



ONTARIO, CA

COCHRANE

2021 BUDGET

FINANCIAL SITUATION

AND

CHALLENGES UPDATE



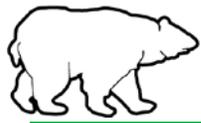
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- 1) OPERATING REVENUES FALLING BEHIND NON-CONTROLLABLE OPERATING BUDGET PRESSURES

2) SIGNIFICANT INSUFFICIENT OWN SOURCE FUNDS GENERATED FOR CAPITAL INFRASTRUCTURE NEEDS

3) RESERVES ARE INSUFFICIENT - IN PARTICULAR CAPITAL INFRASTRUCTURE RESERVES



1) Operating revenues falling behind non-controllable operating budget pressures

<u>Non Controllable Budget Impact Items</u>	2018	2019	2020	2021 BUDGET
	ACTUAL	ACTUAL	ACTUAL	at 3.5%
OMPF Reduction (Provincial Funding)	\$ 123,000	\$ 93,600	\$ 82,800	\$ 72,900
Cost of Living avg 2%- Labour Costs	\$ 125,000	\$ 128,500	\$ 132,000	\$ 134,640
Pass thru increases from Partner/Outsourced Services (OPP, CDSSAB, Porcupine Health Unit) (see below)	-\$ 106,142	\$ 44,175	\$ 54,391	\$ 84,702
New Long Term Debt Repayment	\$ 75,000	\$ 47,000	\$ 60,000	\$ 60,000
OTHER - 2018 Adjusted Polar Bear Habitat Budget to reflect actual needs (\$290K net to \$410K net) 2020 Legislative Service Requirement - Fire Prevention Officer, 2021 Landfill Operating Costs to adequately service/maintain	\$ 120,000		\$ 90,000	\$ 100,000
TOAL NON CONTROLLABLE BUDGET ITEMS	\$ 336,858	\$ 313,275	\$ 419,191	\$ 452,242
Cumulative	\$ 336,858	\$ 650,133	\$ 1,069,324	\$ 1,521,566
<i>Non Controllable Budget Increases As a % of taxes</i>	<i>5.1%</i>	<i>4.6%</i>	<i>6.2%</i>	<i>6.4%</i>
<i>Cumulative Non Controllable Items as a % of Taxes</i>	<i>5.1%</i>	<i>9.7%</i>	<i>15.9%</i>	<i>22.3%</i>

<u>TAX REVENUES</u>	2018	2019	2020	2021 BUDGET
	ACTUAL	ACTUAL	ACTUAL	at 3.5%
<i>Tax increase</i>	<i>1.5%</i>	<i>3.0%</i>	<i>0.0%</i>	<i>3.5%</i>
Tax Increase new revenues generated	\$ 120,000	\$ 200,000	\$ -	\$ 225,000
New Taxes from Growth	\$ 5,000	\$ 10,000	\$ 32,000	\$ 30,000
TOTAL TAX REVENUE INCREASE	\$ 125,000	\$ 210,000	\$ 32,000	\$ 255,000
Cumulative	\$ 125,000	\$ 335,000	\$ 367,000	\$ 622,000
<u>As a \$ of taxes</u>				
<i>New tax revenues as a % of Taxes</i>	<i>1.9%</i>	<i>3.1%</i>	<i>0.5%</i>	<i>3.6%</i>
<i>Cumulative new taxes as a % of Tax Revenues</i>	<i>1.9%</i>	<i>5.0%</i>	<i>5.5%</i>	<i>9.1%</i>

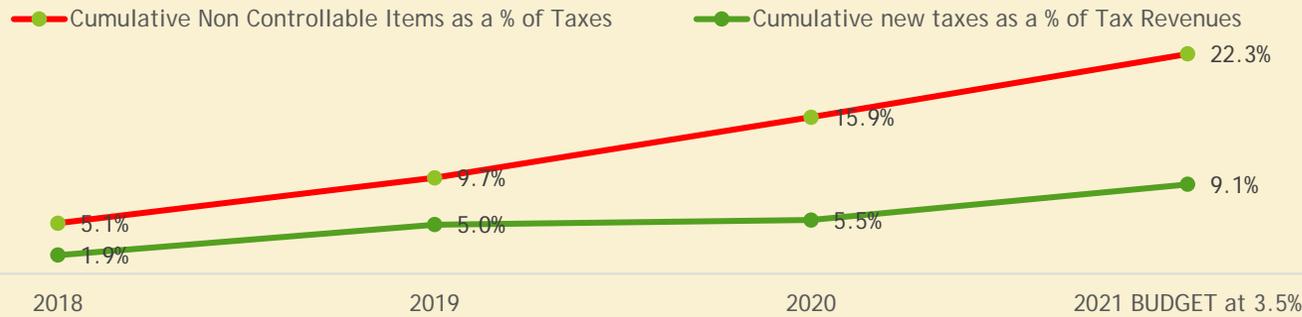


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1) Operating revenues falling behind non-controllable operating budget pressures

