



Operating Budget
2008

The City of Kenora, Ontario, Canada

Budget Discussion

Introductory
Information

Budget
Highlights

Budget
Pressures /
Process

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 Presentanz, CAO
- ❑ Karen Brown, Manager of Finance & Administration
- ❑ Warren Brinkman, Manager of Emergency Services
- ❑ Sharen McDowall, Human Resources Manager
- ❑ Colleen Neil, Recreation Manager
- ❑ Rick Perchuk, Operations Manager

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 2008, 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.

The City Water & Sewer and Solid Waste operations do not form part of the overall City budgets. Rather, a separate budget has been developed for each of these entities eliminating them from the general budget process. This is done to recognize that these operations are independent, self-supporting utilities, funded through user pay and not through City tax dollars.

Introductory Information

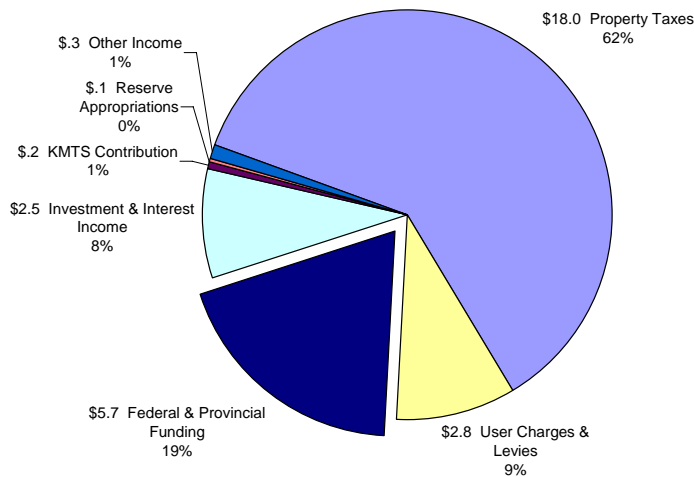
City Strategic Plan and Guiding Principles

Operating Budget Principles

Operating Budget Highlights

The 2008 operating budget projects total operating expenditures of \$25.8 million, before capital expenditures and reserve appropriations. Combined operating, capital and reserve requirements total \$39.2 million.

In 2008, the City will raise \$18.0 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 2007 are projected to be federal and provincial funding of 19% and user charges and levies of 9% (excluding those for the utilities). In 2008, the City has an increased reliance on investment and interest income, representing 8% of the City's overall operating revenues. In 2007, investment and interest income represented only 4% of total operating revenues. This shift is as a result of the sale of the KMTS entities in January 2008. In contrast, the contribution from the KMTS entities has dropped from 7% of total operating revenues in 2007, to only 1% in 2008. This amount will disappear in the City's 2009 operating budget. The following chart shows the breakdown of municipal operating revenues. It does not reflect any revenues for capital expenditures.



An analysis of the combined 2008 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.

