

TO:	CHAIR AND MEMBERS COMMITTEE OF THE WHOLE MEETING ON May 10th, 2011
FROM:	MARTIN P. HAYWARD CITY TREASURER AND CHIEF FINANCIAL OFFICER
SUBJECT:	2012 - 2016 OPERATING BUDGET TARGETS

RECOMMENDATIONS

That, on the recommendation of the City Treasurer and Chief Financial Officer, the following actions be taken with respect to establishing 2012-2016 Operating Budget targets:

- (a) A 2.5% property tax levy target increase (before assessment growth) **BE APPROVED** for 2012 as outlined by "service based" program area below:
- (i) a 4.4% target increase for Protective Services, it being noted that the forecasted net expenditure increase for the 2012 year within the London Police and London Fire service program areas both are projected to exceed 7%(approx);
 - (ii) a 4.7% target reduction in Social Health and Services which recognizes the staggered upload of Ontario Works within Community Services to the Province, a 0% target for Social Housing Programs, and reduces the municipal funding to the Middlesex London Health Unit by approximately \$1.5 million for cost shared services to reflect provincial policy of a 75/25 percent Provincial/Municipal funding split;
 - (iii) a 29.3% target increase in the Economic Prosperity Program which is primarily due to City Council's funding commitments to fund New Economy initiatives through the Economic Development Reserve Fund;
 - (iv) sufficient funding for the 2012 Financial Management Program primarily for committed capital financing costs associated with the funded 2012 to 2020 Capital Works Budget, mandatory costs relating to OMERS premium rate increases, and personnel/legal related matters; and,
 - (v) a 0% target across all other service programs (including Culture, Parks & Recreation & Neighbourhood Services, Environmental Services, Planning & Development, Transportation, Corporate Council & Operational Services).

it being noted that:

- significant cost containment/revenue opportunity initiatives and service adjustments will be required by all service program areas in order to achieve their respective targets; and
- the RECOMMENDED 2.5% tax levy target increase from rates could be reduced by estimated assessment growth of 1% resulting in a potential tax levy increase from rates ranging from 1.5% to 2.5%.

(See attached Appendix A.1 and A.2 – 2012 to 2016 Budget Forecast versus Target by Service Group/Civic Department/Board/Commission)

- (b) the 2013 to 2016 targets for the Property Tax Supported Budget as presented in the attached Appendix A **BE APPROVED IN PRINCIPLE** and **BE USED** in the development and planning of the respective future operating and capital budgets;
- (c) an annual special "economic development levy" **BE CONSIDERED** for 2012 to 2016; it being noted that this levy would be 0.5% of the 2011 tax levy and increase annually by 0.5% levy and would generate approximately \$2.3 million of incremental funding for economic stimulus projects, it being further noted that increased economic investment is

one method of trying to attain an assessment growth target of 2.5% or higher and achieving a 0% tax rate target for the 2012 to 2014 period;

- (d) the attached Appendix B entitled "Impact of a 0% Property Tax Levy Target from Rates by Service Program" **BE RECEIVED** for information; it being noted that:
- (i) the impact of a 0% tax levy increase from rates assuming 1% assessment growth for 2012 would require Civic Departments, Boards, and Commissions to identify \$18.1 million of "permanent" cost savings/revenue opportunities to offset the overall 4.9% tax levy forecasted increase; and,
 - (ii) the impact of a 0% tax levy target for the 2012 to 2016 forecast period would require that Civic Departments, Boards, and Commissions to find a cumulative budget savings of \$270.3 million over the 5 year period assuming 1% assessment growth;
- (e) an 8% target increase from "rates" for the 2012 Water Budget **BE APPROVED**, it being noted that an 8% Water rate has been projected for 2012 and is a significant source of funding for the capital infrastructure requirements contained in the 2012-2020 Capital Plan and Forecast;
- (f) a 7% 2012 target increase from "rates" for the 2012 Wastewater Budget **BE APPROVED**; it being noted that a 7% Wastewater rate has been projected for 2012 and is a significant source of funding for the capital infrastructure requirements contained in the 2012-2020 Capital Plan and Forecast;
- (g) the 2013 to 2016 targets for the Wastewater and Water Budgets as presented in this report **BE APPROVED** in principle and **BE USED** in the development and planning of the respective future Operating and Capital Budgets; and
- (h) the 2012 Property Tax Supported, Water and Wastewater Budget Timetable **BE APPROVED IN PRINCIPLE**. (See Appendix C)

BACKGROUND

During 2011 budget deliberations, Municipal Council resolved that "*Municipal Council work with Civic Administration, the Boards and Commissions in May 2011 TO SET clear tax levy target increases for 2012 through 2016...*" Consistent with prior year processes, budget targets are being presented for discussion and approval for 2012 – 2016.

The 2012 targets are based on the recognition of the current economic environment in the London community as well as expressed desire by some members of the community and Council to attempt to achieve a 0% property tax rate change over the 2012 to 2014 budget forecast period.

