



Township of Scugog Staff Report

To request an alternative accessible format, please contact the Clerks Department at 905-985-7346

Report Number: FIN-2024-003

Prepared by: Laura E. Barta, Director of Finance / Treasurer

Department: Finance

Report To: Planning and Community Affairs Committee

Date: February 12, 2024

Reference: Strategic Direction 2: Sustainability: Improve sustainability through financial management, innovative funding and efficient and effective delivery of services

SD2 Objective 1: Formalize long-term financial planning to enhance informed decision making

Report Title: 2024 Budget Guideline and Target

Recommendations:

1. **THAT** Report FIN-2024-003, 2024 Budget Guideline and Target Report, be received; and
2. **THAT** a budget target increase of not more than 2.5% for Scugog's share on the overall tax bill be approved.

1. Background:

Section 290 (1) of the Ontario Municipal Act requires a local municipality to prepare and adopt a budget annually. Each year the budget reflects the Township's plan for the delivery of programs and services to the community. It also includes measures to ensure assets are maintained in a safe and economical manner, community priorities are addressed, and the municipality remains financially sustainable in the long term. In order to make certain the municipality can address these priorities in a growing community, it is

important to look at both immediate and future requirements during the setting of the annual budget.

In addition, Scugog Councils have recognized the importance of a long-term view and have taken significant steps to address future financial challenges. Continuation of this approach by this Council will ensure the Township remains sustainable in the future through forward focused policies, regular review of core services and efficiencies, and informed decisions based on studies to identify strategic requirements.

The purpose of this Report is to seek Council's endorsement of a Proposed Budget Target to guide staff in the preparation of the 2024 budget. This guideline will allow staff to identify what services and programs can be realistically delivered within the funding available and communicate any potential service level impacts prior to the approval of the final budget for 2024.

2. Discussion

As part of the budget planning process, Council and staff attempt to balance affordability with service delivery expectations amid a constantly changing environment. Many factors are considered, including:

- Impact of current economic conditions on the cost of delivering services;
- Impact of legislative changes/requirements on the Township's operations;
- Appropriateness of programs and services being offered;
- Condition of township assets used to provide the existing services;
- Adequacy of staffing levels;
- External requests for support;
- Impact of SDOR (Service Delivery and Organizational Review) recommendations and timing of their implementation;
- How to respond to residents changing expectations;
- Impact on/preparing for future operations;
- Impact of previous decisions and choices.

The consideration of each of these factors and many others are critical to the budgeting process. The outcome of these considerations is used to formulate the current year's budget and to help forecast future requirements.

2.1 Infrastructure Impacts

The 2024 Draft Operating budget will include a 4% transfer to Capital Reserves to fund the capital program and this will add \$702,200 to the operating budget before any operating changes are considered. This annual transfer is part of a long-term financing plan used to finance the Township's capital program. As assets age they require more work to ensure they remain in good repair so they can provide service. The Township's long-term plan addresses the needs of the capital assets, and this plan has been showing improvements in the ability to provide continued service.

The Township's road infrastructure was reviewed as part of the 2022 update to the State of the Infrastructure (SOTI) report and at that time showed a total replacement value of \$546 million, which represented the majority of Township infrastructure (approximately 76%).

Based on the Township's 2022 SOTI report, there was a significant infrastructure deficit of almost \$233 million related to roads of which \$166 million were identified as immediate needs. Infrastructure deficit is defined as the decline in infrastructure spending, combined with an increase in the cost of building additional infrastructure vs the funding allocated to maintain the infrastructure. Although efforts continue to be made to address the infrastructure issues, additional deterioration of assets is inevitable as they age. It is unrealistic to expect the Township to fully address the infrastructure deficit in the short-medium term but rather build toward shrinking the deficit over time.

According to the 2022 AMP, the Township's infrastructure had a total replacement value of \$574.2 million. Roads represent the majority of Township infrastructure however the 2019 SOTI values were included in the AMP update as the 2022 SOTI was not complete when the AMP was finalized. Using the 2022 replacement value for roads, the overall replacement value would be closer to \$650 million. The data reported in the 2022 SOTI update combined with that reported in the updated AMP supports the continuation of reserve fund contributions to maintain Township assets.

The Township employs several actions to maintain assets in a state of good repair while maintaining the most effective investment of tax dollars. This ensures that assets continue to be in service for their full life expectancy and in many cases, beyond the expected life cycle. Despite these efforts, the Township needs to consider continuation of the increased annual capital contributions to address current and future infrastructure requirements. In addition, funds need to be allocated to the operating budget to increase the amount of preventative maintenance activities undertaken annually. Investing in the right maintenance activities at

the right time extends the life of the assets and delays the need for major rehabilitation or replacement of many assets.

Other major issues impacting the capital program is the significant increase in construction costs. Fewer projects can be completed each year as they are competing for the limited funding available. In addition, significant staff time is required to oversee the project from conception to completion. Staff capacity is limited, and if projects are delayed, it further exasperates the inflationary impacts.

2.1. Pressures Affecting the Operating Budget

In a typical year the municipality faces budget pressures from inflationary costs for service delivery, impacts of growth, service level increases, and external influences. This year, the municipality is also facing additional challenges outside the control of Scugog Council including continued high inflation, ongoing Impacts of Bill 23, More Homes Built Faster, 2022, continuing costs associated excess soils legislation, and other legislated changes.

Preliminary estimates indicate that, all things being equal, operating costs are expected to increase in the range of between \$900,000 and \$1,200,000 for the year or over 5.3% of the total approved budget. While this is higher than CPI, it is under the MPI. It should be noted this estimated cost increase is focused on operations and delivery of services, and does not include the commitment to invest in Township infrastructure to ensure it remains safe and available for residents.

2.1.1 Inflationary Impacts

Municipalities experience inflationary pressures; however, the pressures are not completely similar to those experienced by the average household which is represented by the Consumer Price Index (CPI). The CPI had an annual rate of 3.9% for 2023. This is higher than the 2% the Bank of Canada aims to maintain on an annual basis. Inflationary increases in a normal year for municipalities can be expected to be generally higher than the CPI. While the CPI is useful when looking at standard commodities, the Construction price index is often more indicative of much of the work the Municipality does. This index went up 5.9% in 2023 for projects in the GTA based on the year to year third quarter results. This increase is still showing the impacts of labour shortages resulting in wage increases, availability of materials and interest rate pressures.

Many municipalities develop their own index based on inflationary drivers for municipal expenses which looks at salary and wage changes, utility costs, gas, supply contracts and capital cost increases, and changes in other expenses. This is often referred to as an MPI – Municipal Price Index and can be a tool to help better inform the budget process of external

economic conditions that the Township will face. Finance staff undertook the process based on the 2023 account activity and have determined that the MPI would be 6.32%.

Some of the factors influencing the Township's inflationary increase for the 2024 budget are shown in table 1 below. This is not an exhaustive list, since most line items are impacted by price changes that are not by themselves significant in dollar value however combined due add up.

Table 1

Inflationary/other Factor	Estimated Amount
Employment Costs (estimated)	\$ 500,000
Cost of Steel for Signs & Culverts	60,000
Cost of Asphalt for Patching & Pavement Preservation	35,000
Cost of Dust Suppressant for Gravel Roads	95,000
Reduction in Student Grant Funding	119,000
Total Identifiable Inflationary Factors	\$ 809,000

2.1.2 Legislative Impacts

Municipalities are subject to legislative changes that also put pressure on the annual operating budget. While Excess Soil Management Requirements and Firefighter Certifications continue to be a draw on the budget, these levels were adjusted in 2023 and will be maintained for 2024. Some of the additional legislation influencing the Township's increase for 2024 are shown in table 2 below.

