



Executive Budget Committee

TO: Budget and Corporate Services Committee

SUBJECT: 2012 Budget Process & Directions Report

Report Number: EBC-03-11

File Number(s):

Report Date: June 29, 2011

Ward(s) Affected: 1 2 3 4 5 6 All

Date to Committee: July 12, 2011

Date to Council: July 18, 2011

Recommendation:

Adopt Current Budget Scenario B as a guide to developing the 2012 Current Budget; and

Request that Local Boards and Citizen Committees submit 2012 budgets reflecting a 2% increase in the municipal contribution; and

Adopt Capital Budget Scenario B as a guide to developing the 2012 Capital Budget and Forecast; and

Approve the revised debt policy as outlined in report EBC-03-11.

Purpose:

- Address goal, action or initiative in strategic plan
- Establish new or revised policy or service standard
- Respond to legislation
- Respond to staff direction
- Address other area of responsibility

The purpose of this report is to provide Council with the 2012 budget process, highlight key issues and provide scenarios with respect to the 2012 current and capital budget.

Reference to Strategic Plan:

N/A

Executive Summary:

Scenarios were developed to evaluate a number of tax policy decisions aimed at reducing pressure on the operating budget,

including reductions to the capital budget.

Staff support an amendment to City debt policies as it relates to tax supported debt, however all other financing policies, remain as they did last year. The recommended scenario B proposes strategic options for an increase in funding to support dedicated infrastructure renewal over the 10 years and a focus on reducing the city's reliance on debt by increasing direct cash funding for the capital program. Debt policies and financing policies are outlined under the "discussion" section.

Operating scenarios were developed to evaluate a number of tax policy decisions. The recommended scenario B (outlined in Appendices A & B) is summarized as follows:

Operating Scenarios	B Strategic Focus (Recommended)
Operating Challenges	\$4.0
Tax Impact	3.4%
Solutions	
Assessment Growth	(\$1.3)
Investment Income	(\$0.1)
Funding OMERS temporary increase	(\$0.6)
Cost Containment	(\$1.2)
New and Increased User Fees	(\$0.5)
Service Reductions	(\$0.3)
Subtotal Solutions	(\$4.0)
Subtotal Operating Challenges & Solutions	(\$0.0)
Tax Impact	0.0%
Issues - Uses of Funds	
GTA Tax Room to Capital (0.8%)	\$0.9
Dedicated Infrastructure Renewal Capital Levy (0.5%)	\$0.6
Capital Project's Impact on Operating	\$0.7
Service Enhancements / New Initiatives	\$0.2
Phase out Debt	\$0.5
Strategic Planning Implementation	\$0.4
Hospital Levy Increase	\$0.4
Strategic Land Increase	\$0.4
Subtotal Use of Funds	\$4.1
Total	\$4.1
Gross City Tax Impact (Incl. Tax Room & Hospital Levy)	3.5%
GTA Tax Room	0.8%
Hospital Levy	0.3%
City Tax Impact (Excl. Tax Room & Hospital Levy)	2.4%
Province of Ontario (Education)	0.0%
Region of Halton	2.8%
Total Tax Bill Impact (Incl. Tax Room & Hospital Levy)	2.4%

Background:

F-04-11 – 2011 – 2020 Multi-year Simulation

Summary of Staff Directions relating to Budgets**Capital:**

- Direct the Acting Executive Director of Finance and Director of Transportation to review the policy of allocating 25% of Special Circumstances Debt to future parking structures as part of the parking review study
- Direct the General Manager of Community Services and Acting Executive Director of Finance to consider changing the ratio of federal gas tax to 80% roadways and 20% transit (from 70% roadways and 30% transit) in conjunction with the

transit review (changes will affect 2013 budget).

Current:

- Direction to reduce the tax-supported compensation budget:
 - Direct the Acting Executive Director of Finance to reduce the tax-supported compensation budget by \$400,000 for 2011 (completed); and
 - Direct the Executive Budget Committee to prepare a revised complement plan and report back.
- Direct the Acting Executive Director of Finance to develop 2012-2014 budgets:
 - At the 2011 approved complement level,
 - For each additional position, a reduction be identified,
 - The budget documents outline the service impact for Council consideration, and
 - Increases in Full Time Equivalents be considered should higher cost positions be replaced with lower cost positions.
- Direct the City Clerk to review the Citizen Committee structure and report back on suggestions and efficiencies.
- Direct the Acting Executive Director of Finance to conduct a budget debrief with members of Council and staff for the purpose of identifying levels of satisfaction and areas of improvement for 2012 and report back to council in June 2011. This is not an evaluation on the results of the budget but rather the process, timelines, public input and methodology (see report F-38-11 on this agenda); and
- Direct the Acting Executive Director of Finance to provide Committee with a report no later than September 2011 outlining the key deliverables, timelines, cost and resourcing required to develop and implement performance-based budgeting and reporting including integration with the strategic plan for the City of Burlington.

Direction for Local Boards Budgeting:

In order to:

- Provide human resources information in a consistent way to the Executive Budget Committee so they can make informed annual budget recommendations to the Budget and Corporate Services Committee
 - Ensure clarity and disclosure of compensation changes year to year for the City of Burlington's staff and staff of each of the local boards
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- Respect the roles of each of the local boards in presenting their annual budget requests to Burlington City Council for consideration
 - Ensure that the decisions of City Council regarding annual budgets of each of the local boards result in known outcomes and consequences,

Direct the City Manager to advise local boards who bring their annual budgets to Burlington City Council for a City of Burlington contribution to:

- Submit their base budget annually based on the direction of the Executive Director of Finance so that the base budget meets council's budget target and so that the human resources costs within the base budget are prepared in a way consistent with the city's; and
 - Submit their program changes in priority order annually based on the city's budget preparation guidelines (i.e. program changes, decision units, any differences recommended in service standards/levels, new programs or services, and/or staff compensation).
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Discussion:

