

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE MEETING ON NOVEMBER 24, 2016
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT	2016-2019 MULTI-YEAR BUDGET - 2017 ANNUAL BUDGET UPDATE FINANCING OPTIONS TO MITIGATE TAX RATE INCREASES

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the options to mitigate tax levy pressures contained in the tabled 2017 Annual Budget Update **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Tabling of the 2017 Budget (Tax Supported, Water and Wastewater & Treatment, November 7, 2016 meeting of Strategic Priorities and Policy Committee, Agenda Item 4)

BACKGROUND

On November 8, 2016 Council resolved the following:

the Civic Administration BE DIRECTED to report back at the November 24, 2016 Budget session with options for financing any Budget amendments that the Municipal Council may ultimately wish to make, without impacting the tax levy (e.g. funding through Assessment Growth, provincial and federal funding sources, efficiencies, surplus, etc.).

On March 10, 2016, Council approved a multi-year budget with an average annual increase from rates of 2.8% over the 2016-2019 period. Included in this approval was a reduction of \$4 million dollars and a mandate to the Civic Administration to find the on-going cost reductions through Service Reviews. These savings are reported each year by the City Manager.

Consistent with the multi-year budget process, an annual update was brought forward to amend the remaining years of the multi-year budget based on significant events. The budget amendments that have been submitted for Council review have a potential total tax levy impact of \$1.3 million (Table 1) over the 2016-2019 multi-year period which would result in an average annual tax levy increase of 2.9%, or an average annual increase of \$1 to the average rate payer (from \$76/year to \$77/year).

Table 1 – Incremental Tax Levy Impacts of Budget Amendments

	\$000's					
	2016	2017	2018	2019	TOTAL	AVG.
Incremental Net Increase / (Decrease)	-	437	258	574	1,269	
Potential Tax Levy Increase From Rates	2.5%	3.0%	2.9%	3.0%	 	2.9%

FINANCIAL MANAGEMENT PRACTICES

One of the key financial management practices of the City is to ensure the funding sources that are used to offset expenditures are appropriate.

Permanent expenditures are those that support the on-going operational needs of the City; these continue indefinitely and therefore require a permanent and secure source of funding. However, one-time sources of funding may be used to phase-in on-going permanent operational costs. Permanent funding sources include:

- Increasing Property Taxes – Two factors:
 - Property Tax From Rate Increases – Increasing property taxes from rates is a viable option for funding permanent expenditure pressures facing the municipality as a result of increased service offerings and inflation. However, a property tax increase would change the annual increase from rates and the 2016-2019 average.
 - Assessment Growth – Property taxes from new homes and businesses also increase the base budget and are used to fund the costs associated with a growing city, such as expansion of garbage pick-up to a new area or subdivision.
- Increase User Fees – Increasing user fees for a particular service or program would result in a permanent revenue source for the City. However, user fees cannot be increased greater than the cost of delivering the particular service or program.

One-time expenditures are costs for a specific purpose that are generally short-term in nature with a fixed timeline. One-time funding sources include:

- Annual Surplus – Notwithstanding the Surplus/Deficit Policy, Council may choose to utilize a portion of the surplus, if available, to fund one-time expenditures.
- Reserves/Reserve Funds – Council could consider the use of the City’s stabilization reserve to fund one-time expenditures.

Financial Principle: Ensure that permanent expenditures are funded with permanent funding sources.

Using one-time funding sources to offset permanent expenditures may reduce budget pressures in the current year, but will create a “budget bomb” once the one-time funding source is eliminated. An exception may be where expenditures or programs are phased-in over time.

WHAT OPTIONS ARE AVAILABLE TO MITIGATE TAX LEVY PRESSURES?

OPTION 1: Approve an average annual increase of \$1 to the average rate payer

- The Civic Administration recommendation continues to be to approve budget amendments 1-3 and 6-20 and consider budget amendments 4 and 5, noting that approval of all budget amendment cases represents an average annual residential rate payer increase of \$1 (from \$76/year to \$77/year) or average annual increase from rates of 2.9%. These expenditure changes are permanent and result from:
 - a. Provincial Regulation
 - b. Council Decisions
 - c. Service area needs that are above or under target

OPTION 2: Review Budget Amendments 1 through 5

- These are the only budget amendments that impact the tax levy from rates. Council should consider the “*What are further options for Council*” comments below to mitigate tax levy budget pressures.

BUDGET AMENDMENT 1 – ENERGY PRICES NEW CAP AND TRADE PROGRAM

What is it?

- Increase in energy costs as a result of Cap and Trade proposed Provincial regulation.
- The estimated annual cost of this program is approximately \$800,000 in 2017 and 2018, increasing to \$900,000 in 2019.

What has been done to mitigate the budget request?

