance from the Province could be withheld if adequate allowances are not set aside for PSAB depreciation. In the interim, PSAB asset allocation and depreciation should be recognized and maintained on a yearly basis. [9]

Over the past few years, staff have provided Council with proposed equipment replacement schedules for rolling stock. The Township currently has $3.0 million[10] invested in 18 pieces of public works heavy equipment, with an average age of 12 years old and 8 pieces over 15 years old. Funds should be set aside for not less than $163,000 per year to permit the regular scheduling of equipment replacement. Staff undertake a formal review of bridges and major culverts with a

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[8] PS 3150 establishes the accounting and reporting standards for capital assets in government financial statements.
[9] With the exception of Water/Wastewater infrastructure depreciation which must be allocated through separate financial requirements.
[10] 2008 values, standard inflation index = 2.5 %

structural engineer on a bi-annual basis. It is anticipated that PSAB will also form the basis for an updated roads needs study.

Opportunities for Additional Income Generation

Opportunities for additional income generation largely revolve around additional user fees and grants. Although we can continue to apply for funding assistance through grant programs, we do have opportunities to add or increase user fees in some areas.

For example, it is current policy to waive the costs for a fire call at MVC's and house fires for residents. However, in most cases, the cost for most of these calls would be covered entirely by the resident's insurance carrier for MVC calls and to a maximum limit for residential fires, without any undue cost to the resident. Enough revenue could potentially be generated to fully subsidize the cost for the fire department's scheduled replacement of rolling stock. An option could be provided where residents are granted a set discount amount in the invoice equivalent to an average insurance deductible.

Other opportunities exist, such as imposing a charge for facility rentals. A survey of neighbouring municipalities reveals that most municipal facilities are rented to organized groups to at least recoup the cost for operating/maintaining the facilities. Non-resident groups could be charged at a higher rate than what would be charged our own residents.

Further income can be generated through additional user fees such as Fire Permits and services such as the commissioning of documents.

Goals and Objectives

As a result of recent decisions, debt is being accumulated for past and present expenditures for operating expenses and capital improvements. We also anticipate further future debt for known capital projects.

The transition from a “pay as you go” budget to one which incorporates short and mid-term debt must reflect a sensitivity to tax rates and user fees, ensuring that charges are measured and moderated without inflicting the cost of excessively long borrowing periods.

Operating expenditures should be self-sustaining without the need for debt financing with only major capital works projects or special projects with grant funding to be considered for debt financing.

Operating Expenditures

Council had decided in previous budgets to defer some current-year operating costs to future budgets or subsidy through reserves. Examples include capital improvement and operating costs for water systems, operating costs for wastewater, and an $864,626 budgeted withdrawal from reserves to offset the levy in 2008. Such deferrals must be recognized as either having been permanently withdrawn from reserves or to be replaced in the future. Where feasible, operating expenditures should be adjusted this year and in future years to ensure that this year’s budget does not again require a withdrawal from reserves to offset the levy. Offsetting the levy can have temporary advantages, but can also artificially decrease the levy needed through tax generation with the danger of depleting reserves at a time when the Province requires that reserves be built through the PSAB program.

Some operating expenditures, such as for operation of the water and wastewater systems, are being withdrawn from the general working fund reserves, which are built from the general levy. Through past discussion, it is Council's intent to have these costs repaid to the working funds through the user fees and this direction will be incorporated into the water/wastewater financial plan.

Capital Expenditures

Although capital improvements will typically be one-time charges for specific projects, they usually require significant cash outlays that require greater repayment time.

Some reserve withdrawals, such as for capital improvements to the water systems, were taken from working funds generated through the general levy with the intent of eventual repayment. Through past discussion, it is Council's intent to repay the working funds through the water/wastewater rates and this direction will also be incorporated into the water/wastewater financial plan.

The following chart generally summarizes our known and potential short and mid-term borrowing needs for the foreseeable future for past, current and future operating and capital expenditures. Historic borrowing from reserves will be shown as being transferred to debt financing instead of continuing to borrow from reserves.