Budget Process

For the 2010 and 2011 budget, substantive changes were made to the budget process to ensure that an easier and well informed decision making process was provided to Council. Those changes included:

- Revised/new budget schedules and documents
- Evidence-based Asset Management
- Schedules for each net zero operation
- Impact of capital on operating (10 year)
- 10-year simulation for tax rate changes
- Greater analysis by city staff
- Revised decision making process
- A more compact budget document

As 2011 was an extremely challenging year from a budget work load perspective, it is proposed that for 2012 fewer system amendments be introduced; staff will fine tune some of the processes and procedures, and build upon others. However, for 2012 there will be changes in the following areas as a result of the Council debriefing sessions:

- Disclosure of material items
- Surplus data
- Timelines
- Consultation

Issue	Council Concern	Historic Approach	Proposed Approach
Disclosure	Too much detail	All service levels, fees, staffing, sensitive matters disclosed and reported on separately, regardless of dollar amount.	Reporting limit for key issues will be greater than or equal to \$10,000; with the exception of politically sensitive matters.
Surplus	Data not available in a timely matter	Validated data is presented towards the end of the process.	Within the transmittal report, prepare and include an estimate of the prior year surplus.
Timelines for budget approval	Complete closer to year-end; shorten preparation time.	<p>July start, Fall Executive Budget Committee (EBC) review and Feb/Mar Council approval.</p> <p>Three step process:</p> <ul style="list-style-type: none"> • July – Process and key issues report, • October – direction setting, and • March/April – Council approval. 	<p>Target – is to approve the Capital budget in January and the Current budget in February. EBC review will need to be completed 2-3 months earlier.</p> <p>Proposed new EBC process:</p> <ul style="list-style-type: none"> • Divide EBC into 3 sub-teams, • Review the budget in parallel and then meet to merge results, and • Provide a stronger role for finance staff in developing and amending budget submissions. <p>This is expected to reduce rework. However, this will require a July budget direction from Council.</p> <p>Modified 3-step process:</p> <ul style="list-style-type: none"> • July – Process and direction report, • Fall consultation report, and • January/February – Council approval.

Issue	Council Concern	Historic Approach	Proposed Approach
Public Consultation	Desire for consultation in both Fall and Winter	Prior years have not been consistent. Consultation or public engagement process has been evolving over the past few years. Typically held either in Fall or Winter but not in both periods.	First consultation – Fall 2011: <ul style="list-style-type: none"> • Feedback on budget direction, • Feedback on choices/service adjustment, • Feedback on strategic planning outcomes. Second consultation – Winter 2012: <ul style="list-style-type: none"> • Feedback on the proposed budget, and • Feedback on 2012 key financial issues.

Proposed Timelines

Key Dates	2012 Capital & Current Budget
July 12, 2011	Budget & Corporate Services (B&CS) consideration of 2012 Budget Process and Directions report
July 18, 2011	Council approval of 2012 Budget Process and Directions report
September 13, 2011	Budget & Corporate Services (B&CS) consideration of 2012 Public Consultation report
September 26, 2011	Council approval of 2012 Public Consultation report
October / November 2011	Public consultation on the 2012 Budget
January 19, 2012	Proposed 2012 Capital Budget & Forecast overview and presentation (B&CS) Proposed 2012 Current Budget overview and presentation (B&CS)
Late January 2012 (TBD)	Council information session for the 2012 Capital Budget Council information session for the 2012 Current Budget Public Consultation on the 2012 Budget

Key Dates	2012 Capital & Current Budget
February 2012 (TBD)	Review and approval of the 2012 Capital Budget & Forecast (B&CS) Review and approval of the 2012 Current Budget (B&CS) Council approval of the 2012 Current & Capital Budget & Forecast

Introduction

Scenarios were developed to evaluate a number of tax policy decisions. From that analysis, the Executive Budget Committee (EBC) recommends operating budget scenario B and the corresponding capital budget scenario B.

Appendices to the report highlight these scenarios:

- Appendix A – Current Budget Scenarios,
- Appendix B – 2012-2021 Multi Year Simulation (supporting scenario B)
- Appendix C – Capital Budget Scenarios.

Upon preparing Appendices A (current) and C (capital), the scenarios are aligned alphabetically; for example, by approving scenario B in the operating budget, Council is, in essence, approving scenario B in the capital budget. Within Appendix A and B, items 1 through 15 reflect assumptions consistent with prior years’ decision making process. Items 16 through 29 requires strategic high level decision making; therefore, we request Council to focus on these items and provide direction to city staff in order to facilitate budget preparation.

Current Budget

Key Issues and Analysis (Appendices A and B)

Included in this report, as Appendix A, are the three current budget scenarios. Scenario B is recommended by EBC for Council approval.

Included in this report, as Appendix B, is the 2011 – 2021 Multi-year Simulation based on scenario B. Items 1 to 15 reflect assumptions consistent with previous years. Items 16 to 21 provide solutions, including assessment growth, increased investment income, cost containment, efficiency improvements, service changes and new/increased fees/revenues. Items 22 to 29 identify additions to the budget such as GTA Tax Room, dedicated infrastructure renewal levy, impact of prior approved capital projects, additional service enhancements, increased hospital levy, etc.