Table 2

Legislative Factor	Estimated Amount
Bill 23 - Planning Downloads	\$75,500
ARO - Testing	10,000
Total Legislative Factors	\$85,500

2.1.3 Service Levels / Programs

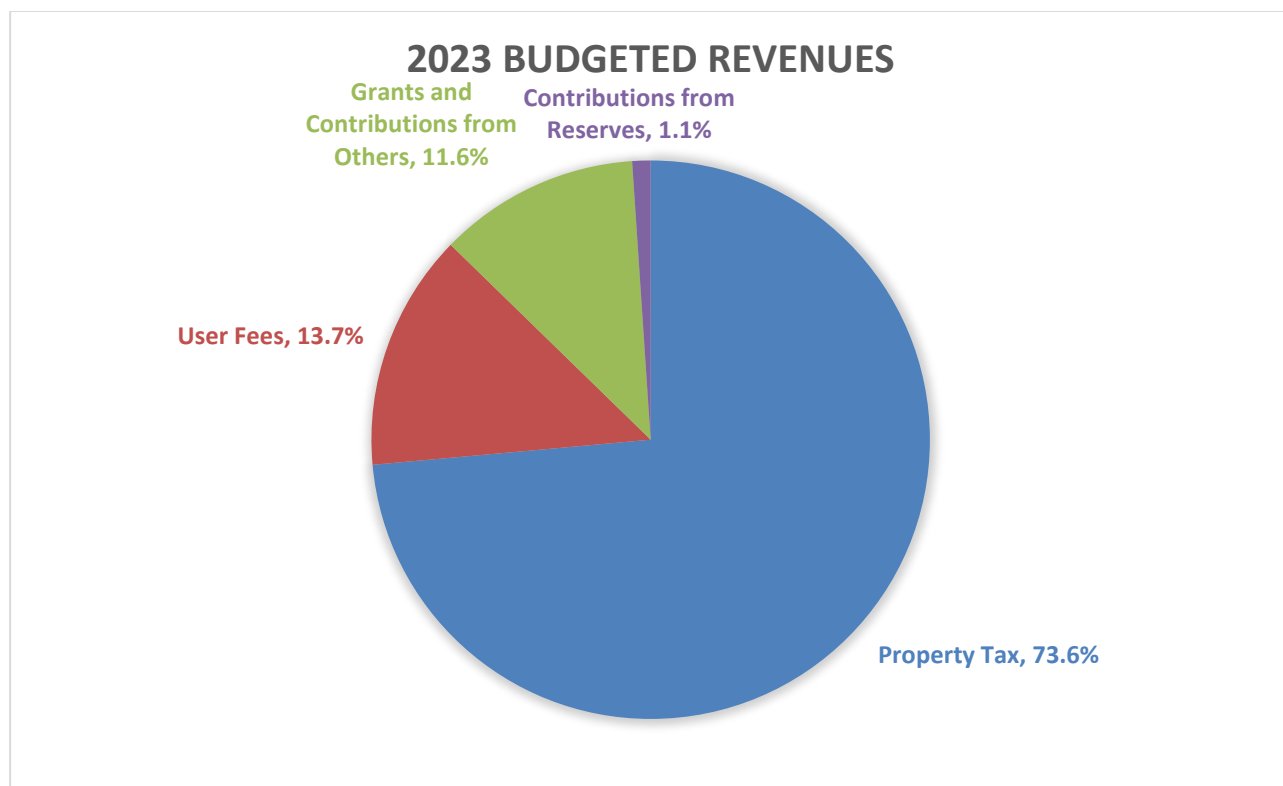
There are a number of costs associated with ongoing initiatives that will improve the delivery of current services as well as some specific requests that will be considered when drafting the 2024 operating budget. Some of these programs or services needed to support operations are shown in table 3 below.

Table 3

Programs or Services to Support Operations	Estimated Amount
Software Licencing and Support to Support IT Strategy	\$60,700
Improvement in Radio Communications for Fire Services	30,000
Increase in Contract for Animal Control Shared Services	85,400
Increase in Contract for Planning Services	30,000
New Committee Initiatives	7,500
New Library Initiatives	20,000
New Requests for Support from Others	10,000
Total due to New Programs or Service Supports	\$ 243,600

2.2 Revenues

The Township has limited sources of revenue to fund the operating budget. These include grants and funding from others (including investment income), user fees, and property taxes. The following graph shows the level of dependance on each based on the 2023 operating budget.



2.2.1 Grants and Other Funding

Scugog's primary funding sources to pay for service delivery comes from property taxes, grants, user fees and other miscellaneous funding sources. The Township continues to maximize other sources of funding in an effort to reduce the impact on tax levy funding. With the current economic conditions and increasing public demand, the funding available from others is becoming harder to obtain.

Investment income for 2024 is expected to be somewhat higher than what had been anticipated for 2023. With the Bank of Canada rate increases during the early part of 2023, funds currently held in reserve, until they are required to finance capital projects or funds collected from tax installments to fund operating costs, continued to earn interest at rates significantly higher than earned for the past few years. Rates are expected to start to decline early in 2024 as inflation grows at a rate closer to the targeted 2% set by the Bank of Canada, however the income is still expected to exceed that earned before the rates started to increase initially. This positive outlook will allow for an increased allocation of close to \$200,000 to offset some of the inflationary increases noted above.

The following chart outlines the various grants and other funding opportunities that the Township is utilizing or hoping to attain for 2024.