Potential Borrowing Needs 2009

Project:	Project Cost:	Borrowing Amount:	Purpose:	Borrowing Period:	Anticipated Start Date
BCF Round 1- Bridge 21	$1,800,000	$1,200,000	Bridge finance grant, full recovery of principle thru grant	2 years	2009
Glencairn Drainage	$300,000	$150,000	Finance Twp share, bridge finance resident share	2 years	2009
Colgan Water Upgrades	$3,300,000	$3,300,000	Finance work until development repays through connection charges	20 years	2009
Rosemont Water Upgrades	$600,000	$600,000	Finance work until development repays through connection charges	20 years	2009
Master Servicing	$120,000	$120,000	Planning exercise	10 years	2009

Plan Colgan			to allow growth in Colgan, repay thru DC's or levy		
Con Rd 6 Upgrades Everett	$1,200,000	$1,200,000	Work not to start until development arrives	10 years	2015
EA Everett for Con 6 Upgrades	$200,000	$100,000	Work to start 2009, pay thru DC's	10 years	2009
DC Study	$15,000	$15,000	Pay thru DC's	10 years	2009
2009 Water Operating Shortfall	$ 251,000	$ 251,000	Bridge financing until water rates increase and recover costs	3 years	2009
2009 Wastewater Operating Shortfall	$ 48,500	$ 48,500	Bridge financing until wastewater rates increase and recover costs	3 years	2009
Accessibility grant	$ 70,000	$ 70,000	Bridge financing until grant received for full amount	1 year	2009
Stimulus Grant-BCF Round 2 (Applied)	$ 160,000	$ 160,000	Take advantage of funding grants to be announced 2009	2 years	2009
BCF Communities	$ 260,000	$ 260,000	Funding for capital	3 years	2009

Component Grant (Applied)			works project in 2009		
Total:	**$8,324,500**	**$7,474,500**			

Grant Utilization

As of May 1, we currently have $2.5 million in grant allocation available for use to offset program deliveries in 2009.

When possible, grants are utilized to subsidize large capital projects such as bridges. Recent funding programs from senior levels of government have cost shared such improvements by two-thirds, providing excellent infrastructure investment value.

For the replacement of Bridge 15 and Bridge 8, we utilized the COMRIF grant to fund 2/3 of the projects and reserves to subsidize the municipal share so that these bridges were replaced with no impact on the municipal levy at the time of construction.

For the replacement of Bridge 21 on Concession Road 7, we will utilize two sets of grants for the project; the Build Canada Fund to subsidize 2/3 of the project, and the Invest Ontario grant to almost fully subsidize the remaining 1/3 or municipal share.

Debt Repayment

With borrowing costs at or near long-time lows, it is important that borrowing arrangements accurately reflect foreseeable borrowing needs. Lending rates will be on the rise, so borrowing rates should be locked in at the lower rates without borrowing excessive amounts of capital where possible.

Debt repayment will be accomplished through five instruments:

1. Repayment of past, present and future operating shortfalls and capital expenditures for water/wastewater through user fees and future connection charges.
2. Repayment of capital improvements related to growth other than water/wastewater through development charges.
3. Repayment of temporary capital improvement costs, except Glencairn Drainage, through grants.
4. Repayment of Glencairn Drainage costs through local improvement charge through the Drainage Act (benefiters' share) and through applicable funding sources for the municipal share.
5. Repayment of all other debts through the general levy with the anticipation that growth will help to defray some of the borrowing costs.

The following chart summarizes anticipated program expenditures and debt repayment costs.

Program Debt Repayment Costs[11]

Project	Loan Amount	Loan Period	Interest Rate	Total Interest Cost (Approx)	Annual Avge Interest Cost
BCF Round I Bridge 21	$1,260,000	2 years	2.72 %	$43,129	$21,565
Glencairn Drainage	$150,000	2 years	2.72 %	$6,146	$3,073
Colgan Water Upgrades	$3,300,000	20 years	4.94 %	$1,972,270	$98,614
Rosemont Water Upgrades	$ 600,000	20 years	4.94 %	$ 358,595	$17,930
Master Servicing Plan Colgan	$ 120,000	10 years	4.24 %	$ 28,500	$2,850
EA Everett	$ 200,000	3 years	2.72 %	$9,628	$3,210
Water Operating Shortfall 2009	$ 251,000	3 years	2.72 %	$ 13,775	$ 4,592

[11] Pending approval for some projects. Includes bridge financing for total project costs until grants received. Rates calculated based on Infrastructure Ontario municipal lending rates, amortizing debenture schedule, effective May 7, 2009.

Wastewater Operating Shortfall	$48,500	3 years	2.72 %	$ 2,662	$887
Accessibility Grant	$70,000	1 year	2.72 %	$ 1,903	$1,903
BCF Round 2 Stimulus Grant	$160,000	5 years	2.72 %	$ 13,289	$2,658
BCF Communities Component Grant	$ 260,000	3 years	2.72 %	$ 14,598	$4,866
			Total:	**$ 2,464,495**	**$162,148**

If the total amount is borrowed, it will cost the Township about $162,000 per year in interest payments to support the loans borrowed, equivalent to about a 16 % levy increase if all interest were paid through the levy. Annual operating shortfalls should be expected to continue and compound if not addressed within the budget process.

