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DATE: **Tuesday August 5, 2008**

RE: **District of Muskoka Debt Reduction Initiative**

Report No. CES-6-2008-6, July 4, 2008

FROM: **Cliff Hatch, Chair, External Affairs, Lake of Bays Association**

Management and Accounting Issues

In LOBA's opinion, there are some accounting issues stemming from the Debt Reduction Initiative Report that need to be addressed:

1.1 It is far from clear on what basis capital expenditures are undertaken. Issues such as life of the assets, interest rate assumptions, return on investment / payback assumptions all need to be clarified going forward. Greater fiscal discipline and a more intensive scrutiny of proposed capital expenditures are desirable. It is clear the Baysville Water and Sewer system which serves 61 people and started at a cost of $6-7 million to end up at $20 million could not possibly be justified on any kind of rational economic analysis.

1.2 Similarly the District needs to provide an annual 10 year cash flow forecast updated annually indicating capital expenditures, operating expenses and debt reduction assumptions. Greater transparency is desirable.

1.3 While it is recommended that the Environmental Reserve fund needs to be increased annually at the rate of inflation, which recommendation we support, it is not apparent from the Report why this has not occurred in the past. Additions and deletions from the Fund need to be documented annually at budget time.

1.4 The establishment of a Debt Reduction Fund which we support is desirable. However, it needs to be set up separately and contributions and expenditures clearly identified. Again, greater transparency is desirable.

1.5 It is clear that road upgrades have been funded in sewer projects. This must cease. Each individual municipality should be responsible for their respective upgrades. District road renewals only should be financed by the general levies which of course we recognize will increase our taxes.

LOBA's Reaction to the Recommendations Contained in Report No. CES-6-2008-6

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1. Water and sanitary sewers account for 60% of the recent capital spending and 90% of the debt increase. LOBA believes the majority of this debt increase came about through Provincial and District mandated programs. The principle of "user pay" is well established in Muskoka, and since the great majority of rural property owners cannot avail themselves of sewers and water, these services should be paid for by those who do. Rural taxpayers already contribute disproportionately to District tax levies. Enough is enough!

2. The District is to be congratulated on its recognition of the District's vulnerability to rising debt levels and debt service costs. To quote the Ministry of Municipal Affairs, Muskoka's debt levels are "a moderate risk factor".

3. The District Report makes much of the BMA Consulting firm's analysis that reserves for water and sewer are low, but in a preceding paragraph, uncommitted reserves are at $22.6 million or twice what the recommended BMA levels would be. We recognize full well there are competing claims for these reserves.

Recommendation No. 1

Continue to seek out increased funding from senior levels of government. We would remind the District that the Liberals are in their second term and have yet to significantly reverse the downloading which took place over 5 years ago. We commend the District for its persistence in seeking additional funding for provincially imposed burdens and support continued assistance from senior government.

Recommendation No. 2

Apply the "Annual Savings" from the uploading of ODSP costs to the Debt Reduction Reserve Fund. There are some who feel that as these funds were contributed by all taxpayers in the past any savings realized should accrue to the benefit of all taxpayers as opposed to being applied solely to the Debt Reduction Reserve. Nevertheless we believe it is in the interests of all taxpayers to maintain Muskoka's credit rating, cut Muskoka's debt servicing requirements and to establish debt reserves and we therefore support such moves as well as the proposal to repay $11 million in debt.

The Report also projects future issuance of between $46 and $106 million in additional debt over the next 10 years. As mentioned in our Accounting Recommendations (above), we believe the District must exercise greater scrutiny and control over future debt issuance and utilize the Debt Reduction Reserve Fund for internal loans (assuming the funds are liquid) to cover unavoidable costs through a revolving loan fund.

Recommendation No. 3

That $2 million of uncommitted funds from the General Capital Reserve Fund (of $22 million) be transferred to the Debt Reduction Reserve Fund. For much the same reasons as stated in our reaction to Recommendation No. 2 we support such a recommendation.