Non Controllable Budget Increases versus New Taxes as a % of Total Tax Revenues



NON CONTROLLABLE BUDGET INCREASES VERSUS NEW TAX REVENUES IN \$\$\$\$

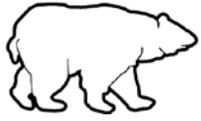


What this means:

TOC has had to balance the budget extensively through other means:

- User fee increases
- Budget cuts
- Service cuts
- Use of Reserves
- Unable to increase Capital Funding Transfers

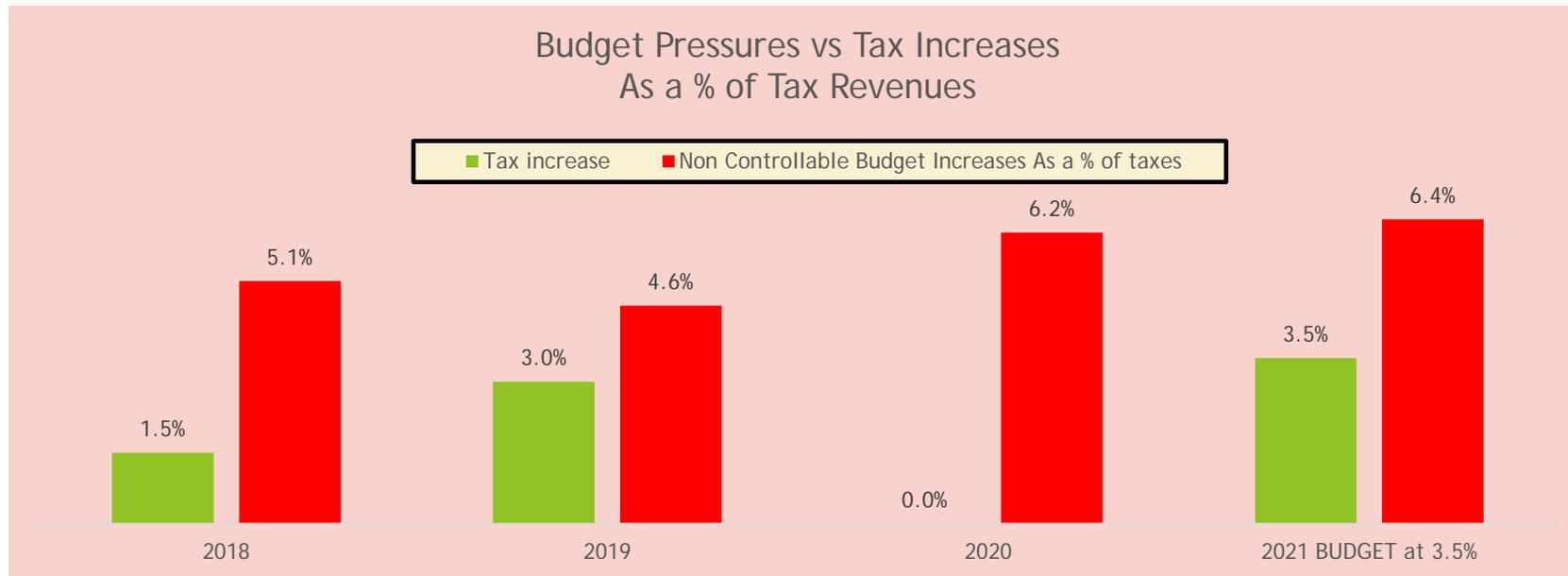
To the tune of almost \$1M over 4 years



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1) Operating revenues falling behind non-controllable operating budget pressures

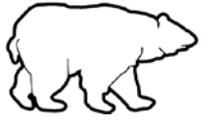




1) Operating revenues falling behind non-controllable operating budget pressures

CURRENT STATE

- ▶ - we continue to see an annual decrease in our Provincial Funding - equivalent to 1% -1.5% of taxes (for the past 8 years)
- ▶ - Labour is a significant portion of municipal service costs and averages 2% increase per year, representing 1.5% annual tax impact.
- ▶ Pass thru costs from Partners/Outsourced service providers average approximately 1% annual tax impact
- ▶ **These 3 items alone require a 3.5%-4% average annual increase to revenues,**
- ▶ **The average annual tax increase for the past 3 years 1.5%.**
- ▶ **= An average annual roll back of 2%- 2.5% for three years..... Or 7% total.**
- ▶ **RECOMMENDATION - Municipality needs to increase revenues, either through higher user fees and/or increased taxes to ADEQUATELY offset Non-Controllable Budget Pressures.**



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Significantly insufficient own source funds generated for capital infrastructure needs