Borrowing costs should be charged to the program delivery instrument in which the debt was accumulated. For example, water system improvements and deferred operational costs should be charged against water system fees. Improvements anticipated to service development should be charged against future development charges.

These are generally benefitting improvements which would normally be paid entirely through working funds and the municipal levy, which now must be repaid along with additional borrowing costs.

2009 Budget Summary

Expenditures for 2009 have increased by over $4.0 million over 2008 in response to capital works projects identified in the budget. Expenditures are summarized as follows:

2009 Expenditure Summary

Expense Category	Budget Amount
Administration	$ 1,137,500
Protection	$ 2,095,475
Public Works	$ 4,024,500
Environment	$ 72,000
Parks Recreation and Culture	$ 321,150
Planning	$ 393,378
Capital Works	$ 4,113,268
Total Expenditures	**$12,157,271**

Of note in the expenditures, the Administration category includes all expenditures not included in the other departments, and includes Council and administration expenses. Parks Recreation and Culture includes the recreation agreement with New Tecumseth for $83,000 and new park equipment.

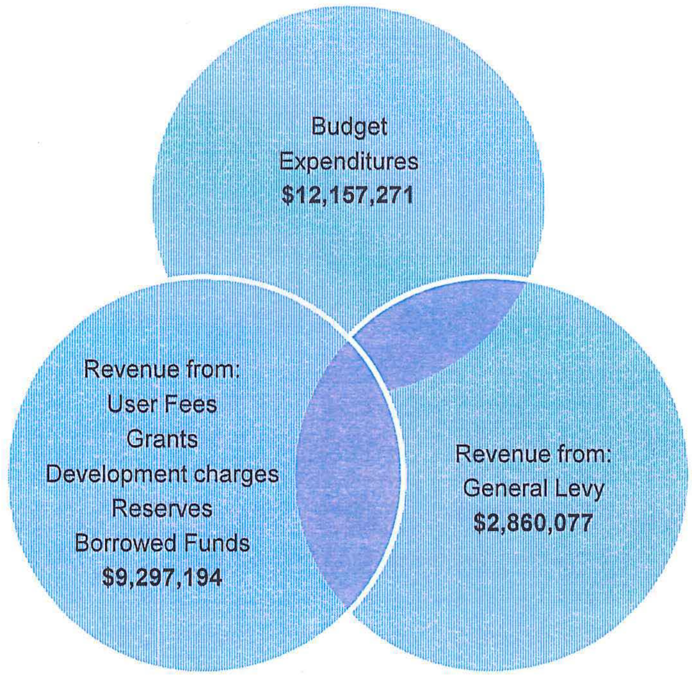
Revenues for 2009 have been balanced to the expenditures with a net 3.0% ($83,000) net tax levy increase as directed by Council. A recommended $20.00 per household increase for policing in anticipation of future grant reductions should be reviewed each year.

2009 Revenue Summary

Revenue Category	Budget Amount
Police	$ 975,000
Grants	$ 2,533,053
Other Revenue	$ 501,400
User Fees and Charges	$ 1,116,671
Transfers from Reserves	$ 4,171,070
2009 Taxation Levy	$ 2,860,077
Total Revenue	**$12,157,271**

The Municipal Partnership grant is used to offset taxation lost to farmland and managed forests in the Township. Other Revenues include penalties and interest as well as other miscellaneous revenues. User fees and charges includes collections, work orders water and wastewater, and permit fees.

Inter-relationship of Budget Expenditures and Supporting Income, 2009



For 2009, reserve transfers will total $4,171,070 to cover enhanced capital spending and additional operating expenditures. Included is repayment for water system capital expenditures. Total borrowing for 2009 is projected to be $4,233,000 to cover projects identified in the budget, which include all costs related to water capital construction, the property owner share of the Glencairn Drainage project, the Everett Master Servicing Plan, and the Concession Road 7 bridge replacement. Borrowing does not include short term bridge financing, such as for grants.

Current Trends and Projections

For 2009, the municipal budget reflects, more than ever, the reality of outside economic forces. The levy has been subsidized/reduced to reflect current economic difficulties. Capital works projects respond to grants, provincial orders, and anticipated growth in response to regional growth patterns. The 2009 municipal taxation levy accounts for 23.4 % of our revenue stream, with transfers from reserves accounting for 33.9 % of budget revenues, while grants will help subsidize revenues by 20.8 %. The balance of revenue is generated from user fees, police rates and other revenues.