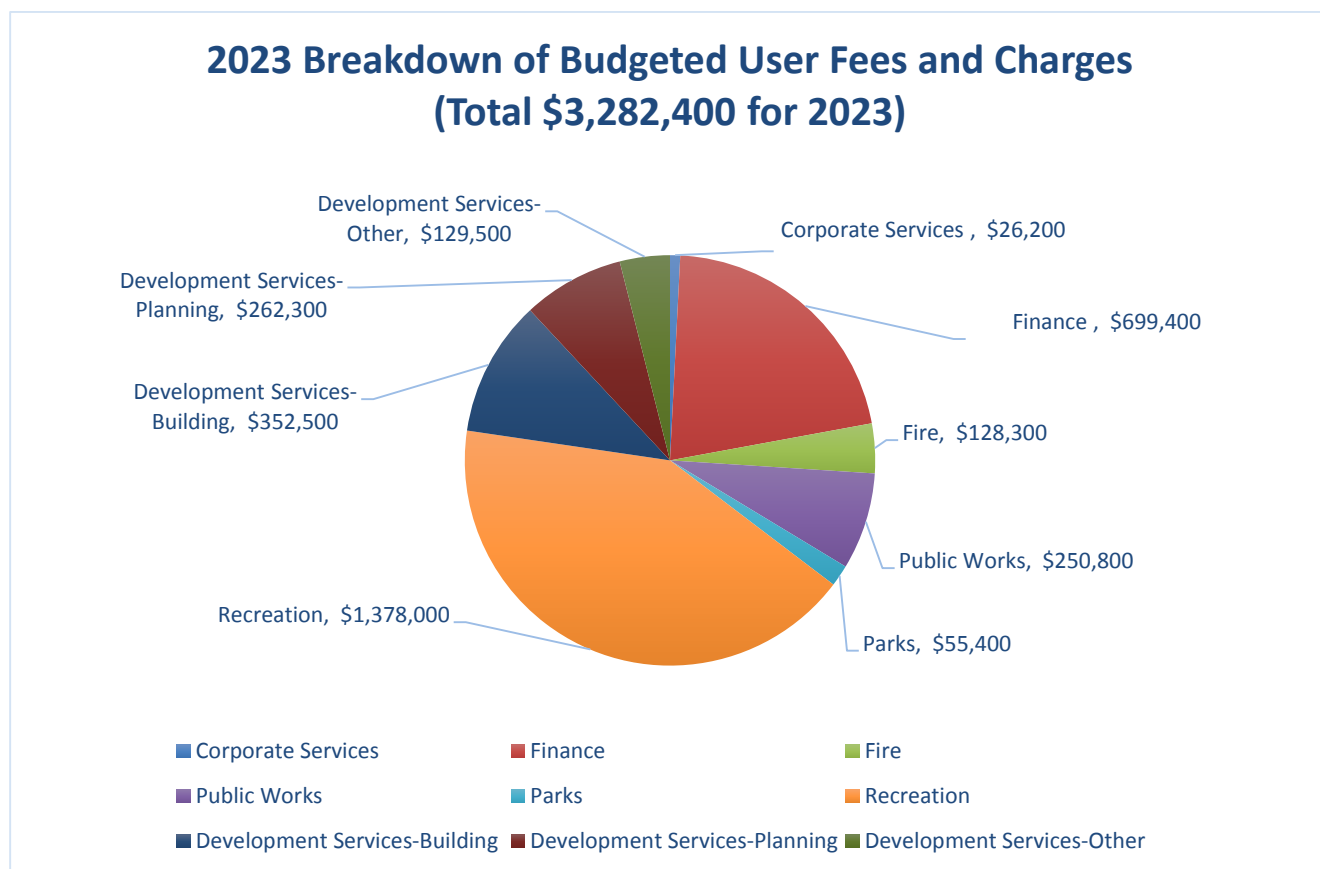
Funding	Description	2024
User Fees	Source of operating revenue	Rates set based on the Fees & Charges market review completed by Hemson Consulting.
Ontario Municipal Partnership Fund – OMPF	Received \$1,262,700 in 2023 for operating	Will receive \$1,285,600 in 2024 an increase of \$22,900
Ontario Community Infrastructure Fund – OCIF	Received \$738,422 in 2023 used for capital road and bridge projects	Will receive \$819,293 in 2024 an increase of \$80,871
Ministry of Tourism, Culture and Sports	Received museum grant of \$19,638 in 2023 for operating	Budget assumes a similar amount for 2024
Ministry of Canadian Heritage and Multiculturalism	Received \$15,000 for annual Canada Day celebrations in operating in 2023	Budget assumes a similar amount for the 2024 Canada Day event.
Canada Community-Building Fund (formally the Federal Gas Tax)	Received \$715,395 in 2023 for capital road projects.	Will receive \$678,509 for 2024. A decrease of \$36,886.
Canada Summer Grants Program	Received \$40,638 being 50% of student minimum hourly wage. This was less than 1/3 of the amount covered in the prior year.	Budget assumes program of 50% reimbursement with number of students limited to those approved in the prior year.
Sun Edison Grant	Received \$50,000	Township has a 20-year agreement with 9 years remaining
Ontario Ministry of Agriculture, Food and Rural Affairs – OMAFRA	OMAFRA approved the grant which provides 50% of the cost of this project	OMAFRA project ongoing
Development Charges	Collected on new development building permits to be used for capital projects.	Inflationary increase as well as a projected increase in permits
Investing in Canada Infrastructure Program – ICIP – COVID-19 Resilience Stream	Approved for \$100,000 in 2022 for Joe Fowler Picnic Shelter Replacement. Project completed late 2023.	Township will apply for any upcoming new streams with potential projects for 2024 for this funding
OLG – Great Blue Heron Casino	Received \$1,040,271 in 2024 for the municipal service agreement and used for capital in various reserves	Budget assumes a similar amount for 2024 with inflationary increase.
Canada Community Revitalization Fund		Township will apply for any new funding if announced

2.2.2 User Fees

User fees and charges are built into the operating budget and are a significant source of revenue to the Township aside from tax revenue. These fees have traditionally been reviewed annually by staff and compared against other areas and similar municipalities. In 2023, the Township engaged Hemson Consulting to do a comprehensive review of the fees and charges that are applied in all departments. This review was to be completed in stages with the first phase covering all departmental fees with the exception of Planning Fees and Building Fees. Council approved the implementation of a new fees by-law based on the results of this study and the user fee revenue in the 2024 budget reflects these new fees.

Each year staff work to balance the recovering of charges and ensuring that programs and services are offered to the public in an affordable and responsible manner. Appropriate user fees and charges are an integral part of the budget and ensure that the cost of the programs and services is borne fairly by the municipal taxpayer and the user.

The user fees and charges budgeted for 2023 totaling \$3,028,800 were as shown in the following chart. Based on the review, staff anticipate a modest increase in user fees for 2024. While this will not offset much of the inflationary cost, the changes will be phased in and fully reflected when the 2025 budget is prepared.



2.2.3 Assessment Growth

The municipality will receive new assessment growth as development continues, however there are costs associated with this new growth. Additional staff and resources are required to provide services to the new residents. New infrastructure assumed from developers adds to the overall operating costs as it requires additional funds to maintain each year and eventually to replace. The Township's policy allocates assessment growth to offset some of the additional costs.

The estimated weighted taxable growth in assessment of 1.67% or \$288,350 will be used to fund the operating budget for 2024 due to the significant pressures faced by the municipality. In a normal year, 25% to 40% would have been allocated as recommended in the Reserve Fund Policy. This year due to the significant inflationary factors, it is not possible to set aside funds for other needs.

This growth is normally tempered by the on-going risk to the Township's commercial and industrial assessment base stemming from the outstanding appeals to the Assessment Review Board (ARB). An allocation of 25% has traditionally been set aside to address outstanding appeals for the budgeted amount. Since the township has few outstanding appeals at the end of 2023 it is recommended that the 25% share be used to offset additional staffing required to service growth.

The province placed a hold on the property tax reassessment cycle to allow municipalities to focus on pandemic related issues. The reassessment cycle has not resumed, and the province has still not advised municipalities when it will. Once implemented, the new cycle will trigger appeals to the ARB and the 25% allocation of growth will offset these losses once reinstated.

2.3 Current Staffing Requirements

The Township is dealing with higher levels of activity in most areas of the organization due to growth related demands for service and legislative changes. The most visible impacts are related to development. In addition, as a result of Bill 23, local municipalities including the Township, are now responsible for several additional planning approval matters including land division and the entire subdivision approval process. On December 28, 2022, the Province enacted a regulation to download selected responsibilities from the conservation authorities to municipalities. These additional responsibilities have resulted in more work for staff that are unable to realistically keep up with the current workload. The use of planning consultants to assist with this added workload in 2023 resulted in additional unbudgeted costs in excess of \$200,000. These charges are not recoverable.

These extra workload requirements directly affect the building staff and planning staff, however the increase in workloads have a ripple effect on other areas and affect most

departments across the organization. In addition, expectations from residents are changing. They expect things to be faster and are looking for increased service levels, immediate information and digital service capabilities.

The building staff continued to process high levels of residential building permits, each of which require multiple inspections to be completed before the occupancy permit is issued. The department continues to rely on contracted services to assist the two inspectors. With the continued higher than usual demand for qualified inspectors and a short supply across the province, hiring a third inspector continues to be an issue.

Once the development is issued an occupancy permit, MPAC will adjust the tax roll to reflect the new value. This will require the need for the creation of new tax roll accounts and supplemental billings. Changes in ownership of property continued to see high levels of activity in 2023.

Planning staff continue to see a significant increase in customer inquiries, development applications, policy reviews and new legislative requirements. The volume of general planning inquiries continues to be very high and existing planning staff spend a significant amount of their time responding to them or dealing with the planning consultants engaged to assist. For more complex inquiries, the time increases, especially if old files must be located and reviewed before responding. It also takes time to outline processes for customers with minor variance requests, site plan issues or to review and process zoning compliance letters which all have increased substantially with the record levels of development in the municipality. This staffing issue was identified as a concern prior to the implementation of Bill 23 and continues to be a major issue. While it has been possible to engage planning consultants to assist with some of these matters, this is costly and still requires staff to coordinate the process.