5 YEAR TOTAL - CAPITAL FUNDING - IF \$15 MILLION

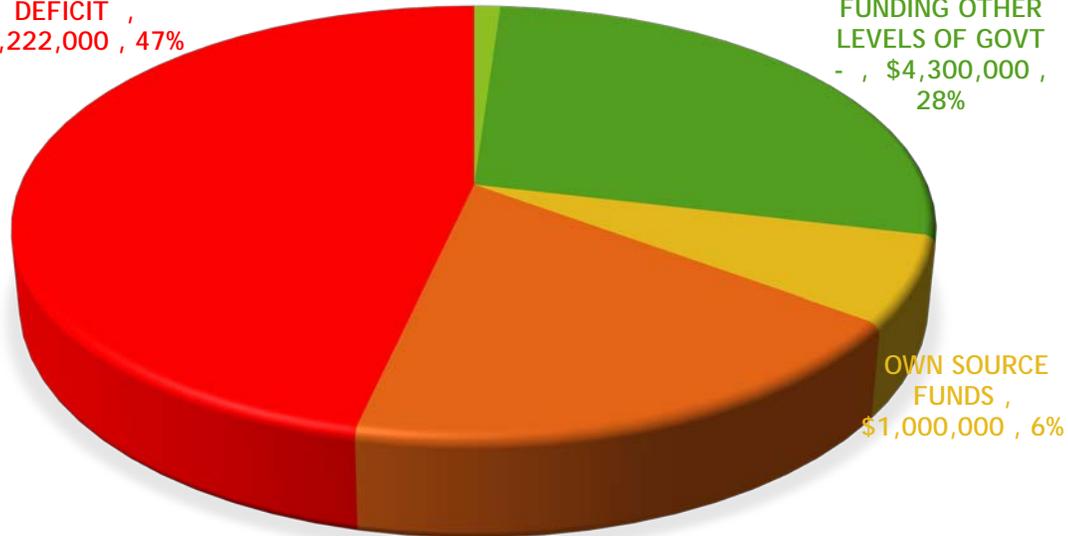
NO FUNDING SOURCE =
INFRASTRUCTURE DEFICIT ,
\$7,222,000 , 47%

RESERVES,
\$168,000 , 1%

DEDICATED FUNDING OTHER LEVELS OF GOVT
- , \$4,300,000 , 28%

OWN SOURCE FUNDS ,
\$1,000,000 , 6%

FINANCING ,
\$2,850,000 , 18%

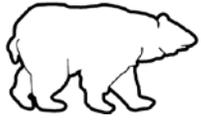


What this says:

Even with

- continued flow of dedicated funding from other levels of government
- Financing averaging \$500K per year

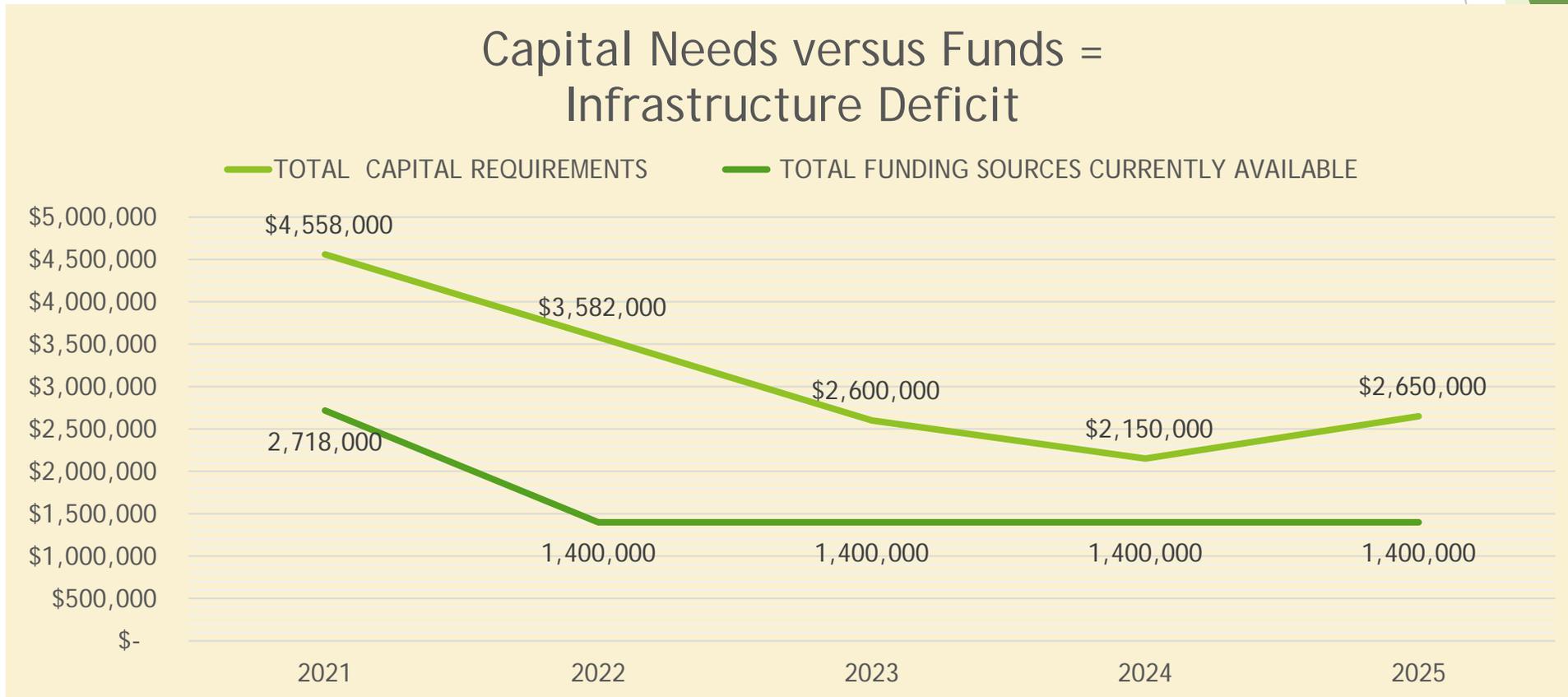
The Town of Cochrane can only afford ½ of its annual infrastructure renewal needs