Recommendation No. 4

That the District continue to use the Federal Gas Tax Funding to finance sewer related capital projects until such time as the debt levels are stabilized and balances are at viable levels. Certainly sewer related costs and related debt are completely within the perview of this federal project and we support its usage as such.

Recommendation No. 5

"That the 2008 base for Environmental Services of $3,050,439 be maintained" and that it be adjusted for inflation. We do not understand why this fund was allowed to decline in the first place, and we certainly support its maintenance at inflation adjusted levels, provided that adjustments, additions and expenditures are clearly accounted for and presented to the public as part of the annual budgeting process.

Specifically with regard to lagoon operations, we believe that these should be budgeted for on a break-even basis. We note a small contribution of sludge from Bracebridge and others and they should be charged accordingly. Rural taxpayers are the prime users of the sewage lagoons and we are prepared to assume our responsibilities accordingly including capital costs provided that the economic analysis of such is prorated over the realistic life of the facilities.

<u>Recommendation No. 6</u>

This recommendation concerns Development Charges.

In this regard we can only remind District and its Councillors that these recommended charges need to be implemented before they can become effective, and history does not encourage us to be optimistic in this regard. LOBA strongly supports this recommendation.

<u>Recommendation No. 7</u>

Reviews of Current Connection Charges for Local Improvements.

We would remind the Chair and District Councillors that rural properties pay substantial amounts for wells, lake water systems and septic systems. In our view, the proposed connection charge levels are far from unreasonable and do not approach those already paid by rural taxpayers. Once again, they have to be implemented before they are effective.

Recommendation No. 8

That the mandatory connection program continue as scheduled. We support this recommendation.

<u>Recommendation No. 9</u>

This recommendation relates to the general lack of precision in accounting to which we have referred in the Management and Accounting Issues in this document. The Debt Reduction Initiative Report admits that water and sewer rates have been used to finance improvements to the roads inventory. We strongly support the statement that "The Respective Roads Budget should rightfully finance these costs". One can only hope this recommendation will be followed while recognizing it will result in increased levies for rural taxpayers.

Recommendation No. 10

Evaluate Capital Program.

Most capital programs use discounted present value as well as pay back. They also make a distinction between “want to have” versus “need to have” projects. “With $85 million in projected capital expansion for water and sewers projected, we expect that District will make such distinctions and budget on an economic and responsible basis.

Other Issues

As mentioned, rural property owners are adamantly opposed to paying more for services we don’t or cannot use. We receive no help for our already considerable contribution to maintaining Muskoka’s environment. On the other hand, we are prepared to pay for services which are correctly accounted for and for which we are responsible such as roads and sewage lagoons.

If there is to be any debt reduction surcharge, in our view it should be the same amount for every taxpayer. We are informed this is illegal but we wonder why? There is absolutely no justification in the Report in Recommendation 2.2 for any non urban tax levy contribution to water and sewer costs.

We trust that when Mr. Cairns’ recommendations are brought to a vote at District Council that they will be separated into distinct components, and that each vote will be a recorded one. We also trust that the cumulative impact of the recommendations will be shown against future debt servicing costs as well as the sensitivity of the projections to each recommendation.

Conclusions

1. The projected debt level is of concern to all residents of Muskoka but it is entirely manageable.

2. Rural taxpayers already pay a disproportionate amount of total District taxes and this amount will undoubtedly become worse with the forthcoming reassessments.

3. We support the well established principle of "user pay" and are not responsible for sewer and water debt. On the other hand, we are prepared to assume our responsibilities for sewage lagoon operating and capital costs.

4. There is no justification in Mr. Cairns' Report for an additional levy on rural taxpayers to bail out the District.

5. We further support the majority of the recommendations contained in Mr. Cairns' July 4th Report. However, we remind District Council that these must be implemented to be effective.

6. District Council must become more responsible and more vigilant in undertaking further capital expenditures and assuming further debt obligations.

Respectfully Submitted by
Cliff Hatch
Chair, External Affair & Vice President
Lake of Bays Association