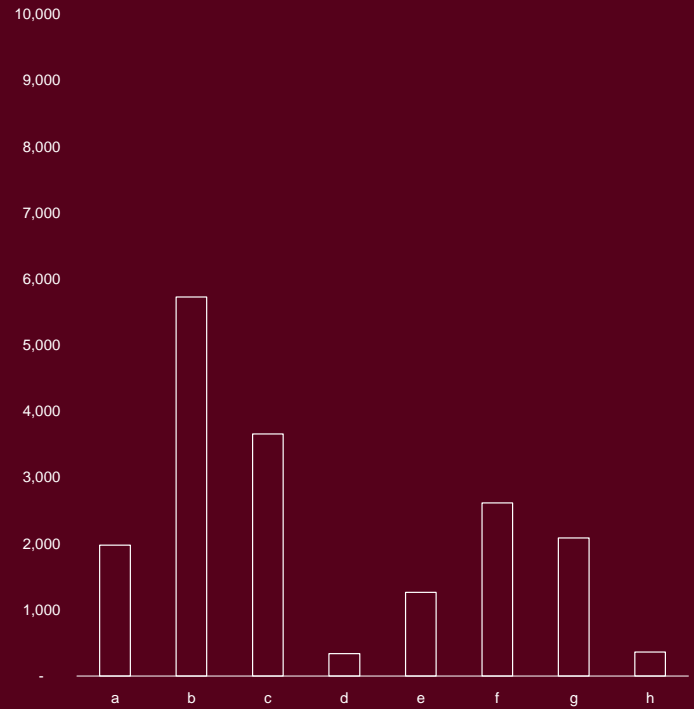
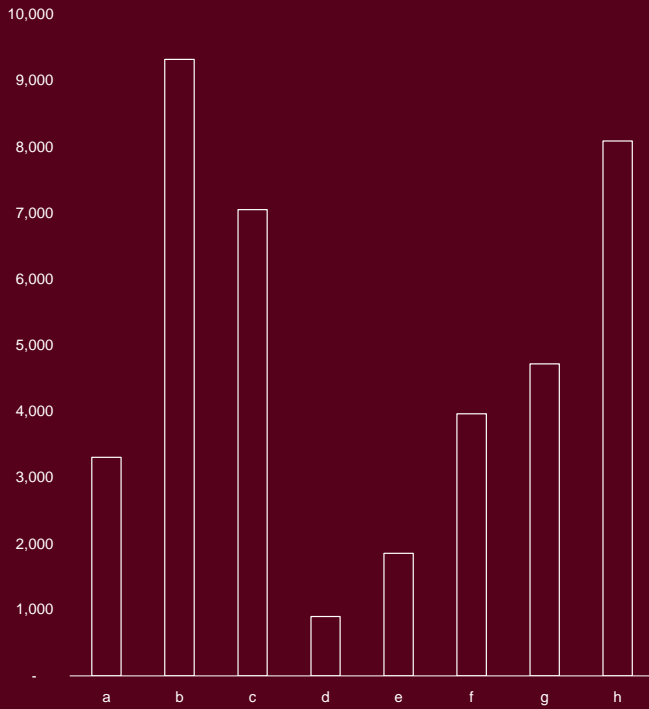
Budget Highlights

Operating Budget Highlights

2008 Operating Budget

Planned Expenditures by Function – Gross / Net
2008 Planned Costs (in thousands of dollars)

Budget Highlights



2008 Combined Budget Expenditures - Total Cost

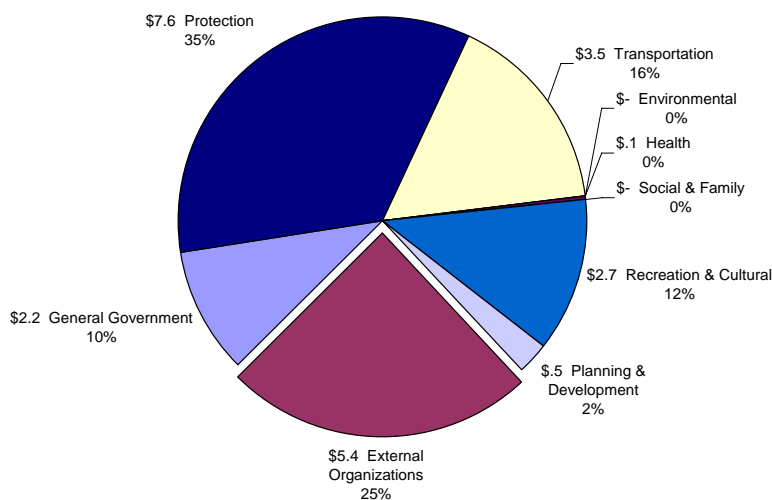
a General government	3,304	8.5%
b Protection	9,322	23.8%
c Transportation	7,050	18.0%
d Environmental	898	2.3%
e Health	1,855	4.7%
f Social & family	3,963	10.1%
g Recreation & cultural	4,717	12.0%
h Planning & development	8,087	20.6%
	\$ 39,196	100.0%

2008 Allocation of Tax Dollars

a General government	1,979	10.9%
b Protection	5,728	31.8%
c Transportation	3,660	20.3%
d Environmental	339	1.9%
e Health	1,266	7.0%
f Social & family	2,615	14.5%
g Recreation & cultural	2,088	11.6%
h Planning & development	364	2.0%
	\$ 18,039	100.0%

