

	CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE MEETING ON APRIL 30, 2012
FROM:	MARTIN P. HAYWARD CITY TREASURER AND CHIEF FINANCIAL OFFICER
SUBJECT:	2013 - 2017 OPERATING BUDGET TARGETS

RECOMMENDATIONS

- 1) That, notwithstanding the updated forecasts provided by Civic Departments, Boards, Commissions and outside agencies that would indicate that a 5.5% property tax levy increase is required, the City Treasurer and Chief Financial Officer recommends the following 2013 Budget target and actions **BE APPROVED** in order to prepare a draft 2013 budget to achieve a 3.8% property tax levy increase:

	2013 Budget Target Recommendations	Increase/ Decrease in millions	2013 Tax Levy Impact
a)	<p>Add backs: Increase funding to reserve funds, reserves, and programs in 2013 resulting primarily from Council decisions in 2012 to achieve a 0% 2012 tax levy increase. Increase investments are required in:</p> <ul style="list-style-type: none"> • New Affordable Housing • AODA • Vehicles & Equipment • Energy Management • Capital Grant Program <p>Council decision to add additional staff to:</p> <ul style="list-style-type: none"> • Planning, Environmental & Engineering Services 	\$ 4.1	0.9%
b)	The following targeted increases and decreases for 2013 to the following service program areas be established:		
	<i>London Police Service:</i> 3.5% target, it being noted that London Police Services updated forecast for 2013 identified a 4.9% requirement which would result in a \$ 1.2 million budget cut in comparison to forecast.	\$ 3.1	0.7%
	<i>London Fire Service:</i> 3% target, it being noted that Fire Services has forecasted a 3% increase in 2013.	\$ 1.6	0.3%
	<i>Land Ambulance:</i> 3% target, it being noted that Land Ambulance is currently going through a transition between service providers and will be conducting labour negotiations in October 2012 making it extremely difficult to provide a 2013 forecast.	\$ 0.3	0.07%
	<i>Conservation Authorities:</i> 6.7% target, it being noted that UTRCA is requesting a 7.2% increase, KCCA requires a 3.7% increase, and LTVCA requires 3.6% increase based on projections provided which will result in a 0 budget cut in comparison to forecast.	\$ 0.2	0.05%

2013 Budget Target Recommendations	Increase/ Decrease in millions	2013 Tax Levy Impact
<i>Social Housing:</i> 2.1% target, it being noted that the forecast in Social Housing was 4.1% primarily from the anticipated loss of provincial revenue for 2013. This 2.1% target is \$0.3 million <u>lower</u> than forecast.	\$ 0.2	0.05%
<i>London & Middlesex Housing Corporation:</i> 6.2% target, it being noted that the LMHC forecast for 2013 is expected to be 14%; recognizing that they utilized one time sources in 2012. This 6.2% target is \$0.6 million <u>lower</u> than their 14% forecasted increase.	\$ 0.5	0.1%
<i>London Transit Services:</i> 5.7% target, it being noted that this reflects moderate growth in ridership and revenue service hours and continued high fuel prices.	\$1.4	0.3%
<i>Middlesex London Health Unit:</i> -4.1% target, it being noted that a -4.1% target represents a reduction of \$250,000 for the municipality and represents an accelerated phase in approach to a 75/25 provincial/municipal funding split. NOTE: assuming the Province provides for a 2% increase in the Health Unit allocation; the anticipated overall budget for MLHU would be frozen or at 0%.	(\$0.3)	(0.1%)
<i>Business Attraction and Retention:</i> 26.4 % target, it being noted that the 26.4% target represents a \$1 million increase in contribution to the Economic Development Reserve fund consistent with the commitments made by Council to fund economic development initiatives as well as a \$0.5 million increase to LEDC. This target is \$0.3 million <u>lower</u> than forecast.	\$1.5	0.3%
<i>Capital Costs and Contingencies:</i> 7.2% target, it being noted the target increase accounts for: capital financing requirements, the 3 rd yr of the OMERS rate increase for Civic Departments, and corporate contingencies.	\$7.4	1.6%
<i>Social and Community Support Services:</i> -12.4% target, it being noted that this area forecasted a -8.9% budget reduction primarily as a result of the 4 th year of the phased in upload of Ontario Works benefits. The -12.4% reduction is \$1.1 million <u>lower</u> than their 8.9% forecast noting that adjustments to service may need to be undertaken to achieve target.	(\$3.7)	(0.8%)
Long Term Care: -0.2% target, it being noted that Long Term Care's forecasted -0.2% budget reduction over 2012; the target accounts for an anticipated 2% increase in Ministry funding.	(\$0.01)	(0.002%)
c) That a 0% 2013 general target be established for the following areas, it being noted that a 0% will result in a cumulative <u>\$4.1 million reduction</u> in comparison to the forecasts provided in 2013:		