Appendix C Item #	Operating Scenarios	A Cost Control	B Strategic Focus (Recommended)	C Service Focus
1-15	Operating Challenges	\$4.0	\$4.0	\$4.0
	Tax Impact	3.4%	3.4%	3.4%
	Solutions			
16	Assessment Growth	(\$1.3)	(\$1.3)	(\$1.0)
17	Investment Income	(\$0.2)	(\$0.1)	\$0.0
18	Funding OMERS temporary increase	(\$0.6)	(\$0.6)	(\$0.6)
19	Cost Containment	(\$1.6)	(\$1.2)	(\$0.8)
20	New and Increased User Fees	(\$0.6)	(\$0.5)	(\$0.2)
21	Service Reductions	(\$0.6)	(\$0.3)	(\$0.2)
	Subtotal Solutions	(\$4.9)	(\$4.0)	(\$2.8)
	Subtotal Operating Challenges & Solutions	(\$0.9)	(\$0.0)	\$1.2
	Tax Impact	-0.8%	0.0%	1.0%
	Issues - Uses of Funds			
22	GTA Tax Room to Capital (0.8%)	\$0.0	\$0.9	\$0.9
23	Dedicated Infrastructure Renewal Capital Levy (0.5%)	\$0.0	\$0.6	\$1.0
24	Capital Project's Impact on Operating	\$0.5	\$0.7	\$0.9
25	Service Enhancements / New Initiatives	\$0.0	\$0.2	\$0.5
26	Phase out Debt	\$0.0	\$0.5	\$1.0
27	Strategic Planning Implementation	\$0.0	\$0.4	\$1.0
28	Hospital Levy Increase	\$0.0	\$0.4	\$1.2
29	Strategic Land Increase	\$0.0	\$0.4	\$1.0
	Subtotal Use of Funds	\$0.5	\$4.1	\$7.5
	Total	(\$0.4)	\$4.1	\$8.7
	Gross City Tax Impact (Incl. Tax Room & Hospital Levy)	-0.3%	3.5%	7.5%
	GTA Tax Room	0.0%	0.8%	0.8%
	Hospital Levy	0.0%	0.3%	1.0%
	City Tax Impact (Excl. Tax Room & Hospital Levy)	-0.3%	2.4%	5.6%
	Province of Ontario (Education)	0.0%	0.0%	0.0%
	Region of Halton	2.8%	2.8%	2.8%
	Total Tax Bill Impact (Incl. Tax Room & Hospital Levy)	0.9%	2.4%	4.0%

#19-25 Items requiring clear direction at this time to facilitate budget preparation.

#16-18 & 26-29 Items where direction is helpful. Council may wish to make final determination once the final budget comes together.

Assessment Growth (Item 16)

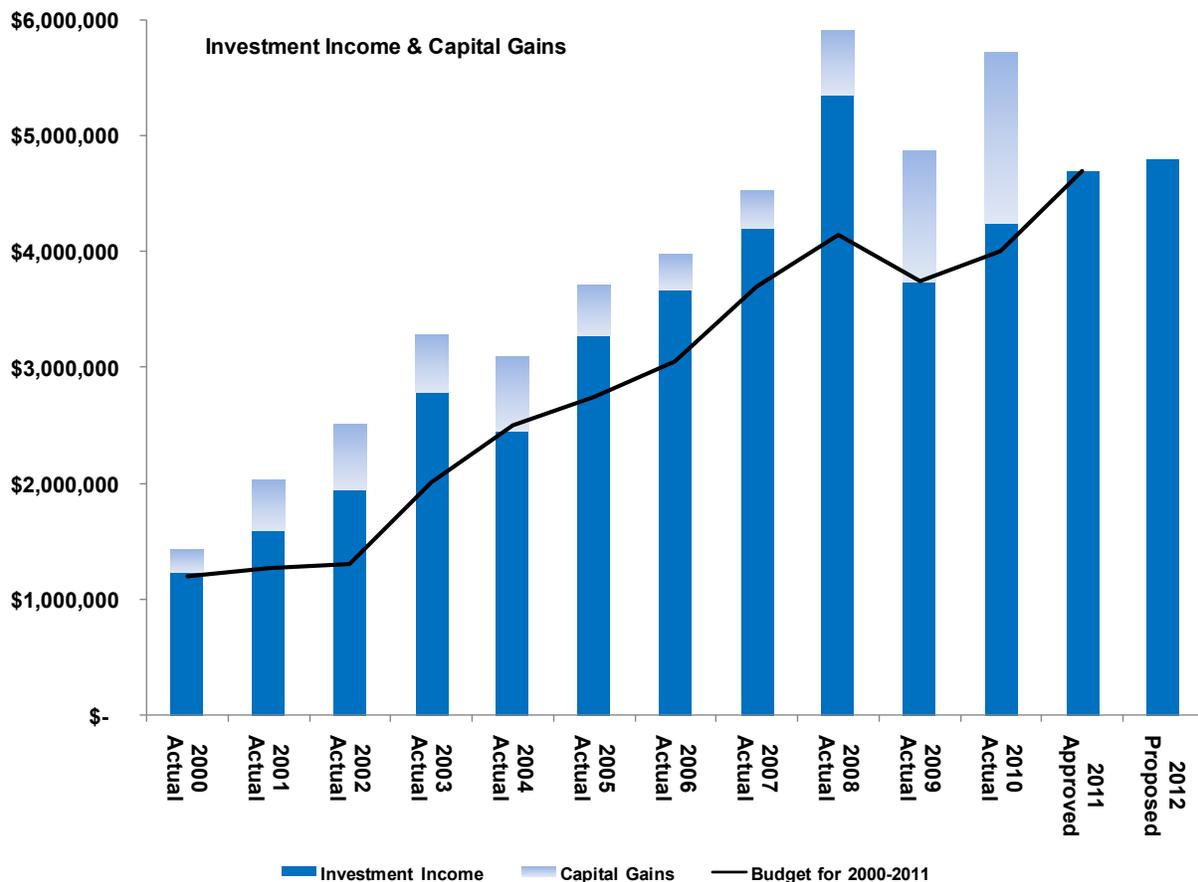
Assessment growth is dependent on the Municipal Property Assessment Corporation (MPAC) assessing new buildings in a timely manner. During 2010, the growth in weighted assessment was 1.64%. While this is higher than 2009 (1.32%) and 2007 (1.15%), it continues to be lower than 2008 and prior years when growth averaged around 2.6% (see table below). As the city is nearing residential greenfield build-out, and with the emphasis changing to infill development, it is expected that assessment growth will be at or below 1.1% per annum. Staff continue to work closely with MPAC to ensure that new buildings are identified for assessment purposes.