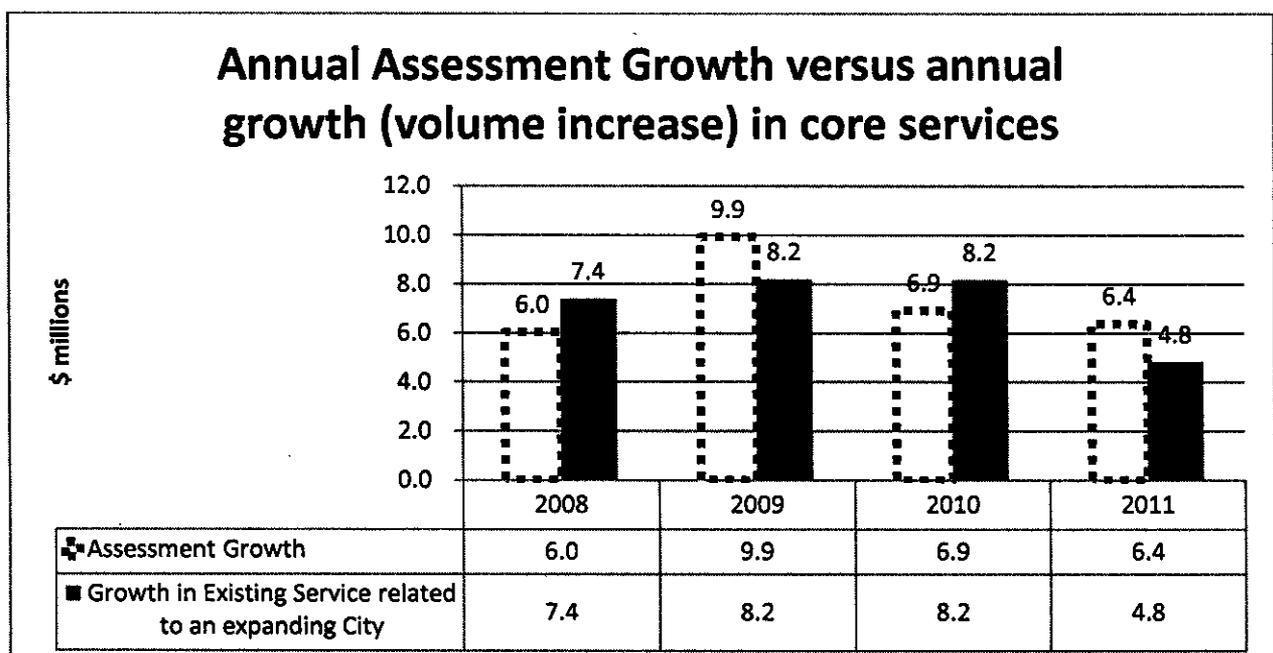
The 2012 Operating Budget targets; as recommended for the Property Tax Supported budget includes the following budget targets (service based):

- A **4.4% target increase** in 2012 for the Protective Service program area. Cost pressures as a result of growth in staff complement (as a result of an expanding city and as a result of workload analyses), inflation, flow through from 2011 decisions and collective bargaining pressures lead to forecasts significantly in excess of the target for both the London Police and London Fire Services (7% + budget forecast projected)
- A **-4.7% target reduction** in 2012 within the Social & Health Services program which takes into consideration:
 - the staggered upload of Ontario Works within the Community Services Department by the Province;
 - Maintains Social Housing funding at 2011 levels. Again, Social Housing programs were seeking a 7% increase in 2012; and,
 - Reduces the municipal funding to the Middlesex London Health Unit by approximately \$1.5 million for cost shared services to reflect provincial policy of a 75/25 percent Provincial/Municipal funding split.

- A **29.3% target increase** in the Economic Prosperity Program resulting from commitments to fund new economy initiatives that are funded through the Economic Development Reserve Fund; this increase would see an increase in contribution to the reserve fund of an additional \$1 million which would help fund the conditional grants with UWO (International Composites Research Centre) and Fanshawe (School for Applied and Performance Arts in the downtown Arts District), as well as establish a reserve fund for further investments in economic development initiatives. Should Council wish to apply the special levy as outlined in recommendation 3, Administration would adjust this \$1 million contribution and direct to other areas of need.
- A **10.8% target increase** in 2012 in the Financial Management program which provides for:
 - capital financing requirements to fund the 2012 to 2020 Capital Budget Forecast as projected by Civic Departments, Boards and Commissions in the 2011 Capital Plan;
 - the mandatory funding requirements of OMERS premium rate increases for Civic Departments (\$1.4 million annual impact for 2012 and 2013);
 - legal and personnel related issues and contingencies; and
 - planned strategic draws from stabilization reserves to temporarily reduce tax rate pressures.
- A **0% target** for the balance of all service programs including Culture, Environmental Services, Parks & Recreation, & Neighbourhood Services, Planning & Development, Transportation and Corporate Operational and Council Services.

THE IMPACT OF ASSESSMENT GROWTH:

Assessment Growth results from property taxes that are paid primarily as a result of an expanding City (new homes and businesses). These new taxes are paid to receive the same services that existing tax payers receive. Given there are an increased number of people/homes requiring core municipal services, civic departments, boards and commissions have to provide an increased volume of those core services, for example road maintenance, garbage collection, street lighting, recreation, snow ploughing, Police and Fire protection etc. This additional volume results in cost pressures across all civic departments, boards and commissions. The new taxes that are paid are in effect paying for this increased volume of services (in part or in whole). The chart below outlines the increase in growth core services resulting from a growing city in comparison with the assessment growth revenue raised in each corresponding year (2008 - 2011).



2012 TO 2016 BUDGET FORECAST IN COMPARISON TO 0% TARGET TAX LEVY FROM RATES:

As highlighted in the chart below, the property tax levy "forecast" required to support the net budget projections provided by the Civic Departments, Boards, and Commissions for the 2012 to 2016 period is estimated at \$2.65 billion dollars. The net budget projections increase from \$485.4 million in the 2012 budget forecast to over \$578.0 million by the 2016 budget forecast representing an average annualized increase of approximately 4.6%. It is important to note that the budget forecast does include core service expansion to new homes and businesses; it, however, excludes the cost of significant new programs and/or capital initiatives such as Green Bin, Transit Priority Measures, a new City Hall, and Ontario Works decentralization of sites.

The budget target setting process starts off with the property tax levy revenue budget as approved by Council in 2011 at \$462.7 million. If the property tax levy increase from rates were set at 0% in 2012 and assessment growth increased by 1%, the total property tax levy revenue raised in 2012 would increase to \$467.3 million, representing a \$18.1 million tax levy shortfall to fund the net cost forecast provided by Civic Departments, Boards, and Commissions. If assessment growth remained at 1% throughout the 2012 to 2016, cumulative cost containment and/or revenue opportunities of \$270.4 million for the period would have to be found to keep tax rates frozen at 0%.

Impact of 0% Change in Tax Levy from Rates and with 1% Assessment Growth (\$ millions)					
Year	Budget Forecast (provided by Civic Departments, Boards and Commissions)	Potential Tax Levy from Rates	Potential Tax Levy from Assessment Growth	Potential Tax Levy Total	Potential Budget Change Required from Forecast
2011	462.7				
2012	485.4	462.7	4.6	467.3	-18.1
2013	506.7	467.3	4.7	472.0	-34.7
2014	530.9	472.0	4.7	476.7	-54.2
2015	552.7	476.7	4.8	481.5	-71.2
2016	578.5	481.5	4.8	486.3	-92.2
2012 - 2016 Cumulative Total	2,654.2	2,360.2	23.6	2,383.8	-270.4

Note:
 1) The Forecast excludes new initiatives like Green Bin, Transit subsidized bus passes and new capital items (Ontario decentralization, New City Hall, Industrial Development 401/402 corridor)
 2) If assessment growth increased by 2.5%, the cumulative cost savings required would still be \$161.3 million over the period

BROAD SERVICE LEVEL IMPLICATIONS AS A RESULT OF 2012 BUDGET TARGETS:

It is clear from our financial analysis to date, that several, if not all, service areas would require a cost reduction strategy and service review to meet the recommended budget targets in 2012 and 2013 to 2016. Outlined below are the potential broad service level implications to each service area in 2012.