2013 Budget Target Recommendations	Increase/ Decrease in millions	2013 Tax Levy Impact
<i>Culture: 0%</i> (including Centennial Hall, Museum London, Heritage, and Library Services), it being noted that this is \$0.5 million lower than the 2.2% Culture Services forecasted increase.	\$0	0%
<i>Economic Prosperity: 0%</i> (including Community Improvement/ Business Improvement Areas, Convention Centre, and Tourism London), it being noted that this target is \$0.03 million lower than the Service Program forecasted 1.3% increase.	\$0	0%
<i>Environmental Services: 0%</i> (Environmental Stewardship, Garbage, Recycling, & Composting); it being noted that this target is \$0.2 million lower than this areas 2.7% forecasted increase.	\$0	0%
<i>Parks, Recreation & Neighbourhood Services: 0%</i> it being noted that this is \$0.4 million lower than the forecasted 1.7% increase for 2013.	\$0	0%
<i>Planning & Development Services: 0%</i> ; it being noted that this is \$0.1 million lower than the forecasted 5.4% increase in budgetary requirements.	\$0	0%
<i>Protective Services: 0%</i> ; (including Animal Services, By Law Enforcement, and Emergency & Security Management), it being noted that this is \$0.1 million lower than the projected increase in 2013 for these services of 1.9%.	\$0	0%
<i>Transportation: 0%</i> ; which includes Parking and Roadways is \$0.7 million lower than the forecasted 2013 requirement of a 2.4% increase.	\$0	0%
<i>Corporate, Operational, and Council Services: 0%</i> (including Corporate Services, Corporate Planning & Administration, Council Services, Public Support Services); it being noted that this target is \$2.1 million lower than the forecasted 3.8% increase for 2013.	\$0	0%
d) <i>Strategic Draw from the Operating Budget Contingency Reserve: \$1.3 million</i> reduction in the draw from the reserve reducing the reliance on the reserve from \$4.7 million to \$3.4 million, it being noted that this was a planned reduction and is included in the corporate forecast.	\$1.3	0.3%
The total property tax levy target increase in 2013 be established at 3.8% excluding assessment growth.	<u>\$17.6</u>	<u>3.8%</u>

- 2) That a 3.2% average annualized target increase **BE APPROVED** in principle for the 2013 to 2017 period (see appendix A); it being noted that the average annualized increase forecasted by service programs was 4.1%. This represents a \$78 million fiscal challenge over the next 5 years;

- 3) That London Police Services and the Middlesex London Health Unit **BE REQUESTED** to report back on the impact of the proposed targets to the Strategic Priority and Policy Committee at one of its June meetings;
- 4) That 2013 assessment growth estimated at 1% **BE APPLIED** to services that can demonstrate through a business case the growth in the city has necessitated additional resources to provide for an extension of core services; it being noted that this direction is consistent with the proposed Assessment Growth Policy being recommended by the City Treasurer and Chief Financial Officer.
- 5) That a 2013 Economic Development Levy **BE ESTABLISHED** as a funding source for the Investment and Economic Prosperity Plan; subject to the adoption of the Plan by Municipal Council in September;
- 6) That the 2013 to 2017 Water rate increase target **BE APPROVED** as follows in order to support the Water Budget as set out in their Financial Plan prepared under Ontario Regulation 453/07:

2013 – 8%
2014 – 8%
2015 – 8%
2016 – 7%
2017 – 6.75%
- 7) That the 2013 to 2017 Sewer rate increase target **BE APPROVED** as follows in order to support the Wastewater and Treatment Budget as set out in their 20 year plan:

2013 – 7%
2014 – 7%
2015 – 7%
2016 – 7%
2017 – 4%

BACKGROUND

The 2011 and 2012 property tax budgets were both approved with a 0% tax levy increase from rates. Based on budget forecasts and projections received to date by civic departments, boards, commissions, and outside agencies, the 2013 “forecasted” tax levy increase from rates is projected at **5.5%**. To achieve a 0% tax levy increase in 2013, civic departments, boards, commissions, and outside agencies would need to reduce forecasted program service costs by \$25.6 million or identify non property tax supported revenue sources. Council should realize that a \$25.6 million reduction for 2013 is over and above the \$24.1 million reduction that the corporation realized in 2011 (\$6.0 m) and 2012 (\$18.1m). Outlined below are some of the adjustments that occurred to achieve 0% in 2011 and 2012:

- In 2011 the 0% property tax levy from rates was achieved by:
 - Civic Departments – salary and wage freezes;
 - Position Management and Service Review; and
 - Boards and Commissions – vacancy management savings
- In 2012, the 0% property tax levy from rates was achieved by:
 - Position Management initiatives;
 - Ontario Works Cost of Administration Subsidy;
 - Ontario Works Caseload and Case Cost;
 - Revenue Opportunities (Court Security Upload, Parking Fines, Finance Fees);
 - Use of one time funding source (London and Middlesex Housing Corporation);
 - Efficiencies lower than anticipated inflationary pressures;
 - One-time reductions to reserves and reserve funds used to support strategic

- and capital plans; and
- Minor program/service adjustments

During 2012 budget deliberations, Municipal Council resolved that “*Municipal Council work with Civic Administration, the Boards and Commissions in May 2012 TO SET clear tax levy target increases for 2013 through 2016...*” Consistent with prior year processes, budget targets are being presented for discussion and approval for 2013 – 2017. The setting of budget targets assist in setting expectations for not only Civic Administration, but for the community.