	2004	2005	2006	2007	2008	2009	2010	2011 Est.
Assessment Growth	2.29%	2.34%	2.53%	1.15%	1.86%	1.32%	1.64%	1.10%

In 2011 a significant portion of assessment growth was used to reduce taxes. The same strategy will be considered for 2012 and beyond.

Investment Income (Item 17)

In all three scenarios investment income has been increased by \$100,000 for 2012 to \$4.8 million and beyond. The budget for investment earnings varies from year to year based on general economic trends, the mix of investments in the City’s portfolio and the fluctuating balances in the reserves and reserve funds. For 2012, the city continues to anticipate a low interest rate environment (refer to F-29-11). The graph below provides historical budget to actual results for investment income.



Note: the City does not budget for capital gains.

Funding Ontario Municipal Employee Retirement System (OMERS) Temporary Increase (Item 18)

In July 2010, the OMERS Sponsors Corporation approved temporary changes for both employer and member contributions to address the OMERS Primary Plan’s funding shortfall. Effective with the first, full pay in 2011, contribution rates increased, on average, by 1% per side (employee/employer) as a percentage of a member’s earnings for 2011 to 2013. The total financial impact to the City will be approximately \$3.6 million broken down as follows:

- 1% increase in 2011 (\$600,000),
- A further 1% increase in 2012 (\$1.2 million),
- And a further increase of 0.9% in 2013 (\$1.8 million)

An indication from OMERS is that the three year rate increase is temporary. As such, Council on April 11, 2011 allocated \$1.8 million (\$600,000) per year for 3 years from the 2010 year-end surplus to finance the 2011 OMERS increase. It is recommended that to lower the 2012 tax increase, \$1.2 million (\$600,000 per year for 2 years) be funded from either the 2011 surplus (should sufficient surplus exist) and/or the Tax Rate Stabilization Reserve Fund to finance the 2012 OMERS increase. The simulation further assumes that a similar funding strategy will occur to fund the 2013 OMERS increase (approximately \$600,000).

Please note that there could be a financial risk should OMERS not remove all of the temporary increases in 2014 as one-time funding has been used to offset these increases.

Items 19 to 21

In establishing targets for 2012 it is useful to review recent history as this can assist in providing context in establishing targets.

Savings	Historic Results				Budget Scenarios – Target		
	Millions	2008	2009	2010	2011	A Cost Control	B Strategic Focus
Cost Containment (Item 19)	\$1.4	\$2.1	\$4.1	\$1.5	\$1.6	\$1.2	\$0.8
User Fees (Item 20)	\$0.1	\$0.8	\$1.3	\$0.4	\$0.6	\$0.5	\$0.2
Service Reductions (Item 21)	\$0.0	\$0.0	\$0.0	\$0.1	\$0.6	\$0.3	\$0.2
Total Savings	\$1.5	\$2.9	\$5.4	\$2.0	\$2.8	\$2.0	\$1.2

Cost Containment (Item 19)

In 2008 the City embarked on a new direction with a significant focus on cost containment. As a result, all departments underwent line by line budget reviews and departments were provided saving targets. The program was geared at finding ways to reduce costs while still maintaining services. In essence the process was geared to producing the same outputs at lower cost. Although the cost containment efforts proved to be very successful, this process is experiencing diminishing returns. In 2009 and 2010 we were able to harvest the “low hanging fruit”. Although we continue to expect savings to be achieved through cost containment, opportunities tend to be fewer, more complex, and with greater client impact. We expect the cost containment process to continue but yield diminishing returns.

User Fees (Item 20)

As part of the cost containment process user fees were aggressively reviewed. The objective was to lower the tax impact. As a result, finding new revenue sources through fees was an integral part of the cost containment process by raising existing fees and establishing new ones. In our opinion, we believe the City has maximized many of the fee increases and new fee opportunities. It is not realistic to expect the fee increases matching the 2009/2010 experience to continue.

In addition a number of our revenues (volume x price) are not viewed as sustainable in 2012 and beyond (i.e. planning and building). As a result, shortfalls in these areas will need to be met by increases in other fee categories for the overall revenue budget to be realized.

Service Reductions (Item 21) & Complement Control (Workforce Planning)

The City's budget process has steered away from service reductions due to the client reaction. Given Council's perspective on tax increases and the motion mandating that the staff complement be maintained at 2011 levels, we expect that some unavoidable expansions of service will require staffing and service reduction proposals in other parts of the 2012 budget. A report outlining the workforce planning process also appears on this agenda. The key results of that process are:

- 1) A full review of all existing positions.
- 2) A detailed and validated listing of new staffing needs over the next 3 years.
- 3) A detailed 2012 plan showing increases and offsetting reductions in complement. It is anticipated that some complement reductions will directly impact service while some will reflect a more efficient process.
- 4) The identification of 2-4 recommended efficiency projects geared at producing complement and cost savings in future years.

Savings from redeployment of staff have formed part of the savings reported in past years. With respect to the 2012 target, savings from this process have been factored into the proposed targets listed above.

2012 Savings Targets

In order to meet council's desire for a January/February budget approval, targets need to be established at this time. We believe that the recommended savings target of \$2.0 million (total of items 19 thru 21) represents a balanced approach as well as a challenging target. We would encourage council to review the appropriateness of each savings category.

Items 22, 23, 24 and 26

The table below underscores the capital impact (levies, debt and the operating impact of capital projects) on the city tax increase. The capital impact accounts for approximately 65% of the total gross tax impact in 2012 scenario B.

Description	2011 Approved Cost	2012
		B Strategic Focus (Recommended)
Gross City Tax Impact	0.9%	3.5%
<u>Capital Impacts:</u>		
GTA Tax Room to Capital (Item 22)	0.8%	0.8%
Dedicated Infrastructure Renewal Capital Levy (Item 23)	0.5%	0.5%
Impact on Operating as a result of Capital Projects (Item 24)	0.6%	0.6%
Phase out debt (Item 26)	0.0%	0.4%
Total Capital Impacts	1.9%	2.3%
Impact from Operations	-1.0%	1.2%

GTA Tax Room Transfer to Capital (Item 22)

In 2007, the Province announced the phase-out of GTA pooling expenditures. In late 2008, City Council was successful in getting Regional Council to agree that 50% of the annual savings (\$6.1 million) to the Region's levy from 2009 to 2013 be allocated to the local municipalities. Annual savings to the Region is equivalent to approximately a 1% tax reduction. For 2012 and 2013, Burlington's share is approximately \$900,000.

