

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE MEETING ON FEBRUARY 24, 2016
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	ASSESSMENT GROWTH POLICY AND ALLOCATION OF 2016 ASSESSMENT GROWTH FUNDING

RECOMMENDATIONS

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer:

1. The attached proposed by-law (attached as Appendix A) **BE INTRODUCED** at the Municipal Council meeting on March 1, 2016 to enact an Assessment Growth Policy, in order to provide Civic Administration with a set of guidelines to manage the allocations of assessment growth funds; and
2. The allocation of 2016 assessment growth funding **BE RECEIVED** for information.

BACKGROUND

The purpose of this report is to seek Municipal Council approval of an Assessment Growth Policy by-law, as well as to provide an update on the allocation of annual assessment growth funds. In May 2012, Municipal Council passed by resolution an Assessment Growth Policy. Civic Administration is bringing forward a new Assessment Growth Policy for the following reasons:

1. A review of the existing policy has not been conducted since 2012;
2. To ensure the policy is aligned with the current desires of this term of Municipal Council; and,
3. To ensure the policy provides the necessary flexibility to meet current operational demands.

How Does Assessment Growth Arise?

How it comes about?

Assessment growth generally refers to the net increase in assessment attributable to new construction less adjustments resulting from assessment appeals and property classification changes. Each year, weighted assessment growth is calculated as it generates incremental tax revenue.

Relationship to Development Charges (DC)

Development charges are raised through the issuance of building permits and are based on the cost of capital related to new infrastructure required for a growing city. This money is set aside in separate reserve funds and is drawn down to pay for growth in capital infrastructure (i.e. road widening, new roads, and new municipal facilities). This infrastructure allows new homes and businesses to be built.

Once built, property taxes are levied on the new homes and businesses. The new homes and businesses expect to receive the same municipal services that existing tax payers receive. The property taxes on new homes and businesses are calculated and recorded as funding from assessment growth. Given the increase in the number of homes and businesses requiring core

municipal services, civic service areas, boards and commissions must provide an increased volume of core services (e.g. road maintenance, garbage collection, street lighting, recreation, snowplowing, police and fire protection, etc.). This additional volume results in cost pressures across all civic service areas, boards and commissions. The new taxes that are paid are in effect paying for this increased volume of services.

1. ASSESSMENT GROWTH POLICY

The Assessment Growth Policy establishes the framework to be used by Municipal Council and Civic Administration for the allocation of assessment growth funds. The framework for the allocation of assessment growth funds is as follows:

- a) Civic service areas, boards and commissions that incur costs to provide existing core services to new growth areas are required to submit business cases to the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer or designate. The business cases will provide justification and rationale for the assessment growth funding request and should include a description of the need for growth funding, the associated financial impacts and metrics.
- b) The first available assessment growth funds are applied to business cases approved by the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer or designate. A comprehensive business case approval process ensures that only those growth requests that are adequately supported are considered for funding.
- c) If business cases submitted by civic service areas, boards and commissions exceed available assessment growth funding then:
 - I. Approved business cases will be allocated funding according to the following priority order, it being noted that funding allocations to service areas for costs due to a growing and expanding City may be either one-time or permanent in nature:
 - i. Flow through costs for business cases funded through assessment growth in the prior year (e.g. prior year funding approved to support a position to begin in May will require additional funding in the following year to ensure funding is available for January through April);
 - ii. Services that are aligned with those supported through Development Charges (e.g. new or expanded roadways, new parks, new libraries, new fire stations, new recreation facilities); and
 - iii. Business cases will be evaluated as to whether the service and/or funding could be deferred to next year and whether significant service disruptions would occur if the service did not receive the current year growth funding.
 - II. Unfunded business cases will be resubmitted for consideration in the following year.
- d) If assessment growth funding exceeds the accumulated growth costs of civic service areas, boards and commissions in any one budget year, the balance available will be applied in that year as follows:
 - I. 50% to reducing authorized debt on a one-time basis. On an annual basis, Municipal Council approves a capital budget with corresponding financing such as debt. Often due to the nature of capital works, the issuance of debt is not required until the work is close to complete, 2 – 3 years after budget approval. As a result of this timing difference, Municipal Council can reduce the amount of authorized but unissued debt through the allocation of year-end surplus to debt substitution.
 - II. 25% to the Capital Infrastructure Gap Reserve Fund on a one-time basis to mitigate growth in the infrastructure gap. The 2013 State of Infrastructure Report identified an approximate property tax supported infrastructure gap of \$50.1

