



The City of Kenora, Ontario, Canada

Operating Budget  
2006

Budget Discussion

Introductory  
Information

Budget  
Highlights

Budget  
Pressures

Detailed Budget  
Schedules

## Table of Contents

### Introductory Information

City Council	3
City CAO and Managers	3
City Strategic Plan and Guiding Principles	4
Operating Budget Principles	4

### Budget Highlights

Operating Budget Highlights	5
Net Program Costs & External Organizations	7

### Budget Pressures

2006 Major Budget Impacts	8
The Budget as a Public Process	8
Shifting City Net Program Costs	8
The Abitibi Mill Closure	10
Anticipated Abitibi 2006 & Longer Term Municipal Tax Impacts	10
O.M.P.F. Funding Impacts for Kenora	11
Looking to the Future	11

## Table of Contents



### City Council

From Left to Right:

- ❑ Councillor Andrew Poirier, Chair of Operations
- ❑ Councillor Ted Szajewski, Chair of Community Services
- ❑ Councillor Len Compton, Chair of Utilities and Communications
- ❑ Mayor Dave Canfield
- ❑ Councillor Colin Wasacase, Chair of Property and Community Planning
- ❑ Councillor Ingrid Parkes, Chair of Emergency Services
- ❑ Councillor Rory McMillan, Chair of Finance and Administration

### City CAO and Managers

Not Shown:

- ❑ Bill Preisentanz, CAO
- ❑ Karen Brown, Manager of Finance & Administration
- ❑ Warren Brinkman, Manager of Emergency Services
- ❑ Rick Perchuk, Manager of Operations
- ❑ Barry Reynard, Manager of Community Services

## Introductory Information

City Council

City CAO and Managers

### **City Strategic Plan and Guiding Principles**

The City's strategic Plan, Kenora Vision 2009, lays the foundation for the City's future. This plan sets out the City's guiding principles as well as provides the strategic directions for the City.

The guiding principles provide the City with guidelines for evaluating and determining its actions. To help ensure the City budget considerations are done in conjunction with the vision as presented within the strategic plan, the guiding principles are reviewed in conjunction with the budget deliberations, and have been set out below:

- ❑ Kenora will provide fairness in taxation
- ❑ Kenora will provide value for service to the ratepayer
- ❑ Kenora will ensure sound fiscal management
- ❑ Kenora will provide quality of life amenities and services for citizens and visitors
- ❑ Kenora will explore and pursue new opportunities
- ❑ Kenora will value and be responsible to its employees
- ❑ Kenora will understand and respect its citizens
- ❑ Kenora will inform and engage its citizens
- ❑ Kenora will be a steward of the environment

### **Operating Budget Principles**

In developing and reviewing the municipal operating budget for 2006, the City has adhered to certain operating budget principles that it has established to guide overall spending within the budget process. These principles are as follows:

- ❑ Kenora will adhere to and uphold the guiding principles laid out in the City's Strategic Plan.
- ❑ Kenora will ensure that the budget will maintain the long-term financial viability of the City.
- ❑ Kenora will maintain the integrity of its reserves, and will not fund operating expenses from those reserves.
- ❑ Kenora will not issue long term debt unless justified through a business case on an individual basis.

As with the 2005 budget process, the City has separated out the utility-related budgets. Prior to 2005, the budgets for the Water & Sewer and Solid Waste operations formed part of the overall City budgets. Under Council direction, the City has been working towards establishing these operations as self-supporting utilities, independent of tax dollars. Based on this, a separate budget has been developed for each of these entities, eliminating them from the general budget process.

