

2009 Budget Commentary

The assessed values used for the 2009 taxation year have been updated by the Municipal Property Assessment Corporation (MPAC). Unlike the last update performed by MPAC for the 2006 taxation year, the increase in assessed value has not been added all at once but 25% of the increase is being added to the property value in each of the next four taxation years. What this means is that those properties that have a higher than average increase in their assessed property value this year will also have higher than average increases in each of 2010, 2011 and 2012. Unless there are further changes to the operational mandate of MPAC, such as those directed by the Province after the update of assessment values in 2006, the values used for the 2013 assessment year will be based on updated values which again will be added to property values evenly over the following four years and continue in that fashion.

Basically, unless there is a decrease in property values in any reassessment year or a decrease due to the Request for Reconsideration process, assessment values on which property taxes are levied will increase each and every year from this point forward. In those situations where individual property values have increased at a rate greater than the average, this also means that taxation will increase as the individual ratepayer's proportion of assessment increases.

While the Municipality of Hastings Highlands, as well as many other municipalities across Ontario have in the past, and continue to lobby the Province for a more equitable and fair assessment system, setting the guidelines followed by MPAC are not a responsibility of the municipal sector.

The average increase in assessment for the Municipality of Hastings Highlands between 2008 and 2009 was 7%. Therefore, if individual assessments increased by more than 7% between the two years then property taxes would increase.

The second step in calculating the tax levy is applying the tax rate to the property assessment. The tax rate is the final step in the budget process completed annually by Council. The expenditure budget is separated into operations and capital portions. Operating expenses are the day to day expenses of the Municipality. Between 2008 and 2009, the budget for operating expenses increased from \$4,923,485 to \$5,255,700. This is an increase of \$332,215 or 6.32%. Approximately one half of the increase is attributed to the increase in our cost of policing. This bill is paid to the Province and offsets a portion of the cost in operating the Bancroft Detachment of the OPP. The municipality does not have any input into the formulation of the budget nor how the police operate but since 1998, municipalities have been required, by the Province, to either cover the cost of the majority of services provided to the public by the OPP or pay for their own police force. Other areas that have increase are salary and benefits – partly due to the new union contract and increases in benefits – and the increases in fuel based operations.

Capital expenses, for the most part, account for the increase in the municipal tax rate. Prior to 1995, the majority of road construction and equipment purchases were funded through subsidies received from the Province through the Ministry of Transportation. Since this funding program ceased, most municipalities have not addressed their capital needs. The result is an infrastructure that is deteriorating at an alarming rate with little money in municipal budgets to fund required repairs. During this year's budget deliberations, Council reviewed a 20 year capital plan that outlined the estimated expenditures required in the areas of road reconstruction, bridge and major culverts studies and repairs, roads equipment, fire equipment and housing, waste disposal equipment and required studies, recreation facilities and general building and equipment.

An example of the results of the process is road reconstruction. The municipality has approximately 216 km of hard surfaced roads. Once a road has been reconstructed with a new surface placed on it the life expectancy is 10 years. Translated, unless we are reconstructing 22km of road, on average, each year, our infrastructure is falling behind. In 2007, there was \$300,000 in the budget for road reconstruction (200K from reserves, 100K from the tax rates). This is sufficient funds to reconstruct and resurface about 2.5km.

Equipment is another major area where the funding of the capital program has not been increased to meet the need, again since the mid 90's. As the age of equipment extends past its typical useful life the cost to keep the vehicles maintained and on the road increase exponentially. This past year we had several pieces of equipment where the repair cost was 4 to 5 times what should be experienced simply due to their age.

The need is apparent.

Council and staff have been active in searching and applying for different funding programs to assist in funding the capital plan. This year alone, over \$10 million is coming to the municipality from the senior levels of government to fund capital projects. Yes, the municipality does have to borrow on a long term basis for our share of these grant programs but the cost of borrowing is at an all time low. Based on a 15 year repayment, interest rates are below 5%. This reduces cost of borrowing will allow the municipality to accelerate capital programs this year and into next, continue with a modest program while repaying debt while estimating tax increases equal to the cost of living for the next five years. The biggest hurdle we had to overcome is to start the funding our capital needs. While we are still not funding the program to the level it should be, the increase in funding our capital program over the 20 years, while keeping the cost of living in the forefront of our mind, should see our capital program being fully funded over the course of the next 20 to 25 years. We will continue to search for grant programs and non-typical sources of financing to reduce future tax requirements.