Net Program Costs & External Organizations

The net costs of the combined operating programs, before capital expenditures and reserve appropriations are projected at \$22.0 million for 2008, including transfers to external organizations. The most significant portion relates to Protection, representing \$7.6 million, or 35% of combined net program expenditures. The next most significant net program costs relates to funds given to external organizations at \$5.4 million (25% of combined net program expenditures), followed by Transportation at \$3.5 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

2008 Major Budget Impacts

The 2008 budget season continued to bring with it some significant budget challenges for the City. Kenora continued to face challenges, both through anticipated assessment related losses in the forestry sector and escalating costs for 2008. At the same time, property assessment continued to be frozen in 2008, with a new assessment scheduled for implementation in the 2009 budget season.

The following table provides a high level overview of some of the major impacts the City experienced in its 2008 budget process (in thousands of dollars):

	Budget Impact	% Impact on Tax Rate
Major Tax Rate Impacts		
Policing	(179)	1.2%
External Organizations		
Mandated	(184)	1.2%
Handi Transit / Library / Museum	(60)	0.4%
Wage Impacts	(437)	2.8%
Anticipated Forestry Sector Property Tax Losses	(328)	2.1%
One Time Special Assistance Funding in 2007 - Net Impact	(585)	3.8%
	(1,773)	11.4%
Offsetting Incremental Revenues / Cost Reductions		
Incremental tax room due to new assessment	241	-1.6%
Reduction in reserve transfers	270	-1.7%
Net KMTS Impacts	250	-1.6%
	761	-4.9%
Combined Major Impacts	(1,012)	6.5%

As evidenced in the table, the City continued to face some increased costs relating to policing. It is important to note that this cost increase does not include any projected wage increase for Kenora Police Staff for either 2007 or 2008. Rather, these employees continue to be budgeted for at their 2006 wage rates. The City also continued to bear increased pressures from external organizations, particularly through the mandated services in 2008. In addition, it should be noted that the City continues to estimate a fairly significant deficit (of close to \$1.2 million) related to downloaded programs in the 2008 budget.

Some of the most significant impacts for the 2008 budget were related to City wages, with the majority of these impacts related to the avoidance of a labour disruption in early 2008, and the resulting settlement with one of the City's Unions. Other major impacts included the continued loss of assessment and property tax dollars related to changes in the forestry sector. There was also a significant impact related to the loss of the one time special assistance funding received in 2007 from Municipal Affairs and Housing. This funding was used to offset lost assessment in 2007 resulting from the local Abitibi Mill closure. At that time, it was recognized that this funding was one time only, and the impacts would need to be dealt with in the 2008 budget process. This loss has been partially offset through a reduction in appropriation to the City's tax write off reserve.

Finally, it should be noted that the above table shows major impacts only. It does not include any amounts related to other items, such as increased fuel costs, utilities or professional fees. These impacts also needed to be addressed within the 2008 budget process.

Following several reviews of the budget, both by Council and City administration, and in keeping with Council direction to maintain City service levels, the final budget impact was determined to be 5.9% on the City's tax rates, excluding the industrial and the large industrial property classes.

Budget Pressures / Process

2008 Major Budget Impacts

The Budget as a Public Process

In 2006, the City approved a new public consultation policy for the municipal budget process, commencing with the 2008 budget season. This was done in an effort to achieve the guiding principles established within the budget public consultation policy as set out below:

- ❑ Promote Community Involvement & Input
- ❑ Ensure Process is Meaningful & Responsive
- ❑ Provide for Continuous Improvement
- ❑ Facilitate & Build Capacity for a Collaborative Community

In 2008, the City worked towards enhancing its public consultation process through a number of venues. These included:

- ❑ Municipal Services Survey, rating both importance and satisfaction on various municipal services, as well as asking ratepayers how they would change City spending. This survey was distributed to all City ratepayers in the final 2007 property tax billing, as well as available at a number of locations, including on-line on the City's kenora.ca portal. Results from the survey, including all comments received, were distributed to Council for their review and consideration during the 2008 budget process.
- ❑ Community Workbook, distributed in the local Kenora Enterprise newspaper providing the public with information on how the City spends its property tax revenues, and providing the public with the results from the municipal services survey run earlier that summer.
- ❑ Follow Up Survey, included in the Community Workbook, providing a second opportunity for additional feedback to the original municipal services survey, also available at a number of locations and on the kenora.ca portal. Results were tabulated and included in a report to Council outlining overview results from both surveys prior to the final budget deliberations.
- ❑ Eight open budget committee meetings while going through the budget process for the City, including its utilities, including one meeting for public deputations into the City's 2008 budget, and a second meeting for funded boards / commissions to make presentation on their budget requests for 2008.