## **Introductory Information**

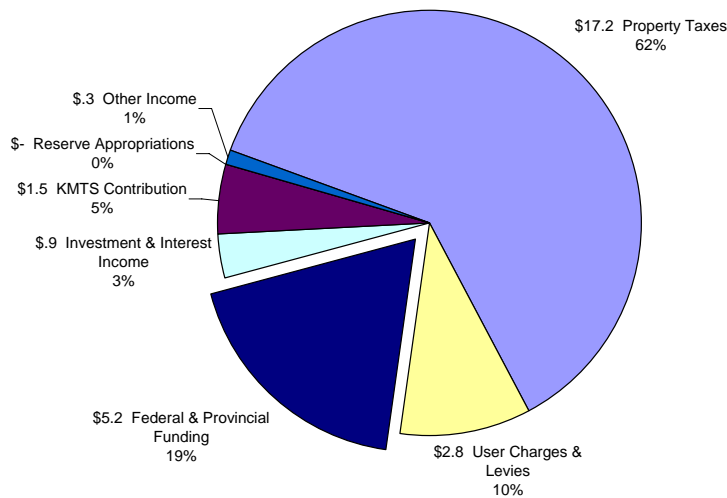
City Strategic Plan and Guiding Principles

Operating Budget Principles

### Operating Budget Highlights

The 2006 operating budget projects total operating expenditures of \$24.1 million, before capital expenditures and reserve appropriations. Combined operating, capital and reserve requirements total \$32.6 million.

In 2006, the City will raise \$17.2 million through general tax dollars. Tax dollars continue to be the City's most significant funding source, representing 62% of combined operating revenues. The next most significant funding sources for 2006 are projected to be federal and provincial funding of 19% and user charges and levies of 10% (excluding those for the utilities). The following chart shows the breakdown of municipal operating revenues. It does not reflect any revenues for capital expenditures.



An analysis of the combined 2006 budgeted expenditures, including reserves and capital allocations, broken out by functional area has been included on the following page, as well as a comparable analysis outlining the allocation of tax dollars.

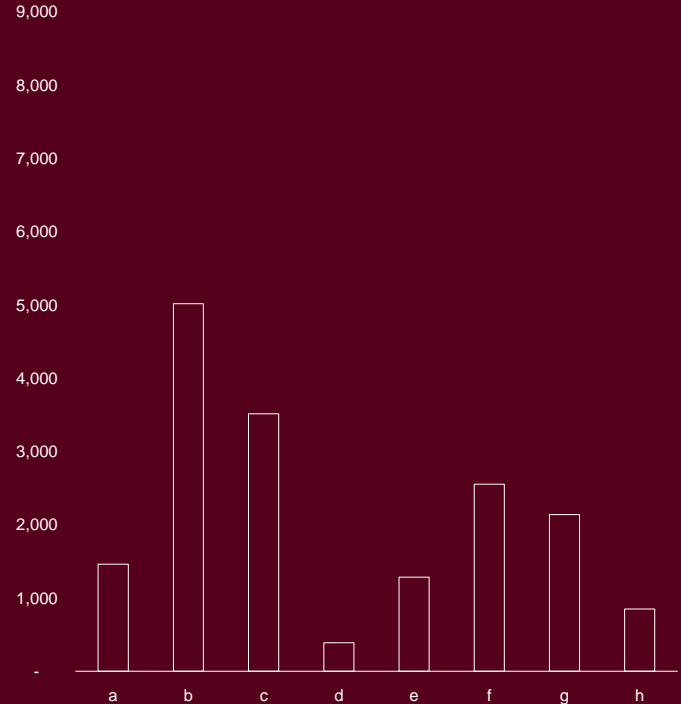
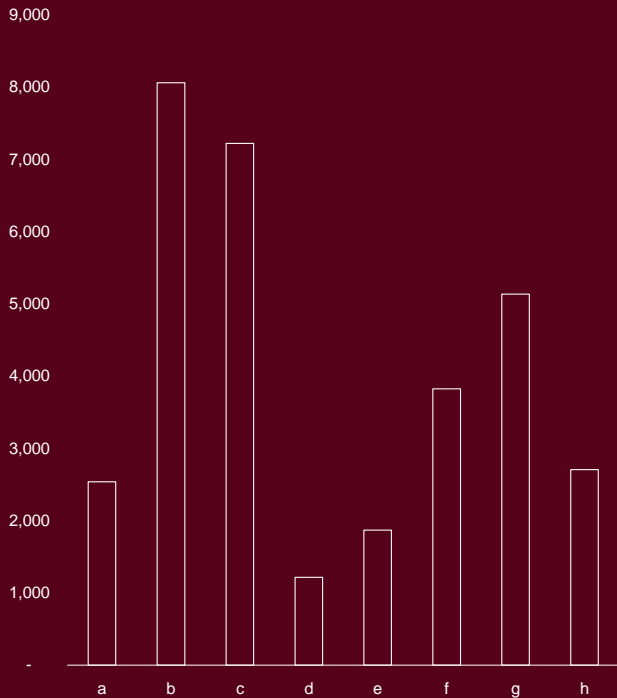
## Budget Highlights