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Significantly insufficient own source funds generated for capital infrastructure needs





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Significantly insufficient own source funds generated for capital infrastructure needs

Town of Cochrane is not generating sufficient own source funds to be used to pay for current year capital infrastructure needs

- ▶ - Lack of own source capital funds results in:
 - ▶ Reliance on long term debt
 - ▶ Reliance on special government funding

BUT

- ▶ Council has adopted a debt policy appropriately limiting debt
- ▶ Council is desirous of reducing current long term debt levels
- ▶ Special Government Funding opportunities are not reliable

THEREFORE.....

- ▶ Infrastructure Needs gets deferred,
- ▶ = Infrastructure Deficit Grows,
- ▶ = Service Levels Decrease (Infrastructure in poor condition)



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Significantly insufficient own source funds generated for capital infrastructure needs

CURRENT STATE

- ▶ - 2012 Current Capital Tax Levy of 1% introduced AND has since survived!!!! This currently generates approximately \$100K annually
- ▶ - 2019 - Capital Tax Levy of 0,5% adopted
- ▶ - 2021 - Council has, on a pre-budget direction basis, approved an additional 1% Capital Tax Levy - will generate an additional \$75,000 per year for Current Year Capital
- ▶ 2021 - Total own source funds for capital is \$200,000 - Yeh!
- ▶ But if average annual Tax Based Capital Infrastructure Needs are \$2-\$3 Million, well..... we have some work to do

RECOMMENDATION - Municipality should implement minimum annual 1% increase for the next 10 years, dedicated to growing own source funds for current year capital infrastructure.