Culture (2012 Budget Forecast 2.4%, 2012 Budget Target 0%)

The 2012 budget forecast for Culture Services was projected at 2.4% primarily as a result of the development of a service strategy for serving a growing senior population at London libraries. There will be cost containment pressures on the London Public Library, Museum London as well as community arts grant programs to meet a 0% target in 2012. Decisions will more than likely be required on "hours of service" across the Library service system (e.g. Sunday service, Library service hours) and Museum London. In addition, decisions may be required on continuing current levels of cultural arts funding.

Economic Prosperity (2012 Budget Forecast 29.7%, 2012 Budget Target 29.3%)

City Council committed to a \$1 million increase in contributions to the Economic Development Reserve Fund to fund New Economy Projects in an effort to stimulate economic growth in the London community as well as increase assessment growth for Londoners in order to keep tax rates low. The 2012 Budget target commits the funding to this area of the municipal budget.

Environmental Services (2012 Budget Forecast 2.0%, 2012 Budget Target 0%)

The 2012 budget forecast for the Environmental Services program was estimated at a 2% increase primarily as a result of projected cost pressures within the 2012 Upper Thames River Conservation Authority (UTRCA) budget forecast which was partially offset by lower cost projection increases in Garbage, Recycling and Composting as detailed below:

- a) UTRCA (2012 Budget Forecast 6.7%, 2012 Target 0%): The UTRCA administrative team provided an updated 2012 cost projection for general operations (excluding flood control capital funding) which requested \$159,000 or 6.7% additional funding in 2012 for a general operations levy request of \$2,541,399. A 0% target will more than likely result in conservation program service impacts.
- b) Garbage, Recycling & Composting (2012 Budget Forecast 1.3%, 2012 Target 0%)
The 2012 budget forecast for other environmental services programs such as Garbage, Recycling and Composting Operations for core services requested a 1.3% increase over 2011, it being noted that the 2012 forecast excludes key "new initiatives" such as Green Bin and Zero Waste Initiatives. The cost implications of these two new initiatives are significant and must be balanced off with the environmental service program improvements within a regulatory context. Growth programs such as Green Bin and Zero Waste initiatives will not be funded within a 0% budget target in 2012

Parks, Recreation & Neighbourhood Services (2012 Forecast 0.6%, 2012 Target 0%)

The 2012 budget forecast for Parks, Recreation and Neighbourhood Services "base" programs was projected to increase by 0.6% for 2012. A 0% target for recreation programs such as aquatics, arenas, children's services, community centres, golf, sports services, and Storybook Gardens will more than likely require incremental service reductions and user fee increases resulting from a 0% target in 2012.

It is important to recognize that this area of the municipal budget receives several new program and capital growth related initiatives that expand upon its core program services. Several program enhancement requests such as strengthening neighbourhoods, maintaining urban parks, and a multi-purpose sports park will more than likely not be accommodated within a 0% target.

Planning & Development Services (2012 Budget Forecast 7.2%, 2012 Budget Target 0%)

The 2012 budget forecast for Planning & Development Services was projected at 7.2% primarily as a result of increased staffing in Land Use Planning area (3 positions identified in 2012 and 2013). Adjustments to planned programs, projects and initiatives previously endorsed by Council will be required to attain a 0% target.

Protective Services (2012 Budget Forecast 6.6%, 2012 Budget Target 4.4%)

The Protective Services cost forecast was projected at 6.6% for the 2012 period primarily as a result of unsettled contracts in both London Police and London Fire, police staffing needs (65 positions projected from 2012 to 2016), operational public safety issues and general inflationary pressures such as CPI and fuel.

- a) London Police Target 4.5%: London Police is expected to face some significant operational budget challenges with respect to increasing Police staffing and contractual projections, including flow-through of 2011 budget decisions. In addition, the temporary rate increase of OMERS premium (additional 1% in 2012) along with higher inflation and fuel prices will more than likely result in a service level review within Policing to achieve the 4.5% recommended target.
- b) London Fire Target 4.5%: London Fire is expected to face similar challenges as a result of unsettled contracts (that often mirror London Police settlements) as well as

operational issues such as staffing standards and vehicle life cycle replacement standards. Furthermore, the temporary rate increase of OMERS premiums (additional 1% in 2012) along with higher inflation and fuel prices will more than likely result in a service level review within Fire Services to achieve the 4.5% recommended target

It should be noted that there is an increased risk associated with EMS and the crossover implications of calls for service from Fire Service. Any increase in service level is projected to have significant cost implications and could not be accommodated within the 4.5% budget target.

Social & Health Services (2012 Budget Forecast -0.5%, 2012 Budget Target -4.7%)

The Social and Health Services cost forecast was originally projected to decline by 0.5% for the 2012 period primarily as a result of the staggered upload of Ontario Works to the Province which offset the growing cost pressures of Social Housing. A 2012 target of -4.7% for Social and Health services continues to recognize the staggered upload of Ontario Works Programs (excluding administrative costs) to the Province. The target, however, freezes the funding level for social housing programs to 0% from the forecasted 7% level. The key cost drivers in the Social Housing program were a London Middlesex Housing Corporation forecasted increase of 7.8%, followed by Social Housing Administration forecasted increase at 6.5%. A service level analysis will be required within the Social Housing Program sector to determine the impact of a 0% target in social housing programs.

The 2012 target also addresses the public health funding issue of maintaining a 75%/25% funding partnership, consistent with provincial policy, with the Middlesex London Health Unit on cost shared public health service programs. The municipality currently funds cost shared public health service programs on a 67% Province / 33% Municipal split. Adapting to the provincial policy will result in approximately \$1.5 million of reduced funding from the municipality for Public health service programs.