Keeping with Council's moratorium on hiring new full-time staff, this budget target being recommended does not include any new staffing for 2024. The staffing issues identified as part of the 2023 budget process are still considered priorities for continued service delivery and were not addressed due to the pending results of the SDOR. Any new staff recommendations will be included as part of the SDOR report and their costs will be addressed at that time are in addition to the target request.

2.5 Other Considerations

Considering the continuing pressures faced by the municipality to deliver existing service levels, and the need for additional staff to address the current capacity limitations, it will be very difficult to identify sustainable methods of coming within the target, but staff will make every effort to achieve the target in a sustainable manner.

In recent years significant efficiencies were identified and used to benefit the taxpayers of Scugog. Staff will continue to look for efficiencies in preparation for 2024, however, the focus on efficiencies in prior years means that larger “quick wins” are unlikely on a go forward basis.

It is expected the SDOR will identify opportunities for efficiency and service delivery, and significant recommendations will require funding and resources to deliver.

Staff will continue to work together with the Region and the other northern municipalities to share services, when legislation permits, as part of our ongoing efforts to minimize the impact on the taxpayer.

As a result, it should be noted that the reductions in the recommended target may affect what can realistically be achieved considering known and anticipated pressures. Although staff will continue to look at ways to accommodate service delivery at a time when the demand is increasing within the budgetary target, a decrease may affect Scugog’s ability to deliver services. In reality some service levels may need to be reduced and capital programs delayed if financial capacity is not available.

Recognizing the budgetary pressures, minimal new or increased service levels beyond a continued focus on the use of technology in delivering services to residents, can be accommodated in the 2024 Operating Budget. Any additional new programs or service level changes will be addressed individually and be identified as an addition to the budget target set by Council. This includes and changes implemented as a result of the SDOR report.

3. Financial Implications:

Property taxes are the major funding source to enable the delivery of services, programs and infrastructure to our community. Although this is one of the most visible taxes paid by families, the lower tier portion accounts for only 3% of the total taxes paid by an average family in Ontario. With this funding municipalities provide many of the services that affect residents firsthand on a regular basis and contribute to helping shape the community we live in.

Decisions on budgetary targets can have impacts on the municipality’s ability to deliver services and maintain financial sustainability, both now and in the future.

The following amounts are estimated for the 2024 Operating Budget:

- \$172,665 – Approximate amount of general levy funding required to increase or decrease the Township’s budgetary increase by 1% or 0.3% increase on the total residential property tax bill

- \$1.37 –Approximate monthly impact of a 1% budgetary increase on the total residential taxpayer (municipal portion only - based on 2024 CVA of \$435,000)
- \$11.33 – Approximate monthly impact of the proposed target on the average residential tax bill

Almost 50% of the proposed budgetary increase is due to ensuring Scugog can maintain our assets to ensure they remain available for public use in a safe manner. This capital investment is a budgetary increase of 4% and equates to an increase of 1.2% on the total residential property tax bill or \$5.49 monthly for a property assessed at \$435,000.

The increased burden on service delivery costs due to external pressures with inflation and changes in legislation impacts accounts for almost 50% of the proposed budgetary increase. After considering the additional cost pressures, revenues and other opportunities, the recommended budgetary target of 4.25% equates to an increase of 1.3% on the total residential property tax bill.

In total, this equates to an increase of 2.5% on the overall tax bill or \$11.33 monthly on the average residential tax bill.

Scugog's share of the overall property tax bill is 32%. The recommended target to allow for continued service delivery by Scugog will increase the overall tax bill by 2.5%. The Region's share of the property tax bill is 55% and their increase will add another 3.85% to the overall property tax bill.

The proposed targets for both the Township and the Region will result in a 6.35% increase in total on the overall tax bill for 2024.

4. Communication Considerations:

A budget communications plan was implemented including a budget survey. To further engage residents on the budget, a survey, along with a Budget Information Guide and a staff monitored Question and Answer platform was utilized through My.Scugog.ca. 16 social media communications were posted across three channels throughout August and September, garnishing over 190 direct engagements and comments. The My.Scugog platform received 1,500 total visits to the page and 84 documents downloaded during the time that the survey was active. 130 participants responded to the survey. The survey questions were developed to help staff gather the public's understanding of the budget and taxes, provide information about the budget challenges, and gather feedback for the upcoming budget. The results of the survey indicate that the majority support a continuation of the additional 4% in levies to address infrastructure needs. The next two priority areas were similar in total percentage of concern for the roadway maintenance and asset renewal.

The 2024 draft capital budget and 2025 to 2028 forecast were presented to Council in December 2023. The final capital budget was approved by Council on December 18th.

The 2024 draft operating budget will be presented to Council on March 4, with a public open house scheduled for Thursday March 7th at the Scugog Community Recreation Complex. The final 2024 Operating Budget will be presented to Council later that month for approval.

Staff have posted the capital budget and 2025 to 2028 capital forecast and will post the 2024 draft operating budget on the Township website at scugog.ca/budget and will communicate the open house and presentations through My.Scugog.ca, web news on scugog.ca, through the local papers, and through the Township social media channels.

5. Conclusion:

Council and staff work to balance affordability with the demands for service delivery now and in the future. The reality of continuing financial pressures on programs, services, and needed capital requirements affect the ability to deliver on taxpayer expectations. This year continues to be especially difficult due to the continuing inflationary pressures and legislative requirements.

The setting of a target tax rate by Council is an essential element of the budget process. It will frame the municipality's ability to continue existing service delivery and address future requirements while providing staff with the direction required to complete the 2024 Operating Budget and the 2024 – 2028 Capital budget and forecast.

Based on the findings of the State of the Infrastructure (SOTI) report, the Asset Management Plan and the results of the budget survey, it is important to continue to increase investments in our infrastructure. Additional funding allocated to roads and infrastructure, vehicles and equipment and buildings and facilities help ensure the financial sustainability of the municipality.

Staff will continue to identify service efficiencies and savings and build these savings into the operating budget. Understanding the budgetary pressures expected in 2024, as well as staff capacity issues, it will be a challenge for staff to maintain service levels. As such, any service level increases or new programs should be minimized and considered additions to any target set by Council.

It is therefore recommended that Council approve a budget target of not more than 2.5% for Scugog's share of the overall tax bill.

Should Council decide to reduce the proposed target, staff recommend that Council direct staff to report back with alternative budget target levels, what is required to achieve those targets, and the impacts of those actions.

Respectfully Submitted by:

Laura E. Barta, CPA, CMA
Director of Finance/Treasurer

Reviewed By:

Ken Nix, CPA, CMA
Chief Administrative officer

Attachments:

Attachment 1: Municipal Comparators

Report Approval Details

Document Title:	2024 Budget Guideline and Target - FIN-2024-003.docx
Attachments:	- Attachment 1 - Selected Municipal Comparators.docx
Final Approval Date:	Feb 7, 2024

This report and all of its attachments were approved and signed as outlined below:



Kenneth Nix

Selected Municipal Comparators

The following are comparisons prepared to provide additional detail on how the Township of Scugog stands in comparison with other municipalities of similar size or characteristics. All comparators are based on 2022 data provided from the Financial Information Returns (FIR). While the Pandemic was not a major factor for the full 2022 year, some of the operating activities may still have been somewhat impacted by the measures taken to mitigate the lingering impacts of the pandemic.