3) RESERVES ARE INSUFFICIENT - IN PARTICULAR CAPITAL INFRASTRUCTURE RESERVES

► Insert Financial Indicator Review Chart

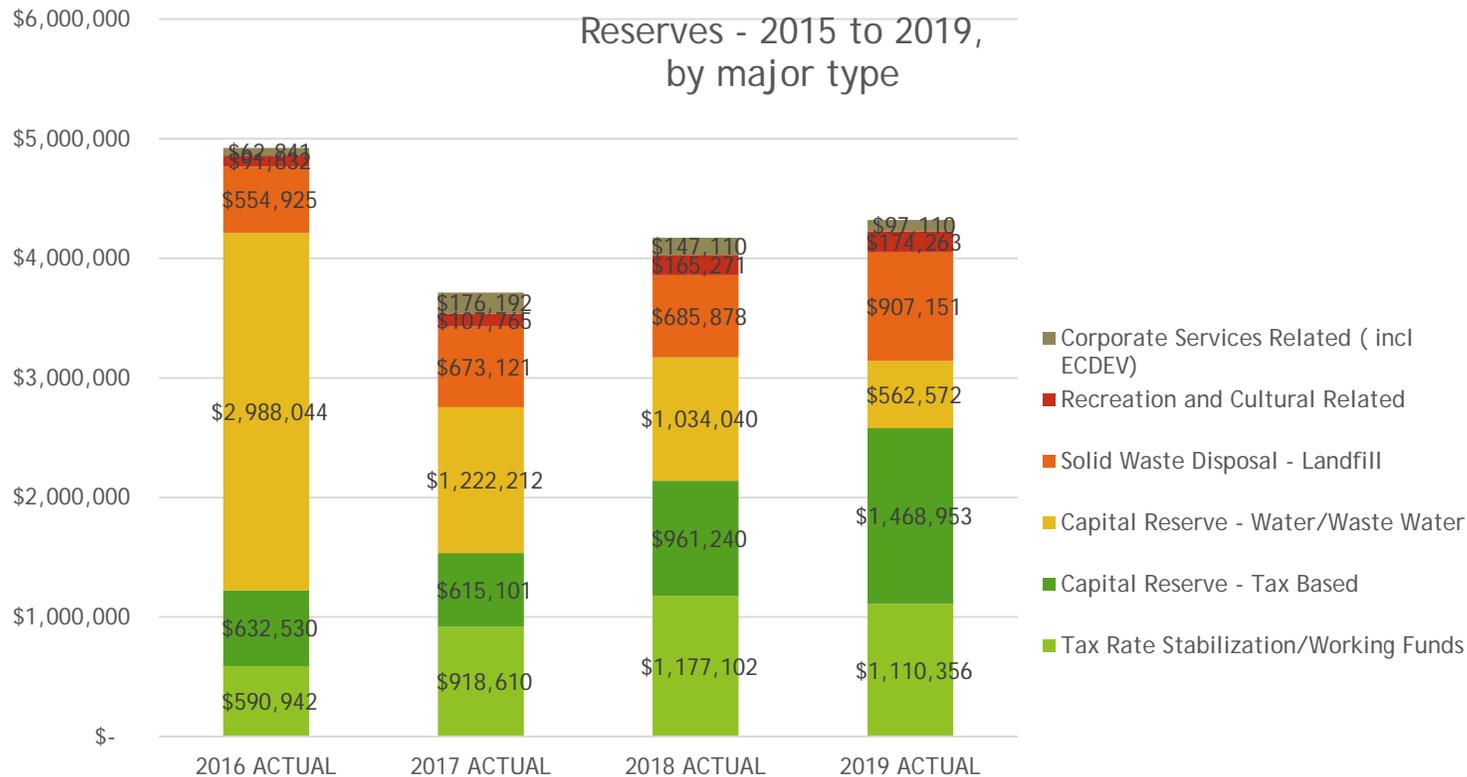
SUSTAINABILITY INDICATORS						
Indicator	Ranges	Actuals	North - Population > 2500 <= 10000		Level of Risk	
			Median	Average		
Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied	Low: < 10% Mod: 10% to 15% High: > 15%	2014	13.3%	10.2%	13.9%	MODERATE
		2015	10.4%	9.0%	13.7%	MODERATE
		2016	6.0%	9.9%	13.2%	LOW
		2017	6.3%	8.9%	11.4%	LOW
		2018	7.8%	8.4%	10.7%	LOW
Net Financial Assets or Net Debt as % of Own Source Revenues	Low: > -50% Mod: -50% to -100% High: < -100%	2014	-2.5%	-3.3%	-8.8%	LOW
		2015	-14.0%	-8.2%	30.6%	LOW
		2016	-19.1%	-6.9%	-11.3%	LOW
		2017	-39.3%	-5.9%	-10.7%	LOW
		2018	-48.5%	6.6%	1.4%	LOW
Total Reserves and Discretionary Reserve Funds as a % of Municipal Expenses	Low: > 20% Mod: 10% to 20% High: < 10%	2014	21.4%	33.5%	35.3%	LOW
		2015	23.6%	32.4%	36.3%	LOW
		2016	20.6%	33.3%	35.3%	LOW
		2017	15.8%	37.0%	37.3%	MODERATE
		2018	17.2%	35.3%	40.1%	MODERATE
Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities)	Low: > 0.5:1 Mod: 0.5:1 to 0.25:1 High: < 0.25:1	2014	0.07:1	1.77:1	2.25:1	HIGH
		2015	1.41:1	1.71:1	2.05:1	LOW
		2016	0.72:1	1.79:1	2.27:1	LOW
		2017	0.42:1	1.84:1	2.59:1	MODERATE
		2018	0.53:1	2.39:1	2.7:1	LOW



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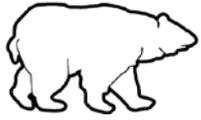
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3) RESERVES ARE INSUFFICIENT - IN PARTICULAR CAPITAL INFRASTRUCTURE RESERVES



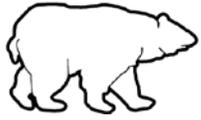
2020-12-08





3) RESERVES ARE INSUFFICIENT - IN PARTICULAR CAPITAL INFRASTRUCTURE RESERVES

	RESERVES SUBJECT TO TARGET MINIMUMS			2019 COMPARE TO TARGET		Approach to reaching Target	2020 COMPARE TO TARGET	
	2019 BALANCE	TARGET MINIMUM	TARGET MINIMUM BASIS	balance compare to Target Minimum	% of target achieved		2020 Forecast balance compare to Target Minimum	% of target achieved
Tax Rate Stabilization/Working Funds	\$ 1,110,356	\$ 1,350,000	5% of Operating Costs + 10% of Taxes	\$ (239,644)	82.2%	There is a 1% tax levy assigned here annually to replenish this reserve, approx \$60K annually (effective 2017). Operating surpluses are also directed here but need to be recognized in the next year budget as per the Municipal Act	\$ (461,791)	65.8%
Capital Reserve - Tax Based	\$ 1,468,953	\$ 2,500,000	Equivalent to 1 year Average Annual Capital Renewal Needs less OCIF, GAS Tax and Current Own Source Revenues	\$ (1,031,047)	58.8%	Currently there is no regular source of funding for this reserve - It has received EVAC profits in recent years (In 2012 Council did approve a tax increase to start to build this reserve but it did not survive the 2013 budget or thereafter)	\$ (1,031,047)	58.8%
Capital Reserve - Water/Waste Water	\$ 562,572	\$ 3,000,000	Equivalent to 1 year Annual Average Capital Expenditure Needs	\$ (2,437,428)	18.8%	10% rate increase for the next 5 years recommended in 2020	\$ (2,437,428)	18.8%
Solid Waste Disposal - Landfill	\$ 907,151	\$ 1,800,000	Future Closing Cost Estimate - 2 more years????	\$ (892,849)	50.4%		\$ (767,849)	57.3%
Recreation and Cultural Related Corporate Services Related (incl ECDEV)								
Other								
TOTAL	\$ 4,049,032	\$ 8,650,000		\$ (4,600,968)			\$ (4,698,115)	