Transportation Services (2012 Budget Forecast 4.1%, 2012 Budget Target 0%)

The Transportation Services 2012 cost forecast was projected to increase by 4.1% for the 2012 period primarily as a result of an anticipated 6.4% increase for London Transit in conventional and specialized transit service areas, as well as cost pressures within Street Lighting.

A 0% 2012 budget target will more than likely result in LTC eliminating the 2011 and 2012 growth programs for transit service and reviewing bus fares to meet a 0% target.

Corporate Operational & Council Services (2012 Budget Forecast 2.5%, 2012 Target 0%)

The Corporate Operational and Council Services Budget forecast (excluding Financial Management) in 2012 was projected to increase by 2.5% primarily as a result of anticipated cost increases in administrative services, purchasing, realty services, information and archive management. A 0% 2012 budget target will more than likely result in service level adjustment in several corporate service areas.

Financial Management (2012 Budget Forecast 10.8%, 2012 Target 10.8%)

The Financial Management program was expected to increase by 10.8% in 2012 primarily as a result of increased debt servicing costs associated with approved infrastructure stimulus fund projects, pay as you go financing commitments for funded capital works projects in 2012 to 2020, mandatory costs associated with OMERS rate increases for Civic Departments, as well as personnel/legal related issues. The 2012 target ensures that the Corporate Strategic Financial Plan is in place, a key component in ensuring a Aaa credit rating for the municipality, the appropriate capital investments are made from a life cycle maintenance, growth, and new initiative perspective, and the appropriate funding mechanisms are applied to smooth out tax rate implications, as well as manage personnel/legal related matters.

WATER AND WASTEWATER BUDGET TARGETS (2012 TO 2016)

Civic Administration is recommending an 8% budget target increase for Water in 2012 consistent with the direction provided by Committee of the Whole on December 20, 2010. This funding level is outlined in the City's Financial Plan prepared under O. Reg 453/07. The plan, which is intended to demonstrate movement towards a financially sustainable business model,

is a requirement under the licensing criteria of the Safe Drinking Water Act.

Civic Administration is recommending a 7% budget target increase for Wastewater and Treatment in 2012 consistent with the direction provided by Committee of the Whole on December 20, 2010. This funding level is accounted for in the 20 Year Sewer System Plan and is intended to demonstrate the movement toward financial sustainability as per the anticipated requirements of the province's *Sustainable Water and Sewage Systems Act, 2002* and *The Water Opportunities and Water Conservation Act, 2010*.

For clarity the recommended rates in the Water and Wastewater plans for the period 2012 to 2016 are outlined below:

WATER

	2012	2013	2014	2015	2016
Recommended Water Rates	8.0%	8.0%	8.0%	8.0%	4.5%

WASTEWATER

	2012	2013	2014	2015	2016
Recommended Wastewater Rates	7.0%	7.0%	7.0%	5.4%	3.0%

INTEGRATION OF BUSINESS PLANS TO THE 2012 BUDGET TARGET SETTING

The Service Review Committee is slated to receive a set of business plans in June, 2011 that outlines services, current state and future direction, including performance measures. In addition, a number of "new initiatives" will be advanced for recommendation. New Initiatives can include new services, increases in service levels or "reductions" in services. In all cases, the Service Review Committee should receive: the objective(s) of the new initiative; a description; the target year for implementation; sunset date; exit strategy (if eliminating a service); and, the estimates of the impact on operating and capital budgets.

Several of the Civic Departments have prepared their business plans assuming a 0% budget target for 2012. Several of the business cases that Committee of the Whole will receive in June 2011 will provide greater detail of the implications of a 0% target for that particular service.

The business planning process is intended to provide Council with a more comprehensive review of services it provides and adequate time to discuss changes in the direction of those services along with the associated impact on the budget, both in the next and subsequent years.

The decisions resulting from the Service Level Review Committee will then be integrated into the 2012 administrative and political budget review process in January, 2012. Each service area has the option to either:

- fund an endorsed new "initiative" through the 2012 budget target adopted by Council; or,
- eliminate an existing service and use the funding to implement a new initiative.

BUDGETARY ISSUES/CHALLENGES FOR 2012 AND BEYOND:

Council must consider and balance the ramifications of approving the 2012 targets with the operational challenges that the Corporation is facing. Containing personnel costs to appropriate and reasonable levels will determine the likelihood of the Corporation achieving an overall property tax levy rate increase before assessment growth at 2.5%.

Some of the key budgetary issues that Council will face in the 2012 Property Tax Supported budget include:

- **Labour Relations / Collective Bargaining:** The labour component of the property tax supported budget is well in excess of \$300 million (including boards and commissions that receive an appropriation from the property tax levy). A 1% increase in salaries, wages, and

benefits easily equates to a \$3 million increase in property taxes before changes to staff complement is even considered.

Unsettled contracts in the protective services are a key budget pressure to achieving a corporate budget target of 2.5%. A 3% increase, for example, in police and firefighter salaries is equivalent to a 1% (approximately) increase in the 2012 property tax levy before the consideration of changes to benefits.

A corporate collective bargaining strategy, particularly in the protective service area that reviews the key collective bargaining issues and overall personnel costs on a fair, reasonable, centralized and corporate basis is crucial to the 2012 to 2016 target setting process.

▪ **Ontario Works (OW):**

▪ **Caseload:** The economic impacts of a recession and the impacts on municipal services such as Ontario Works (Caseload levels 2011: 11,500 , 2012: 11,000 (projected), 2013: 10,500 projected). Forecasted levels by 2015 still exceed actual average case load levels experienced in 2009. Along with the changes in caseload, an estimated 1% social assistance rate increase has been incorporated into the forecast and in the target.

▪ **Upload:** Also included in the forecast and target for Social & Community Support Services is projected additional Provincial subsidy due to the Province's decision to upload the municipal share of eligible Ontario Works Financial Assistance and Employment Assistance costs originally cost shared at 80:20 provincial-municipal basis. The upload schedule commenced in 2010 and will be completed in 2018. In 2012, 14% of the municipal costs (excluding costs of administration) are projected to be uploaded.