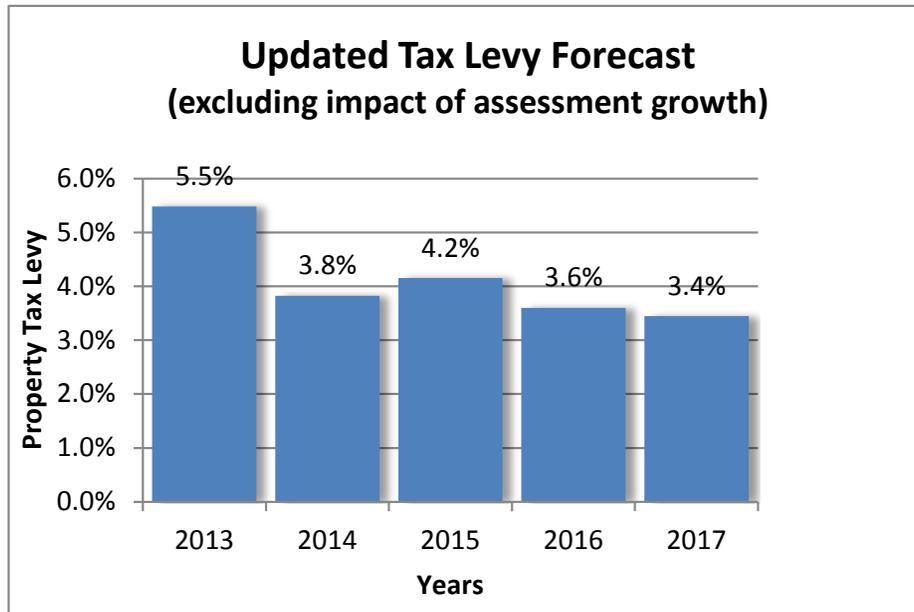
Outlined below are some of the budgetary pressure points that the property tax supported budget anticipates encountering in 2013:

• Protective Services (London Police, London Fire)	\$ 5.9 million
• Re-instating contributions to Reserve Funds/ Reserves (New Affordable Housing Reserve Funds, AODA), and investments in municipal programs	\$ 4.1 million
• Commitments to Personnel (contractual settlements)	\$ 3.5 million
• Capital Financing requirements	\$ 3.0 million
• OMERS Rate increase (final year of rate increase)	\$ 1.4 million
• London Transit	\$ 1.4 million
• Energy & Fuel (electricity, gas)	\$ 1.4 million
• Reduced draw from Operating Budget Contingency Reserve	\$ 1.3 million
• London & Middlesex Housing Corporation	\$ 1.1 million
• Economic Development (Reserve Fund Contribution & LEDC)	\$ 1.5 million
• Roadways (maintenance, snow control, traffic lighting)	\$ 0.9 million
• Other (Garbage Disposal, Corporate Services, Recreation)	\$ 0.6 million
• Land Use Planning	\$ 0.5 million
• Land Ambulance	\$ 0.4 million
• London Public Library	\$ 0.4 million
• Technology Services	\$ 0.3 million
• Conservation Authorities	\$ 0.2 million
• Social Housing	\$ 0.2 million
• Social and Community Support Services (Provincial Upload)	(\$ 2.6) million

2013 to 2017 Projected Property Tax Levy Increases based on Forecasts

Outlined in table 1 below is the updated 2013 to 2017 projected tax levy increase based on forecasts provided by Service Areas. The average property tax levy increase is 4.1%, excluding the impact of weighted assessment growth. As identified by service areas, an additional \$25.6 million is required in 2013 which would result in a 5.5% property tax levy increase. This increase is required to support commitments made by Council such as the financing of approved capital projects, personnel (contractual settlements), strategic plans, and funding the City’s share of cost shared regulated programs.

