

Your Worship, I am pleased today to present the 2012 Municipal Operating Budget that has been prepared for Council's consideration by the Governance Standing Committee as per its mandate. Council will be pleased to know that, once again, we achieved a balanced budget without the need to increase taxes, fees or other charges; however, we have altered the tax structure in terms of vacant land, and I will expound on that later. Mr. Mayor, the balanced budget without tax increases is a significant accomplishment in light of the external factors bearing influence on our spending decisions, and the members worked diligently to find the right balance between resident expectations and fiscal prudence. We are proud to present a balanced budget in this context. I will now explain some of the highlights in this year's spending plan.

General Statement

Generally speaking, the budget has grown by approximately 0.15% since the initial estimates for 2011 (adopted in December 2010), and it now rests at \$2,954,666. When compared to the 2011 mid-year budget, however, revenues and expenses have decreased by 4.4%, largely because the 2010 surplus and sale of assets were included at that time. They are non-traditional sources of revenue for budget purposes, thus caution must be exercised when interpreting these numbers. That being said, Mr. Mayor, when those factors are removed for comparative purposes, the budget has decreased by 1.4% since June 2011. That is primarily related to a reduction in the provincial portion of our debt, which is a non-cash item.

Revenue and Taxation

On the revenue side, taxes from all sources (property, water, business, etc.) have increased by 2% since 2011 to \$2,341,740, and this can be attributed to new development in Town. The tax structure for residential and commercial properties (excluding vacant land) remains as follows:

| | |
|-------------------------------|----------------------------------|
| Residential Real Property Tax | 11 mills with a minimum of \$400 |
| Residential Water Rate | \$395 |
| Commercial Real Property Tax | 11 mills with a minimum of \$400 |
| Commercial/Crown Water Rate | 6 mills with a minimum of \$430 |

Other taxes, fees, and charges can be found in the *2012 Municipal Operating Budget Tax Schedule and Policy*. As mentioned earlier, the tax structure surrounding vacant land will be changed in 2012. In accordance with section 114 (c) of the *Municipalities Act, 1999*, amended this year by the provincial legislature, the Town is now empowered to impose a minimum tax for vacant properties in Town. There are cases in the community where persons are paying the residential minimum tax of \$400 because the land without buildings, regardless of its size or proximity to residential neighbourhoods, does not carry a sufficient assessed value. This does not represent a fair method of taxation on a community wide level; therefore, in 2012 the following minimum property tax will apply for vacant land:

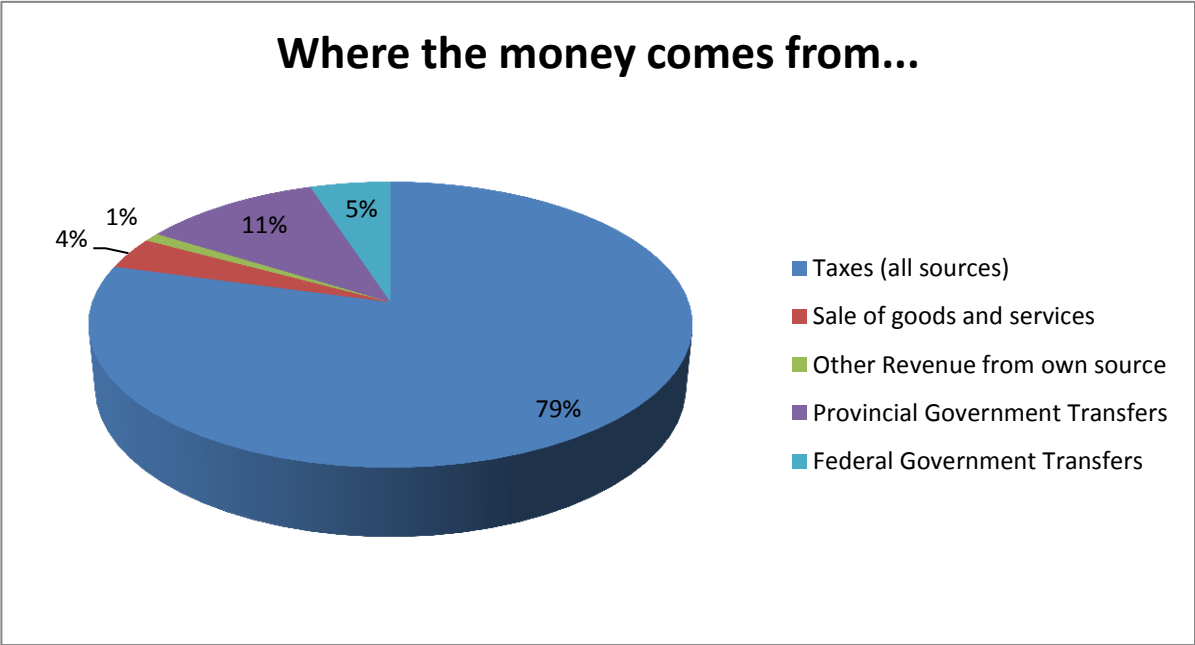
| Frontage Class | Minimum Property Tax |
|-------------------|----------------------|
| Up to 50' | \$400 |
| From 50.1' to 75' | \$650 |
| From 75.1 to 100' | \$900 |
| Above 100.1' | \$1,000 |