▪ **Cost of Administration:** Preliminary projections indicate that the additional revenue from the costs of administration subsidy for Ontario Works could be in the \$2.0 to \$4.0 million range in 2012, pending approval of the regulations. This additional subsidy has not been accounted for in the 2012 forecasts or the target setting process. Civic Administration has the option to fund core priority service programs in need of additional or base funding (example OW program related issues, recreation, environmental programs) or reduce the 2012 property tax burden.

▪ **Ontario Municipal Employees Retirement System (OMERS):** On September 8th, 2010, the OMERS Sponsors Corporation identified a three-year contribution rate increase of 1% in 2011, 1% in 2012, and 0.9% in 2013. The 2012 budget forecast and target setting process includes a projected \$2.5 million cost pressure across Civic Departments and Boards & Commissions.

▪ **Inflation/Fuel:** On April 19th, 2011, Statistics Canada released the latest change in the Consumer Price Index (CPI) as of March 2011. In March, the CPI for Ontario increased 3.6% over March 2010, higher than the national CPI for the same time period of 3.3%. Other inflationary items worth noting in that release was the increase in gasoline prices of 20.4% and the increase in the cost of food purchased from stores which increased 3.6% in the Province of Ontario.

▪ **New Initiatives:** Based on recommended targets, new initiatives such as a Green Bin Program, base funding for London Strengthening Neighbourhoods, and other new initiatives have not been incorporated into forecasts or targets.

▪ **Strategic Use of Operating Budget Contingency Reserve:** Recognizing cost pressures to maintain existing service levels as well as funding non discretionary service obligations such as debt servicing costs, OMERS contribution increases, and Provincially regulated programs, Civic Administration has increased its draw from the Operating Budget Contingency Reserve to \$4.6 million in 2012 (increased further to \$5.7 million in 2013 and then reduced in 2014). It is important to note that the Operating Budget Contingency Reserve balance anticipated by 2014 is at a targeted 1.0% of the total net expenditure of the municipality. The Operating Budget Contingency Reserve serves as a strategic financial planning tool to mitigate property tax rate pressures for a temporary period and provide funding for unanticipated events and or one-time events. This strategy was employed primarily as a means to mitigate OW caseload increases until the upload of OW offset that increase.

Administration continues to take measures to ensure that Departments and Program Managers embrace a "planned savings" approach to program services in 2011 to assist with

maintaining an adequate contingency reserve balance and mitigating 2012 to 2016 tax rate pressures. Without the efforts of planned savings in 2011 and the effective utilization of Operating Budget Contingency reserve draws (\$4.6 million planned in 2012), the projected 2012 tax levy target increase would exceed the 3.5% level (before assessment growth).

ECONOMIC DATA AND ANALYSIS:

On April 13th, 2011, the Governor of the Bank of Canada released Canada's Monetary Policy Report. In that report, the Bank of Canada projected "the economy will expand by 2.9% in 2011 and 2.6% in 2012. Growth in 2013 is expected to equal that of potential output, at 2.1%." Economic indicators for the Province of Ontario from Stats Canada (Table 1) along with Provincial economic forecasts provided in the 2011 Ontario Budget (Table 2) echo the message that the economy is set to pick-up.

Table 1: Economic indicators for the Province of Ontario from the past 5 months

Key Economic Indicator: Ontario	Percentage				
	November '10	December '10	January '11	February '11	March '11
Consumer Price Index	2.5%	2.5%	2.5%	2.5%	2.5%
Unemployment Rate	8.2%	8.1%	8.0%	8.0%	8.1%
Employment Rate	61.6%	61.4%	61.6%	61.5%	61.5%
Participation Rate	67.1%	66.8%	67.1%	66.8%	66.9%

- (1) Statistics Canada - Consumer Price Index by province, and for Whitehorse, Yellowknife and Iqaluit – as of Tuesday, April 19, 2011
- (2) Statistics Canada - Labour force characteristics by province *Seasonally Adjusted* CANSIM table 282-0087.

Table 2: Key economic indicator projections for the Province of Ontario for the 2011 to 2014 period which were published as part of the 2011 Ontario Budget released on March 29, 2011.

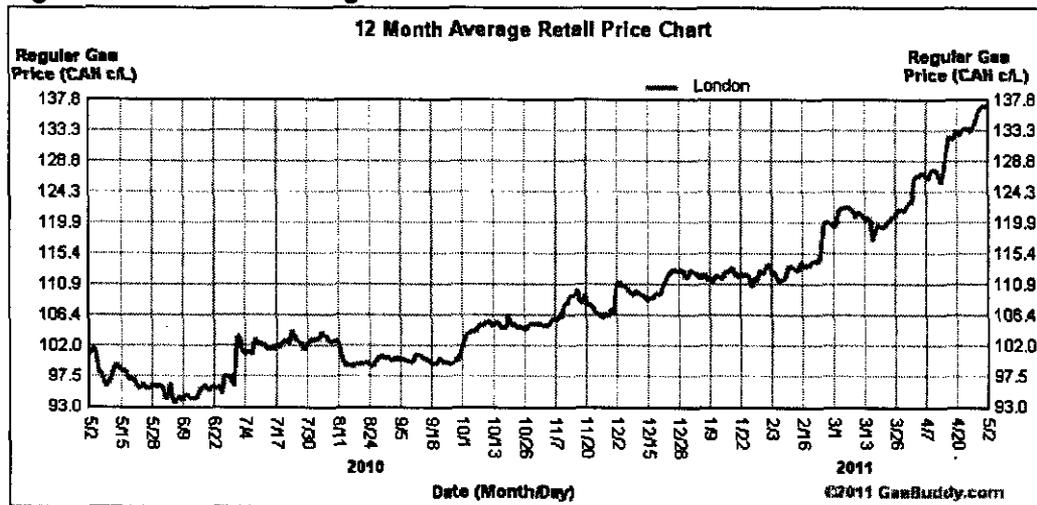
Ontario Economic Outlook (Per Cent Change)	Projection			
	2011	2012	2013	2014
Consumer Price Index	2.5%	2.6%	2.6%	2.6%
Real Gross Domestic Product	2.4%	2.7%	2.7%	2.6%
Housing Starts (000s)	66.6	67.6	66.6	66.6
Personal Income	4.2%	4.4%	4.5%	4.5%
Employment	1.7%	1.8%	1.8%	1.7%
Job Creation (000s)	113	113	120	120
Unemployment Rate	8.2%	7.7%	7.7%	6.7%
10 Year Government Bond Rate	4.5%	4.1%	4.1%	4.3%

SOURCE: 2011 Ontario Budget – March 29, 2011
 *Government of Canada Interest rates (per cent)
 Sources Used: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, US Bureau of Economic Analysis, Blue chip Economic Indicators (March 2011) and Ontario Ministry of Finance.