Table 1: Updated Tax Levy Forecast



2013 TO 2017 BUDGET FORECAST IN COMPARISON TO A 0% TARGET TAX LEVY SCENARIO AND TO THAT PROPOSED TAX LEVY TARGET

The property tax levy “forecast” required to support the net budget projections provided by the Civic Departments, Boards, and Commissions for 2013 to 2017 period is projected to be approximately \$2.66 billion. The tax levy required before weighted assessment growth for 2013 is projected to be \$493.0 million and is expected to increase to \$571 million by 2017 based on these forecasts. In comparison with a 0% property tax levy increase over that same time period, services would be short a cumulative \$324.0 million, approximately \$25.6 million in 2013. Significant adjustments to service, and non-property tax supported revenue sources would have to be identified and implemented.

In comparison to the target recommendation, which on average is a 3.2% property tax levy increase over that same time period, the shortfall would be \$78.0 million, approximately \$8.0 million short in 2013. To achieve this target, sustainable property tax supported budget reductions would need to be made by either adjusting levels of services and/or exiting some services, or identifying sustainable/permanent non-property tax supported revenue sources.

Presented in Table 2 below is a comparison of forecasts as provided by civic departments, boards, commissions and outside agencies which average 4.1% over 5 years versus a 0% tax levy increase versus the targets proposed in this report which would average a 3.2% increase.

Table 2:

2013 to 2017 Property Tax Budget - Levy Comparison
Forecast vs. 0.0% vs. Target
\$ millions

Year	Column A Tax Levy Forecast Based on Forecasts Provided by Civic Departments, Boards, and Commissions	Column B Property Tax Levy at 0.0%	Column C 2013 to 2017 Property Tax Levy Target
2012 APPROVED	467.4	467.4	467.4
2013	493.0	467.4	485.0
2014	511.8	467.4	500.2
2015	533.1	467.4	517.3
2016	552.0	467.4	532.8
2017	571.0	467.4	547.3
Total (2013 to 2017)	2,661	2,337	2,583
SHORT FALL in millions from forecasts		324	78
AVERAGE TAX LEVY INCREASE	4.1%	0.0%	3.2%

NOTE:

'(1) The forecasts excludes the impact of new initiatives, operating and capital financing, related to projects outlined in the Investment & Economic Prosperity Plan.

Should Council decide to adopt a 0% overall property tax levy increase for 2013, significant service reductions would be required across all service program areas to absorb areas where Municipal Council has limited to zero discretion over.

What could a \$25.6 million budget reduction represent in terms of program service impacts?

Accommodate targeted increases for the following services:

- London Police (+3.5%),
- London Fire (+3%),
- add back reserve fund contributions and reinstate investments in municipal programs (+\$4.1 million),
- Capital Costs & Contingencies (+7.2%),
- London Transit (+5.7%),
- Social Housing (+2.1%),
- London & Middlesex Housing Corporation (6.2 %),
- reduce draw from Operating Budget Contingency Reserve (+\$1.3 million),
- Business Attraction and Retention (+26.4%), and
- Land Ambulance (+3%).

These increases are partially offset by targeted reductions in:

- Social and Community Support Services (-12.4%), primarily due to the continued uploading of Ontario Works along with possible adjustments to service,
- phasing in the 75/25 funding split between the Province and Municipality for the Middlesex London Health Unit (-4.1%), and
- Long Term Care (-0.2%) anticipated additional funding from the Ministry of Health and Long Term Care.

Given the above most Civic Departments and Boards and Commission would be faced with an

11.6% reduction in 2013 budget target to absorb the targeted increases above. A preliminary indication of “exit” strategies that would be required for 2013 across key service areas include:

SERVICE PROGRAM	COMMENTS
Culture	<ul style="list-style-type: none"> Re-evaluate operations (hours and service) at Library and Museum as well as review Heritage
Economic Prosperity	<ul style="list-style-type: none"> Review and re-evaluate City’s investments in the Convention Centre, Tourism London, and London Economic Development Corporation
Environmental Services	<ul style="list-style-type: none"> Re-evaluate level of service provided in waste disposal and collections
Parks, Recreation, & Neighbourhood Services	<ul style="list-style-type: none"> Re-evaluate recreation and community programs, where opportunities exist, look at recovering full cost (both direct and indirect) of program and/ or alternative service provision.
Planning & Development Services	<ul style="list-style-type: none"> Adjust level of service and where feasible look at adjusting fees for services provided.
Protective Services	<ul style="list-style-type: none"> Re-evaluate service provision (Animal Services, Emergency and Security Management, Fire Services).
Social & Health Services	<ul style="list-style-type: none"> Operational reviews to achieve efficiencies.
Transportation Services	<ul style="list-style-type: none"> Increase parking fees (meters and lot) in keeping with market. Re-examine road maintenance standards both in winter and summer.
Corporate, Operational Services, and Council Services	<ul style="list-style-type: none"> Operational reviews to achieve efficiencies. Re-examine 10 year capital plan.