The municipalities selected for comparison in this report are primarily those used in prior years for other similar reports to provide a consistent approach for reporting. The data used to prepare these reports is pulled from the FIR data and from the BMA Municipal study data prepared annually by BMA Management Consulting Inc. Comparisons that pull data from the annual BMA Municipal study will not include the Township of Uxbridge, as they have not historically participated in the study. The 2022 BMA study includes data from 121 municipalities that represent 88% of the population in the province of Ontario. The study averages are referenced in some of the slides for comparative purposes. The GTHA averages are also referenced in this document as the Township is part of that group for many of the funding allocations and grant opportunities offered by other levels of government.

Property Tax Rates for Comparable Municipalities

One of the most common comparators is based on tax rates. A review of 2022 Financial Information Returns (FIR) filed as of January 3, 2024 shows that the Township of Scugog currently has a moderately low tax rate per capita compared to the lower tier rate assessed by other comparable municipalities.

As you can see from chart 1, Uxbridge and Clarington have a lower level of taxes per capita. This can be at least partially explained by looking at the make of their property assessment. Both have higher levels of Commercial and Industrial assessment and lower levels of Farmland assessments than Scugog currently has. Commercial and industrial assessments are taxed at 1.45 and 2.0235 times higher than the residential tax rate and the lower value of commercial and industrial assessment in Scugog increases amounts that must be raised through residential taxes. Farmland is taxed at 20% of the residential rate and the other 80% is funded from the residential rate. With the Township of Scugog having a higher level of farmland, more of the tax burden is shifted onto the residential rate.

Chart 1

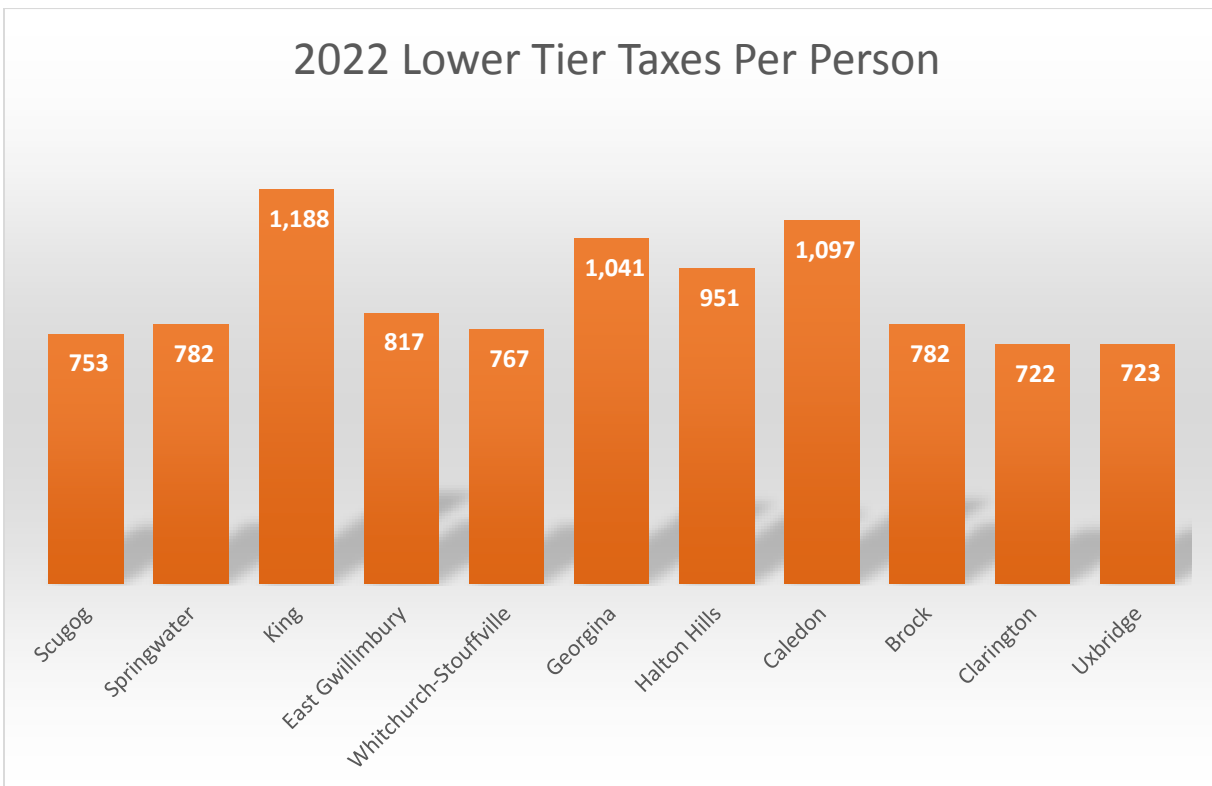
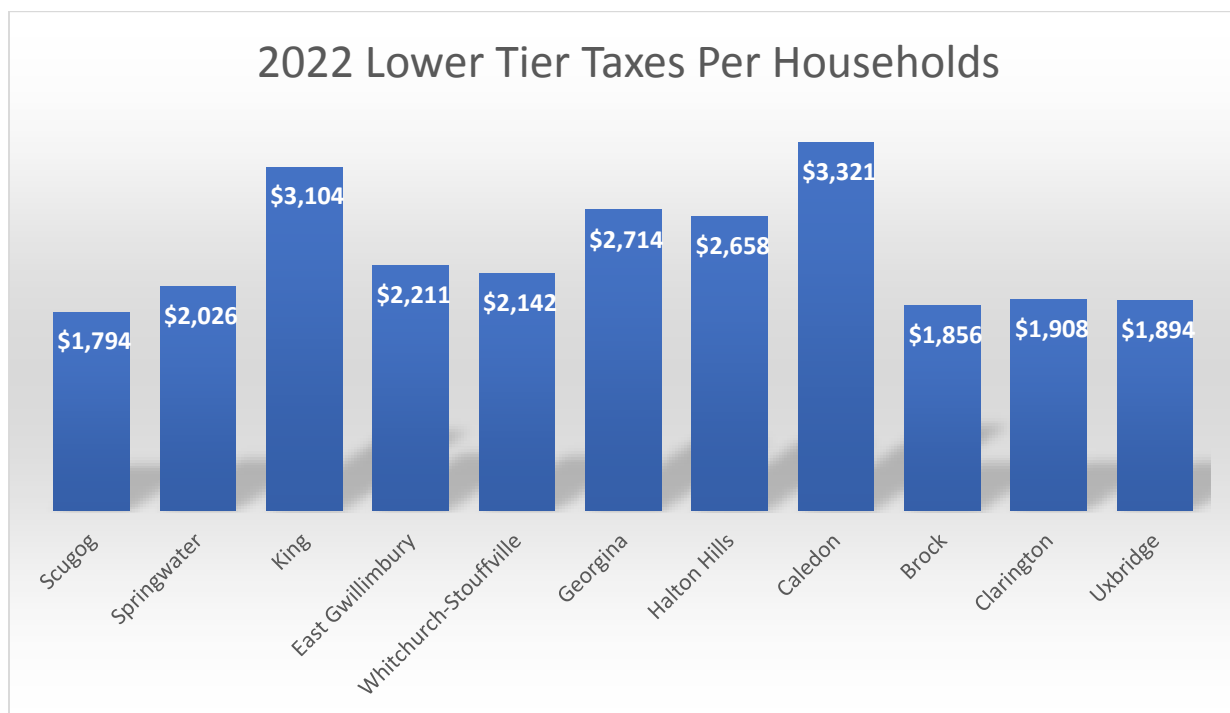


