



OFFICE OF THE  
MAYOR

May 2, 2012

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Mayor Joe Fontana and Council Members  
The City of London c/o City Hall  
300 Dufferin Avenue P.O. Box 5035  
London, Ontario - N6A 4L9

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Dear Mayor Fontana and members of Council:

**Re: Recommendations for the City of London's Budgetary Processes**

At the direction of the Chamber's Board of Directors, a Task Force of our Municipal Affairs Committee was charged with the responsibility of drafting a series of recommendations that would better enable the City to consider how best to manage budgetary priorities in three critical areas. They include property taxes, reserve accounts, and investments in industrial lands.

**Property Taxes**

Let me start by saying that the Chamber applauds the successful tax freeze of the past 2 years and encourages continued fiscal prudence. This of course comes with the caveat that these tax freezes do not jeopardize the City's much coveted bond rating or compromise essential infrastructure spending (both capital and lifecycle).

The Chamber acknowledges that the City has considerable budget pressures and recognizes that fully 33% - 52% of City's costs are largely fixed either via regulation or legislation. (The number varies depending on how far one extends the associated costs)

We also acknowledge that there exists a temptation to be thinking in the short term and that property tax cuts can be achieved by reducing annual contributions to reserves.

It's the Chamber's view that fiscal prudence needs to incorporate a longer term view in these three priority areas.

The City needs to have a clearly communicated long-term strategic plan that integrates infrastructure, transportation and development planning. Budgets tabled each year should be done in the context of being integrated with the stated objectives contained in such a long term strategic plan.

This would avoid wide swings in tax growth levels such as the change from the 0% growth in '99 and '00 which was accomplished in part because of unique benefits obtained through lower pension funding costs for those years only to be followed by 8.1% and 6.6% a few years later.

We also acknowledge and support that administration has a fiscal plan that will see less reliance on debt and a greater reliance on cash funded infrastructure growth.

To achieve these objectives and to adopt this multi-year mindset will take considerable courage and discipline on the part of this Council and other Councils going forward.

London's business community, including the Chamber, would be pleased to consult with the City in developing this long-term, integrated strategic plan.

## **Reserves**

Where reserve accounts are concerned, the City could show good fiscal prudence by resisting the temptation to dip into reserve funds for a number of obvious and not so obvious reasons.

1. Reserve funds are key to the City being able to maintain our coveted Aaa debt rating. Having strong reserves not only ensures that London's reliance on debt to fund investments lowers over time (a plan that City administration has in place and that we applaud) but also allows the City to determine when it goes to market to fund approved debt ensuring we keep borrowing costs as low as possible.
2. While at acceptable levels, London's level of reserves is at the lower end of what is considered acceptable in order to maintain an Aaa debt rating. And we have already learned by way of the 2011 BMA Municipal Study that London's reserve levels at 32.7% of total expenditures are well below the survey average of 48.1%”
3. Balancing the budget by cutting \$1.3 million in transfers to general reserves such as occurred in the F12 budget may be shortsighted and further exacerbates the growing challenge of maintaining our coveted debt rating. This is \$1.3-million each year that could be going into reserves but won't be – a loss of \$13-million to reserves over 10-years. Unfortunately, we are faced with having to increase these reserves next year just to get back to par.

While we are considering reserves and in light of the recent operating budget surplus, it is noteworthy that the Chamber's long held view of establishing a formula to allocate operating budget surpluses strongly supports ensuring the City's reserve levels are properly funded.

The Chamber's recommendation is that operating budget surpluses should be allocated in a pre-determined formula as follows:

- 10% to replenish the Operating Budget Contingency Reserve until the reserve is at 1.5% of gross tax supported expenditures,
- 40% to debt reduction,
- 20% as a tax refund proportional to the amount of tax collected from rate payers,
- 10% to unfunded liability reserve,

- 10% being retained by the originating civic departments, boards and commissions to meet one-time community / programming needs or to implement further costs savings and
- the final 10% to be applied by Council to meet one-time community needs.

## **Investments in Industrial Lands**

It's the Chamber's view that under investing in available industrial land may also be short sighted and mortgages our future.

- a. Like it or not, having available serviced industrial land inventory in sufficient block sizes and at prices that are competitive is imperative for London to attract new industrial investment.
- b. Not having this land will and has resulted in some well known loss of opportunities.

## **Going Forward**

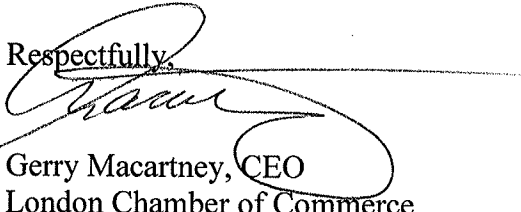
While the goal of achieving zero tax increases is both laudable and worthy of support, the Chamber is not, and has never been married to the notion that zero is always best. There are appropriate periods where it makes sense to achieve zero but in the long run we are guided by our belief that tax growth rates should not exceed the combination of inflation plus an allowance for population growth.

However, obtaining this target has to be in the context of a longer term plan that sees stable and growing reserves and adequate industrial land inventories.

We respectfully submit these thoughts and recommendations for your consideration and would be most willing to discuss them in further detail. As these recommendations have been approved and supported by our Board of Directors, they will now serve as the template for action by our Municipal Affairs Committee each year as they attempt to sort out and comment on each year's budget both before its passing and after.

The Chamber looks forward to your response and we would welcome an informal meeting with select members of Council, the Administration, our Directors and members of our Budget Task Force prior to Council setting any formal budget targets for the years ahead.

Respectfully,



Gerry Macartney, CEO  
London Chamber of Commerce

Copies: The Board of Directors, the Municipal Affairs Committee