There will be yet another change to the taxation system this year and that pertains to the practice of ‘pooling’ properties. Effective January 1, 2012, the Town will no longer pool a person’s properties and apply the mill rate across the board. The minimum tax, whether residential or vacant, will apply for each piece of property. The practical implications of this policy shift can be best explained by way of example. Consider a person who owns two (2) pieces of property in town, one (1) of which is occupied (property A) and the other vacant (property B). Properties A and B have assessed values of \$100,000 and \$10,000, respectively. Under current policy, that person will pay a total of \$1,210 in property taxes (\$110,000 x 11 mills); however, if those same pieces of property were owned by two (2) different people, the taxes payable would be \$1,500 (\$100,000 x 11 mills + \$400 minimum tax). Clearly, then, in the absence of legislation requiring this system, it is clearly unfair and does not treat all taxpayers equally. That policy gap is closed in 2012.

Mr. Mayor, 2012 also marks the end of the Provincial Government’s Special Assistance Grant, which equates to \$36,300 in lost revenue. The Town continues to work with the Government of Newfoundland and Labrador in terms of receiving taxation for the hydroelectric assets in the community. That will be a focus for 2012.

In summary, the money is coming from the following sources:

| | |
|---------------------------------|----------------|
| Taxes (all sources) | 2,341,740 |
| Sale of goods and services | 107,000 |
| Other Revenue from own source | 29,500 |
| Provincial Government Transfers | 327,963 |
| Federal Government Transfers | <u>148,462</u> |
| | 2,954,665 |



