



City of
Peterborough

To: Members of the Budget Committee

From: Patricia Lester
Commissioner of Corporate and Legislative Services

Meeting Date: June 25, 2018

Subject: Report CLSFS18-028
2019 Budget Guidelines

Purpose

A report to recommend the 2019 Budget Guidelines.

Recommendations

That Council approve the recommendations outlined in Report CLSFS18-028, dated June 25, 2018, of the Commissioner of Corporate and Legislative Services, as follows:

- a) That the Draft 2019 Operating Budget reflects an estimated 2.5% all-inclusive (Municipal, Education, Sanitary Sewer Surcharge) increase for increased operating costs and traditional support for the capital program comprised of:
 - i) A budget provision of 1.87% for general Operating Budget impacts,
 - ii) A budget provision of \$620,000 (0.38%) for Stormwater Protection,
 - iii) An increase in the Sewer Surcharge rate to provide the equivalent of \$350,000 (0.25%) in Sanitary Sewer revenues, and
- b) That in regards to any 2019 Operating Budget increase as a result of enhancing the levels of service for Paramedic Services, the Draft Budget reflect such increases as 'below the line' pending further discussions and direction by Council.

- c) That the revised Tax Ratio Reduction Program continues for the 2019 Draft Budget and reflects reductions:
 - i) to the Commercial and Industrial Class Tax Ratios but not the Multi-residential Class, and
 - ii) at the reduced rate established through the 2016 Budget process.
- d) That the increase in the Police Services portion of the draft 2019 Operating Budget reflect no more than the Operating portion of Net Tax Levy increase (estimated to be 2.9%), and any increase in the net Police Services budget beyond the estimated Operating Portion of the Net Tax Levy increase be addressed by Council as part of the detailed 2019 Budget deliberations to occur in January of 2019.
- e) That should the sale transaction of Peterborough Distribution Inc. (PDI) occur, regardless of the budget year, any investment proceeds from the funds invested from the sale of PDI be directed towards enhancing Capital financing, and not be used for purposes of reduction in net tax levy.
- f) That the 2019 Highlights Book includes a section on the information gathered through the Public Meeting held on June 6, 2018 and a response to each.

Budget and Financial Implications

Based on a number of early assumptions, a combined 2.5% all inclusive rate increase equates to a \$4.3 million (3.4%) increase in total tax levy requirements. \$620,000 (0.38%) of the total increase would be used to implement the Stormwater Protection funding and \$3.7 million (2.9%) would be used to fund all other operating increases.

Recommendation c), regarding the Tax Ratio Reduction Program, does not impact the 2019 levy requirement nor the amount of tax collected, but does reduce the tax burden of the Commercial and Industrial Classes, and increases the burden of the Residential and Multi-residential Tax Classes. The impact to the Residential and Multi-residential Tax Class is estimated to be \$401,000 or 0.24% on the all-inclusive increase.

The following chart summarizes key impacts in 2019 that are considered over and above the amounts in the 2018 Operating Budget base.

Chart 1
Summary of Significant 2019 Budget Impacts

Ref	Description – General Increases	Amount
1	Electricity costs – alignment of budgets	\$600,000
2	Casino – additional tax revenues	(\$800,000)
3	Increase in Minimum wage	\$100,000
4	Fuel prices	\$500,000
5	Contribution to Downtown Business Improvement Area – was funded from Casino revenues in 2018	\$150,000
6	Total 2019 General Budget increases	\$550,000
7	Additional Levels of Service	
8	Waste Water Protection – Storm and Sanitary Sewer – Recommendation a) ii) and iii)	\$970,000
9	Total 2019 Budget Impacts	\$1,520,000
10	Potential City share of net Peterborough County City Paramedics – expanded levels of service – ‘Below – the – Line’ – (Updated from June 14, JSSC)	\$722,200
11	Potential 2019 Budget Impacts	\$2,242,200

A 1% change in the All-Inclusive Rate equates to \$1,650,000. Altogether, the above list of impacts equates to a 1.47% increase in the All-inclusive rate.

