

Guide To Understanding the Budget - A Companion Document



The Corporation of the Town of Milton



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INTRODUCTION



This companion guide has been designed to accompany the Town of Milton 2011 Proposed Capital and Operating Budget document. It includes a summary of the budget process, a glossary of terms, and “How to Read” guidelines to explain the various financial schedules included in the budget document.

The Budget Process

The process for preparing the 2011 budget began with a pre-budget public consultation process in June 2010. This provided the opportunity for public concerns to be considered as the budget guidelines were established and as staff completed their budget estimates and prioritized projects for 2011 and the capital forecast. The budget call report, which set the guidelines for staff to follow when preparing the budget, was then approved in August 2010.

The approach to compile the 2011 budget and forecast consisted of analyzing the 2010 budget and realistically adjusting the 2011 figures to compensate not only for general inflations costs, but also for the increase in construction costs, as well as changes in user consumption and community needs. The methodology used by Town staff to prepare the operating budgets includes a modified version of zero based budgeting. Zero based budgeting requires that all budget requests be justified in complete detail by each division manager starting from zero. In Milton, budgets are built in a detail form, by listing the individual expenses, by quantity, rate and frequency of occurrence starting from

**2011 Proposed
Capital and Operating Budget**

MILTON

zero. These details are analyzed for accuracy, need, and then compared to the expenses from the previous year to determine if changes are due to contractual obligations, growth in demand, or changes in service levels being provided to the community. This methodology ensures that budgets are built based on what the program actually needs to cost; and not just on what it has been historically costing adjusted for inflation.



GLOSSARY OF TERMS



Accumulated Surplus/Deficit: The combined amount of net financial resources and non-financial assets, including tangible capital assets; also expressed as the difference between assets and liabilities.

Actual: Actual (as opposed to budgeted) revenues and expenditures.

Annualization: Amounts from items that were either in the previous years budget for only part of the year and need to be in the current budget for a full year or were one-time items in the previous year that need to be removed in the current year.

Assessment: An estimate of property value as determined by the Municipal Property Assessment Corporation (MPAC) used as a basis for levying property taxes for municipal, regional and educational purposes.

Approved Budget: The final budget passed by Council.

Assessment Review Board (ARB): An independent, adjudicative tribunal whose main function is to hear complaints from people who believe that properties are incorrectly assessed or classified.

Base Budget: The financial resources that are required to maintain service levels at the level provided in the previous year's Approved Budget.

Budget: A plan of financial operation containing an estimate of proposed expenditures for a given period (usually a fiscal year) and the proposed means of financing them.

Capital: The word "capital" has a specific meaning in the municipal context: it is used to describe the transactions of the capital fund, including both long-term expenditures and long-term financing.

Capital Budget: The budget that provides for the funding of the Town's expenditures on capital assets.

Capital Expenditure: Monies spent for replacement, renovation or maintenance of assets, the benefits of which could spread over several years.

Capital Projects: Projects whose value is more than \$10,000 with benefits of expenditure lasting several years.

Capital Provision: A per unit amount (which is in addition to the development charges payable pursuant to By-law 046-2004, the Overcontribution Amount and the Deficit Per Unit amount) for all unit types (except special care/special need dwelling units as defined in By-law 046-2004, in respect of which the Capital Provision shall not apply) to be paid by each of the Landowners for the provision of those Municipal Capital Facilities which are not recoverable from development charges and which are set out in the Financial Plan.

Capital Surcharge: Each capital project included in the current year budget and nine year forecast will be charged a surcharge of 1.75% of the total budgeted cost of the project. There will be a recovery in the operating budget under general government equal to the total amount of the surcharge to offset administrative costs for administering the capital project.

COMRIF: Canada-Ontario Municipal Rural Infrastructure



GLOSSARY OF TERMS



Fund. A partnership between the Government of Canada, the Government of Ontario, the Association of Municipalities of Ontario and Ontario municipalities working together to improve and renew public infrastructure across the province.

Contractual Change: Costs to maintain existing service levels and quantities; include items such as inflationary adjustments, contractual obligations, legislative requirements, user fee increases, etc. Contractual changes are typically non discretionary.

DBIA: Downtown Business Improvements Association

Debentures: A form of unsecured debt financing utilized by the municipality.

Debt Servicing: The repayment of interest and principle to external creditors.

Deficit: Excess expenditures over revenues.

