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April 23, 2020

Mayor and Members of Council  
Township of Muskoka Lakes  
1 Bailey Street, P.O. Box 129  
Port Carling, Ontario P0B 1J0 *via email*

Dear Mayor Harding and Members of Council:

### **Re: Township of Muskoka Lakes 2020 Municipal Budget**

Thank you for the opportunity to review the proposed budget for 2020. We understand how difficult it is to be trying to budget while in the midst of the COVID-19 pandemic which has changed so many of our assumptions virtually overnight. Nevertheless, it is now our reality and this review of your budget has been undertaken with that lens.

The Muskoka Lakes Association (MLA) is an active participant in municipal affairs across the District. Regularly, we comment on municipal budgets on behalf of our more than 2,000 member families consisting of both permanent and seasonal residents.

We recently surveyed our members about issues that concerned them, and not surprisingly, taxation was a big issue for many. The ability to hold onto properties that have been in families for decades has been cited as a significant concern. Hence, on behalf of our members we carefully review proposed budgets. While we are not experts in municipal finance, we can say we have the pulse of the finance world and of our members.

### **Budget As Proposed**

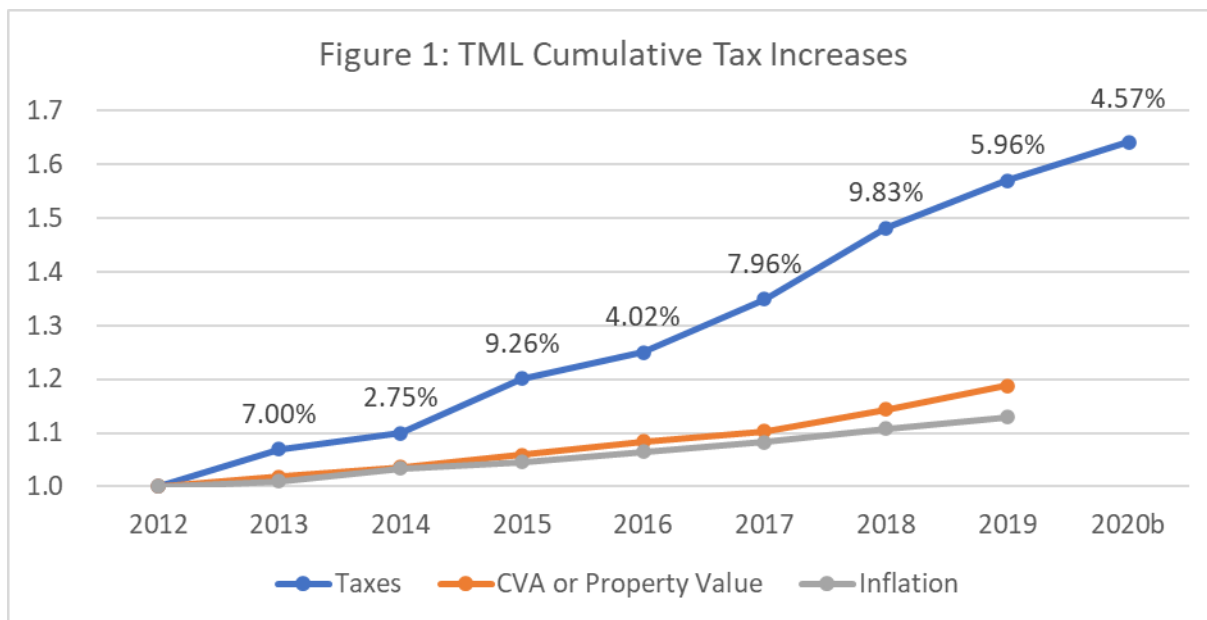
**In this budget TML is proposing a 4.57% increase over 2019.** Only once in a note detail is the COVID-19 pandemic and its impact on the budget mentioned. We find this a gross oversight given the timing of this report. As many as 25% of Canadians have lost their jobs, practically overnight. Some are taking significant pay cuts. For 2020, inflation and property value growth will likely be materially impacted and likely enter negative territory in an environment where unemployment is quickly approaching 1930's Great Depression levels of 25%, crude oil future prices have turned negative for the first time in history, financial markets have entered in to bear territory and bankruptcies are expected to soar.