2013 ASSESSMENT GROWTH:

Over the years, the application of assessment growth has varied. In the early 2000’s, the categorization of budget adjustments weren’t categorized to the degree that they have been in recent budgets so assessment growth was applied directly against the bottom line, in effect reducing the tax levy from rates. These assumed growth costs were included in budget submissions, although they were not clearly identified. By the mid 2000’s, the application of assessment growth was used as a ceiling/limit to fund the following:

- pay for the increased costs for servicing expanded areas in the city (i.e. solid waste collection in newly developed subdivisions),
- fund additional on-going operating costs associated with newly completed capital projects (i.e. new recreation centre), and/or
- reducing the tax levy.

In addition, there were some areas where Council approved additional costs associated with:

- new programs, and
- expansion in the scope of existing programs,

Municipal Council would be presented with a list of initiatives (Service Growth) looking for additional funding that fell under the above mentioned criteria and council would choose what initiative to fund and/or not to fund. In recent years however, given the state of the local economy, assessment growth has been applied directly to either reducing the tax levy and to provide some funding towards increased costs related to an expanded City.

For 2013 budget purposes, consistent with the Assessment Growth Policy proposed by the City Treasurer and Chief Financial Officer, assessment growth funding has been removed from the target discussion in order to be utilized to fund the increase in cost of an extension of core services (for example, garbage collection, transit, parks, etc.) resulting from growth or expansion to the city (new subdivisions). By applying assessment growth in this manner, it ensures that service provision across the city does not get eroded as more lane kilometres of

road and sidewalk are added; the increased numbers of households are provided with garbage and recycling services; and, park land acquired for which trees or grass maintenance needs to be provided. Should Council desire to adjust the level of service, this should be done at service review. Changes to budget resulting from changes in service standards/levels would then flow through to the budget.

To ensure that assessment growth is applied to an extension of core services, the City Treasurer and Chief Financial Officer is requiring that service areas provide business cases to support the allocation of assessment growth, validating the need. This will be presented as part of the 2013 budget document. This approach will ensure:

- 1) Current services are adequately funded across the city.
- 2) Prevents the addition of new programs or expanded program scope at the expense of existing service levels and services, and
- 3) Costs associated with growth are captured, disclosed, and the reporting of the cost of growth is improved for decision making purposes.

WATER AND WASTEWATER BUDGET TARGETS (2013 TO 2017)

Consistent with the 2012 approved Water budget, Civic Administration is recommending an 8% rate increase for Water in 2012 which is comprised of a **7.25% budget increase** and a 0.75% reduction in water consumption. The amount of funding for the Water Budget is as outlined in the City’s Financial Plan prepared under Ontario Regulation 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% rate increase for Wastewater and Treatment which is comprised of a **6.25% budget increase** and a 0.75% reduction in consumption related revenues. 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 2013 to 2017 are outlined below:

WATER

	2013	2014	2015	2016	2017
Recommended Water Rates	8.0%	8.0%	8.0%	7.0%	6.75%

WASTEWATER

	2013	2014	2015	2016	2017
Recommended Wastewater Rates	7.0%	7.0%	7.0%	7.0%	4.0%

CONTINUED INTEGRATION OF BUSINESS PLANNING TO THE 2013 - 2017 BUDGET TARGET SETTING

Given the slower than anticipated recovery in the local economy, and the experience gained from going through the 2011 and 2012 budget process, it is acknowledged that more attention is needed in developing, preparing, reviewing, and assessing program service adjustments with members of municipal council and with the community. Furthermore, given the current economic climate, exit strategies and plans should be developed and ready for review, comment, and if necessary implementation. By setting tax levy target expectations over the

next 5 years, service owners would be given sufficient time to prepare exit strategies and plans which would ensure that Civic Administration, Service Review Committee, Council and the community have enough time to evaluate and assess the implications prior to budget deliberations. Given the targets recommended in this report, it is evident that service adjustments are inevitable and that exit plans may/will be required. Business Planning will work with service owners and senior management to develop these exit plans which will be reviewed and evaluated by Service Review Committee in October along with community input, prior to the 2013 budget deliberation process.

BUDGETARY ISSUES/CHALLENGES FOR 2013 AND BEYOND:

Council must consider and balance the ramifications of approving the 2013 targets with the operational challenges that the Corporation is facing. Some of the key budgetary issues that Council will face in the 2013 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). 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.
- **Ontario Works (OW):**
 - **Caseload:** The economic impacts of a recession and the impacts on municipal services such as Ontario Works (Caseload levels 2012: 11,000 (projected), 2013: 11,000 projected), 2014: 10,500. Forecasted levels by 2015 still exceed actual average case load levels experienced in 2009.
 - **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 2013, 29% of the municipal costs (excluding costs of administration) are projected to be uploaded.
- **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 2013 budget forecast and target setting process includes a projected \$1.4 million cost pressure across Civic Departments. (Note, Boards and Commissions would also be impacted and would've included this impact in their forecast)
- **Investment & Economic Prosperity Plan:** Municipal Council is currently in the process of identifying civic investments that have the "best possible impact" on the community. As Council and the community work on filtering the numerous investment opportunities, laying out a 10 year investment plan, a budget along with an investment from the City will be required to leverage and enter into partnerships with upper levels of government, institutions, and the private sector.
- **Infrastructure Gap –** The Roads and Transportation areas have undertaken a sustainability plan that identifies funding needs and road condition. The assessment and condition rating of the city's arterial and local roads has been completed. The costs and funding sources associated with the plan are not yet fully established; however historical contributions through senior levels of government are not anticipated to be at a level experienced in the past years.