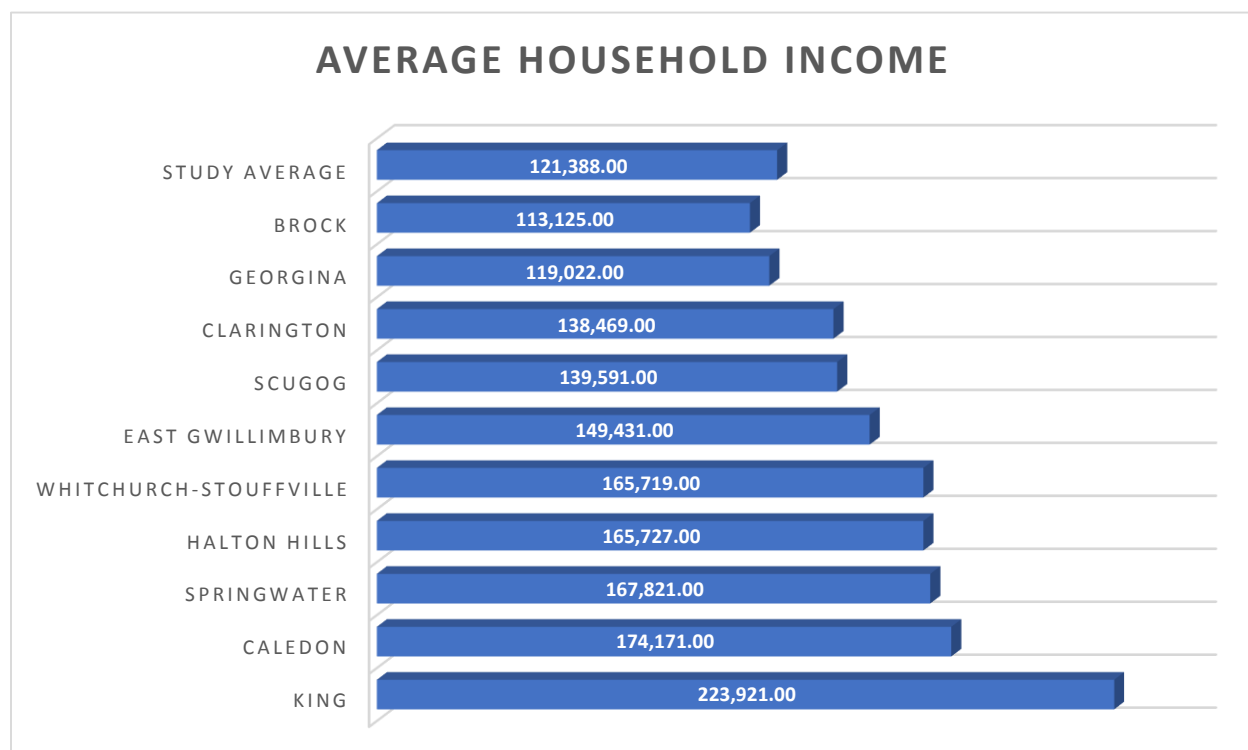
Chart 2



You can also look at taxes on a per household basis as shown in chart 2.

In comparing municipalities, average income is frequently used to gauge the need for grant funding or the capacity to raise funds through higher levels of taxation. This is often referred to as reasoning for one area getting a grant and another being declined. The following chart shows the average income for comparators. As you can see in chart 3, the Township of Scugog is above the study average of \$121,388, however still well below the GTA average of \$150,005.

Chart 3



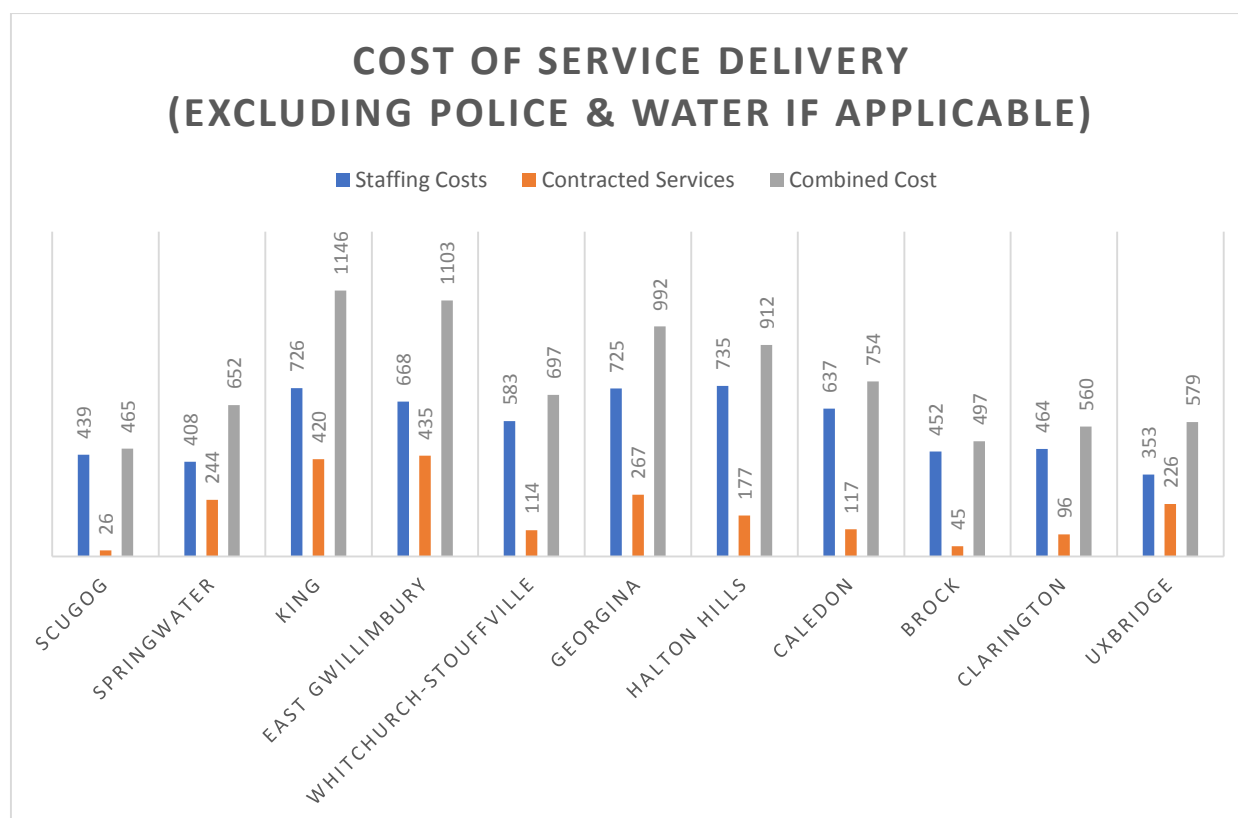
Cost of Service Delivery

A review of 2022 Financial Information Returns (FIR) filed shows that the Township of Scugog currently has a relatively low-level of staffing costs per capita compared to other lower tier comparable municipalities. Also included in chart 4 is the value of contracted services utilized by each municipality. Some municipalities use internal staff while others hire contractors to complete the work. For several of the municipalities included in our comparison it was necessary to exclude the contracted service costs for police and water related services to ensure the values remained comparable.