Notwithstanding the positive forecasts and the promising indicators reported in the second half of 2010, Federal and Provincial Stimulus Programs have begun to wrap up and government austerity measures continue to be put into place to address government deficits. Furthermore based on the projections above, indicators such as the unemployment rate are not expected to return to the levels experienced in the fall of 2008 until 2014.

One item of some concern to Civic Administration has been the recent rise in fuel costs which will no doubt impact Londoners if the trend experienced over the past year is to continue. According to Statistics Canada, gasoline prices in Ontario have increased 20.4% in March over March 2010. According to LondonGasPrices.com, the 12 month average regular retail gas price in London per litre has increased from approximately \$1.02 per litre as of May 2, 2010 to \$1.378 on May 2, 2011 (Figure 1).

Figure 1: 12 Month Average Retail Price Chart – London Ontario

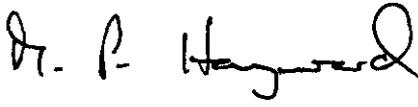
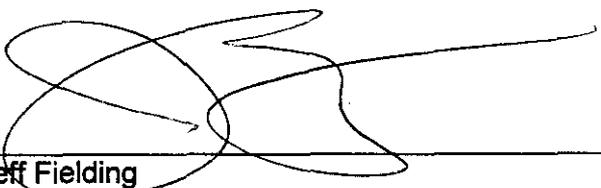


Source: LondonGasPrices.com - <http://www.londongasprices.com/Retail Price Chart.aspx>

CONCLUSION:

Adoption of the targets for 2012 – 2016 will create significant financial challenges for the various service program areas. It is important that Council indicate its intention as early as possible to allow departments, boards and commissions sufficient time to adapt to any service based targets that would require business or service level changes.

In Appendix A.1, Civic Administration has provided “service based” budget targets for 2012 and the 2013 to 2016 period. These targets, if adopted by Municipal Council could achieve an average tax levy increase of 1.9% after an estimated 1% assessment growth throughout the 2012 to 2016 period.

PREPARED BY:	RECOMMENDED BY:
	
Larry Palarchio Director of Financial Planning & Policy	Martin Hayward Chief Financial Officer and City Treasurer
	CONCURRED BY:
	
	Jeff Fielding Chief Administrative Officer

cc: Members of Senior Management Team, City of London; Suzanne Hubbard-Kimmer, London Public Library; Jerry Campbell, Lower Thames Valley Conservation Authority; Lori DaSilva, London Convention Centre; Larry Ducharme, London Transit Commission; Chief Brad Duncan, London Police Services; Derek Grater, London Middlesex Housing Corporation; Elizabeth VanHooren, Kettle Creek Conservation Authority; Brian Meehan, Museum London; Dr. Graham Pollett, Middlesex-London Health Unit; Ian Wilcox, Upper Thames River Conservation Authority; John Winston, Tourism London

APPENDIX A.1

- 2012 to 2016 Budget Forecast versus Target by Service Program -

PROPERTY TAX SUPPORTED	2011				2012				2013 - 2016				Total				
	Revised Budget	Forecast		Target	\$ Difference	Forecast		Target	\$ Difference	Forecast		Target	\$ Difference	Forecast		Target	\$ Difference
		\$	%			\$	Avg. %			\$	Avg. %			\$	Avg. %		
Culture	21,506	22,021	2.4%	21,506	0.0%	515	95,130	3.1%	87,681	1.3%	(7,479)	117,151	3.0%	109,157	1.0%	(7,994)	
Economic Prosperity	6,527	8,466	29.7%	8,441	29.3%	(25)	41,443	6.5%	41,555	6.9%	112	49,909	11.1%	49,998	11.4%	87	
Environmental Services	16,853	17,198	2.0%	16,854	0.0%	(344)	73,429	2.6%	68,690	1.3%	(4,739)	90,627	2.5%	85,544	1.0%	(5,084)	
Parks, Recreation & Neighbourhood Services	24,139	24,293	0.6%	24,140	0.0%	(153)	100,896	1.4%	98,387	1.2%	(2,509)	125,189	1.3%	122,527	1.0%	(2,662)	
Planning & Development Services	4,384	4,699	7.2%	4,384	0.0%	(315)	19,516	1.6%	17,869	1.3%	(1,648)	24,216	2.7%	22,253	1.0%	(1,963)	
Protective Services	140,135	149,393	6.6%	146,272	4.4%	(3,121)	688,267	5.6%	642,895	3.4%	(45,372)	837,660	5.8%	789,166	3.6%	(48,493)	
Social & Health Services	76,328	75,971	-0.5%	72,736	-4.7%	(3,234)	289,154	-1.5%	265,764	-3.0%	(23,390)	365,125	-1.3%	338,500	-3.3%	(26,625)	
Transportation Services	52,785	54,937	4.1%	52,787	0.0%	(2,150)	244,689	4.3%	213,407	0.7%	(31,282)	299,626	4.3%	268,193	0.6%	(33,432)	
Corporate, Operational & Council Services	54,021	55,359	2.5%	54,024	0.0%	(1,335)	232,314	2.0%	220,182	1.2%	(12,132)	287,673	2.1%	274,206	1.0%	(13,467)	
Financial Management & Corporate Revenues	66,043	73,145	10.8%	73,145	10.8%	0	383,956	11.0%	383,275	10.8%	(681)	457,100	11.0%	456,420	10.8%	(681)	
TAX LEVY	462,721	485,482	4.9%	474,289	2.5%	(11,192)	2,168,793	4.5%	2,039,672	3.0%	(129,121)	2,654,275	4.6%	2,513,962	2.9%	(140,313)	
ASSESSMENT GROWTH			0.5%		1.0%			0.5%		1.0%			0.5%		1.0%		
TAX LEVY FROM RATES			4.4%		1.5%			4.0%		2.0%			4.1%		1.9%		

APPENDIX A.2

- 2012 to 2016 Budget Forecast versus Target by Service Program split between Civic Departments and Boards & Commissions -