In review of traditional funding (including resources from sustainability initiatives), It is noted that the infrastructure gap in the transportation side is growing at least at \$5-\$6 million per annum as reported by Planning, Environmental, and Engineering Services. It also appears that in the foreseeable future that the Provincial and Federal Governments will not be poised to match or instil any significant sustainability initiative or other infrastructure funding. If existing resources are maintained (which they are not likely to be) we need to slow down our increasing infrastructure gap on the roads side.

In order to sustain the current level of service, the City will need an infusion of funds (between \$5 million - \$6 million) on the capital side. This amount is required, provided

historically funded values by other levels of government are maintained. The Planning, Environmental and Engineering Services Department will be reporting out on this later this year to Civic Works Committee.

- **Emerald Ash Borer Strategy:** During 2012 budget deliberations, Municipal Council approved an additional \$0.4 million in base funding to be allocated towards forestry operations in order support the Municipal Council endorsed Emerald Ash Borer Strategy (EAB Strategy). To achieve the targets as set out in the EAB Strategy for 2013 and beyond, an additional \$1.0 million in base funding would be required either through the re-prioritization of existing capital budgets or the identification of a non-rate supported sustainable revenue source. Should these options not be available, additional funding from the property tax levy would be required to achieve the targets set out in the strategy.
- **Strategic Use of Operating Budget Contingency Reserve:** Recognizing pressures to maintain existing service levels as well as the necessity to fund non-discretionary obligations such as OMERS contribution rate increases, and Provincially regulated programs, Civic Administration will continue to draw from the Operating Budget Contingency Reserve by an approximate \$3.4 million in 2013. This is lower than the amount budgeted to be drawn in 2012, as the Ontario Works caseload has hit its projected peak and it's the 4th year of the upload. 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. It is important to note that the Operating Budget Contingency Reserve balance anticipated by 2015 is estimated at 1.0% of the total tax levy of the municipality; it being noted that it was originally targeted at 1% of gross expenditures (almost double the expected level)

ECONOMIC DATA AND COMPARATORS:

On April 18th, the Governor of the Bank of Canada released its Monetary Policy Report - April 2012. In that report, the Bank of Canada projected “the economy will grow by 2.4 per cent in both 2012 and 2013 before moderating to 2.2 per cent in 2014. The degree of economic slack has been somewhat smaller than the Bank had anticipated in January, and the economy is now expected to return to full capacity in the first half of 2013.” 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			
	<i>November '11</i>	<i>December '11</i>	<i>January '12</i>	<i>February '12</i>
Consumer Price Index⁽¹⁾	2.5%	2.0%	2.4%	2.9%
Unemployment Rate⁽²⁾	7.9%	7.7%	8.1%	7.6%
Employment Rate⁽²⁾	61.3%	61.4%	61.3%	61.2%
Participation Rate⁽²⁾	66.6%	66.6%	66.7%	66.3%

(1) Statistics Canada - Consumer Price Index by province, and for Whitehorse, Yellowknife and Iqaluit – as of Friday, March 23, 2012 *Not Seasonally Adjusted*

(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 2012 to 2014 period which were published as part of the 2012 Ontario Budget released on March 27, 2012.

Ontario Economic Outlook (Per Cent Change)	Projection			
	2012	2013	2014	2015
Consumer Price Index	1.7%	2.0%	2.0%	2.0%
Real Gross Domestic Product	1.7%	2.2%	2.4%	2.5%
Housing Starts (000s)	64.0	63.0	69.0	71.0
Personal Income	2.9%	3.7%	4.2%	4.3%
Employment	0.9%	1.3%	1.5%	1.6%

Job Creation (000s)	59	89	103	108
Unemployment Rate	7.7%	7.4%	7.0%	6.7%
10-year Government Bond Rate*	2.2%	2.8%	3.8%	4.5%

SOURCE: 2012 Ontario Budget – March 27, 2012

*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 2012) and Ontario Ministry of Finance.

Furthermore, based on the Conference Board of Canada’s Winter Forecast 2012, the London CMA is anticipated to see a decline in the unemployment rate from a projected 8.3% in 2012 to 6.9% by 2014 along with a projected increase in GDP growth from 1.7% in 2012 to 2.3% by 2014.

