

# UNDERSTANDING BUDGET BASICS

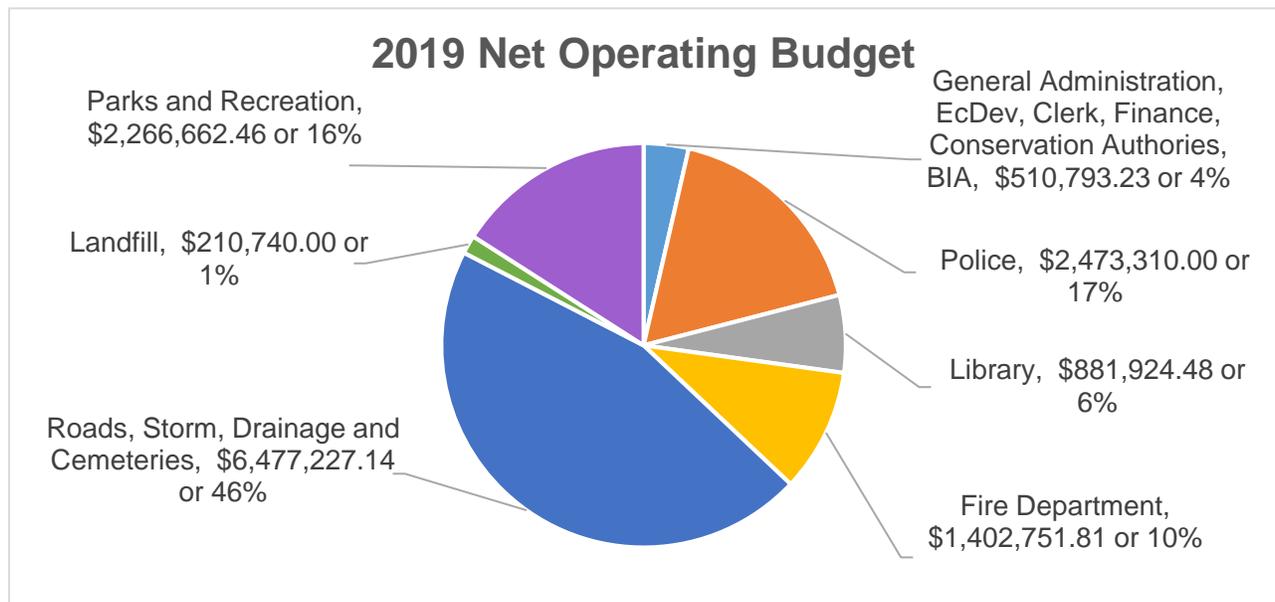
## MUNICIPALITY OF NORTH PERTH

### Where do my tax dollars go?

Every time your street is plowed, your garbage or recyclables are picked up or you visit a North Perth recreation facility or library, you are witnessing your tax dollars at work. Municipal budget decisions set the funding for the programs and services residents depend on to maintain their quality of life.

Developing North Perth’s budget involves making difficult choices between what the Municipality would like to do and what it can afford – the same decisions individuals face every day. In addition, the Municipality must take into account the challenges and pressures of infrastructure demands, limited revenue sources, inflation, and the downloading of provincial costs and responsibilities to municipalities.

### 2019 North Perth Net Operating Budget, Allocated by Department



## Budget Terminology

- A **balanced budget** is a budget in which revenues are equal to expenses. The Ontario Government legislates that money coming into a municipality must equal money going out.
- The **Operating Budget** covers the Municipality's day-to-day operations. Examples include snow removal, parks, recreation, libraries, municipal fire services, and administrative expenses.
- The **Capital Budget** pays for new big investments, municipal projects and rehabilitation of assets currently under the Municipality's control. Examples include a new building roof, road repairs and replacement of vehicles and equipment.
- The General Levy, commonly referred to as the **Tax Levy**, is the total amount needed to finance the Operating and Capital budgets.
- A **surplus** occurs when the Municipality either spends less and/or raises more money than predicted in the annual budget.
- A **deficit** happens when expenses turn out to be higher than estimated or expected revenues have not been realized.
- A **Reserve Fund** is an amount set aside for a specific purpose by authority of a by-law (or as required by legislation) that is carried from year to year unless consumed or formally closed.
- **Reserves** are also amounts carried from year to year, but reserves are set up by resolution of Council and are used mainly as cushions against operating budget contingencies or unforeseen events.
- Municipalities often **borrow** money to, at least in part, finance major capital projects. When the municipality borrows money, they issue a **debenture** to obtain the necessary funds. This is similar to a mortgage or loan.
- Funds to finance municipal operations come from **property taxes and user fees** (e.g., fees for permits, services, etc.). The Municipality also receives grant funding from other levels of government. **Grants** can be unconditional or conditional, meaning they are targeted to specific projects.
- The **Ontario Municipal Partnership Fund**, or **OMPF**, is the operating grant transfer payment from the Province to municipal governments. Its intent is to address challenges in rural and northern communities through an equalization approach, using various community fiscal health indicators to determine operating assistance to municipalities. OMPF is a critical provincial funding program for rural municipalities – overtime, however, total funding has decreased.