As the City looks forward towards 2009, Council will be meeting early in the budget process to set direction towards facilitating public input and involvement into the 2009 City budgets.

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.

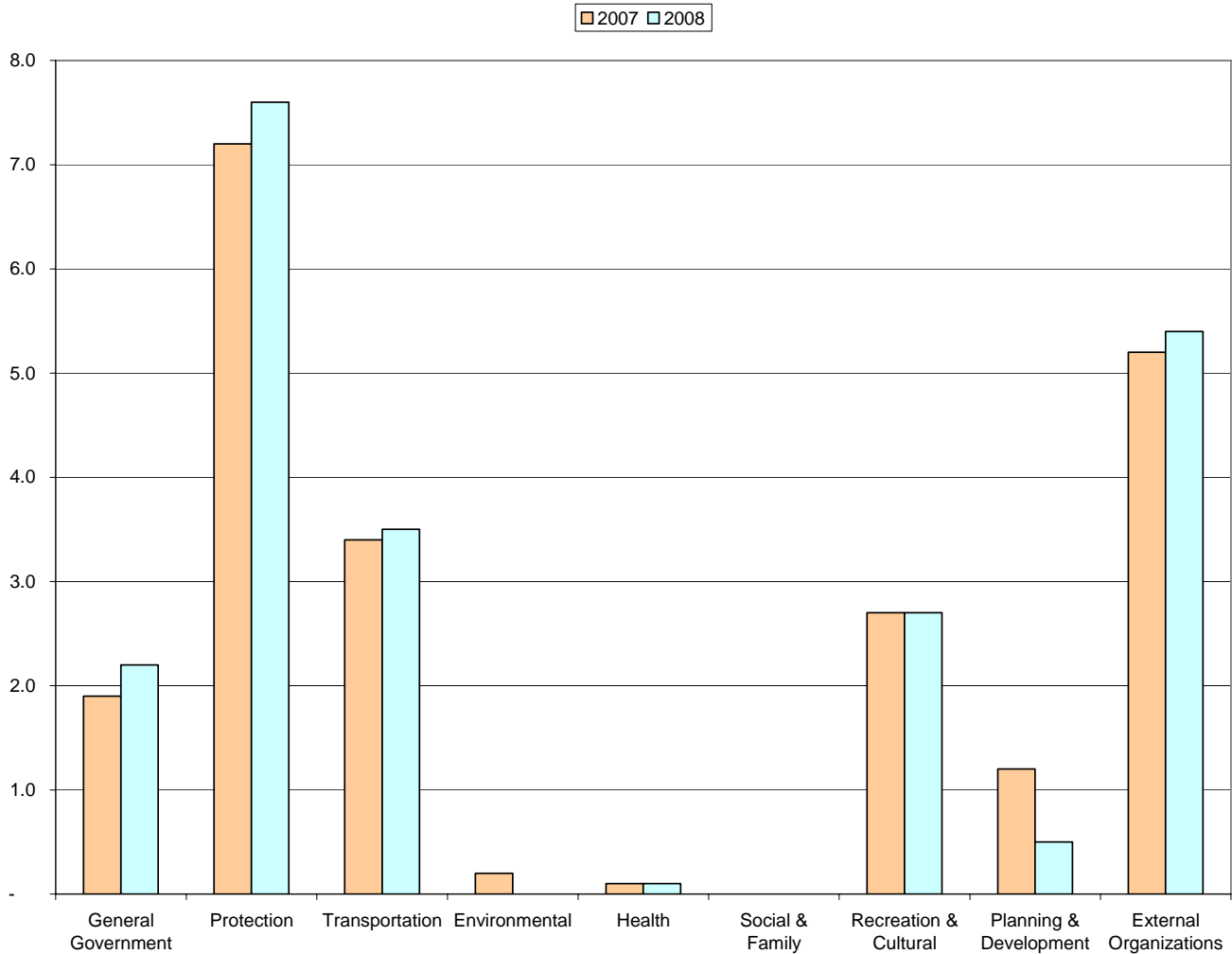
The following page includes a chart outlining shifts in the dollars allocated to the various City program costs by functional areas, including related transfers to external organizations, from 2007 to 2008.