Development Charge: Provides for the recovery of growth related capital expenditures from new development. The current Development Charges By-law provides for the growth-related capital cost recovery for nine service components – roads, fire protection, library, transit, administration, parks, recreation, other transportation and an area-specific charge for stormwater management monitoring.

Expenditure: The disbursement of appropriated funds to purchase goods and/or services.

Forecast: The projection of revenues and expenditures for

future years.

Full Time Equivalent (FTE): A measure of authorized positions, indicating the percentage of time a position or group of positions is funded.

Fund Accounting: Self balancing set of accounts that shows how money is spent rather than how much profit was earned. Primarily used in nonprofit organizations and in the public sector.

Future Infrastructure Implementation Team (FIIT): The Facilities Infrastructure Implementation Team was established specifically to manage the capital projects related to facility development, particularly delivering projects that have received funding under the Federal/Provincial funding programs.

Gross Expenditures: Total expenditures of the Town prior to the netting of any external revenues and/or recoveries.

Gross Value: The value before any deductions (i.e., debts, charitable contributions, etc.).

Growth/Volume Change: Growth/Volume Changes are characterized as operating impacts that result from changes in the quantity of services used or provided service.

HST: Harmonized Sales Tax levied by the Federal Government at a combined rate of 13% of the value of applicable goods and services.

HVAC: Heating, ventilation and air-conditioning system.



GLOSSARY OF TERMS



ICI: Industrial/Commercial/Institutional

Inflation: A rise in the price levels caused by general economic activity and growth.

Infrastructure: The system of public works in the Town, consisting of immovable physical assets, that delivers an essential public service.

LEED: Leadership in Energy and Environmental Design

Levy (Tax): The amount of property tax, in dollars, which is paid by the Town's taxpayers.

Municipal Price Index: The Municipal Price Index is a rate of inflation constructed by the Town of Milton to ensure that the value of goods and services in the annual budget are adjusted appropriately to reflect the business and services that are provided. This approach mitigates restrictions from using only one index, such as Consumer Price Index (CPI).

Net Expenditure: Expenditures of the Town after any external revenues and/or recoveries.

OMB Ontario Municipal Board: A provincial judicial board that provides a forum to appeal planning decisions made by the Town.

Operating Budget: The budget that provides various departments with funding for their annual recurring operating costs. Compared to the capital budget, items funded in the operating budget do not give rise to assets that are expected to provide benefits over several years.



HOW TO READ A CAPITAL PROJECT DETAIL SHEET



(A) Capital Project Name

- (B) Project
- (C) Department
- (D) Service / Program
- (E) Version
- (F) Year
- (G) Flexible
- (H) Growth

CXXXXXX
Department Name
Service / Program
Capital Forecast
2011
YES
YES

(I) Description
Description of capital project.

Category	Priority	(J) Comment
Health & Safety Issues	0	
Cost Savings / Payback	4	Rational for score
Asset Maintenance / Replacement	0	
Growth Related Need?	1	Rational for score
Service Enhancement	0	

(K) Budget						
	Total	2011	2012	2013	2014-2016	2017-2020
Expenditures						
Professional Fees	136,000	40,000			48,000	48,000
Transfers	2,380	700			840	840
Expenditures Total	138,380	40,700			48,840	48,840
Funding						
Internal Financing						
Revenue	118,030	20,350			48,840	48,840
Reserves	20,350	20,350				
Internal Financing Subtotal	138,380	40,700			48,840	48,840
Funding Total	138,380	40,700			48,840	48,840



HOW TO READ A CAPITAL PROJECT DETAIL SHEET



(A) Capital Project Name

(L) Operating Impact							
	Total	2011 Growth / Volume Changes	2011 Service Level Changes	2012 Growth / Volume Changes	2012 Service Level Changes	2013 Growth / Volume Changes	2013 Service Level Changes
Expected Expenditures							
XXX Expenses	49,564	10,170		19,697		19,697	
Total Expected Expenditures	49,564	10,170		19,697		19,697	
Expected Revenues							
XXX Revenues	(16,300)	(3,300)		(6,500)		(6,500)	
Total Expected Revenues	(16,300)	(3,300)		(6,500)		(6,500)	
Total Operating Impact	33,264	6,870		13,197		13,197	