- A property **assessment** is a value placed on a property for municipal and provincial taxation purposes. The **Municipal Property Assessment Corporation (MPAC)** is responsible for assessing and classifying all properties in Ontario. To assess your property, MPAC analyzes property sale in your area. For residential properties, the five main factors that account for the majority of your property's value include location, lot dimension, living area, age of property (adjusted for major renovations/additions) and quality of construction. For farm properties, MPAC looks are farmland, residence, residence land, farm outbuildings and other buildings. MPAC reassesses properties every four year. Visit the North Perth website for more information on MPAC and property assessments: <https://www.northperth.ca/en/municipal-services/property-assessment.aspx? mid =18637>.
- **Development charges** (DC's) are paid by developers to partially pay for the cost of new capital projects required because of growth (e.g., new roads, trails, community centres, fire stations, etc.). DC's do not cover the entire cost, as legislation requires municipalities to fund a portion of most projects. In addition, certain expenditures are ineligible and must be paid for entirely by the municipality.

## The Budget Process

The Budget process provides the overall organization with a method of prioritizing and allocating resources, establishing service levels, accommodating growth and finding a balance between examination of services and costs that should ultimately achieve an optimum service level for the taxes levied.

### Taxes collected by the Municipality of North Perth are distributed to three areas:

- A certain percentage is allocated to the Municipality of North Perth to pay for all local municipal services such as road maintenance, parks, recreation, libraries, fire, economic development, etc.
- A certain percentage is allocated to the County of Perth to pay for County services such as transportation, housing and emergency services.
- A certain percentage is allocated to the Province of Ontario and remitted to the four school boards for education costs.
- The exact percentage allocated to the Municipality, County and Province changes each budget year, but usually not significantly.

## How does the budget influence your tax bill?

- Your total property tax bill reflects taxes levied by the Municipality of North Perth, the County of Perth and local school boards. Through their annual budget process, each decides how much must be raised through property taxes to provide their services.
- A series of 'tax rates' are set for various classifications of property (e.g., residential, commercial, etc.).

- The tax rate for your property classification is applied to the assessed value of your property (as determined by MPAC) to calculate the final tax bill. Visit our [Property Assessments](#) page to learn more about how MPAC assesses properties.
- To calculate your property taxes:
  - Assessed value of your property x the appropriate tax class rate = Total taxes

**Example:** MPAC assessed your residential property to have an assessment value of \$250,000. The Municipality of North Perth's 2019 residential property tax rate, including rates set by the County of Perth and the Province for education, was 0.0117088.

Therefore:  $\$250,000 \times 0.0117088 = \$2,927.20$

Total taxes for this example property in 2019 were \$2,927.20, excluding any special charges/credits applicable to the property (e.g., waste bin fee, stormwater management area rate, local improvements, etc.).

### What is a supplementary tax bill?

If you have recently built a new home or made any additions or improvements to your property, remember to make allowance for a Supplementary Tax Bill in your budget plans.

For the first 12 to 18 months after occupying a newly constructed home, property tax bills may cover the **land only**, not the building, until MPAC is able to complete an assessment of the home. The land taxes often represent approximately one third (1/3) of the total tax bill, depending on the type of house. There may be a considerable delay from your occupancy date until you receive a tax bill that includes the house.

Once the property is assessed, the new homeowner will receive a "**Property Assessment Notice**" from MPAC. A Supplementary Tax Bill will follow from the Municipality with taxes covering the building from the date of occupancy. Residents are strongly encouraged to budget for this billing. If your mortgage payment includes taxes, the Supplementary Tax Bill will be sent to the financial institution dealing with payments. You may want to contact your mortgage company to ensure you are paying enough towards taxes to cover this Supplemental Bill.

North Perth offers property owners who have bought infill lots to construct a new home in the municipality the option of making pre-authorized payments towards the property prior to MPAC completing an assessment on the property. These payments are credited on the Supplementary Tax Bill following MPAC issuing a "Property Assessment Notice". In order for the Municipality to do this, there has to be a roll number already established to apply the credit. Contact the Municipal Office if you are interested.