Increased borrowing for infrastructure construction/replacement and borrowing to subsidize operations expenditures such as for water/wastewater are causing our reserves to decrease while we maintain and/or increase our level of service. Uncontrollable costs are peaking, including inflationary costs and uncontrollable costs related to weather. We are also experiencing additional maintenance costs related to demands for level of service and repair of aging infrastructure, and requests for new infrastructure such as parks.

We currently have an unprecedented amount of grants which has accelerated program expenditures. Whereas in the past we were able to float capital costs until funding grants were received, we must now borrow for larger projects from outside sources due to decreasing reserves and the increasing scale of work projects.

Property reassessment in 2008 could cause shifts in the tax base which may cause the net tax levy to vary from the average increase.

For 2009, the roads construction budget has been subsidized almost entirely by grants[12]. Grants should be recognized as being defined and terminate, therefore requiring planning for their eventual disappearance and potential budget shortfalls.

Water/wastewater budget shortfalls will continue until rate increases, expenditure decreases and anticipated growth can provide a sustainable budget.

Operational costs will increase to accommodate additional anticipated programs due to new legislated requirements such as source water protection and related inspections.

The demand for infrastructure repair/replacement will continue in future budgets, with the need for further anticipated bridge replacements, maintenance to the municipal drain in Everett, and continued road resurfacing. PSAB will also play a role in the budget, its role yet to be determined.

Growth is anticipated to occur at a rate of about 100 homes per year, with about 45 homes expected to be built in the settlement areas annually. The current recession and delays in development will slow growth from average and projected growth rates for the interim with growth in succeeding years anticipated to make up for the current slump in development activity.

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[12] Equivalent value to a 26 % tax levy increase

Future Directions

Council has taken the initiative that the 2009 budget should respond to and integrate with the realities of today's economic challenges and opportunities. Pressure to increase taxation rates should be absorbed by the Municipality to provide relief to residents as they cope with the recession by deferring such increases to future years. Expenditures should be oriented to take advantage of economic stimulus grants to optimize the use of grant funding and should include increased investment in infrastructure. Although the Municipality has successfully used a "pay as you go" approach in the past, the realities of today's economy requires a shift in strategy. The combination of historic low interest rates and grant funding availability justify leveraging for additional infrastructure investment with borrowed funds on a temporary basis, with the objective of returning to previous spending methods when the grant funding advantage diminishes.

The following directions should be taken to accomplish these goals;

- Minimize the tax levy increase for 2009 through the use of operations tax deferrals to future years, reserves and grants where feasible ;
- Obtain outside funding to support additional future investment in infrastructure as well as to return funds borrowed from reserves for recent investments in infrastructure;
- Utilize grants to offset infrastructure investment costs;
- Utilize reserves to support current and additional programs where justified and feasible, without draining reserve accounts to undesirable levels.
- Ensure that the application of new grant funding does not raise the level of service unless it can be sustained.

To help facilitate this, interest payments for borrowed funds should not be commenced until 2010, at which time an increase in the levy should be used to offset the interest payment costs for the year. Interest payments for water/wastewater should be charged against the water/wastewater rates.

Payment of principal for water/wastewater should be collected through increased water/wastewater rates and increased growth. Repayment of principal should be accomplished through future growth. Using projected growth rates, an additional revenue of about $64,000 will be generated through growth annually, equivalent to a 2.4 % increase in municipal tax levy.

Development charges should be used to supplement principal payments for all other infrastructure investment. As the rate for development charges is based on historic spending, the recent influx of additional infrastructure investment should justify an increase in development charges and would warrant an interim review.

Increasing operational costs should be recovered through future growth and future tax levy increases.

Consideration should also be given to prioritizing and reducing the amount of capital projects each year, planning for PSAB, and ensuring that rate increases and growth adequately cover utility operating costs.

Options for program delivery should be kept open, including currently contracted operating services such as water and wastewater by ensuring staff development. Additionally, consideration should be given to condensed work weeks, changes to operating hours, and the potential for shift work for winter control.

This document should form the basis of direction for future Councils, and should be reviewed on an annual basis.

Affirmation/Conclusions

The 2009 budget presents a turning point in the Municipality's financial strategy. In recognizing the need and planning for growth, the 2009 budget builds for the future, maintaining control for the future without compromising on the present.

The 2009 budget accomplishes several key objectives. It provides a method of recovering capital costs associated with mandated improvements to our water systems. The budget recognizes the reality of the local impact of the recession. By integrating government grants with Township reserves, the budget works to optimize program results without impact upon the tax levy.

Adopted June 1, 2009 by:	Mayor Tom Walsh Deputy Mayor Doug Little Councillor Jack Jordan Councillor Ray Wallace Councillor Mary Brett Councillor Joy Webster Councillor Tom Cook