Under the plan, the Region rather than sending the City a cheque is required to reduce taxes by the GTA pooling amount. The City then is able to move into that 'tax room'. Although the logic is sound this has proven to be a communications challenge.

Historically the City added tax room dollars to the capital program as is recommended in scenario B. Should council choose to forgo this transfer a reduction of \$15.7 million would be needed to the Capital program.

Dedicated Infrastructure Renewal Capital Levy (Item 23)

Over the last few years, the dedicated infrastructure levy has provided additional funding to the capital program for renewal. In 2007 and 2008 the levy was equivalent to a 1% tax increase. In 2009, 0.5% was approved for the four year period 2009 to 2012. In scenario B, EBC recommends the continuation of the 0.5% levy from 2013 to 2021 to provide incremental dollars for infrastructure renewal; this will prevent the city from lagging further behind.

As indicated in report EBC-01-11, 2011-2020 Proposed Capital Budget & Forecast, the city has significant unmet needs in repairing and renewing existing assets. More specifically in the roadways and facilities and buildings asset classes which together comprise the largest segments of the city's tangible capital assets. To assist in reducing the funding gap, it is proposed in scenario C that \$1 million annually for 2012 to 2021 be used to renew our existing road network and aging facilities.

Historically the city has added levy dollars to the capital program as is recommended in scenario B. Should council choose to forgo this transfer a reduction of \$5.1 million would be needed to the capital program.

Prior Approved Capital Projects (Item 24)

As a result of prior approved capital projects that will be completed in 2011 or 2012; such as new or expanded facilities and parks, increased operating dollars are required for fixed and variable costs (i.e. staffing, equipment, insurance, hydro, natural gas, programming costs, maintenance costs, etc.). The simulation includes additional funding that relates to the impact on operating as a result of completed capital projects in the amount of \$873,700. It should be noted that the full-time equivalent (FTE) impact is estimated at 3.1 FTEs in 2012.

The list of the approved capital projects impacting the 2012 operating budget are detailed in Appendix B.

Service Enhancements / New Initiatives (Item 25)

In scenario B, we have allocated \$225,000 for service enhancements / new initiatives, such as growth in roadways, sidewalks and splash pads.

Phase out Debt (Item 26)

Council may wish to phase out debt funding in the capital budget replacing debt with cash funding opting for a sustainable funding source for asset renewal as recommended in the BMA report (F-24-11) in this agenda. Therefore, in scenario B, EBC has added \$0.5 million for phasing out debt in 2012 to 2021 and in scenario C, \$1 million annually to replace existing debt with cash funding for 2012 to 2019 (phase out of tax supported debt). The phase out of debt has a no material change in funding the capital program.

Strategic Planning Implementation (Item 27)

In order to implement initiatives resulting from the new strategic plan, \$0.4 million per year for 3 years, 2012 to 2014, has been budgeted for in scenario B and \$1 million has been budgeted for in scenario C for 2012 only.

Joseph Brant Memorial Hospital Increase (Item 28)

During 2009 surplus disposition deliberations, council amended staff's recommendation to provide a provision of \$1.2 million to the Joseph Brant Memorial Hospital Reserve Fund. Similarly, during the 2010 surplus disposition deliberations, council amended

staff's recommendation to provide an additional provision of \$1.2 million to the Joseph Brant Memorial Hospital Reserve Fund.

As part of the 2010 budget deliberations, Council approved a tax levy for Joseph Brant Memorial Hospital of \$1.2 million. The approved 2011 current budget maintains the hospital levy of \$1.2 million.

The balance in the Joseph Brant Memorial Hospital reserve fund after the 2011 provision is approximately \$4.9 million. In scenario B, EBC recommends increases of \$0.4 million each year for 2012-2014 bringing the total annual levy to \$2.4 million by 2014 whereas, in scenario C, EBC recommends an increased levy of 1.0% or \$1.2 million in 2012 only. No further increase to the tax levy has been incorporated within the simulation for 2015 to 2021 in scenario B.

Strategic Land Increase (Item 29)

During the 2007 budget process Council approved the establishment of a new reserve fund for strategic land acquisition. The City will accumulate funds for the purposes of acquiring strategic lands as approved by Council including associated legal costs.

In May 2011, Council approved stakeholder and public consultation on report L-17-11, "Draft Strategic Land Acquisition Policy". Such consultation will be reported back to Council in September 2011.

The uncommitted balance in the reserve fund as of June 2011 is about \$2.5 million. In scenario B, EBC recommends an increased levy of \$0.4 million in each of the years 2012 - 2014; whereas, in scenario C, EBC recommends an increased levy of \$1.0 million in 2012 only. No further increase to the tax levy has been incorporated within the simulation for 2015 to 2021 in scenario B.

Boards and Agencies (Item 11)

Historically, agencies and boards have been provided a budget target of a 3% increase in base funding plus any approved service level changes. In 2010 this guideline was reduced to 2% plus service level changes. As evidenced in the 2011 budget, at 2% many boards reported difficulty in achieving this target without service reductions. Below is a table showing historical year-over-year changes for the past five years. The budget simulation continues a 2% target for these organizations. Council direction at this time would be appropriate to allow budget preparation to proceed.