### Operating Budget Highlights

## 2006 Operating Budget

Planned Expenditures by Function – Gross / Net  
2006 Planned Costs (in thousands of dollars)

## Budget Highlights



### 2006 Combined Budget Expenditures - Total Cost

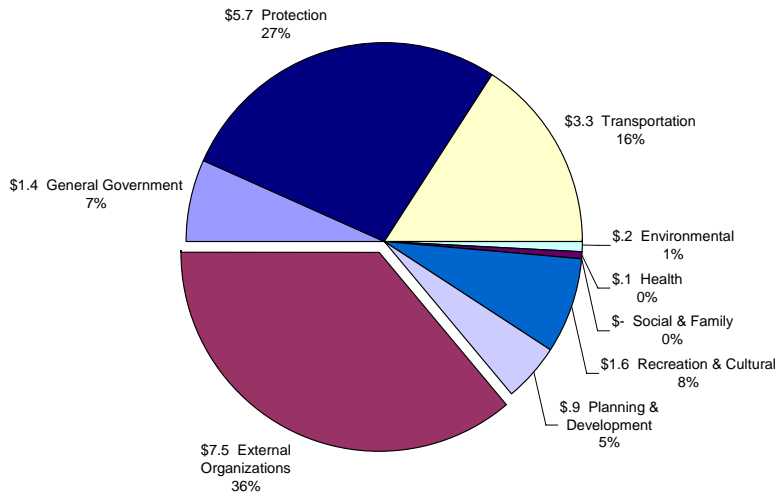
a General government	2,538	7.9%
b Protection	8,057	24.7%
c Transportation	7,219	22.2%
d Environmental	1,216	3.7%
e Health	1,868	5.7%
f Social & family	3,822	11.7%
g Recreation & cultural	5,135	15.8%
h Planning & development	2,706	8.3%
<hr/>		
	\$ 32,561	100.0%

### 2006 Allocation of Tax Dollars

a General government	1,460	8.5%
b Protection	5,016	29.2%
c Transportation	3,515	20.4%
d Environmental	388	2.3%
e Health	1,285	7.5%
f Social & family	2,552	14.8%
g Recreation & cultural	2,137	12.4%
h Planning & development	850	4.9%
<hr/>		
	\$ 17,203	100.0%

### Net Program Costs & External Organizations

The net costs of the combined operating programs, before capital expenditures and reserve appropriations are projected at \$20.8 million for 2006, including transfers to external organizations. The most significant portion relates to funds given to external organizations, representing \$7.5 million, or 36% of combined net program expenditures. The next most significant net program costs relates to Protection at \$5.7 million (27% of combined net program expenditures), followed by Transportation at \$3.3 million (16% of combined net program expenditures). The following chart provides more detailed information on net program expenditure by function:



The Province mandates a significant portion of funds that are transferred to external organizations. There are additional transfers that remain at the discretion of the City in determining budget allocation. Of the total transfers to external organizations, about \$5.3 million, or 73% relate to mandatory transfers.

## Budget Highlights

### Net Program Costs & External Organizations

## 2006 Major Budget Impacts

The 2006 budget season represented one of the City's most difficult budget challenges yet. While Kenora experienced significant increases in the City's overall assessment base relating to this year's reassessment, a first in the history of the City, Kenora also continued to face challenges, both through anticipated assessment related losses and escalating costs for 2006.

The most significant single impact the City faces in 2006 results from anticipated losses related to the Abitibi closure. These impacts will not be restricted to 2006 alone, and are expected to increase as early as 2007, with long term and significant impacts for the City. For 2006, incremental tax revenues relating to increased assessment were sufficient to offset the anticipated losses from the Abitibi mill closure included in the operating budget.

