



The City of Kenora, Ontario, Canada

Operating Budget  
2007

Budget Discussion

Introductory  
Information

Budget  
Highlights

Budget  
Pressures

Detailed Budget  
Schedules

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### City Council

From Left to Right:

- ❑ Councillor Chris VanWalleghem, Chair of Community Services
- ❑ Councillor Charito Drinkwalter , Chair of Emergency Services
- ❑ Councillor Andrew Poirier, Chair of Utilities & Communications
- ❑ Mayor Len Compton
- ❑ Councillor Rory McMillan, Chair of Finance & Administration
- ❑ Councillor Wendy Cuthbert, Chair of Property & Community Planning
- ❑ Councillor David McCann, Chair of Operations

### City CAO and Managers

Not Shown:

- ❑ Bill Preisentanz, CAO
- ❑ Karen Brown, Manager of Finance & Administration
- ❑ Warren Brinkman, Manager of Emergency Services
- ❑ Sharen McDowall, Manager of Human Resources
- ❑ 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 2007, 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.

Since 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

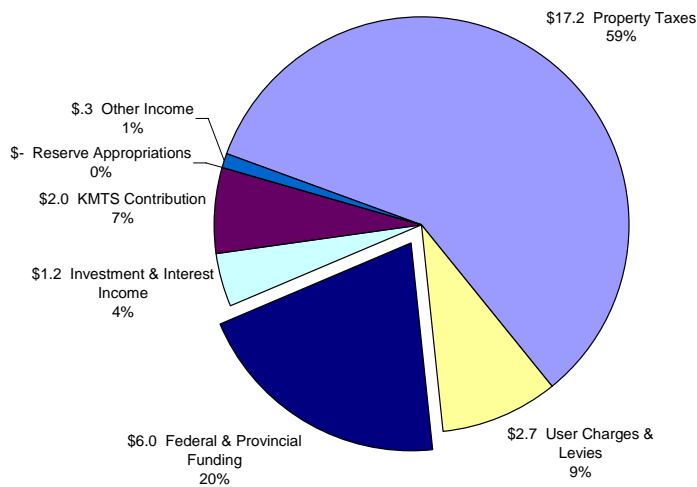
City Strategic Plan and  
Guiding Principles

Operating Budget  
Principles

### Operating Budget Highlights

The 2007 operating budget projects total operating expenditures of \$25.2 million, before capital expenditures and reserve appropriations. Combined operating, capital and reserve requirements total \$34.2 million.

In 2007, the City will raise \$17.2 million through general tax dollars. Tax dollars continue to be the City's most significant funding source, representing 59% of combined operating revenues. The next most significant funding sources for 2007 are projected to be federal and provincial funding of 20% and user charges and levies of 9% (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 2007 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.