Comparison to Other Municipalities

Included in Appendix “B” are comparisons of 2011 municipal property taxes paid for by residential property owners, commercial property owners, and industrial property owners which was compiled by the BMA Management Consulting Inc. as part of their 2011 Municipal Study

- For residential property owners, based on a detached bungalow where the municipality has a population over 100,000, London is below the group average. The group average for 2011 Property Taxes for a detached bungalow was \$3,293. For a comparable residential property in London, the homeowner would pay \$ 3,079, \$214 lower than the group average.
- For commercial property owners, based on a prime location commercial office space, property taxes per sq ft of gross leaseable area where the municipality has a population of over 100,000, London is well below the group average. The group average is \$3.28 per sq ft, whereas London is \$2.23.
- For Industrial property owners, based on a standard industrial property under 125,000 sq ft, newer construction, flexible design – taxes per sq ft of floor area basis, London too is below the group average. The group average is \$2.04 per sq ft whereas London is \$1.51.

CONCLUSION:

Adoption of targets for 2013 – 2017 will set expectations for the community, civic administration, boards and commissions, and municipal council. Based on forecasts received by Civic Departments, Boards, and Commissions, the property tax levy is projected to increase on average 4.1% per year between 2013 and 2017. Should the amount of tax levy from rates be frozen, a cumulative funding shortfall of \$324 million would emerge (approximately \$25.6 million in 2013). Without identifying a sustainable non-property tax revenue source to fund this gap, adjustments to existing program services will no doubt have to be undertaken with some services being completely phased out. It is important that Council indicate its intention as early as possible to set expectations in the community and allow departments, boards and commissions sufficient time to adapt to any budget targets that would require business or service level changes and/or exit plans.

While the budget targets recommended in this report do not go as far as a 0% tax levy increase from rates over the next 5 years, the proposed 3.2% average annualized increase will still result in reduced service levels and will require the phase out of some services. At an average increase of 3.2% over the next 5 years, there would still be a cumulative shortfall of approximately \$78 million, \$8 million in 2013, in comparison to the forecasts provided by civic Department, boards, commissions and outside agencies. While services will still need to be adjusted, operational reviews to achieve efficiencies, and the phasing out of some existing services, in no way will these adjustment be to the same extent as if the tax levy increase from rates over the next 5 years were frozen.

Prepared By:	Reviewed By:
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Ian Collins Manager of Financial Planning & Policy	Larry Palarchio Director of Financial Planning & Policy
Recommended By:	
Martin Hayward City Treasurer, Chief Financial 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; Eizabeth 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
Proposed Targets

**2013 to 2017 Budget Target
Change over Prior Year Budget**

SERVICE GROUPING	2012 Budget (\$ 000's)	2013 Target % Change	2014 Target % Change	2015 Target % Change	2016 Target % Change	2017 Target % Change
Cultural Services	3,769	0.0%	1.5%	1.7%	1.9%	2.0%
Heritage	87	0.0%	1.5%	1.7%	1.9%	2.0%
Libraries	18,045	0.0%	1.5%	1.7%	1.9%	2.0%
Economic Development	8,270	18.1%	10.6%	1.7%	1.9%	2.0%
Conservation Authorities	2,986	6.7%	5.4%	2.7%	2.7%	2.7%
Environmental Stewardship	673	0.0%	1.5%	1.7%	1.9%	2.0%
Garbage, Recycling, & Composting	12,703	0.0%	1.5%	1.7%	1.9%	2.0%
Neighbourhood & Recreation Services	15,554	0.0%	1.4%	1.7%	1.9%	2.0%
Parks & urban Forestry	10,013	0.0%	1.5%	1.7%	1.9%	2.0%
Building Controls	(1,389)	0.0%	1.5%	1.7%	1.9%	2.0%
City Planning & Research	2,531	19.8%	1.5%	1.7%	1.9%	2.0%
Development Approvals	3,372	0.0%	1.5%	1.7%	1.9%	2.0%
Animal Services	1,060	0.0%	1.5%	1.7%	1.9%	2.0%
By-Law Enforcement	689	0.0%	1.5%	1.7%	1.9%	2.0%
Emergency & Security	1,151	0.0%	1.5%	1.7%	1.9%	2.0%
Fire Services	52,681	3.0%	3.0%	3.0%	3.0%	3.0%
Police Services	88,052	3.5%	3.0%	3.0%	3.0%	3.0%
Housing	20,539	3.7%	7.1%	2.4%	2.4%	2.4%
Long Term Care	4,159	-0.2%	-2.5%	-2.5%	-2.5%	-2.5%
Primary Health	16,626	0.4%	0.5%	0.5%	0.6%	0.6%
Social & Community Support Services	29,843	-12.4%	-15.6%	-11.8%	-12.1%	-15.0%
Parking	(2,707)	0.0%	1.5%	1.7%	1.9%	2.0%
Public Transit	24,306	5.7%	5.8%	5.5%	5.5%	5.5%
Roadways	32,077	0.0%	1.5%	1.7%	1.9%	2.0%
Corporate Services	43,486	2.3%	1.5%	1.7%	1.9%	2.0%
Corporate Planning & Administration	2,673	0.0%	1.5%	1.7%	1.9%	2.0%
Council Services	3,124	0.0%	1.5%	1.7%	1.9%	2.0%
Financial Management	72,292	15.7%	10.1%	11.3%	7.6%	6.0%
Public Support Services	686	0.0%	1.5%	1.7%	1.9%	2.0%
TAX LEVY	467,351	3.8%	3.1%	3.4%	3.0%	2.7%