million and projected that gap to grow to \$405.5 million by 2022. The risks of not investing in the infrastructure gap are the potential to shorten the useful lives of assets, inefficient investments, litigation, damage to the environment, lost opportunities (i.e. government transfer payments), and rising maintenance costs. The one-time contribution to this reserve fund would be used to mitigate increase in deteriorating City owned assets.

III. 25% to either:

- a) Meeting one-time needs that are supported by the Strategic Plan, or
- b) A tax levy reduction on a permanent basis.

e) Excess assessment growth funding not allocated permanently, will be carried forward to the following year as a permanent source for future growth costs.

The following chart provides an overview and example

(\$millions)	2016	2017	2018	2019
Carry Forward Balance	\$0.0	\$0.4	\$0.3	\$0.0
Current Year Assessment Growth Funding	5.1	4.7	4.7	4.7
Growth Costs	4.7	4.7	5.0	4.7
Remaining Available Funding Balance	\$0.4	\$0.4	\$0.0	\$0.0
One-time Allocations:				
Authorized Debt Reduction	0.2	0.2	0.0	0.0
Capital Infrastructure Gap Reserve Fund	0.1	0.1	0.0	0.0
One-Time Strategic Need	0.1	0.0	0.0	0.0
Ending Carry Forward Balance	\$0.4	\$0.3	\$0.0	\$0.0
Permanent Allocation:				
Tax Levy Reduction	0.0	0.1	0.0	0.0
Current Year Balance	\$0.0	\$0.0	\$0.0	\$0.0

Explanation	
2016	Current year assessment growth funding exceeds growth costs of expanding city. Excess applied in that year to reducing authorized debt (50%), to the Capital Infrastructure Gap Reserve Fund (25%) and a one-time strategic need (25%). This leaves the full excess for carry forward.
2017	Current year assessment growth funding and carry forward funding exceeds growth costs of expanding city. Excess applied in that year to reducing authorized debt (50%), to the Capital Infrastructure Gap Reserve Fund (25%) and to a tax levy reduction (25%). This leaves all but amount allocated for permanent reduction of tax levy from rates as excess for carry forward.
2018	Growth costs exceed current year assessment growth funding, however carry forward funding is sufficient to cover these additional growth costs. No excess is available for current year allocation according to policy or carry forward.
2019	Current year assessment growth funding matches growth costs of expanding city. No excess is available for current year allocation according to policy or carry forward.

Budgeting for Assessment Growth

For forecast purposes, assessment growth will be assumed to be fully allocated to growth costs. Assessment growth and its allocation will be reported annually after the assessment roll is finalized.

Policy Review

The proposed assessment growth policy includes a clause requiring that the policy come back to Council for review every four years, in the first year of each elected Council.

2. ALLOCATION OF 2016 ASSESSMENT GROWTH

For 2016, the weighted assessment growth is 1.2%, or \$6,206,000. There is also prior year carry forward of \$1,395,000 for total available assessment growth revenue of \$7,601,000. This is the amount of assessment growth revenue available to fund costs associated with an expanding and growing city for 2016.