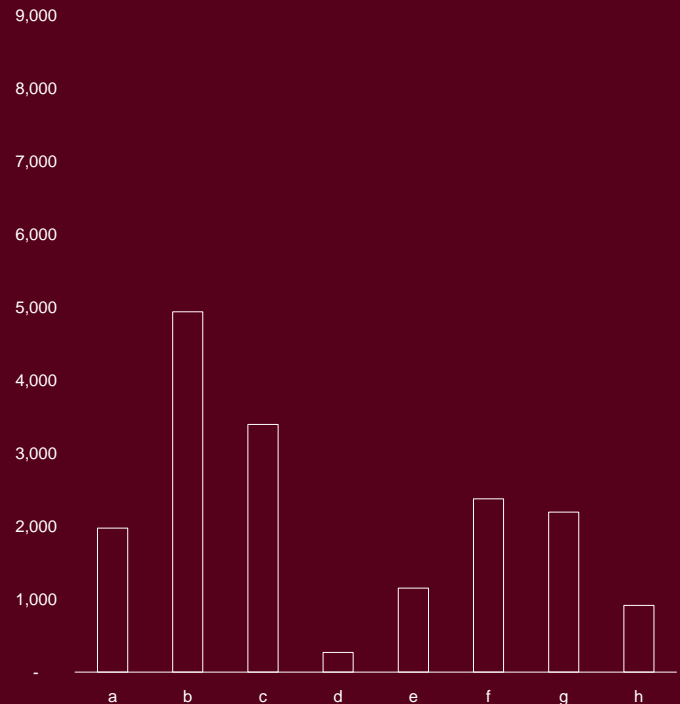
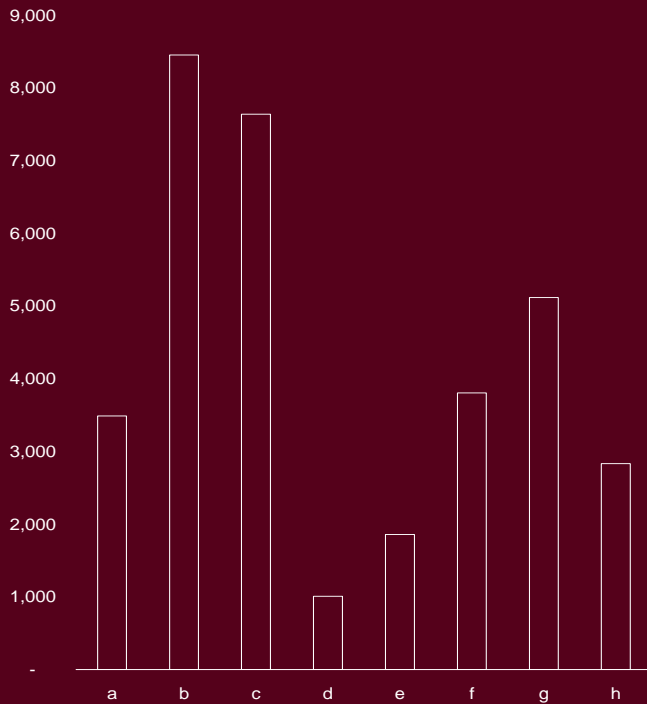
## Budget Highlights

### Operating Budget Highlights

## 2007 Operating Budget

Planned Expenditures by Function – Gross / Net  
2007 Planned Costs (in thousands of dollars)

## Budget Highlights



### 2007 Combined Budget Expenditures - Total Cost

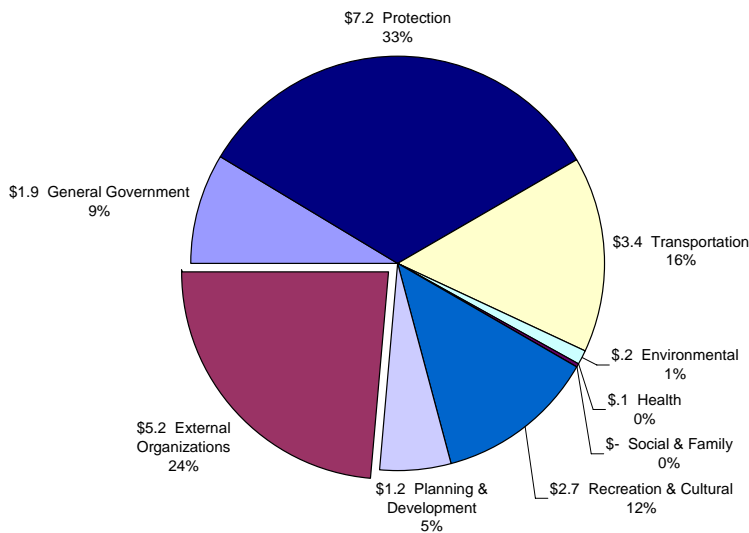
|                          |                  |               |
|--------------------------|------------------|---------------|
| a General government     | 3,487            | 10.3%         |
| b Protection             | 8,450            | 24.7%         |
| c Transportation         | 7,636            | 22.3%         |
| d Environmental          | 1,008            | 2.9%          |
| e Health                 | 1,855            | 5.4%          |
| f Social & family        | 3,803            | 11.1%         |
| g Recreation & cultural  | 5,114            | 15.0%         |
| h Planning & development | 2,830            | 8.3%          |
|                          | <b>\$ 34,183</b> | <b>100.0%</b> |

### 2007 Allocation of Tax Dollars

|                          |                  |               |
|--------------------------|------------------|---------------|
| a General government     | 1,974            | 11.5%         |
| b Protection             | 4,941            | 28.7%         |
| c Transportation         | 3,397            | 19.7%         |
| d Environmental          | 269              | 1.6%          |
| e Health                 | 1,151            | 6.7%          |
| f Social & family        | 2,377            | 13.8%         |
| g Recreation & cultural  | 2,195            | 12.7%         |
| h Planning & development | 914              | 5.3%          |
|                          | <b>\$ 17,218</b> | <b>100.0%</b> |