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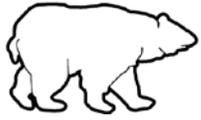
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3) RESERVES ARE INSUFFICIENT - IN PARTICULAR CAPITAL INFRASTRUCTURE RESERVES

CURRENT STATE

- ▶ Town of Cochrane does not have a plan to grow or replenish Capital Reserves
- ▶ - 2012 approved increase to generate tax revenues dedicated for transfer to tax based infrastructure capital reserves did not survive the 2013 budget
- ▶ - Recommendations in annual budgets to add capital reserve levy did not get adopted. Recommendations to dedicate affiliate transfer funds to reserves or current year capital, did not get adopted.

RECOMMENDATION - Municipality should implement minimum annual 1% increase for the next 10 years, dedicated to developing adequate tax based capital reserve.



ANNUAL OPERATING BUDGET CHALLENGE - Municipality needs to increase revenues, either through higher user fees and/or increased taxes to ADEQUATELY offset Non-Controllable Budget Pressures.

CURRENT YEAR CAPITAL FUNDING CHALLENGE- Municipality should implement minimum annual 1% increase for the next 10 years, dedicated to growing own source funds for current year capital infrastructure.

CAPITAL RESERVE FUNDING CHALLENGE - Municipality should implement minimum annual 1% increase for the next 10 years, dedicated to developing adequate tax based capital reserve.

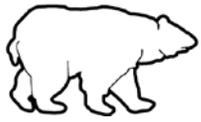
3.5 %

1.0%

1.0%

5.0%

Minimum -
EACH YEAR



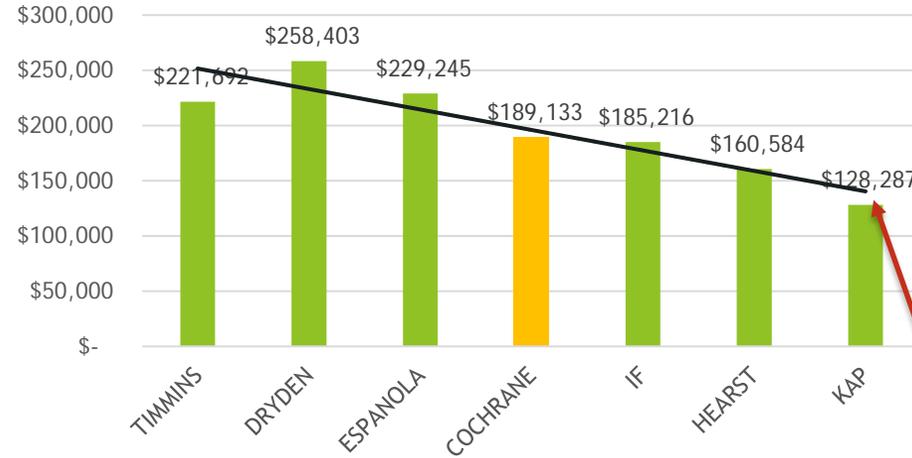
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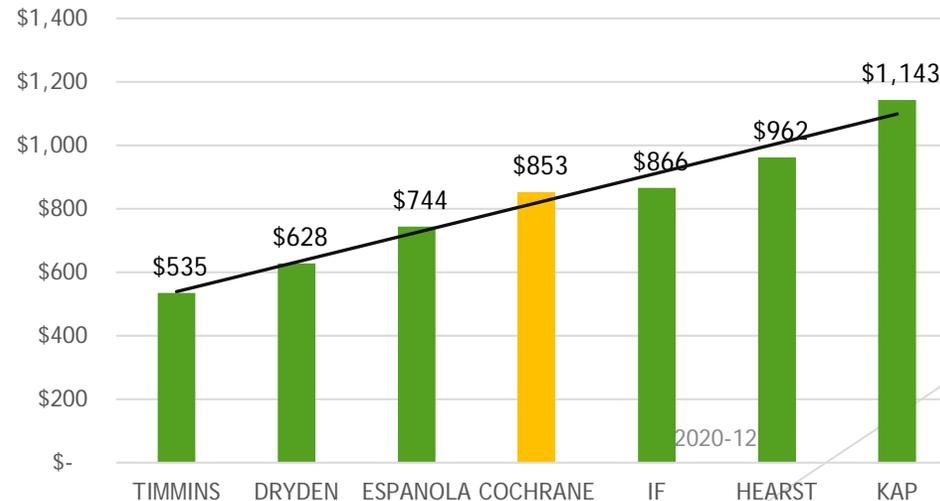
HOW WE COMPARE