- The request has been phased-in through additional Operating Budget Contingency Reserve draws of \$800,000 in 2017 and 2018 (effectively zero impact on the tax levy), decreasing to \$700,000 in 2019 (tax levy impact \$200,000).

What are further options for Council?

- No further action recommended.

BUDGET AMENDMENT 2 – CARRYING/HOLDING COSTS ON CITY OWNED PROPERTIES

What is it?

- Council has acquired Lorne Avenue Public School and heritage properties at the Old Victoria

Hospital Site for redevelopment.

- Although these properties are being actively considered for disposal, the timelines are likely to extend well beyond 2018.
- Council acquired the properties without any budget amendments or direction with respect to carrying, holding or potential demolition costs.
- The budget estimate is for an annual contribution of \$400,000 to the Land Acquisition Reserve Fund to pay for the costs of security, heating, lighting and maintenance as well as a number of other redevelopment costs.

What has been done to mitigate the budget request?

- The request has been phased-in through additional Operating Budget Contingency Reserve draws of \$100,000 in 2017 and 2018 (\$300,000 increase in tax levy in 2017, zero impact in 2018), decreasing to \$0 in 2019 (\$100,000 impact in tax levy in 2019)

What are further options for Council?

- No further action recommended.

BUDGET AMENDMENT 3 – UPDATED DEBT SERVICING BUDGET

What is it?

- Interest rates for both debt that was issued in 2016 and future forecasted debt issuances have been favourable allowing the Civic Administration to recommend a reduction in debt servicing costs.
- A permanent tax levy reduction of \$300,000 will be realized beginning in 2017.

What has been done to mitigate the budget request?

- N/A

What are further options for Council?

- No further action recommended.

BUDGET AMENDMENT 4 – UTRCA ENVIRONMENTAL TARGETS STRATEGIC PLAN

What is it?

- The Upper Thames River Conservation Authority (UTRCA) recently approved an environmental targets strategic plan to improve water quality, enhance natural vegetation cover and reduce flood and erosion risk.
- Additional staff are required to accomplish this.
- The City portion of the levy required is \$179,000 in 2017 (tax levy impact \$179,000), \$372,000 in 2018 (tax levy impact \$193,000) and \$580,000 in 2019 (tax levy impact \$208,000).
- It should be noted that the five year (2012-2016) average annual tax levy increase from rates for the City has been 1.8% while the increase for the UTRCA has been 3.4%. In addition, the average annual increase approved in the 2016-2019 multi-year budget for the UTRCA was 1.5% and the increase would rise to 6.0% if the budget amendment submitted during the 2017 Annual Budget Update was approved.

What has been done to mitigate the budget request?

- UTRCA has phased-in the implementation as indicated above.

What are further options for Council?

- **Option a)** - Council could approve the 2017 request only, on a “one-time” basis, and request UTRCA to undertake reviews of their services and service delivery options in an effort to find permanent budget savings that could be used to fund the implementation of its environmental targets strategic plan. The results of the reviews and any identified savings would be reported back to Council during the 2018 Annual Budget Update.
- **Option b)** - Assessment growth funding could be used to fund the request in 2017 on a permanent basis (see Option 3 below re: assessment growth), noting that UTRCA has submitted an assessment growth case for \$91,000 as well.

BUDGET AMENDMENT 5 – LMHC BUILDING MAINTENANCE AND TENANT SERVICES

What is it?

- LMHC has requested additional funding for building repairs to maintain existing service levels based on building maintenance cost pressures identified after the submission of the 2016-2019 Multi Year Budget.
- The increased expenditures are \$258,000 in 2017 (tax levy impact \$258,000), \$323,000 in 2018 (tax levy impact \$65,000) and \$389,000 in 2019 (tax levy impact \$66,000)
- It should be noted that the five year (2012-2016) average annual tax levy increase from rates for

the City has been 1.8% while the increase for the LMHC has been 3.8%. During this time period the LMHC also received one-time funding in 2012 equivalent to an additional 3.9% and 6.0% in 2013. The average annual increase approved in the 2016-2019 multi-year budget for the LMHC was 4.5% and the increase would rise to 5.5% if the budget amendment submitted during the 2017 Annual Budget Update was approved. However, it is important to note that LMHC has requested additional funding at year-end to cover its deficit position of \$116,000 in 2014, \$369,000 in 2015, and is projected to deficit \$117,000 in 2016 as reported in the 2016 Mid-Year Operating Report.

What has been done to mitigate the budget request?

- LMHC has undertaken a Facility Condition Assessment in 2016 which will form the foundation of a future comprehensive asset management strategy and implementation plan.

What are further options for Council?