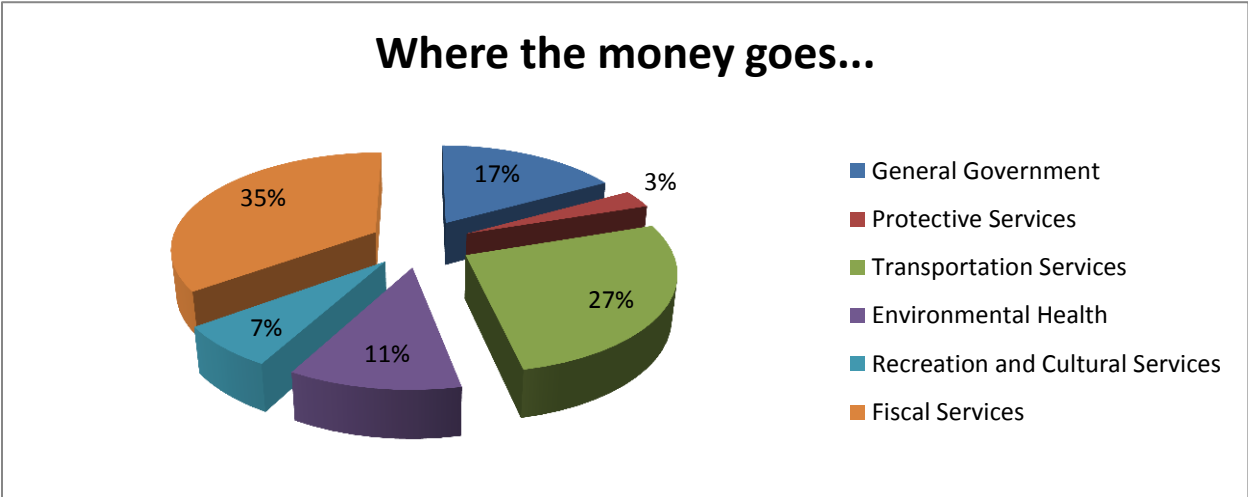
Expenditures

Moving on to the expenditures, Mr. Mayor, the Committee was challenged this year with increased cost for waste management, and this was long anticipated by Council. Compared to the 2011 budget, this service will cost taxpayers an additional \$88,904. Another obstacle encountered by the Committee, and this is no stranger during budget preparation, is the maintenance cost associated with our aging equipment in the Public Works Department. For the past few years the Town has been working to move investments in this area from maintenance expenses to capital acquisition. We recognize that our equipment is aging and some pieces are beyond their useful life. The three (3) vehicles costing the most in terms of maintenance are the garbage truck, 1989 loader, and the 2000 flyer. We are working to transfer the curb side collection of garbage to the Central Waste Management Board (CWMB) in 2012, and should this happen there will no longer be a need for the garbage truck. As for the other two (2) vehicles, the loader will be replaced in 2012 and the flyer in 2013, provided the plan remains feasible. We continue to conduct cost analyses on these questions. Our goal is to reduce the overall burden of vehicle and fleet maintenance by investing in capital.

In 2011 the Town refinanced two (2) long-term loans, one (1) with the CIBC (5.24% interest) and the other with NLCU (9% interest), through the BMO. These two (2) loans represented approximately 2 million of the Town’s cash debt, and the annual debt serving cost (DSC) was \$280,137. This included principle and interest payments. Under the new financing terms, the Town will receive an interest rate of 3.27% (5 year fixed term), and the DSC in 2012 will be \$256,776. This will decrease each year as principle payments are made and interest charges reduce accordingly. Overall, assuming interest rates remain the same, the Town will save approximately \$330,000 in interest. The savings reached in DSC through refinancing were negated, however, by the loans for the centre access road and sewer line repairs projects. Total DSC will increase by approximately \$8,000 in 2012; however, when compared to 2009, this expenditure is reduced by 7.5% because the Town is receiving more competitive interest rates. The Town’s debt servicing ratio (DSR) is around 21.5%, compared to 25-26% a few years ago.

In summary, Mr. Mayor, the money is being allocated as follows:

| | |
|----------------------------------|------------------|
| General Government | 501,811 |
| Protective Services | 88,328 |
| Transportation Services | 791,440 |
| Environmental Health | 333,015 |
| Recreation and Cultural Services | 204,956 |
| Fiscal Services | <u>1,035,116</u> |
| | 2,954,666 |



Conclusion

Mr. Mayor, in conclusion, the Committee wishes to reiterate that while the Town's fiscal position is improving, we must remain focused on our goals to maximize revenues and control expenses. The Town, perhaps for the first time in its history, will be able to pay for a capital project in 2012 without resorting to debt. This will be paid from cash surpluses generated in previous years, and we are in this position because resources are being managed. Our plan is to incorporate capital spending such as this into the budget, and 2012 marks the first step in that direction. We have set aside \$8,000, as a start, for a capital reserve. To remain sustainable this is how the Town must function. We must be prudent, strategic, and fiscally responsible.

That concludes my presentation, Your Worship.

Motions

Adoption of the Budget

That Council shall adopt the 2012 Municipal Operating Budget as presented.

Adoption of the Budget Tax Schedule and Policy

That Council shall adopt the 2012 Municipal Operating Budget Tax Schedule and Policy as presented.