Board & Agency	2007	2008	2009	2010	2011	2011 (\$M)
Library	8.4%	6.6%	3.5%	2.0%	3.4%	\$8.7
Museum	5.0%	4.5%	3.5%	2.0%	2.0%	\$0.6
Art Centre	7.7%	13.2%	4.0%	2.0%	2.0%	\$0.7
BPAC	N/A	N/A	74.7%	41.9%	69.4%	\$0.5
Tourism	6.0%	4.5%	3.1%	2.0%	2.0%	\$0.3

Board & Agency	2007	2008	2009	2010	2011	2011 (\$M)
BEDC	4.7%	4.2%	4.0%	2.0%	3.8%	\$0.6
Citizen Committees*	29.1%	9.2%	-21.8%	2.9%	-4.7%	\$0.1
Total	8.1%	7.9%	4.0%	2.8%	4.8%	\$11.5

*Includes Sound of Music

Capital Budget and Forecast (10-years)

Included in this report, as Appendix C, are three capital budget scenarios. The scenarios and analysis reviews the tax supported capital funding levels on a ten year basis. It is appropriate to view broad policy decisions on this basis when setting budget directions. The final capital budget submission will translate Council policy decisions into familiar project by project schedules with exact timing and funding sources disclosed.

As noted in the simulation of Appendix B the 2012 capital budget & forecast will no longer receive incremental funding beyond 2013 for capital renewal (addressing the infrastructure gap), to address inflationary pressures, and sustain debt charges identified in the capital budget.

Scenario B is recommended by EBC for Council approval, which is consistent with assumptions made in scenario B of the current budget. Scenario B includes options for an additional contribution to the capital budget as well as a focus on phasing out tax supported debt (replacing debt with cash). Each scenario provides for different levels of funding. While EBC does not support reductions to the overall capital program, slowing the rate of growth may be appropriate to reflect project management resource levels and the fiscal challenges presented in the current budget. The scenarios include ranges of changes to the capital program including the removal of the City tax room transfer (GTA tax room); removal of the dedicated infrastructure renewal levy; extending the dedicated capital levy in future years and phasing out debt in replacement of direct cash funding.

Included in Appendix C, are items 1 to 5 reflecting the related assumptions to tax policy decisions. Staff are requesting Council to provide strategic direction for the 2012 budget process. Within each capital scenario A through C, the total capital policy impact indicated reflects that all items within that scenario are accepted. These decisions affect the capital budget and subsequently have implications on the tax rate increases or decreases in the current budget. The following is a summary of the items presented:

- 1- Adjusted tax supported capital funding impact for a self sustaining budget
- 2- GTA tax room funding impact
- 3- Dedicated Infrastructure Renewal Capital Levy
- 4- Phased out debt replaced with cash
- 5- Change in debt due to phase out

Adjusted Tax Supported Funding (Item 1)

At this time, the 2012 capital budget & forecast, no longer receives incremental funding beyond 2013 as the dedicated infrastructure renewal levy ceases in 2012 and the GTA tax room transfer ends in 2013. As a result if we continue borrowing, a larger and larger portion of the dollars directed to the capital program will be used for debt payment and not for capital projects. By 2021 capital from current will drop to \$12 million annually from \$16 million, tax supported debt charges will climb from \$7 million annually to \$11 million and total debt is expected to grow from \$90.7 million to approximately \$100 million. This outcome is contrary to the advice contained within the BMA report. Scenario B and C are designed to begin to address this issue by increasing funding and reducing reliance on debt.

In the absence of additional funding, in order to maintain our financial capacity to support debt repayment and to have a minimal impact on the capital program due to the repayment of debt charges, the 2012 capital budget will include a reduced tax supported guideline of approximately \$13 million, when compared to the 2011 capital budget, as noted in scenario A (excludes funding from development charges, reserve funds, and senior government funding provided to the capital program).

GTA Tax Room Transfer to Capital (Item 2)

The GTA tax room provides incremental funding to the capital program in 2012 and 2013 of approximately \$900,000 in each year. To reduce the impact the capital budget has on the city's tax increase, Council has the option to remove a portion of or all the incremental funding in those years, in order to mitigate any further pressure on the tax rate.

Historically the City has added levy dollars to the capital program as is recommended in scenario B. Should council choose to forgo this transfer a reduction of \$15.7 million would be needed to the capital program, as noted in scenario A. The impact to the city's tax rate is a decrease of 0.8% in 2012 and 0.7% in 2013. Furthermore, as mentioned above in item 1, for the capital budget to be self sustaining and now provide within a reduced funding envelope, the level of debt over the next ten years should also be reduced accordingly to achieve a total tax supported reduction of at least \$13 million as indicated above.

Dedicated Infrastructure Renewal Capital Levy (Item 3)

Over the last few years, the dedicated infrastructure levy has provided additional funding to the capital program for renewal. In 2007 and 2008 the levy was equivalent to a 1% tax increase. In 2009, 0.5% was approved for the four year period 2009 to 2012.

As mentioned above, historically the city has added levy dollars to the capital program, however, if Council decides to remove the dedicated infrastructure levy of 0.5% in 2012, this would remove approximately \$5.1 million in tax supported funding from the capital program, when compared to the 2011 capital budget, as noted in scenario A. Furthermore, as mentioned above in item 1, for the capital budget to be self sustaining and now provide within a reduced funding envelope, the level of debt over the next ten

years should also be reduced accordingly to achieve a total tax supported reduction of at least \$13 million as indicated above.

In scenario B, EBC recommends the continuation of the 0.5% levy from 2013 to 2021 to provide incremental dollars towards infrastructure renewal. The extension of the levy will provide additional incremental funding of approximately \$25 million over the ten year period, when compared to the 2011 capital budget. This incremental increase will result in a tax rate increase in 2013 and each year beyond of 0.5%.

In scenario C, EBC recommends the continuation of the levy, but increased to \$1 million (0.9%) from 2012 to 2021 to provide incremental dollars towards infrastructure renewal. The extension of the levy will provide additional incremental funding of approximately \$46 million over the ten year period, when compared to the 2011 capital budget. This incremental increase will result in a tax rate increase in 2013 of about 0.9%.