It is important to note that some municipalities engage part-time staff on an as needed basis including Volunteer Fire Fighters (VFF) or contract service providers to do some

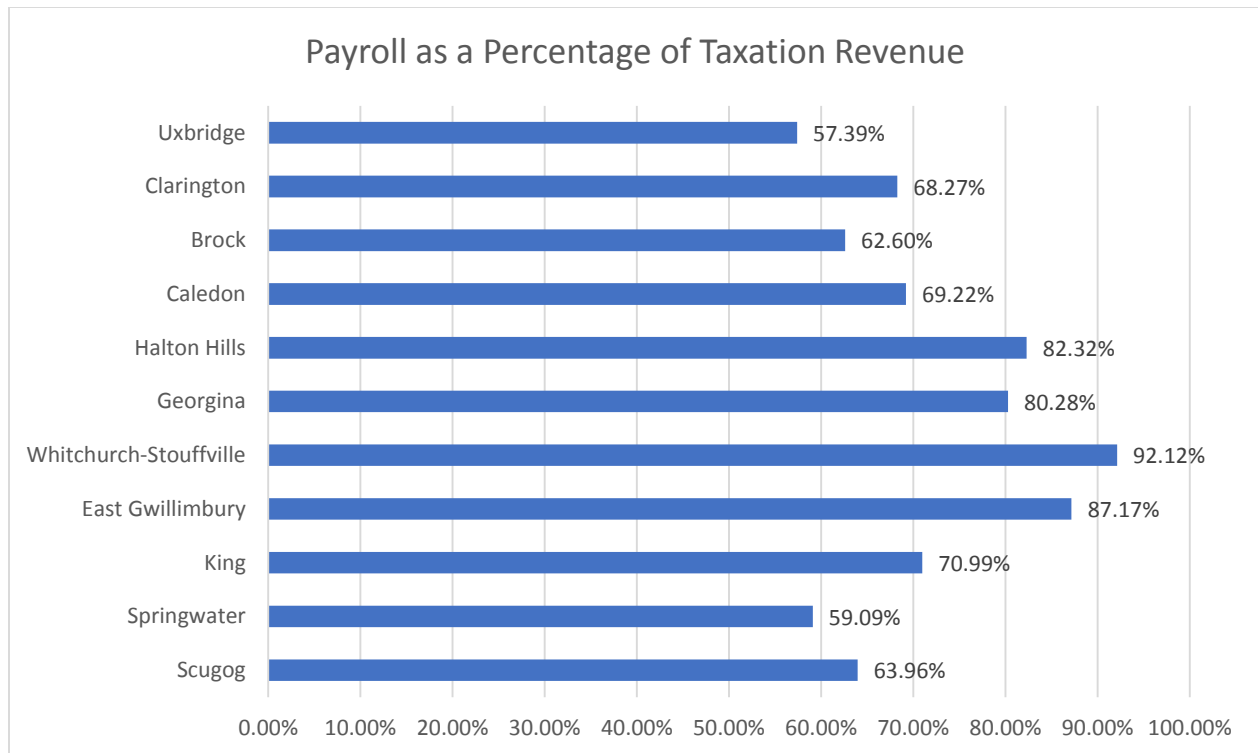
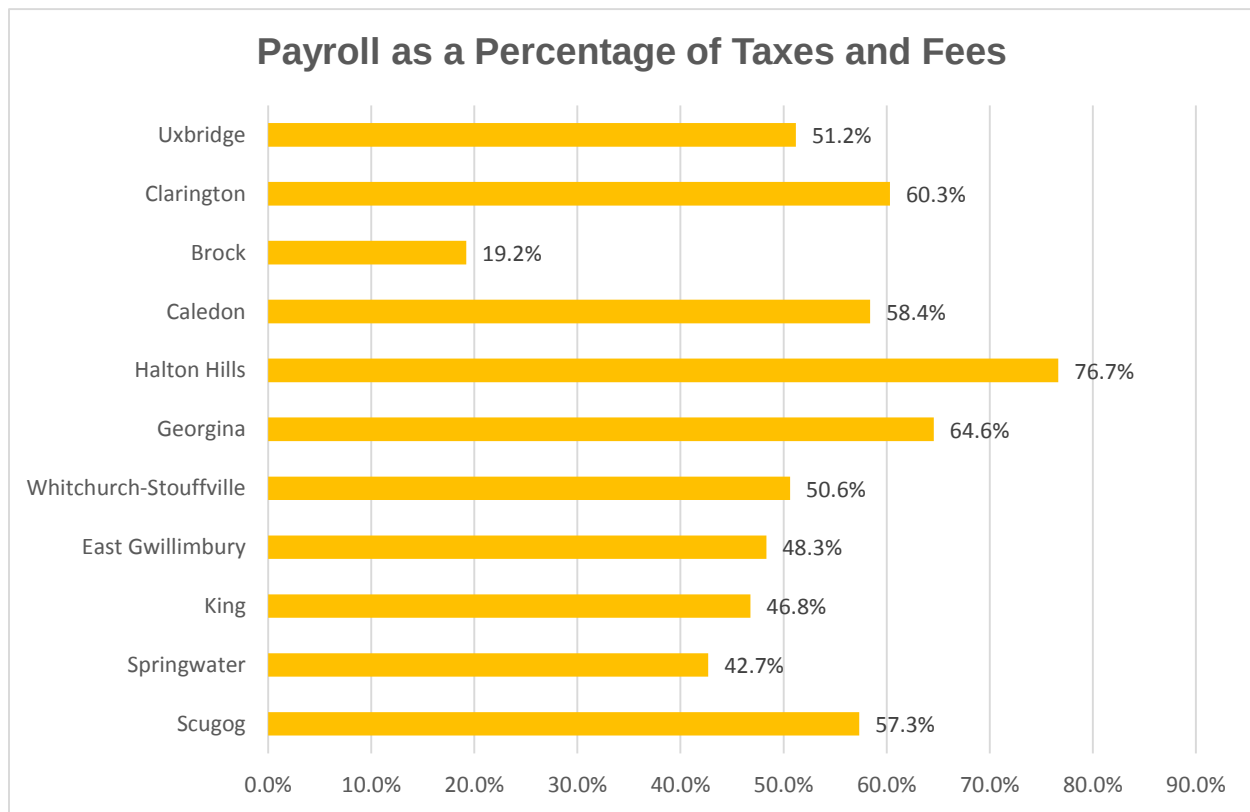
of the work that Scugog has full time staff engaged to perform. Contract services are often more expensive but more effective for short-term needs, specialty expertise gaps, and time limited pressures, where permanent staff are not needed or available. However, for ongoing service delivery, the use of contractors are often more expensive in the long run. This choice will also impact the staffing level per capita. Ultimately, services are delivered directly through regular staff or, in the case of contracted services, are managed by staff who direct the contractors.

Chart 4



With this in mind, additional comparisons are recommended including the cost of staffing as a percentage of municipal property taxes levied. The cost of staffing and contracted services as a percentage of taxes levied was considered however for some municipalities that rely heavily on user fees, the combined costs of delivering the services exceeded the taxation revenue alone. It is therefore more useful to consider the cost of staffing and contracted services as a percentage of taxes and user fees. Each of the charts is useful and shows that the Township of Scugog rates relatively low when compared to other municipalities.

Chart 5

**Chart 6**

Capital Assets / Infrastructure

Municipalities are responsible for the majority of the public infrastructure in Canada. According to a previous report prepared by the Financial Accountability Office of Ontario, the 444 municipalities in the province own more public infrastructure than both the Provincial and Federal government combined. While this report is rather dated, the facts have not changed, and these municipal assets continue to be essential to economic and social activity in Ontario. Maintaining the infrastructure owned by the Township to ensure it remains safe and usable for Township residents continues to be a significant strain on municipal finances. This is not a problem unique to the Township of Scugog. Many municipalities are looking to follow Toronto's lead in asking for a "New Deal" from the Province of Ontario to assist with these infrastructure pressures.

Special levies were introduced starting in 2014 in response to information obtained through various asset management plans that highlighted the need to invest more funds into the Township infrastructure. The special levies for infrastructure are placed directly in the capital reserve funds and are utilized to finance the Township's capital program. These targeted contributions to the reserves allow for strategic investment into critical assets and have a direct impact on the capital projects identified in the budget and forecast. These funds combined with good asset management practices are important in Scugog's efforts to address long-term needs and financial sustainability.