Avg Weighted Assessment per Household



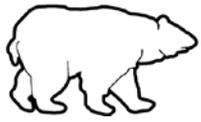
OMPF/Provincial Funding per Household



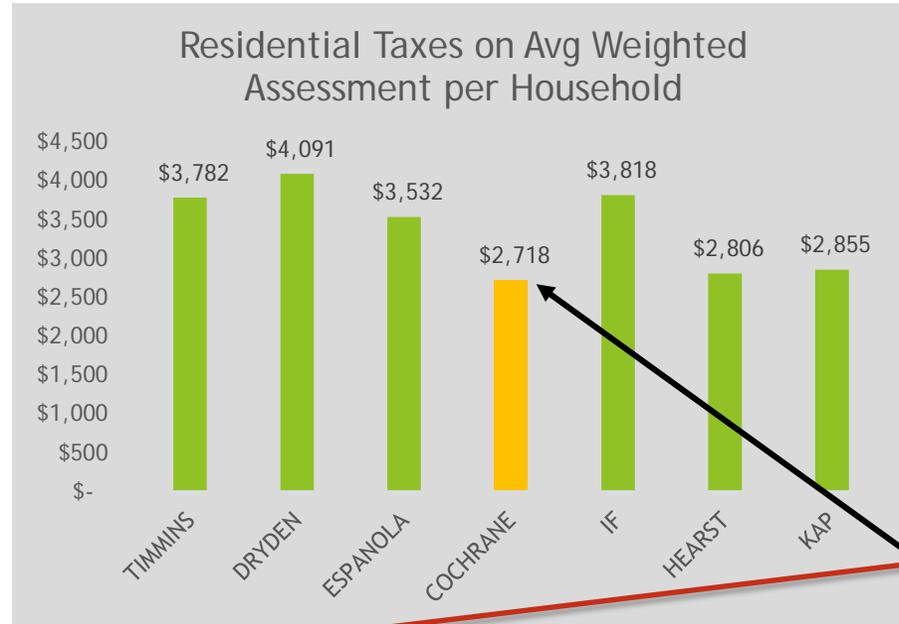
WHAT THIS SAYS:

Assessment Value is a key measure of a municipality's financial health.

Higher assessments = lower Provincial Funding

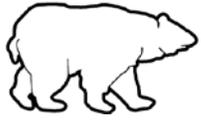


HOW WE COMPARE



WHAT THIS SAYS:
Cochrane has the lowest residential:

- tax rate
- taxes per avg assessment
- Taxes per \$100,000 of assessment



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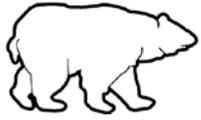
WHAT THIS MEANS:

**THE TOWN OF COCHRANE IS
NOT KEEPING UP ITS REVENUE GENERATING POWER**

WHAT THIS DOES:

FINANCIALLY STRANGLE THE MUNICIPALITY

- UNABLE TO MAINTAIN CURRENT SERVICE LEVELS
- UNABLE TO FIX INFRASTRUCTURE
- UNABLE TO MAINTAIN ADEQUATE RESERVES



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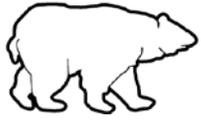
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2021 BUDGET IMPACT

Staff preliminary goal and recommendation to Council at the Budget Direction meeting in September was to prepare a 2021 budget with 5% tax based operating budget (representing 2 years of operating budget increase since 2020 was 0%). Staff also recommended an additional 1.0% capital tax levy. **TOTAL 6.0%**

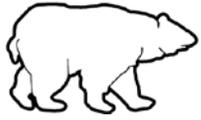
Council directed staff to come back with a 3.5% tax based operating budget increase, + 1.0% capital tax levy. **TOTAL 4.5%**

The purpose of this presentation is to demonstrate to Council that this is not achievable, nor is it reasonable to expect it to be achievable with the level of uncontrollable operating budget pressures faced by the Town of Cochrane, growing infrastructure deficit and low level of reserves.



2021 BUDGET PROPOSAL

PROPERTY TAX INCREASE	2020	2021	2020+2021	2 year Annual Average
2020 Actual, + 2021 Proposed	0%	8.50%	8.50%	4.25%
<u>BREAKDOWN</u>				
Tax Based Operating Revenues	3.5%	3.0%	6.5%	3.25%
Capital Levy - 1%, Start 2021		1.0%	1.0%	0.50%
Capital Reserve Levy - 1% start 2021		1.0%	1.0%	0.50%
TOTAL	3.5%	5.0%	8.5%	4.25%