- **Option a)** - Council could eliminate the LMHC request which may result in continued systemic operational deficits.
- **Option b)** - Council could approve the 2017 request only, on a “one-time” basis, and request LMHC to undertake reviews of their services and service delivery options in an effort to find permanent budget savings that could be used to fund the building maintenance pressures. As part of the review, LMHC should prepare the appropriate asset management planning and prioritization analysis that provides firm direction on the funding request. The results of the reviews and any identified savings would be reported back to Council during the 2018 Annual Budget Update.
- **Option c)** - Assessment growth funding could be used to fund the request in 2017 on a permanent basis (see Option 3 below re: assessment growth).

OPTION 3: Utilize \$437,000 of assessment growth funding

Provide the permanent funding for 2017 portion of Budget Amendment Cases 4 and 5 (\$437,000) through 2017 assessment growth notwithstanding the assessment growth policy. This approach is not recommended, but is an option available to Council noting that the current estimate for assessment growth is 0.74% and growth costs exceed the total assessment growth available.

Both the UTRCA and LMHC would be requested to resubmit budgets for 2018 and 2019 as well as look for service level and service delivery options that reduce the requests in those years.

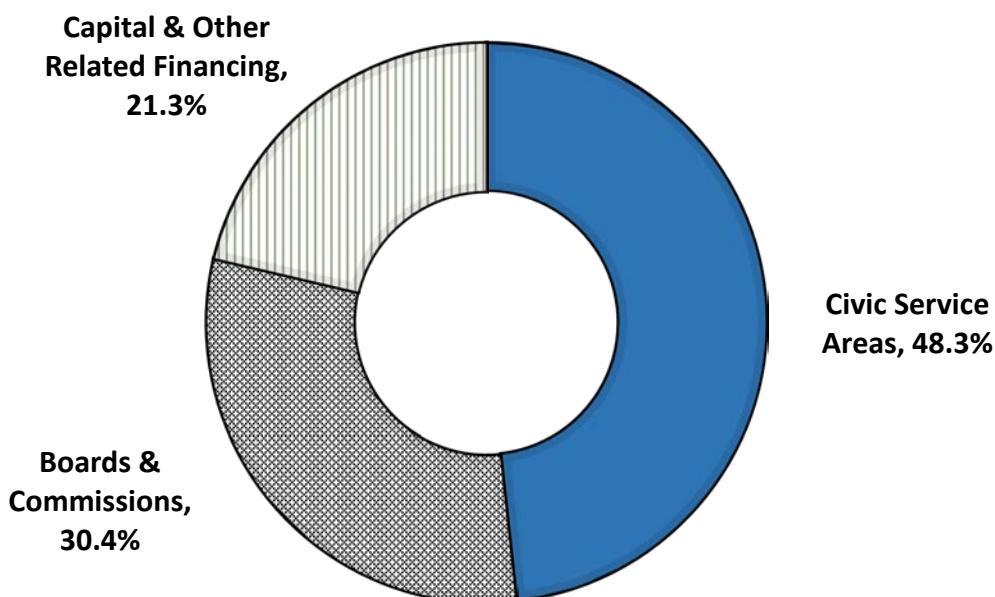
OTHER INFORMATION TO CONSIDER

Service Reviews

- The 2016-2019 budget **has been reduced** by \$4 million, and
- The Civic Administration has been directed to fill the “gap” through service review

Figure 1 represents the proportionate share of the property tax supported net budget approved by Council as part of the multi-year budget process. The full \$4 million budget reduction included in the multi-year budget occurs in 2019 due to the gradual build-up of the budget reduction beginning in 2016. It is important to note that the full \$4 million budget reduction will be absorbed by Civic Service Areas which accounts for less than 50% of the net budget.

Figure 1 – Share of Net Budget



Federal and Provincial Funding Announcements

- Federal or provincial funding is generally directed to specific capital projects. The only exception is subsidies related to social services.
- For the 2017 Annual Budget Update, there are no budget changes related to federal and provincial funding sources. However, future announcements may be incorporated into the remaining years of the multi-year budget during the annual update process.

OUTLOOK FOR 2020

With the use of one-time funding to mitigate budget pressures in the 2016-2019 period and recognizing a number of new costs and services are potentially being added, the 2020 increase from rates is being monitored by the Civic Administration. Full analysis of the next multi-year budget period 2020-2023 has not been undertaken; however, projects and programs established through the 2016-2019 period, and new pressures introduced through the 2017 Annual Budget Update are pushing the rate in the 3.0% range.

CONCLUSION

Matching permanent expenditures against permanent funding sources and one-time expenditures against one-time funding sources is a key financial practice for the City. Matching the appropriate funding sources against the type of expenditures helps to ensure the financial sustainability and stability of the City. Civic Administration has identified a number of potential permanent funding sources and one-time funding sources that Council may choose to pursue to help achieve its budgetary goals.

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