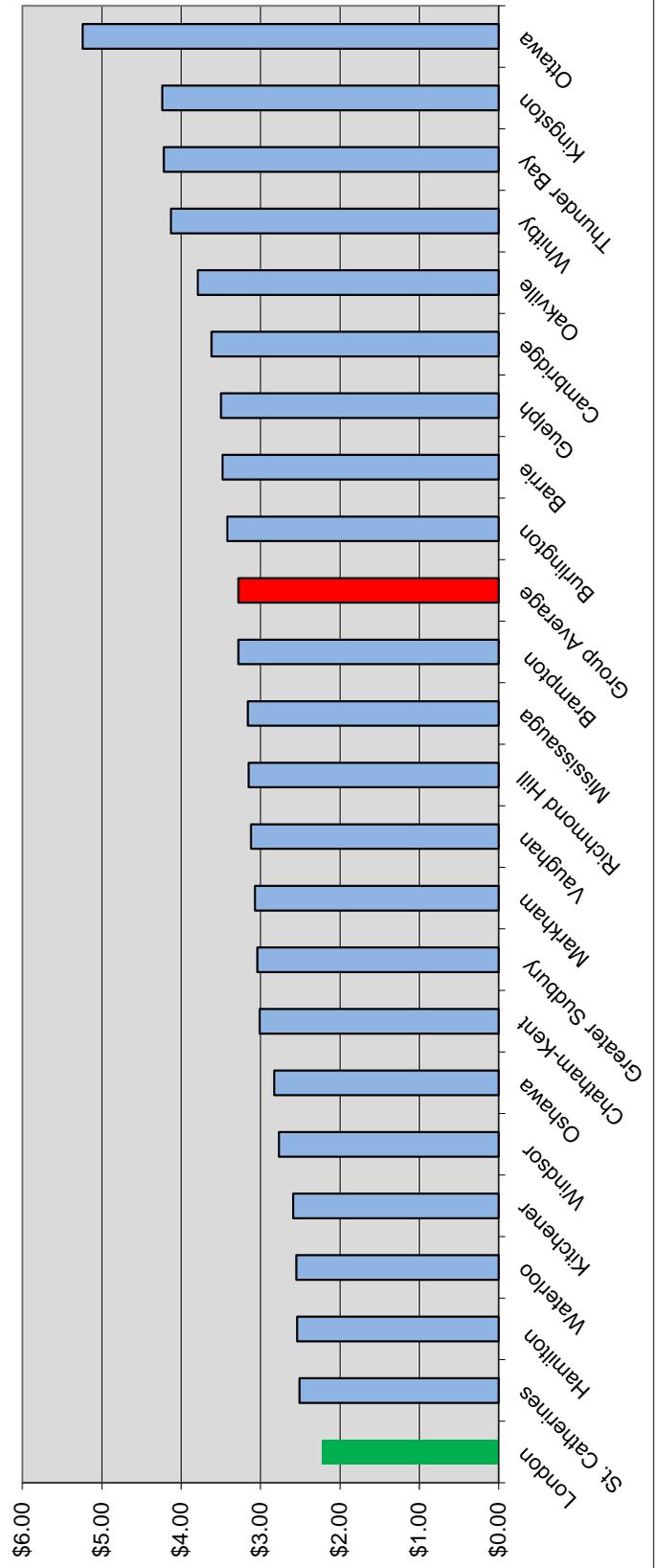
2011 Property Tax - Residential
 (for Municipalities with Populations over 100,000)

For a three bedroom 1,200 sq ft detached bungalow with 1.5 baths and a single car garage, on a 5,500 sq ft lot
 (Source: BMA - Municipal Study 2011)



2011 Property Tax - Commercial
 (for Municipalities with Populations over 100,000)

For prime location commercial office space, property taxes per sq ft of gross leaseable area
 (Source: BMA - Municipal Study 2011)



2011 Property Tax - Industrial
 (for Municipalities with Populations over 100,000)

For standard industrial property under 125,000 sq ft, newer construction, flexible design - taxes per sq ft of floor area basis
 (Source: BMA - Municipal Study 2011)