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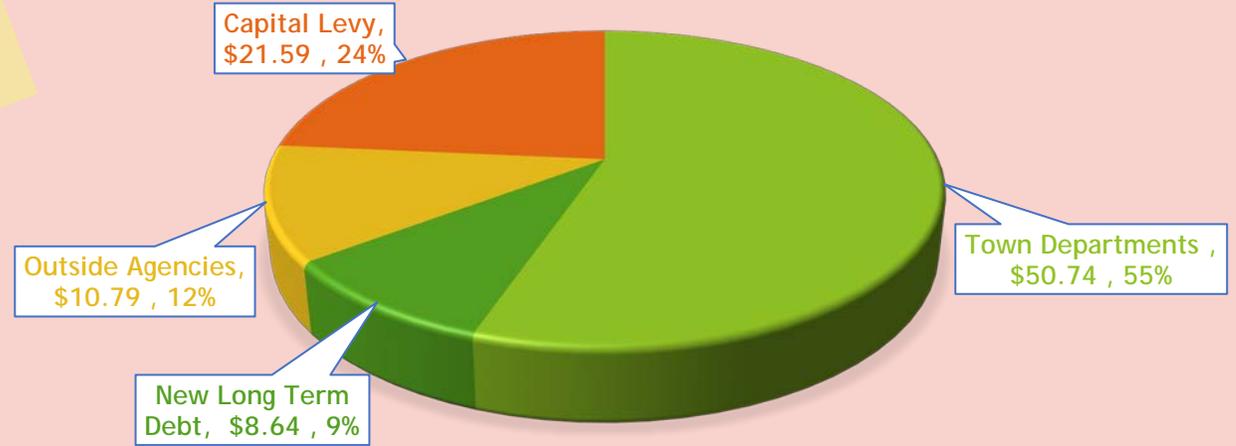
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RESIDENTIAL TAXES on \$189K Avg Assessment
 How this 2021 8.5% increase
 Translates into new taxes and drivers
 By year (since 2020 = 0% new taxes)

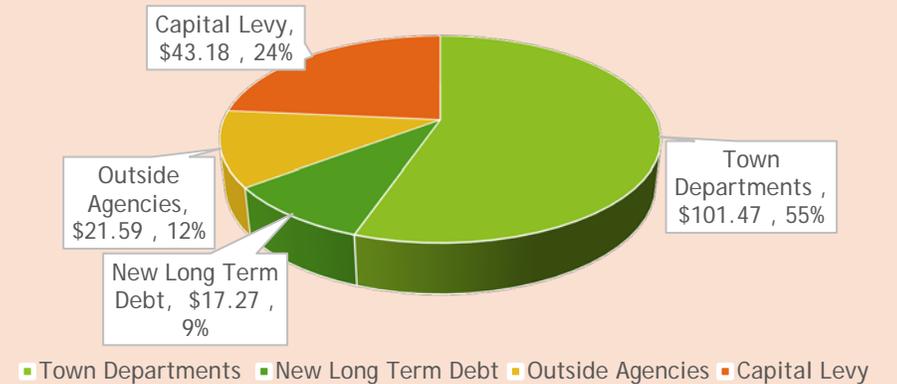
2021 = 8.5% increase	TOTAL 2020 and 2021 new taxes	2020	2021
Town Departments	\$ 101.47	\$ 50.74	\$ 50.74
New Long Term Debt	\$ 17.27	\$ 8.64	\$ 8.64
Outside Agencies	\$ 21.59	\$ 10.79	\$ 10.79
Capital Levy	\$ 43.18	\$ 21.59	\$ 21.59
	\$ 183.51	\$ 91.76	\$ 91.76
2021 per month	\$ 15.29	\$ 7.65	\$ 7.65

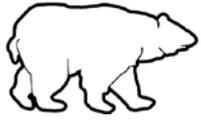
	Tax Increase	% of Tax Increase
Town Departments	4.7%	55.3%
New Long Term Debt	0.8%	9.4%
Outside Agencies	1.0%	11.8%
Capital Levy	2.0%	23.5%
	8.5%	100.0%

2020/2021 AVG PER YEAR
 RESIDENTIAL IMPACT OF 8.5% IN 2021 = \$91



2021 TWO YEAR - 8.5% - Residential Impact - \$183





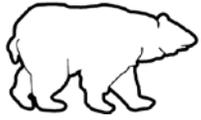
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2021 BUDGET PROPOSAL - +++++++

In addition to the new operating revenues generated from the 2021 proposed tax increase, the Town of Cochrane will need address a remaining gap of approximately \$200K to \$300K. Balancing options for the remaining deficit include:

- Deferral of central procurement position as a tax funded position - \$100K
- Pursuing full cost recovery of Child Care Operations (via Fees or CDSSAB Operating Funding increases)- ultimately eliminating \$100K annual municipal subsidy)
- Establishing policy for higher cost recovery of Recreation Facilities. High level goal for additional revenues \$50K to \$100K.
- Continue progress towards reducing municipal contribution to Library Board - consistent with typical municipal contributions. \$???



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SUMMARY

- 3 Continuing Budget Pressures - Operating Funding Gap, Infrastructure Gap and Low Level of Reserves
- Continuous Annual Operating Funding Deficit - Revenue increases are not keeping pace with Budget Pressures
- Cochrane Taxes are significantly and consistently lower as compared to other municipalities

- Town of Cochrane Property Taxes/Property Tax Increases **MUST** keep pace with the cost of providing reliable service to taxpayers
- Town of Cochrane **MUST** generate adequate own source revenues for Capital Infrastructure Renewal Needs
- Town of Cochrane **MUST** maintain adequate reserves.
- Town of Cochrane is currently reliant on long term debt and special government funding in order to meet its infrastructure renewal obligations. Town of Cochrane **MUST** to be able to afford its infrastructure investment needs.