### Net Program Costs & External Organizations

The net costs of the combined operating programs, before capital expenditures and reserve appropriations are projected at \$21.9 million for 2007, including transfers to external organizations. The most significant portion relates to Protection, representing \$7.2 million, or 33% of combined net program expenditures. The next most significant net program costs relates to funds given to external organizations at \$5.2 million (24% of combined net program expenditures), followed by Transportation at \$3.4 million (16% of combined net program expenditures). The following chart provides more detailed information on net program expenditure by function:



The Province mandates 100% of the funds that are transferred to external organizations. These organizations are:

- Northwestern Health Unit
- Kenora District Services Board
- District of Kenora Home for the Aged (Pinecrest)

Transfers to other external organizations that remain at the discretion of the City in determining budget allocation, specifically the Ontario Provincial Police, the Kenora Handi Transit, the Kenora Public Library and the Lake of the Woods Museum, are included within the respective functional areas, and are not included within the external organizations information.

## Budget Highlights

### Net Program Costs & External Organizations

## 2007 Major Budget Impacts

As with 2006, the 2007 budget season continued to bring with it some of the City's most difficult budget challenges yet. Kenora continued to face challenges, both through anticipated assessment related losses from the local Abitibi Mill closure and escalating costs for 2007. At the same time, property assessment was frozen as the first year in a four year assessment related freeze as mandated by the Province of Ontario. In addition, Council direction was for a 0% tax rate impact for 2007.

Significant impacts felt by the City in 2007 included:

- ❑ Increased benefits costs for City employees, despite no increase in the level of benefits provided
- ❑ Increased policing costs, related to both the Kenora Police Services and the Ontario Provincial Police
- ❑ Increased net costs related to the Kenora Recreation Centre operations
- ❑ Continued impacts related to the local Abitibi Consolidated Inc. mill closure

Fortunately, the external organizations provided the City with some relief, representing an overall net reduction to the City's 2007 budget of about \$143K, although it should be noted that the City continues to estimate a fairly significant deficit (in excess of \$1.0 million) related to downloaded programs in the 2007 budget.

One significant factor that assisted the City in its 2007 budget deliberations was the Special Circumstances Funding that was received from the Minister of Municipal Affairs and Housing in the amount of \$584,895 to help offset losses as a result of the local Abitibi Consolidated Inc. mill closure. This funding provided the City with the ability to offset ongoing losses related to the Abitibi closure, effectively allowing the City to eliminate any impact to its taxpayers in 2007. It is recognized, however, that this funding is one time funding only.

City Council and senior management met on multiple occasions to review the budget status, and recommend cuts where necessary. After several reviews, the City was able to obtain the initial Council direction of no impact to the municipal tax rates for 2007.

## The Budget as a Public Process

In 2006, the City approved a new public consultation policy for the municipal budget process. At that time, it was agreed that the new policy would be put in place for the 2008 budget season. Despite the timing for implementation of the new policy, Council did provide the opportunity for the public to both review and provide input into the draft 2007 municipal budgets through a public meeting held on April 12, 2007. During that meeting, the City provided a high level overview of the draft 2007 municipal budgets, including major budget impacts both experienced in 2007, and projected for 2008 and beyond. The opportunities for input were provided through deputations and a question and answer period, as well as a public input form for members of the public to provide independent and confidential feedback on both the budgets themselves, as well as the public meeting. The results of the survey were tabulated, and distributed, together with all comments received, to Council for review and discussion as part of the 2007 operating budget deliberations.

## 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 planning to spend its tax dollars.

The following page includes a chart outlining shifts in the dollars allocated to the various City program costs by functional areas, including related transfers to external organizations.