The total amount of 2016 requests to cover costs associated with an expanding city is \$6,675,600. As such, available funding exceeds growth costs by \$925,400 therefore remaining funding will be allocated as per the assessment growth policy as follows:

- 1) 50% (\$462,700) to reduce authorized debt;
- 2) 25% (\$231,350) to the Capital Infrastructure Gap Reserve Fund; and,
- 3) 25% (\$231,350) to one-time needs supported by the Strategic Plan (it being noted that an option is also available to reduce the pressure on tax levy from rates by permanently using this 25% toward tax mitigation).

An overview of the submitted cases along with their corresponding recommended funding allocation is provided in Appendix B. Full business case requests can be found in Appendix C.

The chart below summarizes the services that have been allocated assessment growth funding.

Service Program	(\$) Total	FTE
PRIOR YEAR DEFERRED		
PLANNING & DEVELOPMENT	179,806	2.0
TRANSPORTATION SERVICES	34,371	-
PRIOR YEAR DEFERRED	214,177	2.0
2016 REQUESTS		
CULTURAL SERVICES	19,898	-
ENVIRONMENTAL SERVICES	247,181	0.3
PARKS, RECREATION & NEIGHBOURHOOD SERVICES	345,847	0.7
PROTECTIVE SERVICES	991,212	8.0
SOCIAL & HEALTH SERVICES	100,000	1.0
TRANSPORTATION SERVICES	4,468,917	12.0
CORPORATE SERVICES	288,368	3.0
2016 REQUESTS	6,461,423	25.0
PRIOR YEAR DEFERRED AND 2016 REQUESTS	6,675,600	27.0

Conclusion

Assessment growth from new homes and businesses generates incremental tax revenue that is used to fund the extension of core municipal services required for an expanding City. The allocation of assessment growth funding is an important annual process for maintaining the fiscal health of the City. Allocation of assessment growth funding based on agreed upon principles will enable Municipal Council to achieve maximum benefit for the community in terms of the achievement of strategic goals.

This report was prepared with the assistance of Cindy Williamson in Financial Planning and Policy.

PREPARED BY:	PREPARED BY:
Alan Dunbar Manager, Financial Planning & Policy	Jason Senese Manager, Financial Planning & Policy
REVIEWED BY:	RECOMMENDED BY:
Larry Palarchio Director, Financial Planning & Policy	Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

APPENDIX “A”

Bill No.

By-law No. A.-xxxxx

A by-law to establish an Assessment Growth Policy.

WHEREAS subsection 5(3) of the *Municipal Act, 2001* provides that a municipal power shall be exercised by by-law;

AND WHEREAS the Municipal Council wishes to implement a policy with respect to the allocation of assessment growth funds;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. The attached Municipal Council Policy entitled “Assessment Growth Policy”, appended hereto as Schedule “A”, is hereby approved and adopted.
2. This by-law shall come into force and effect on the day it is passed.

PASSED in Open Council on March 1, 2016.

Matt Brown
Mayor

Catharine Saunders
City Clerk

First Reading – March 1, 2016
Second reading – March 1, 2016
Third reading – March 1, 2016

SCHEDULE “A”

x(xx) Assessment Growth Policy

1.0 POLICY STATEMENT AND PURPOSE

The purpose of this policy is to establish a priority framework for the allocation of assessment growth funds.

2.0 SCOPE

This policy applies to the property tax supported budget.

3.0 PRINCIPLES

- a) Civic service areas, boards and commissions that incur costs to provide existing core services to new growth areas are required to submit business cases to the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer or designate.
- b) The first available assessment growth funds are applied to business cases approved by the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer or designate.
- c) If business cases submitted by civic service areas, boards and commissions exceed available assessment growth funding then:
 - I. Approved business cases will be allocated funding according to the following priority order, it being noted that funding allocations to service areas for costs due to a growing and expanding City may be either one-time or permanent in nature:
 - i. Flow through costs for business cases funded through assessment growth in the prior year;
 - ii. Services that are aligned with those supported through Development Charges; and,
 - iii. Business cases will be evaluated as to whether the service and/or funding could be deferred to next year and whether significant service disruptions would occur if the service did not receive the current year growth funding.
 - II. Unfunded business cases will be resubmitted for consideration in the following year.
- d) If assessment growth funding exceeds the accumulated growth costs of civic service areas, boards and commissions in any one budget year, the balance available will be applied in that year as follows:
 - I. 50% to reducing authorized debt on a one-time basis;
 - II. 25% to the Capital Infrastructure Gap Reserve Fund on a one-time basis to mitigate growth in the infrastructure gap; and,
 - III. 25% to either:
 - i. Meeting one-time needs that are supported by the Strategic Plan, or
 - ii. A tax levy reduction on a permanent basis.
- e) Excess assessment growth funding not allocated permanently, will be carried forward to the following year as a permanent source for future growth costs.