Phased out Debt (Items 4 & 5)

In scenario B, EBC is recommending replacing debt with cash funding. A phased approach of incrementally reducing debt with cash funding in the amount of \$500,000 per annum, is proposed. This funding will reduce the requirement for debt and the associated debt charges as well as support the use of cash funding as a sustainable funding source for renewal as recommended in the BMA report (F-24-11) in the same agenda. EBC recommends this as a prudent debt management strategy. This strategy would result in a reduced reliance on debt, by removing \$27.5 million in debt (compared to the 2011 capital budget) and a corresponding increase in cash funding by an equivalent amount with no material change in total funding to the capital program. This will however have an approximate incremental increase of 0.4% to the tax rate in each respective year for the current budget.

Council may wish to further increase funding to the capital budget to support the use of cash funding. Therefore, in scenario C, EBC recommends incrementally reducing debt with cash funding in the amount of \$1 million per annum, from 2012 to 2019. The \$1 million does not extend past 2019, because with this value of reduction, the city will no longer have debt funding forecasted beyond 2019. With this scenario, \$52 million in debt (compared to the 2011 capital budget) would be replaced by the equivalent amount of cash funding, with no material change to the capital program. This will however have an incremental increase of approximately 0.9% to the tax rate from 2012 – 2019 for the current budget.

Change in debt due to phase out (Item 5)

Reductions in debt are noted in all the scenarios with scenario C being the most aggressive. A summary of the ten year debt reductions, the resulting debt policy limit and the direct impact to the 2012 tax base is provided below for each scenario.

Summary of Capital Scenarios Appendix C:

	Scenario A	Scenario B	Scenario C
Debt Reduction	\$13M	\$27.5M	\$52 M
Debt Limit	7.3%	7.0%	6.4%
2012 Tax Rate (Savings)/Increase*	(1.3%)	0.4%	1.3%

*excludes prior approved capital project impact on the current budget

City Debt Capacity

As of December 31, 2010, the city has \$69.5 million in total debt outstanding. In addition, the city has approved \$30 million in debt which has not been issued. Taking into consideration estimated debt repayments in 2011 the year-end projection for total City debt is \$90.7 million. If the capital budget is self sustaining and no longer receives further incremental funding beyond 2013), the tax-supported guideline will need to be reduced by \$13 million. We need to recognize that the repayment of existing and future debt will have an impact on future budgets. In order to not significantly erode the capital program, staff recommend a 0.5% levy be implemented in 2013 and beyond as direct cash funding, not debt. In the past five years alone the city has issued \$63 million in debt. As indicated in report CM-14/09, the use of significant amounts of debt is not supported for the following reasons;

- *Living Beyond Our Means:* Debt most appropriately should be used to fund the very largest capital projects where direct funding from cash or reserves is not practical. As per report F-24-11 (City of Burlington 2010 Financial Health Report), BMA recommends that the city's debt funding for lifecycle projects should be reduced and ultimately eliminated. Not only do we use debt for large projects but debt is utilized to support our renewal needs. Relying too heavily on debt avoids the tough choices as we endeavour to include all projects.
- *Cost & Passing Cost to Future Budgets:* Debt is not a permanent funding source. Debt passes the burden of today's spending to future budgets. Not only is the principle passed forward but an expense for interest cost is created. In 2010, \$3.2 million was paid for interest. These tax dollars for interest are a significant drain on the budget and provides no benefit to the capital program other than paying for the use of the money to construct previous works.
- *City's Financial Position:* The city's debt philosophy remains the key underlying driver in determining our availability to ensure tax supported debt funding as well as non-tax supported debt is managed in a prudent manner. As part of the 2010 capital budget, Council approved a debt policy which limits the amount of total debt to 12.5% of own source revenues over a ten year period, and restricting the amount of tax supported debt to 10% of own source revenues in the same period. The city is within these approved limits, however, Council should take into consideration that these limits need to be addressed, if the capital budget is

to manage within its existing funding envelope so as not to put undue pressure on the operating budget.

- *Low Cost of Debt:* Debt cost is low today, but rising. If we are going to borrow now is the time, however, any borrowing still needs to be repaid and we should be cognizant of the implications of the payments to future budgets.

Debt Policy

As mentioned above, the approved debt policy ensures total debt charges is limited to 12.5% of own source revenues over a ten year period, and restricting the amount of tax supported debt to 10% in the same period. As per report F-29-11, Financial Status as at March 31, 2011, the city's total debt limit is approximately 11.2%.

Staff recommends the adoption of scenario B, which reduces the debt but provides for additional cash funding to the capital program. As such staff recommend that the tax supported debt limit be lowered to 8% with the total debt limit remaining at 12.5%, for the 2012 budget and beyond. Leaving the total debt limit at 12.5% allows the city to continue to support issuances of special circumstances debt, which is repaid by the Hydro reserve fund as well as and non-tax supported debt (repaid by user groups). Reducing the tax supported limit allows the city to reduce debt levels to ensure long term financial stability and to not place undue burden on the residents through future city tax increases. This will in affect reduce the city's reliance on tax supported debt in the long term, as debt will be systematically reduced to not drastically impact the capital budget.

As well this approach is consistent with the recommendation in the BMA report which uses debt on "new" capital projects and cash funding for renewal projects.

In Appendix C, the Capital scenario B recommends \$57.5 million of tax-supported debt over the 10 years, which is a reduction of \$27.5 million in debt from the 2011 approved budget. The city's tax supported debt limit is within the proposed tax supported debt policy limit of 8%. At each budget cycle the city's debt guideline will be revisited and revised accordingly to ensure that it remains within the approved debt policy limits.

Capital Budget Challenges

The capital budget continues to face a variety of challenges. As in the past years, the budget will aim to address these issues to continually make progress regarding:

- Asset Management
- Infrastructure funding gap, and
- Unfunded projects.

Staff support an amendment to the debt policies as it relates to tax supported debt and a continuation of the dedicated infrastructure levy beyond 2012 (2013 – 2021).

Summary of Financing Policies

- Total debt policy will remain within 12.5% over ten years.
- Tax supported debt policy limited to 10% over ten years **be reduced to 8%** to commence implementing a strategic debt management strategy as reported in the BMA report (report F-24/11 on this same agenda)
- No additional waves of special circumstances debt (next potential phase 2022).