HOW TO READ A CAPITAL PROJECT DETAIL SHEET



Identifier	Description
A	Capital Project Name. The descriptive name given to each project.
B	Project ID. Represents the project identifier code assigned to the Capital Project.
C	Department. The department that is responsible for the undertaking of the project.
D	Service/Program. The name of the division within a department that is responsible for the undertaking of the project.
E	Version. The file location where the data is stored.
F	Year. The budget forecast year.
G	Flexible. This field indicates if there is any flexibility with regard to the organization moving forward with this project. For example, if other projects are dependent on the completion of this project, then this field would say “No”.
H	Growth Related. Indicates growth related projects that have growth related funding associated with it.
I	Project Description. This section identifies the objectives of the project and describes how the objectives are achieved.
J	Project Priority. A maximum of two priorities are assigned. Ranking ranges from 1, the lowest priority to 5, the highest priority. Comments briefly explain the reason for the project being a priority.
K	Project Budget Box. This box consists of two sections, Expenditures and Financing. Under each section various categories of expenses or funding sources are listed.

Expenditure Categories:

- Town Administration & Contingency. For example, items such as Advertising, Materials and Supplies and Courier charges.
- Furniture, Fixtures & Equipment. For example, items such as Vehicles, Installation, and Equipment charges.
- Professional Fees. For example, items such as Contract Administration, Design and Legal charges.



HOW TO READ A CAPITAL PROJECT DETAIL SHEET



- Land and Buildings. For example, items such as Land or Building purchases or Appraisal Fees.
- Utilities. For example, items such as Hydro, Water, Gas, Phone and Cable.
- Facility Contracts. For example, items such as Masonry, Concrete or Steel works, Plumbing and Weatherproofing.
- Road Contracts. For example, items such as Road Works, Structural and Storm Sewers.
- Landscaping. For example, items such as Paving/Hardscapes, Play Equipment and Plantings.
- Transfers. Internal recovery transfers such as Project Management Recoveries or Internal Development Fees.

Financing Categories:

- External Financing. Includes Donations, Federal or Provincial Grants or Subsidies, and Recoveries from Developers, The Region, other Municipalities or the School Board.
- Internal Financing. Includes Reserves, Reserve Funds, Development Charges or Long Term Borrowing.

- L Operating Impact Box.** Some Capital Projects may have an impact to the Operating Budget. For example, if a new road is constructed an operating impact would be the cost that must now be incurred to maintain the new road, such as the snow removal after a snow fall. If the road did not exist, the extra cost in snow removal would not exist.

This box consists of two sections:

1. Expected Expenditures. Various expenditure impacts.
2. Expected Revenues. Various revenue source impacts.



HOW TO READ THE CAPITAL BUDGET REPORTS



	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
Description	Page	Expenditures	Revenue	Reserves / Res. Funds	Development Charges	Capital Provision	Subsidies / Donations	Debentures	Leases	Other
Department Name										
Division										
(A) CXXXXXX Capital Project Name		25,438	1,272		22,894	1,272				
Total Division Budget		25,438	1,272		22,894	1,272				
Total Department Budget		25,438	1,272		22,894	1,272				

Identifier Description

- A Capital Job Number.** This identifies the capital account number and description for each capital project.
- B Page.** The page number where the Capital Project Detail sheet can be found in the 2011 Proposed Capital and Operating Budget document.
- C Expenditures.** The total cost of the capital project.
- D Revenue.** Funding allocated from the tax levy to capital projects.
- E Reserves and Reserve Funds.** The funding allocated from reserves and/or reserve funds to the capital project within the Council approved policies for reserve and reserve funds, as outlined on pages 389-397 of the 2011 Proposed Capital and Operating Budget document.
- F Development Charges.** The funding allocated from development charges reserve fund to the capital project.
- G Capital Provision.** The funding allocated from capital provision reserve to the capital project.
- H Subsidies / Donations.** The funding allocated from subsidies and donations, including general donations, and Federal/ Provincial Government funding programs, to the capital project.



HOW TO READ THE CAPITAL BUDGET REPORTS



- I **Debentures.** The funding allocated from the issuance of debt to fund the capital expenditures and the repayment of the principle and interest may be from the tax levy, capital provision reserve, user fees, development charges reserve funds, property reserve, and cash-in-lieu of parkland reserve.

- J **Leases.** The funding allocated from lease revenue to the capital project.