Other major budget impacts included increased demands related to policing and roads maintenance, as well as external factors such as increased insurance premiums. Fortunately, external organizations played a fairly minor role in the City's 2006 budget impacts, although the City continues to estimate a fairly significant deficit (in excess of \$1.0 million) related to downloaded programs in the 2006 budget.

Even as the budget requests were coming in, it was determined that there was a 2006 budget crisis. Managers were directed to cut wherever possible, and resubmit their budgets. Once the final, reduced requests were received, the draft budget still represented an impact of about 7.5% to the tax rate based on the residential rate impacts. City Council and senior management met on multiple occasions to review the budget status, and recommend cuts where necessary. The final result was an increase of 2.0% to the residential tax rate for 2006.

## The Budget as a Public Process

Under Council direction, in 2006 the City put in place some measures to give the public the opportunity to provide input into the budget process before final decisions were made. These measures included a public meeting on the draft capital budget, held in February 2006, which provided an overview of the draft capital plan, and an open session for questions, comments and feedback from the public. In addition, the City implemented a citizen survey on the 2006 budget challenge, both in paper format available at the Keewatin and Kenora Library branches, City Hall and the new Operations Centre, as well as on-line through the City's new portal. The intent of this survey package was both to outline some of the significant budget pressures facing the City in 2006 and to provide taxpayers with the opportunity for feedback before the 2006 operating budgets were finalized. The results of the survey were tabulated, and distributed, together with all comments received, to Council and senior management for review and discussion as part of the 2006 operating budget deliberations, and were ultimately used to help make some of the difficult decisions included in the budget process.

The City has also scheduled a public meeting to be held on May 10<sup>th</sup> at 7:00 p.m. in the Rotary Room at the Kenora Recreation Centre to provide the public with an overview of the approved 2006 budget, an explanation of the decisions made by Council during the 2006 budget process, and to open the door for public input into the 2007 budget discussions.

## Shifting City Net Program Costs

When understanding the pressures the City faces with regards to its budget process, it is useful to look at the shifts in net municipal program costs, or where the City is really spending its tax dollars.

The following page includes a chart outlining shifts in the net percentage of City program costs spent by functional areas, including related transfers to external organizations.