These job losses will have ramifications for tax payments and other revenue streams that the municipality relies on. TML is largely a tourist destination. With recommendations that seasonal residents not come to Muskoka for the foreseeable future and businesses closed that depend on the seasonal population, TML must reflect this reality in their budget – even if it is a moving target.

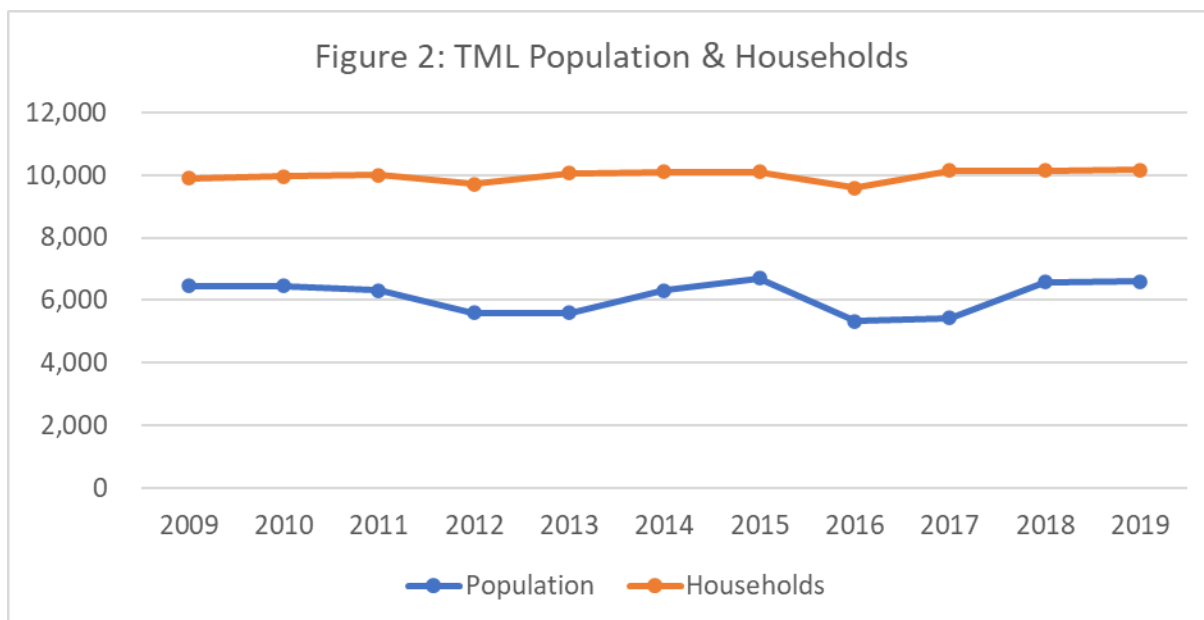
**This budget cannot be approved in its current form.**

Even if COVID was not a reality, the **MLA objects to a budget increase of 4.57%**. We have carried out some analyses to illustrate why these increases are unsustainable.

Figure 1 below illustrates cumulative municipal tax increases versus the increase in Current Value Assessment (CVA) or aggregate property value for the municipality and inflation in Ontario. **Over the past seven years, taxes have increased by 57.0% versus property value increase of 18.8% and inflation of just 12.9%.** In other words, municipal property taxes have increased over 4.4 times the rate of inflation.



As shown in Figure 2, there has been no growth in the population, number of households or kilometers of roads to maintain in TML over the last decade. Accordingly, there is simply no justification for this rate of past tax increases, never mind that proposed for 2020.



### Impact of COVID-19

The COVID-19 virus has already caused unprecedented damage to the worldwide economy after just over a month since a pandemic was officially declared on March 12, 2020. Other municipalities are already starting to react.