4.0 BUDGETING FOR ASSESSMENT GROWTH

- a) For forecast purposes, assessment growth will be assumed to be fully allocated to growth costs. Assessment growth and its allocation will be reported annually after the assessment roll is finalized.

5.0 POLICY REVIEW

This policy shall be presented to Council for review every four years, in the first year of each elected Council.

APPENDIX "B"

Program	Case #	Page no.	Service Group	(\$ Total	FTE
PRIOR YEAR DEFERRED					
PLANNING & DEVELOPMENT					
Development Services					
	1	1	Development Services - Residential intensification	91,556	1.0
	2	5	Development Services - Growth related initiatives	88,250	1.0
TOTAL PLANNING & DEVELOPMENT				179,806	2.0
TRANSPORTATION SERVICES					
Roadways					
	3	10	Street Light Maintenance	34,371	-
TOTAL TRANSPORTATION SERVICES				34,371	-
PRIOR YEAR DEFERRED				214,177	2.0
2016 REQUESTS					
CULTURAL SERVICES					
Library Services					
	4	12	Library Collections	19,898	-
TOTAL CULTURAL SERVICES				19,898	-
ENVIRONMENTAL SERVICES					
Garbage, Recycling and Composting					
	5	14	Garbage Disposal	21,000	-
	6	16	Leaf and Yard Composting	93,496	-
	7	18	Garbage Collection	78,430	0.3
	8	20	Recycling collection	54,255	-
TOTAL ENVIRONMENTAL SERVICES				247,181	0.3
PARKS, RECREATION & NEIGHBOURHOOD SERVICES					
Parks & Urban Forestry					
	9	22	Parks & Horticulture	108,183	0.7
	10	24	Parks & Natural Areas Planning & Design	23,424	-
	11	26	Urban Forestry	214,240	-
TOTAL PARKS, RECREATION & NEIGHBOURHOOD SERVICES				345,847	0.7
PROTECTIVE SERVICES					
Corporate Security & Emergency Management					
	12	28	Security	80,000	1.0
London Police Services					
	13	31	Police Services	911,212	7.0
TOTAL PROTECTIVE SERVICES				991,212	8.0
SOCIAL & HEALTH SERVICES					
Social & Community Support Services					
	14	34	Immigration Services	100,000	1.0
TOTAL SOCIAL & HEALTH SERVICES				100,000	1.0
TRANSPORTATION SERVICES					
Public Transit					
	15	37	Conventional and Specialized Transit Services	1,405,100	12.0
Roadways					
	16	43	Roadway Maintenance, Road and Sidewalk Control	1,003,517	-
	17	46	Street Light Maintenance	60,300	-
	18	48	Roadways	2,000,000	-
TOTAL TRANSPORTATION SERVICES				4,468,917	12.0
CORPORATE, OPERATIONAL & COUNCIL SERVICES					
Corporate Services					
	19	50	Corporate Services	288,368	3.0
TOTAL CORPORATE SERVICES				288,368	3.0
2016 REQUESTS				6,461,423	25.0
TOTAL PRIOR YEAR DEFERRED AND 2016 REQUESTS				6,675,600	27.0

APPENDIX “C”

Detailed business cases to follow.