# Budget Pressures

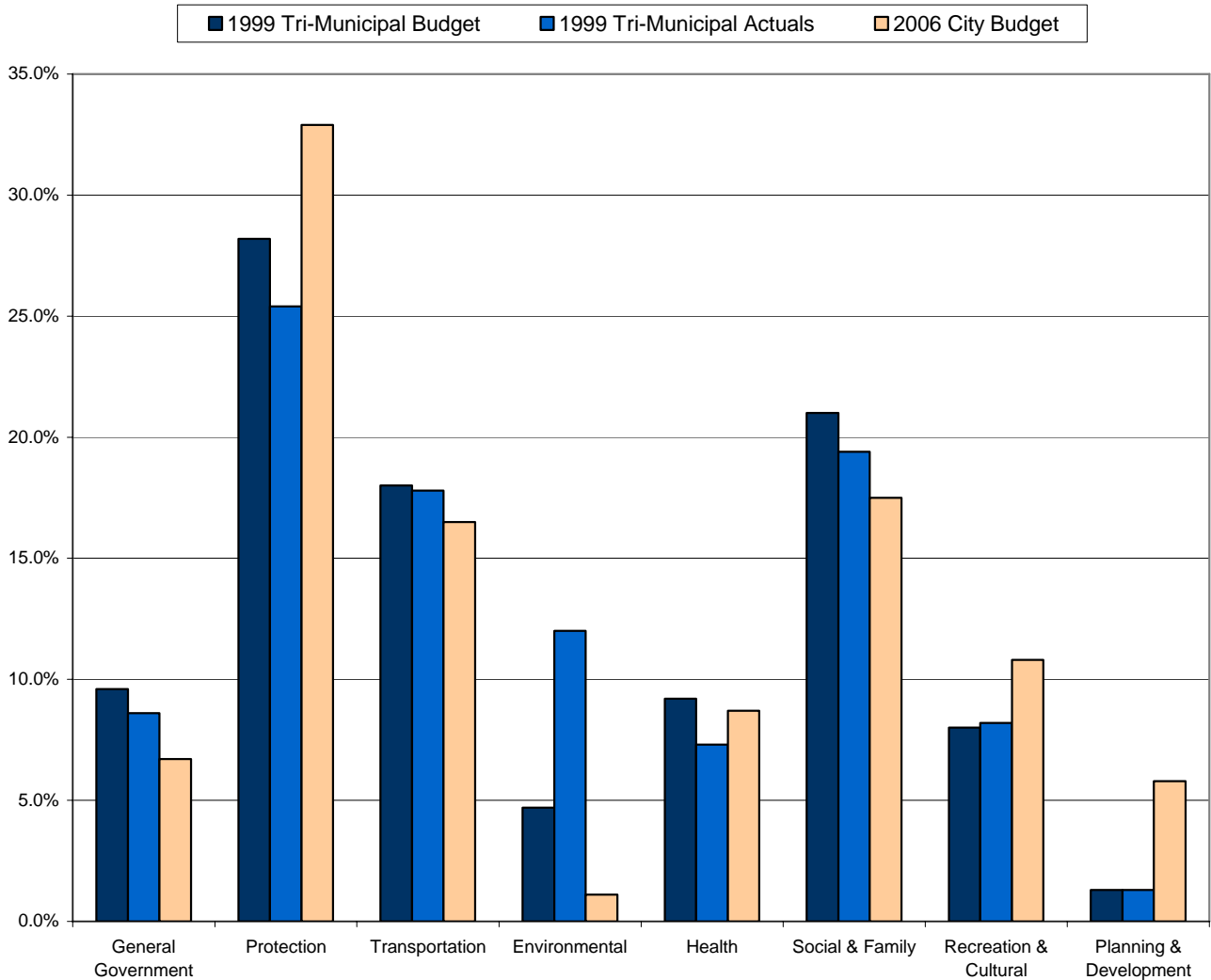
2006 Major Budget Impacts

The Budget as a Public Process

Shifting City Net Program Costs



### Shifting City Net Program Costs 1999 Tri-Municipal Budget / Actual vs. 2006 Budget



As is evidenced in the chart, there has been a significant upward shift in the percentage allocations to Protection, almost solely related to increasing policing costs. There have also been upward shifts in Recreation & Cultural, as well as Planning & Development. A large portion of the shift in Planning & Development relates to the post-amalgamation debt incurred to finance the new City infrastructure tied with the new Weyerhaeuser development, fully funded through incremental tax dollars relating to this development.

## The Abitibi Mill Closure

One of the most critical issues for the City of Kenora in its 2006 budget process was the recent, permanent closure of the local Abitibi Consolidated Inc. mill, one of the City's most significant taxpayers, and employers.

To a community the size of Kenora, the impacts of this closure are staggering. Direct job loss from the closure represents 365 mill jobs. This is before the anticipated spin-off job loss based on a conservative 1:1 ratio, primarily loggers and other direct suppliers – meaning that the number of jobs lost in the community will likely be at a minimum double the direct job loss. This, on the heels of the recent Devlin Timber closure, which has already cost the City an anticipated 50 jobs. In addition, this does not include the potential economic impacts to the local economy due to the related spin-off effects. It has been said that these amount to \$61 million annually. The direct dollar impacts of the Abitibi operations to the City of Kenora are set out in the following table (expressed in thousands of dollars).

	Budget Estimate	% Impact on Tax Rate
<b>Direct Contribution to Municipal Tax Dollars</b>		
Municipal Tax Levy (Additional School Board Share - \$.96 million)	\$ 1,266	8.5%
Power Dam Grant	407	2.7%
<b>Combined Property Tax Related Impacts</b>	<b>\$ 1,673</b>	<b>11.3%</b>
<b>Immediate Loss due to Vacancy Rebates</b>	<b>\$ 405</b>	<b>2.7%</b>
<b>Additional Anticipated Net Utility Impacts</b>		
Water & Sewer	\$ 132	
Solid Waste	100	
KMTS	380	
Kenora Hydro	11	
<b>Combined Utility Impacts</b>	<b>\$ 623</b>	