# Budget Pressures

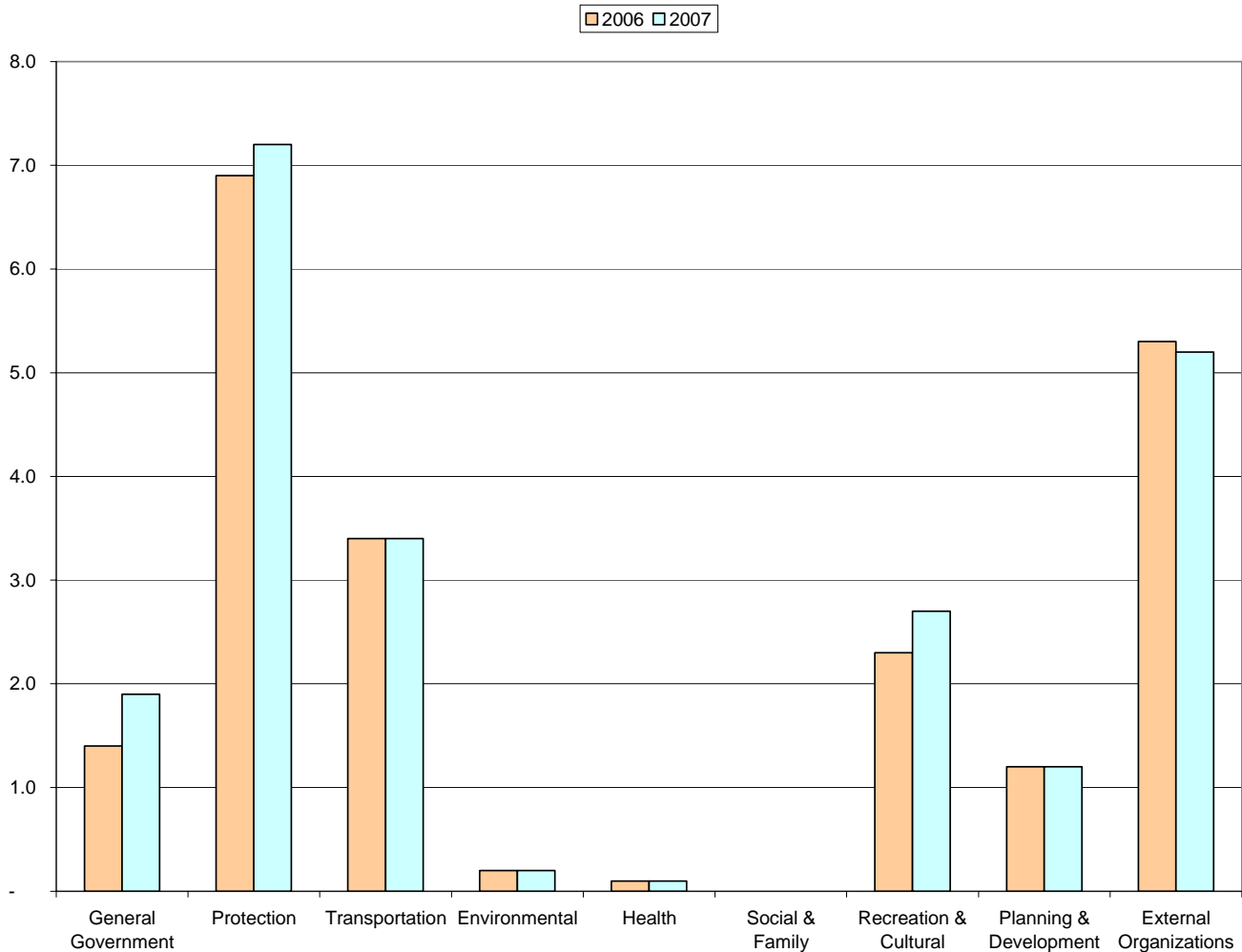
2007 Major Budget Impacts

The Budget as a Public Process

Shifting City Net Program Costs



### Shifting City Net Program Costs 2006 Budget vs. 2007 Budget



As is evidenced in the chart, the significant upward shifts have occurred primarily in General Government, Protection (specifically related to policing) and Recreation & Cultural (primarily for the Kenora Recreation Centre) from 2006 to 2007. The shifts in Protection and Recreation & Cultural represent incremental net costs to the City in 2007. With regards to General Government, the Council mandate was to reduce allocated administration to the City utilities in 2007, which resulted in a significant shift in general government net program costs as evidenced by the following table. The City was, however, able to provide offsetting expenditure reductions in administration resulting in gross expenditure cuts of about \$174,664 that have also been reflected in the following. Comparative net costs are down marginally from 2006, and the net reduction in cost allocations has been offset through incremental dividends from the City’s KMTS utilities to ensure no net impact to City taxpayers:

|  | 2006<br>Budget  | 2007<br>Budget  |
|--|-----------------|-----------------|
| General Government Net Program Costs                 | \$ 1,401        | \$ 1,903        |
| Allocated Cost Reduction in Administration *         |                 | (708)           |
| Offsetting Expense Reduction for Service Transfer ** |                 | 175             |
| <b>Residual General Government Net Program Costs</b> | <b>\$ 1,401</b> | <b>\$ 1,370</b> |