PROPERTY TAX SUPPORTED BUDGET	2011 REVISED BUDGET \$	2012						2013 - 2016						Total						
		Forecast		Target		Difference		Forecast		Target		Difference		Forecast		Target		Difference		
		\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	
CIVIC DEPARTMENTS																				
Culture (Arts, Culture, and Heritage Advisory & Funding, Centennial Hall, and Heritage)	2,205	1.2%	2,205	0.0%	(26)		9,600	2.7%	8,987	1.3%	(612)		11,830	2.4%	11,192	1.0%	(638)			
Economic Prosperity (Economic Development Reserve Fund, LEDC, Community Improvement/ BIA's)	4,190	45.7%	6,104	45.7%	1		31,801	8.5%	32,030	8.9%	229		37,904	15.9%	38,134	16.2%	230			
Environmental Services (Environmental Stewardship, Garbage, Composting, and Recycling)	13,950	1.2%	13,951	0.0%	(173)		59,482	2.1%	56,858	1.3%	(2,624)		73,606	1.9%	70,809	1.0%	(2,797)			
Parks, Recreation & Neighbourhood Services (Community Centres, Child Care, Arenas, Storybook, Sports Services, Urban Forestry, Parks)	24,139	0.6%	24,140	0.0%	(153)		100,898	1.4%	98,387	1.2%	(2,509)		125,189	1.3%	122,527	1.0%	(2,662)			
Planning & Development Services (Building Controls, Land Use Planning, Development Approvals)	4,384	7.2%	4,384	0.0%	(315)		19,516	1.6%	17,869	1.3%	(1,648)		24,216	2.7%	22,253	1.0%	(1,963)			
Protective Services (Fire Services, Animal Welfare, Animal Control, Security, ByLaw Enforcement)	54,998	4.7%	57,304	4.2%	(271)		257,213	4.4%	251,110	3.4%	(6,103)		314,788	4.5%	308,413	3.5%	(6,375)			
Social & Health Services (Social Housing, Ontario Works, Long Term Care, Land Ambulance, Subsidized Transit, Homelessness)	62,399	-1.5%	60,307	-3.4%	(1,131)		224,593	-3.0%	212,983	-4.3%	(11,569)		286,051	-2.7%	273,301	-4.1%	(12,731)			
Transportation Services (Parking, Roadways)	29,880	2.3%	29,882	0.0%	(863)		130,510	2.5%	121,787	1.3%	(8,724)		161,085	2.5%	151,888	1.0%	(9,197)			
Corporate, Operational & Council Services (Facilities, Asset Management, Fleet, Finance, Human Resources, Risk Management, Technology Services, Communications, Elected Officials,...)	54,021	2.5%	54,024	0.0%	(1,335)		232,314	2.0%	220,182	1.2%	(12,132)		287,673	2.1%	274,206	1.0%	(13,467)			
TAX LEVY - CIVICS	250,166	2.5%	252,301	0.9%	(4,096)		1,065,926	1.6%	1,020,202	0.7%	(45,724)		1,322,323	1.6%	1,272,504	0.7%	(49,820)			
BOARDS & COMMISSIONS																				
Culture (Library, Museum London)	19,301	2.5%	19,301	0.0%	(490)		85,530	3.2%	78,664	1.3%	(6,867)		105,321	3.1%	97,965	1.0%	(7,356)			
Economic Prosperity (Convention Centre, Tourism London, Covent Garden Market)	2,337	1.1%	2,337	0.0%	(26)		9,642	0.8%	9,525	1.3%	(117)		12,004	0.8%	11,862	1.0%	(143)			
Environmental Services (Conservation Authorities)	2,903	5.9%	2,903	0.0%	(172)		13,946	5.0%	11,832	1.2%	(2,115)		17,021	5.2%	14,735	1.0%	(2,286)			
Protective Services (London Police Service)	85,137	7.8%	88,968	4.5%	(2,850)		431,054	6.3%	391,785	3.5%	(39,269)		522,872	6.6%	480,753	3.7%	(42,119)			
Social & Health Services (London & Middlesex Housing Corporation, Middlesex London Health Unit)	13,929	4.3%	12,429	-10.8%	(2,103)		64,561	4.3%	52,771	2.7%	(11,791)		79,083	4.3%	65,200	0.0%	(13,884)			
Transportation Services (London Transit Commission)	22,905	6.4%	22,905	0.0%	(1,457)		114,178	6.5%	91,620	0.0%	(22,558)		138,540	6.4%	114,325	0.0%	(24,015)			
TAX LEVY - BOARDS & COMMISSIONS	146,512	6.4%	148,843	1.6%	(7,097)		718,912	5.6%	636,195	2.5%	(82,717)		874,852	5.8%	785,039	2.4%	(89,813)			
Financial Management & Corporate Revenues	66,043	10.8%	73,145	10.9%	0		383,956	11.0%	383,275	10.8%	(681)		457,100	11.0%	458,420	10.8%	(681)			
TAX LEVY	482,721	4.9%	474,289	2.6%	(11,192)		2,168,793	4.5%	2,039,672	3.0%	(129,121)		2,664,275	4.6%	2,513,962	2.9%	(140,313)			
Assessment Growth		0.5%		1.0%				0.5%		1.0%				0.5%		1.0%				
TAX LEVY FROM RATES		4.4%		1.5%				4.0%		2.0%				4.1%		1.9%				

APPENDIX B

- Impact of 0% Tax Levy from Rates by Service Program - Grouped by Civic Department, Boards & Commissions -