- K **Other.** The funding allocated from other sources which may include recoveries from the Region of Halton, other municipalities, school boards, developer contributions, other agencies (i.e. Canadian Pacific/Canadian National Railways), front-end agreements and sponsorships, to the capital project.



HOW TO READ THE CAPITAL FORECAST REPORTS



(B)

Description	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Department									
Division									
(A) CXXXXXX Capital Project Name	75,000	65,000	85,000		75,000	65,000	85,000		75,000
Total Division Budget	75,000	65,000	85,000		75,000	65,000	85,000		75,000
Total Department Budget	75,000	65,000	85,000		75,000	65,000	85,000		75,000

A Capital Job Number. This identifies the capital account number and description for each capital project.

B Forecast Year. The total budgeted expenditures for each capital project for the particular forecasted year.



HOW TO READ THE OPERATING BUDGET REPORTS



	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
	2009 Actuals	2010 Projected Actuals	2010 Approved Budget	2011 Status Quo/ Contractual	2011 Base Budget	2011 Growth/Volume Change	2011 Service Level Change	2011 Requested Budget	% Change Requested/ P.Y. Approved
(A) DEPARTMENT									
(B) DIVISION									
EXPENDITURES									
Expenditure Category	\$115	\$130	\$125	\$5	\$130	\$5		\$135	8.0%
Total EXPENDITURES	\$115	\$130	\$125	\$5	\$130	\$5		\$135	8.0%
REVENUE									
Revenue Category	\$100	\$105	\$95		\$95		\$10	\$105	10.5%
Total REVENUE	\$100	\$105	\$95	\$0	\$95	\$0	10	\$105	10.5%
Total DIVISION	\$215	\$235	\$220	\$5	\$225	\$5	\$10	\$240	9.1%
Total DEPARTMENT	\$215	\$235	\$220	\$5	\$225	\$5	\$10	\$240	9.1%

The format of the Operating Budget Details reports, located in each of the Department Details sections, is outlined above. These reports provide an overview of the 2011 Proposed Operating Budget. Three other reports in the Operating Budget Summary portray the same data summarized in a variety of formats:

- Gross Expenditures by Department* (Page 65 of the Proposed Capital and Operating Budget Document) – gross expenditures and gross revenues are shown separately and are displayed by department
- Net Expenditures by Department* (Page 66 of the Proposed Capital and Operating Budget Document) – the net budget, expenditures less revenues, is summarized by department
- Budget by Account Type* (Page 67 of the Proposed Capital and Operating Budget Document) – expenditures and revenues are summarized by category (category details provided below)

Identifier Description

- A **Department.** Identifies department.
- B **Division.** Identifies division within department.
- C **2009 Actuals.** Actual expenditures and revenues realized in 2009.



HOW TO READ THE OPERATING BUDGET REPORTS



- D** **2010 Projected Actuals.** The 2010 Approved Operating Budget plus adjustments for forecast changes made throughout 2010.
- E** **2010 Approved Budget.** The 2010 Approved Budget including budget restatements completed to reallocate budgets between accounts/departments.
- F** **2011 Status Quo / Contractual.** Costs and/or revenues to maintain existing service levels and quantities; includes items such as inflationary adjustments, contractual obligations, legislative requirements, user fee increases, HST impacts, reductions due to increased efficiencies and/or purchasing power etc. This column also includes non-recurring items and annualizations.
- G** **2011 Base Budget.** The 2010 Approved Operating Budget plus 2011 Status Quo / Contractual adjustments. This is defined as the 2011 Base Budget as it does not incorporate service enhancements or impacts from growth.
- H** **2011 Growth/Volume Change.** Reflects changes in operating costs/revenues due to growth in the Town and extends existing service levels to newly developed communities.
- I** **2011 Service Level Change.** Changes in costs/revenues due to increases/decreases to service levels and/or the introduction/discontinuance of a service.
- J** **2011 Requested Budget.** Totals the Base Budget plus the Growth / Volume Changes and Service Level Changes to show the requested 2011 budget.
- K** **% Change Requested / P.Y. Approved.** The percentage increase of the 2011 Requested Budget over the 2010 Approved Budget.