Dedicated Levies

- Expand dedicated infrastructure levy of 0.5% beyond 2012, **introducing 0.5% in 2013 to 2021.**
- Maintain tax room transfer in 2012 (0.8%) through 2013, after which the annual pooling amount is fixed (\$6.4 million).
- An increase in the Infrastructure Renewal Reserve Fund (IRRF) guideline of \$200,000 annually, while maintaining the minimum balance in the Hydro Reserve Fund over ten years (\$17 million)
 - As part of the 2010 surplus disposition \$971,777, was approved to be transferred to the IRRF. Staff have added this to the proposed capital guideline as one-time funding in 2012, to be assigned between roadways and facilities and buildings renewal requirements.

Federal Gas Tax

In accordance with the staff direction to review the federal gas tax split, a transit review is currently underway, and projected to be complete by December 2011. The Transit requirements for future years will be addressed through the master plan, and as a result staff can make an appropriate determination of the reasonability for changing the federal gas tax split from 70/30 roads and transit at that time. A review of the federal gas tax split will be addressed after the completion of the Transit Master plan, and any changes will affect the 2013 budget.

Financial Matters:

Appendix C provides a ten-year simulation based on recommended scenario B of future operating budgets. As can be seen from the simulation, preliminary results indicate city tax increases for 2011 to 2014 average 3.17% and the cumulative total for 2011 to 2014 is 12.7%.

Budget Summary (Millions)	2011 F-03-11	2012 Scenario B	2013	2014	Cumulative	Avg.
Operating Challenges						
Recurring Issues & Other	\$4.0	\$4.0	\$3.4	\$3.5		
Total Challenges	\$4.0	\$4.0	\$3.4	\$3.5		
Solutions						
Assessment Growth	(\$1.9)	(\$1.3)	(\$1.3)	(\$1.3)		
Investment Income	(\$0.7)	(\$0.1)	(\$0.1)	(\$0.1)		
Funding OMERS temporary increase	(\$0.6)	(\$0.6)	\$0.0	\$0.0		
Additional Solutions (incl. new & increased user fees)	(\$2.0)	(\$1.7)	(\$1.2)	(\$0.9)		
Service Reductions	(\$0.1)	(\$0.3)	(\$0.3)	(\$0.3)		
Total Solutions	(\$5.2)	(\$4.0)	(\$2.9)	(\$2.6)		
Capital / Program Changes						
GTA Tax Room to Capital (0.8%)	\$1.0	\$0.9	\$0.9	\$0.0		
Dedicated Infrastructure Renewal Capital Levy (0.5%)	\$0.6	\$0.6	\$0.6	\$0.6		
Capital Project's Impact on Operating	\$0.7	\$0.7	\$1.5	\$1.7		
Service Enhancements / New Initiatives	\$0.0	\$0.2	\$0.1	\$0.1		
Other Initiatives	\$0.0	\$1.7	\$1.7	\$1.7		
Total Capital / Program Changes	\$2.2	\$4.1	\$4.8	\$4.1		
Net City Impact (\$Millions)	\$1.0	\$4.1	\$5.3	\$5.1		
City Tax Impact (Percent)	0.08%	2.40%	3.25%	3.61%	9.35%	2.34%
GTA Tax Room to Capital	0.83%	0.80%	0.74%	0.00%		
Contribution to the Joseph Brant Memorial Hospital	0.00%	0.34%	0.33%	0.31%		
Gross City Tax Impact (Incl. Tax Room & Hospital Levy)	0.91%	3.54%	4.32%	3.92%	12.70%	3.17%
Education	0.00%	0.00%	0.00%	0.00%		
Region	1.56%	2.80%	2.60%	3.00%		
Total Tax Bill Impact	0.94%	2.44%	2.69%	2.71%	8.78%	2.20%

Scenario B has significant contributions to the capital levies plus increases to the hospital levy, the strategic land and implementation of the strategic plan (overall total of \$4.1 million or 3.5%), which increases the cumulative four year target for 2011 to 2014 over the 10% range. We believe scenario B to be a balanced budget. Council has the option to be less aggressive and can therefore reduce the cumulative target to 10%.

Communication Matters:

Public Consultation

As per report F-38-11 on the same agenda, 2011 Budget Debriefing, most of Council agrees that public consultation should happen around budget directions. Based on this information and other feedback, staff will be scheduling the public consultation process with two public meetings in the Fall following approval of staff directions to educate and foster discussion with the public on the budget directions, strategic planning outcomes, as well as the key issues facing the 2012 budget. While, the city has not typically had public open houses twice during the budget process; for the 2012 budget staff are

looking at also conducting public consultation in the new year to obtain feedback on the proposed budget.

The city is always looking for new and innovative ways to use social media. With the addition of Twitter and Facebook, which were implemented as a pilot program in the 2011 budget process, staff will continue to aim to get greater public participation in the budget process.

Conclusion:

This report outlines significant policy choices and seeks Council direction for the balance of the 2012 budget process. The Executive Budget Committee recommends capital budget scenario B and operating budget scenario B for the 2012 budgets.

Respectfully submitted,
On Behalf of EBC

Roman Martiuk
City Manager
905-335-7600, ext. 7608

Appendices:

A. Current Budget Scenarios
B. 2011-2021 Multi-year Simulation (Key Issues & Analysis)
C. Capital Budget Scenarios

Notifications:
(after Council decision)

Name	Mailing or E-mail Address

Approvals:

*required _____ _____ _____ _____
 *Department City Treasurer General Manager City Manager

	To be completed by the Clerks Department
Committee Disposition & Comments	

	01-Approved	02-Not Approved	03-Amended	04-Referred	06-Received & Filed	07-Withdrawn
Council Disposition & Comments						
	01-Approved	02-Not Approved	03-Amended	04-Referred	06-Received & Filed	07-Withdrawn