PROPERTY TAX SUPPORTED BUDGET	2011				2012				2013 - 2016				Total					
	REVISED BUDGET \$	Forecast		Target		Difference \$	Forecast		Target		Difference \$	Forecast		Target				
		\$	%	\$	%		\$	%	\$	%		\$	%	\$	%			
GIVIC DEPARTMENTS																		
Culture (Arts, Culture, and Heritage Advisory & Funding, Centennial Hall, and Heritage)	2,205	2,231	1.2%	2,130	-3.4%	(101)	9,600	2.7%	7,632	-4.3%	(1,968)	11,830	2.4%	9,761	-4.1%	(2,069)		
Economic Prosperity (Economic Development Reserve Fund, LEDC, Community Improvement/ BIA's)	4,190	6,103	45.7%	5,981	42.3%	(143)	31,801	8.5%	27,974	3.6%	(3,827)	37,904	15.9%	33,935	11.4%	(3,970)		
Environmental Services (Environmental Stewardship, Garbage, Composting, and Recycling)	13,950	14,124	1.2%	13,472	-3.4%	(651)	59,482	2.1%	48,282	-4.3%	(11,200)	73,606	1.9%	61,754	-4.1%	(11,852)		
Parks, Recreation & Neighborhood Services (Community Centres, Child Care, Arenas, Storybook, Sports Services, Urban Forestry, Parks)	24,139	24,283	0.6%	23,313	-3.4%	(970)	100,896	1.4%	83,547	-4.3%	(17,349)	125,188	1.3%	108,860	-4.1%	(16,328)		
Planning & Development Services (Building Controls, Land Use Planning, Development Approvals)	4,384	4,698	7.2%	4,234	-3.4%	(465)	19,516	1.6%	15,206	-4.0%	(4,310)	24,216	2.7%	19,440	-3.9%	(4,776)		
Protective Services (Fire Services, Animal Welfare, Animal Control, Security, By-Law Enforcement)	54,998	57,575	4.7%	57,174	4.0%	(401)	257,213	4.4%	248,792	3.1%	(8,420)	314,788	4.5%	305,967	3.2%	(8,821)		
Social & Health Services (Social Housing, Ontario Works, Long Term Care, Land Ambulance, Subsidized Transit, Homelessness)	82,399	61,439	-1.5%	59,365	-4.9%	(2,074)	224,583	-3.0%	198,100	-7.2%	(28,483)	286,031	-2.7%	255,465	-6.7%	(30,567)		
Transportation Services (Parking, Roadways)	29,880	30,575	2.3%	28,857	-3.4%	(1,718)	130,510	2.5%	103,417	-4.3%	(27,093)	161,065	2.5%	132,274	-4.1%	(28,811)		
Corporate, Operational & Council Services (Facilities, Asset Management, Fleet, Finance, Human Resources, Risk Management, Technology Services, Communications, Elected Officials,...)	54,021	55,356	2.5%	52,172	-3.4%	(3,187)	232,314	2.0%	186,971	-4.3%	(45,343)	287,673	2.1%	239,142	-4.1%	(48,530)		
TAX LEVY - CIVICS	250,166	266,397	2.6%	248,677	-1.4%	(9,720)	1,066,926	1.6%	917,921	-2.6%	(148,005)	1,322,323	1.8%	1,164,688	-2.6%	(157,725)		
BOARDS & COMMISSIONS																		
Culture (Library, Museum London)	19,301	19,791	2.5%	18,640	-3.4%	(1,150)	85,530	3.2%	66,802	-4.3%	(18,728)	105,321	3.1%	85,443	-4.1%	(19,879)		
Economic Prosperity (Convention Centre, Tourism London, Covent Garden Market)	2,337	2,363	1.1%	2,257	-3.4%	(106)	9,642	0.8%	8,069	-4.3%	(1,553)	12,004	0.8%	10,346	-4.1%	(1,659)		
Environmental Services (Conservation Authorities)	2,903	3,075	5.9%	2,804	-3.4%	(271)	13,946	5.0%	10,048	-4.3%	(3,898)	17,021	5.2%	12,851	-4.1%	(4,170)		
Protective Services (London Police Service)	85,137	91,818	7.6%	88,968	4.5%	(2,850)	431,054	6.3%	391,785	3.5%	(39,269)	522,872	6.8%	480,753	3.7%	(42,119)		
Social & Health Services (London & Middlesex Housing Corporation, Middlesex London Health Unit)	13,928	14,532	4.3%	11,952	-14.2%	(2,580)	64,561	4.3%	47,060	-0.5%	(17,502)	79,063	4.3%	59,012	-3.2%	(20,051)		
Transportation Services (London Transit Commission)	22,905	24,362	6.4%	22,905	0.0%	(1,457)	114,178	6.5%	91,620	0.0%	(22,558)	138,540	6.4%	114,525	0.0%	(24,015)		
TAX LEVY - BOARDS & COMMISSIONS	148,612	155,940	6.4%	147,626	0.7%	(8,414)	718,912	5.6%	616,403	1.6%	(103,509)	874,862	5.8%	762,929	1.3%	(111,933)		
Financial Management & Corporate Revenues	68,043	73,145	10.8%	73,145	0.0%	0	383,856	11.0%	383,275	10.8%	(581)	457,100	11.0%	456,420	10.8%	(681)		
TAX LEVY	462,721	486,482	4.9%	467,348	1.0%	(18,133)	2,166,793	4.6%	1,916,688	1.0%	(252,105)	2,654,275	4.6%	2,383,947	1.0%	(270,328)		
Assessment Growth			0.5%		1.0%			0.5%		1.0%			0.5%		1.0%			
TAX LEVY FROM RATES			4.4%		0.0%			4.0%		0.0%			4.1%		0.0%			

APPENDIX C
Recommended Timetable for 2012 Budget Political Review

Date	What	Who
Tuesday November 1	Water and Wastewater Budgets Tabled	Committee of the Whole
Tuesday November 8	Water and Wastewater Budgets Review (including Public Participation)	Committee of the Whole – Public Participation
Monday November 21	Water and Wastewater Budgets Approved	Council
Tuesday December 6	Property Tax Budget Tabled (Operating and Capital Budgets)	Committee of the Whole
Monday December 19	Budget Orientation and Strategic Planning	Committee of the Whole
Saturday January 14	Public Engagement – Shopping Malls	Council Members
Monday January 23	Public Consultation: Property Tax – Operating and Capital Budgets	Committee of the Whole
Thursday January 26	Property Tax - Capital Budget Review	Committee of the Whole
Thursday February 2	Property Tax - Operating Budget Review (complete Capital Budget Review if needed)	Committee of the Whole
Thursday February 9	Property Tax - Operating Budget Review (if needed)	Committee of the Whole
Thursday February 16	Property Tax Budget Approved	Council

Notes:

1. 2011 dates correspond with currently scheduled Committee of the Whole and Council meetings.
2. Committee names and meeting dates may be affected by the ongoing governance review and may have to be amended in keeping with governance changes adopted by the Municipal Council.
3. The Shopping Mall public outreach initiative may be affected by the outcomes of the current review of citizen engagement strategies.