## The Abitibi Mill Closure

One of the most critical issues currently before the City of Kenora continues to be the 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, and followed by the recent iLevel Weyerhaeuser layoffs. 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                                  | \$ 1,180        | 8.0%                 |
| (Additional School Board Share - \$.96 million)     |                 |                      |
| Power Dam Grant                                     | 407             | 2.7%                 |
| <b>Combined Property Tax Related Impacts</b>        | <b>\$ 1,587</b> | <b>10.7%</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 Actual 2007 & 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 following table outlines the cumulative anticipated annualized loss, expressed in thousands of dollars, related to the Abitibi Main Mill and Tunnel Island properties for 2007 and 2008. The 2008 loss is an annualized loss that will continue to impact the City each year, commencing in 2008:

|   | Budget Estimate | % Impact on Tax Rate |
|---|-----------------|----------------------|
| <b>Losses due to Reduced Assess / Vacancy Rebates</b> |                 |                      |
| 2007  | 903             | 5.9%                 |
| 2008 and beyond                                       | 1,122           | 7.4%                 |

It should be noted that the City received a one-time Special Circumstances Funding from the Minister of Municipal Affairs and Housing in the amount of \$584,895 to help offset losses resulting from the Abitibi mill closure. This funding has been used to help offset these losses in the 2007 municipal budget.

## Budget Pressures

### The Abitibi Mill Closure

### Anticipated Abitibi 2007 & 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 2007 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 \$1.7 million in unconditional funding annually by 2011 from the approved 2007 level, or a potential residential property tax impact of 11.0%. This loss does not factor in the:
  - \$.39 million 2004 Community Reinvestment Fund (C.R.F.) reconciliation received, not included in the 2007 funding levels.
  - \$1.05 million anticipated downloaded services shortfall for 2007.
- ❑ 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 \$.9 million “stabilization” funding component to the City’s O.M.P.F. entitlement, part of the projected annual grant entitlement for 2007 through 2011, the long term viability of which funding is unknown.

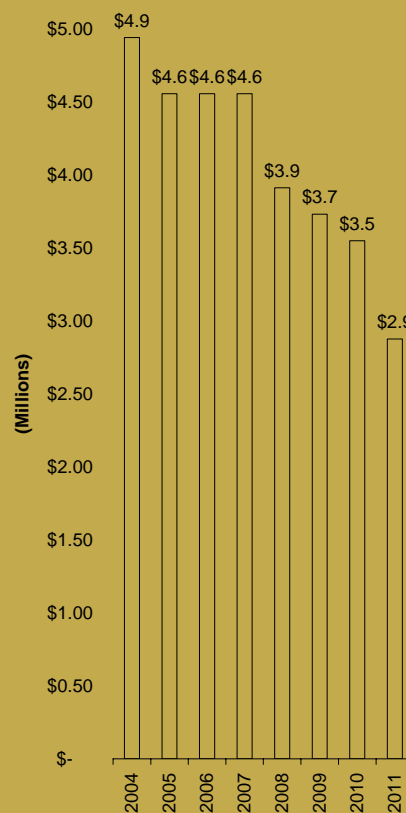
With significant cuts in funding, while retaining responsibilities with no funding ties to programs that have historically shown significant annual increases, compounded with an escalating infrastructure funding deficit, this change in funding formula can only result in a significantly increased financial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

### Looking to the Future

The budget future does not look bright as the City looks forward to 2008 and beyond. Losses related to the Abitibi closure are expected to increase over the 2007 estimate in 2008, and by as much as an additional \$.2 million. In addition, the City anticipates that the O.M.P.F. funding will begin to erode as early as 2008, with significant impacts projected between the years 2008 through 2011. This is before the additional \$.9 million in O.M.P.F. stabilization funding potentially in jeopardy as early as 2012.

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. While the City experienced some relief from these organizations in the 2007 budget process through an overall, combined reduction of about \$143K, the City does not expect this to be an ongoing trend. In addition, the property assessment related freeze remains in effect for another three years. When combining these factors with the City’s current infrastructure deficit, it is evident that 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