HOW TO READ A SERVICE LEVEL CHANGE FORM



SERVICE LEVEL CHANGE

(A) Department _____

(B) Division _____

(C) Program _____

(D)	DESCRIPTION OF SERVICE						
(E)	Alignment to Strategic Plan						
Goal: A safe, livable and healthy community							
(F) Staffing Impacts				(G) Financial Impacts			
	2011	2012	2013		2011	2012	2013
Staff Complement Impact (Number of FTE's)				Expenditures			
Full-time				Revenues			
Part-time							
Contract							
Casual							
Total Impact	-	-	-	Net Cost	-	-	-



HOW TO READ A SERVICE LEVEL CHANGE FORM



Service Level Changes are the operating impacts resulting from the introduction of a service that is new to the Town.

Identifier Description

- A** **Department.** Identifies the department the service level change is associated with.
- B** **Division.** Identifies the division within the department the service level change is associated with.
- C** **Program.** Name of the program associated with the service increase.
- D** **Description of Service.** A brief description outlining the details of the service increase.
- E** **Alignment to Strategic Plan.** Outlines the Destiny Milton II goal the service is associated with.
- F** **2011 Staffing Impacts.** Identifies any staffing impact of the new service. Includes the staff complement impact, number of FTE's (full time equivalents), by position type for the requested budget and the following two years.
- G** **Financial Impact.** Outlines expenditures and revenues associated with the service level change for the requested budget and the following two years.



HOW TO READ SCHEDULE A - OPTIONS TO REDUCE TAX LEVY IMPACT



	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	Program	Description of Change	Impact of Change	Tax Impact	Tax % impact of change	Town Levy Increase	\$ increase per item / \$100,000 of assessment	\$ increase / \$100,000 of assessment
						4.86%		\$12.34
1	↑ Name of program to be cut	A description of the change	Details on the impact of the change	(22,000)	-0.07%	4.79%	\$0.18	\$12.16
13	↓ Name of program to be cut	A description of the change	Details on the impact of the change	(47,260)	-0.15%	3.60%	\$0.39	\$9.15
14	↑ Name of program to be cut	A description of the change	Details on the impact of the change	(178,861)	-0.58%	(I) 3.03%	\$1.46	\$7.69
15	↓ Name of program to be cut	A description of the change	Details on the impact of the change	(47,251)	-0.15%	2.88%	\$0.39	\$7.30 (J)

LEGEND

- ↓ Operating Budget - budget cut will result in a reduction in the level of service provided through the Operating Budget in 2011
- ⊙ Capital Budget - budget cut will result in a reduction of funding available for future use in the capital program
- ↑ Service Level Increases - identified changes of service in the 2011 Operating Budget; removal will bring 2011 budget service level for identified program back to 2010 levels

BUDGET CHANGE SCHEDULES

The Budget Changes Table outlines various proposed budget options to lower the proposed tax increases for the Town from 4.86% to 1.66% (Schedule A), and for the Library from 0.86% to 0.42% (Schedule B).

The recommended tax levy of 1.66% on Schedule A for the Town levy includes all of the reductions from item 1 to item 28 inclusive.

The recommended tax levy of 0.42% on Schedule B for the Library Board levy includes all of the reductions from item 1 to item 7 inclusive.

The tables identify specific programs or areas that staff have identified to reduce the proposed tax levy. As you read down the page, the highlighted column tracks the net impact on the tax levy as each budget option is incorporated, starting at the proposed tax levy increase and working downwards.

The symbols along the left side of the page identify each change as relating to the operating budget, capital budget, or being a change to service levels, as described in the legend.



HOW TO READ SCHEDULE A - OPTIONS TO REDUCE TAX LEVY IMPACT



The other columns provide the following information and should be read from left to right:

Identifier Description

- A Program.** Provides the program area that will be impacted.
- B Description of Change.** Provides a description of the change and/or the accounts that will be affected.
- C Impact of Change.** Describes the impact that the change will have on the level of service provided to the community.
- D Tax Impact.** Dollar value of the change.
- E Tax % Impact.** The percentage impact that the change will have on the tax levy.
- F Levy Increase.** The resulting levy increase including the effect of the change from that same row.
- G \$ increase per item / \$100,000 of assessment.** The resulting levy impact in dollars of the change per \$100,000 of assessment.
- H \$ increase / \$100,000 of assessment.** The resulting cumulative levy impact including the effect of the change from that same row per \$100,000 of assessment.
- I Recommended Tax Levy Increase.** 3.03% is the recommended levy increase and includes all items below the bold line identified as J.
- J Recommended Cut Line.** To achieve the recommended tax levy increase, items above this line would be removed from the budget and items below this line would remain in the budget.