Budget Pressures / Process

The Budget as a Public Process

Shifting City Net Program Costs

Shifting City Net Program Costs 2007 Budget vs. 2008 Budget



As is evidenced in the chart, the significant upward shifts have occurred primarily in General Government, Protection and External Organizations from 2007 to 2008. The shifts in Protection and External Organizations represent incremental net costs to the City in 2008. With regards to General Government, there has been a significant shift in allocated costs to City utilities, partly due to a Council mandate in 2007 to reduce allocated administration to the City utilities, and partly due to the transfer of services back to the City utilities, primarily related to the sale of the KMTS entities in January 2008. Combined, these two factors have 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 over this two year period that have also been reflected in the following. Comparative net costs are down marginally from 2006 through 2008:

	2006 Budget	2007 Budget	2008 Budget	% Change 06 vs. '07	% Change 07 vs. '08	% Change 06 vs. '08
General Government Net Program Costs	\$ 1,401	\$ 1,912	\$ 2,238	37%	17%	60%
Cumulative Reduction in Allocated Costs		(708)	(1,324)			
Offsetting Expense Reduction for Service Transfer		174	394			
Residual General Government Net Program Costs	\$ 1,401	\$ 1,378	\$ 1,308	-2%	-5%	-7%

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

In addition to the already growing deficit related to the downloaded social services (estimated at close to \$1.2 million for 2008 alone), of significant impact to the City is the funding formulas related to the Ontario Municipal Partnership Fund (O.M.P.F.) and the anticipated impacts for the City of Kenora. More specifically, the City's issue is with the allocated Rural and Small Community Measure (RSCM) given to the City. Key issues with the O.M.P.F. funding for Kenora include:

- ❑ A potential loss of \$.7 million in unconditional funding annually from the approved 2008 level, or a potential residential property tax impact of 4.7%. This loss does not factor in the:
 - \$.39 million 2004 Community Reinvestment Fund (C.R.F.) reconciliation received, not included in the 2008 funding levels.
 - \$1.17 million anticipated downloaded services shortfall for 2008.
- ❑ 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".

On a positive note, the 2008 OMPF funding announcements brought some relief to the City, both through the 2008 stable funding guarantee, as well as an adjustment to the City's RSCM, which was increased from 25.5% to 51.4%. This change has helped to reduce future potential funding losses from previous City projections, providing the City with a more stable funding source. The City must continue to lobby towards having its RSCM restated to be comparable with the majority of other Northern Ontario municipalities – an RSCM of 100%, which would entitle the City to full grant allocations under the OMPF funding formulas.

With the ongoing stability of the current level of OMPF funding unknown at this time, while retaining responsibilities with no funding ties to programs that have historically shown significant annual increases, compounded with an escalating infrastructure funding deficit, the City expects to continue to face a significant financial and related budget challenges over the next several years.

Looking to the Future

The budget future does not look bright as the City looks forward to 2009 and beyond, with continued uncertainty as to actual OMPF funding on a forward basis. On the offset, there is anticipated savings to the City resulting from Council's decision to move to the Ontario Provincial Police as the single police force within the City. It is anticipated that this change will happen during 2008. Council will need to determine whether they wish to use these savings to offset future property tax impacts, or look towards other uses such as applying all or a portion of these savings against the City's infrastructure deficit.

Another positive change is the planned reassessment that will be implemented in 2009. It should be noted, however, that any assessment related increases must be phased in over a four year period, while assessment related decreases are to be given fully during the year the new roll is brought in. It is difficult to predict how this may impact the City in the 2009 budget process.

Finally, 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. 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.

Budget Pressures / Process

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

Looking to the Future