On April 6, The Town of Huntsville announced that in response to the current pandemic, it would be instituting two waves of cost reductions totally \$1.9 million and impacting more than 130 part-time positions.

On April 21, The Town of Gravenhurst reported that it expects to receive \$1.2 million less in revenues on a forecast of \$24.1 mm or a 5% shortfall. Council is taken steps to reduce budgeted expenses of \$1.7 million for a net savings of \$0.5 million. Gravenhurst is assuming that the current state will last until the end of September and take a further three months or to the end of the year before returning to normal.

On April 17, the City of Toronto revised its 2020 budget from a shortfall of \$780 million to a shortfall of \$2.76 billion due to expected property tax defaults and a stalled economy. This decision was made less than a month after Ontario ordered all non-essential businesses to shut down on March 23.

To put this shortfall in perspective, if Toronto were to raise taxes by 1% it would only raise an additional \$30 million in revenues. Toronto cannot simply raise taxes to overcome this deficit and must implement significant cost reductions<sup>1</sup>.

## Budget Drivers

*“Three categories make up 76% of the total expenditures: wages and benefits, transfer to reserves and roads operation.”<sup>2</sup>*

### Wages and Benefits

TML is requesting a **wage and benefit increase of 11.3%** in 2020 budget over 2019. These increases are in part related to the market compensation review for staff and service level adjustments. There is no mention of what Cost of Living (COLA) adjustment has been provided or justification for same.

**We recommend that Council review the staff increases at this time.**

### Contributions to Reserves

We note that contributions to reserves are made in virtually every department - in total \$5.1 million<sup>3</sup> on a \$16.95 million operating budget. This includes a \$3.5 million transfer to reserves for public works - **an increase of \$1.1 million or an increase of 45.6%** year over year, and by far the largest contributor to the proposed tax increase. While we agree that reserves are prudent in the public sector, we again question the quantum with the financial situation that is before us.

*“net contributions to capital reserves which are proposed to increase from \$2,295,368 to \$3,456,382.... This increase of \$1,161,014 represents a net levy increase of 9.65% and will be used to fund the rehabilitation and replacement of infrastructure throughout the Township. This increase is recommended to address the anticipated infrastructure rehabilitation/replacement identified in the Capital Plan and Forecast”*

**We recommend that all reserve contributions should be identified for a more detailed review and deferral.**

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<sup>1</sup> <https://www.theglobeandmail.com/canada/article-pandemic-could-push-torontos-budget-shortfall-to-nearly-28-billion>

<sup>2</sup> TML Committee of the Whole Report

<sup>3</sup> TML Committee of the Whole Report Page 113

### Road Operations

We note that on page 20 of the operating budget, roads operations are presented as the single greatest area of expense reduction, declining 14.4% (\$2.5 to \$2.1 million). Some comments on this reduction and being able to maintain level of service should be included.

### **Recommendations**

Given the current circumstances, a zero-based budget for 2020 should be considered. The growth in Current Value Assessment or CVA is set by MPAC to 1.42% for the municipality in 2020. TML should be lowering the tax rate by a comparable amount, not raising taxes.

Expenses need to be addressed in a serious manner this year. Given the economic climate and the actions of other municipalities, TML should be presenting its plan to significantly reduce labour costs and freeze all salaries at 2019 levels, subject to further downward revisions.

While we understand the challenges that TML has had in preparing this budget without your treasurer, we have been frustrated by the lack of advance opportunity to review the budget and to actively participate in this process. We urge the Township to **reinstate the Budget Advisory Committee**. The MLA, among others industry representatives, would be willing to offer our expertise and insights to ensure that a budget can be developed and supported.

Continual tax increases have resulted in property taxes being the single greatest expense facing property owners in Muskoka. In TML, cottagers contribute significantly to the local economy and consume minimal municipal services yet are the greatest contributor of property taxes. It is essential that unsustainable increases in taxation does not further change the character of Muskoka. We appreciate the opportunity to provide comments and would welcome the opportunity to work with you to address some of our concerns. Please contact Dayle Hogg at.

Yours respectfully,



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