## Anticipated Abitibi 2006 & Longer Term Municipal Tax Impacts

Utility related losses, estimated at \$623K annually, began to impact the City immediately upon mill closure. With regards to estimated losses in municipal property taxes, the City has been in discussions with Ducharme, McMillen & Associates Canada, Ltd. (DMA), the company currently representing Abitibi with respect to assessment related reductions resulting from the closure. This company estimates that the resulting losses in assessment could be as high as 80%, based on other closures they have represented, with the remaining assessment eligible for vacancy rebates of between 30 – 35% of the residual values. While a 20% annual phase in has been discussed with DMA on a tentative basis, there is no guarantee that this could be achieved. Impacts to the City could be as high as 80% as early as 2006. The City is, however, currently working with a 50% estimated loss, as shown in the following table (in thousands of dollars) for its 2006 budget.

	20% Phase In *	80% Loss **	50% Loss
<b>Anticipated Impacts</b>			
Assessment Related Reduction	\$ 247	\$ 986	\$ 616
Estimated Vacancy Rebate	324	81	202
<b>Combined Projected Loss</b>	<b>\$ 571</b>	<b>\$ 1,067</b>	<b>\$ 819</b>

## Budget Pressures

### The Abitibi Mill Closure

### Anticipated Abitibi 2006 & Longer Term Municipal Tax Impacts

### O.M.P.F. Funding Impacts for Kenora

In addition to the already growing deficit related to the downloaded social services (estimated at over \$1.0 million for 2006 alone), of significant impact to the City is the recent Ontario Municipal Partnership Fund (O.M.P.F.) announcements, and the anticipated impacts for the City of Kenora. Anticipated future funding levels are outlined in the chart to the right. Key issues with the O.M.P.F funding announcement for Kenora include:

- ❑ An anticipated loss of \$1.8 million in unconditional funding annually by 2011 from the approved 2005 level, or a potential residential property tax impact of 12.0%. This loss does not factor in the:
  - \$.39 million 2004 Community Reinvestment Fund (C.R.F.) reconciliation received, not included in the 2006 funding levels.
  - \$1.05 million anticipated downloaded services shortfall for 2006.
- ❑ The elimination of a reconciliation to the Local Services Realignment (LSR) costs by the Province, while advising that “the provincial fiscal situation would not permit uploading at this time”.
- ❑ An additional \$1.0 million “stabilization” funding component to the City’s O.M.P.F. entitlement, part of the projected annual grant entitlement for 2005 through 2011, the long term viability of which funding is unknown.

With significant cuts in funding, while retaining responsibilities with no funding ties to programs that have historically shown significant annual increases, compounded with an escalating infrastructure funding deficit, this change in funding formula can only result in a significantly increased financial burden to the City of Kenora and its ratepayers, and the related budget challenges over the next six year period.

### Looking to the Future

The budget future does not look bright as the City looks forward to 2007 and beyond. Losses related to the Abitibi closure are expected to increase over the 2006 estimate as early as 2007, and by as much as an additional \$248K. In addition, the City anticipates that the O.M.P.F. funding will begin to erode as early as 2007, with significant impacts between the years 2007 through 2011, and an additional \$1.0 million in potential jeopardy.

Additionally, there appears to be little to no relief from the continued impacts relating to the demands from external organizations, many of which are outside of the City’s control. For example, the City was advised in 2005 that a plan was being put in place to reduce the municipal share of the funding for public health from 50% to 25% over the next few years. The first decrease was given in 2005, where the municipal share of funding was reduced from 50% to 45%, then again in 2006, where the municipal share of funding was further reduced to 35%. Despite this, the Health Unit levy continues to be higher for 2006 than the 2004 levy – by about 4.1%. This represents an estimated overall budget increase of over 44% for the Health Unit over the past two years. Based on indications from Health Unit officials, it is unlikely that the City will see any ongoing relief related to this long-term shift in funding for public health. If this is indicative of funding requirements from external organizations, the City will only continue to struggle to offset fairness in taxation to our taxpayers, while balancing increasing and uncontrollable budget demands and significant revenue reductions.

C.R.F. / O.M.P.F. Funding  
2004 Actual to 2011 Projected  
(in millions of dollars)



## Budget Pressures

O.M.P.F. Funding Impacts for Kenora

Looking to the Future