Capital Spending Per Capita

A review of 2022 Financial Information Returns (FIR) filed shows that the Township of Scugog had a relatively low level of capital spending per capita for 2022 compared to other lower tier comparable municipalities. This number will fluctuate depending on the projects budgeted and the municipality's ability to complete them in a given year. In 2022, the Township had a number of major projects reported as work in progress and not yet capitalized so they would not reflect in this number.

If the township is able to complete all the projects proposed in the 2024 capital budget, the capital spending per capita for 2024 would be about \$554.

Chart 7



The Township's asset base is extensive, and the Township has made considerable effort in recent years to address the infrastructure gap and improve the condition of assets (e.g. infrastructure levies, grant applications, operational efficiencies). These efforts include applying for grant funding from all sources (other levels of government and private companies when possible) to help offset the cost of projects. These grant applications take considerable staff time and are often not successful. While efforts are ongoing at Council, staff and association levels to encourage upper levels of government to assist municipalities with sustainable grant funding for needed infrastructure improvements, more public support of these efforts is needed.

The Township of Scugog's efforts also include the annual contributions to reserves and reserve funds. A continued focus on building annual capital contributions is needed to address current and future infrastructure requirements.

The 2022 asset management plan (AMP) reviewed all of our other assets and also identified the need to invest in vehicles and equipment as well as township owned public buildings and facilities. Vehicles and equipment play an essential role in the maintenance of township roads and provision of fire and emergency services. The Township has made attempts to establish a regular replacement schedule for township

vehicles and equipment to ensure minimal down time and risk mitigation. The financial allocation for these assets is still very limited however and the timing for replacement is often delayed due to lack of funding and competing demands. Continuing to allocate funding towards the vehicles and equipment capital reserve fund annually will assist in improving the township's ability to achieve the goal of having a regular schedule of replacement of these critical assets that is followed.

In addition, funding needs to be allocated to the buildings and facilities capital reserve fund. The 2022 AMP identified more than \$20 million or 24% of the buildings and facilities owned by the Township were overdue for repair in 2022. The building assets account for over \$81.9 million based on replacement cost of our capital portfolio and are the next largest asset portfolio owned by the Township after roads. The Township incorporates maintenance work in the operating budget and has identified larger repairs in the capital budget, however some of the larger facilities and buildings like our works depots and some of the recreation facilities are in need of more critical work that does not currently fit within our funding envelope. It is vital that additional funding be directed to this capital reserve fund to ensure timely repairs and the larger projects are completed. Strategic investments into township owned assets at the right time will ensure those assets remain safe and accessible to the community and minimize the cost of ownership of the assets to help with the long-term financial sustainability.

Staff updated the AMP in 2022 and are also working to have building condition assessments completed for all municipal facilities; structural inventory assessments updated bi-annually; SOTIs; and storm water assessments updated regularly. Knowing what work needs to be done to maintain Township assets will ensure future plans contain a complete picture and the costs associated with the work. It is expected that the in-depth analysis of buildings will, once completed, identify additional maintenance that staff may not be aware of currently.

Staff recommends Council continue to support the recommendations of the current State of the Infrastructure report and allocate a 3.0% levy to roads / infrastructure and a 0.5% be allocated to the vehicles and equipment program, and 0.5% for maintaining the buildings and facilities.

Level of Reserves and Reserve Funds Held

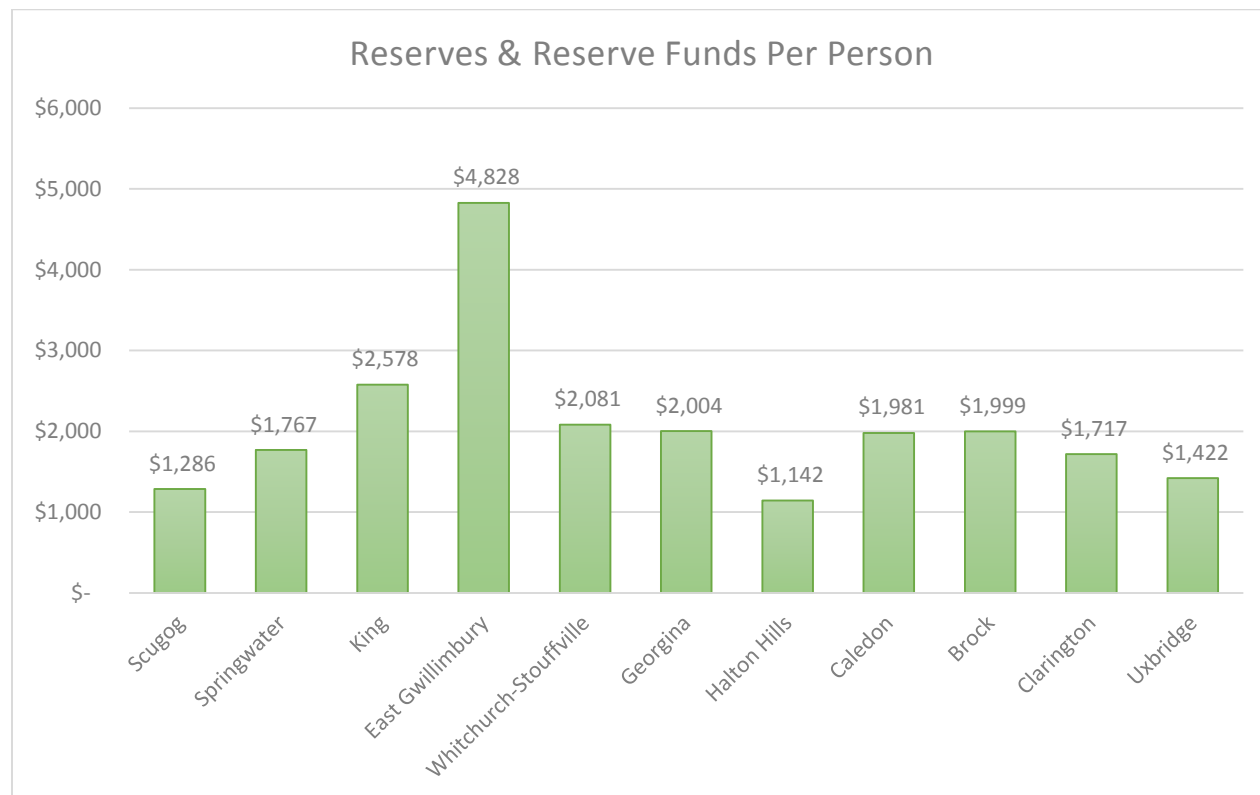
Reserves are a critical component of the municipality's long-term financing plan. The purpose for maintaining reserves includes:

1. To provide stability to tax rates in the face of variable and uncontrollable factors
2. To provide financing for one-time or short-term requirements

3. To make provisions for replacement/acquisitions of assets/infrastructure
4. To avoid spikes in funding requirements, and
5. To ensure adequate cash flow

A review of 2022 Financial Information Returns (FIR) filed shows that the Township of Scugog currently has a relatively low level per capita of Reserves and Reserve Funds compared to other lower tier comparable municipalities.

Chart 8



The contributions to the roads and other infrastructure levy recommended as part of this year's budget are as a result of the findings identified in the original State of the Infrastructure (SOTI) study. This study was updated in 2022 and continued to recommend special levies, as was the Asset Management Plan (AMP) and both were endorsed by Council. Therefore, in order to address existing service levels and the proposed capital program the draft budget target for 2024 includes a 3.0% special levy dedicated to roads and other infrastructure, a 0.5% special levy dedicated to vehicles and equipment and a 0.5% special levy to buildings and facilities.