For an average taxpayer based on an estimated 2019 median assessed value of \$251,700, 2.5% would add an estimated \$98 to the combined municipal, education, storm and sewer surcharge levy.

Background

2019 Budget Process Began April, 2018

In April 2018, staff began the process of compiling the preliminary 2019 Budget estimates.

During the various review stages, staff will ensure the 2019 Draft Budget, to be presented to Budget Committee on December 3, 2018, achieves the guidelines ultimately approved through discussions of this report.

2.5% All-Inclusive Increase

Staff recommend a 2.5% all-inclusive increase comprised of a 1.87% general increase, 0.38% to provide \$620,000 for Storm Water Protection, and an additional 0.25% to provide \$350,000 in Sewer Surcharge.

Based on the preliminary analysis done to date, a combination of expenditure reductions and revenue increases will have to be found to meet the 1.87% general increase target in order to present an overall draft budget at a target All-inclusive increase of 2.5%.

For 2013 – 2016, the All-Inclusive increase for the Operating Budget increase was 2.0%. In 2017, Council approved an increase of 1.72% and in 2018 – 1.85%.

2019 Operating Budget

A general discussion on a number of factors is set out below:

Assessment – 2019 is Year 3 of 4 Year Cycle

The assessment of all property in Ontario is carried out by the Municipal Property Assessment Corporation (MPAC). The current value assessment (CVA) of a property is an estimate of the market value of a property at a fixed point in time.

Beginning with the 2009 taxation year, amendments to the Assessment Act provided for a four-year assessment update cycle. The years 2009 – 2012 were based on a valuation date of January 1, 2008. For 2013, and continuing through 2016, property assessment values have been based on a January 1, 2012 valuation date. For 2017, and continuing through 2020, property assessment values will be based on a January 1, 2016 valuation date.

The following provides a sample calculation of the assessment phase-in.

CVA based on January 1, 2016 valuation date:	\$280,000
CVA based on January 1, 2012 valuation date:	<u>\$240,000</u>
Change in CVA (total amount to be phased-in):	\$40,000

Annual amount to be phased-in: \$40,000 / 4 years = \$10,000 per year

Taxation Year	2016	2017	2018	2019	2020
Valuation Date	January 1, 2012	January 1, 2016	January 1, 2016	January 1, 2016	January 1, 2016
Phase-in %	--	25%	50%	75%	100%
CVA figure used for taxation	\$240,000	\$250,000	\$260,000	\$270,000	\$280,000*

* In the example above, the "destination assessment" is the fully phased-in CVA with a January 1, 2016 Valuation Date.

For the purposes of the preliminary analysis presented in this report, staff have assumed that reassessment has no overall impact.

Assessment – 1.06% Real Growth Projections

Various events and activities influence assessment growth. These include zoning changes, subdivision activity and new construction.

Staff have completed an initial review, including building permits, zoning changes, subdivision activity and condominium plans, and estimate real assessment will follow similar increases for Residential and Multi-residential as used in the 2018 Budget. Overall, assessments are estimated to increase by 1.06% (2018 – 0.61%), with the Commercial increase primarily driven by the Casino development. Each assessment class is estimated as follows for 2019:

- Residential 0.75%
- Multi-residential 1.00%
- Commercial 3.30%
- Industrial 0.00%

Altogether, real growth in the assessment base is expected to provide \$1.4 million (0.87% impact on All-inclusive rate) in taxation revenues. The preliminary analysis completed so far, does not substantiate any realizable growth in the Industrial sector.

Economic Factors - Consumer Price Index (CPI) projected to be approximately 2.2% for 2019

In 2018, in releasing the Ontario Budget, the Province provided their Fiscal Outlook estimating inflation for 2019 at 2.2%.

Table 3.2 Ontario Economic Outlook
(Per Cent)

	2015	2016	2017	2018p	2019p	2020p	2021p
Real GDP Growth	2.9	2.6	2.7e	2.2	1.8	1.9	1.7
Nominal GDP Growth	5.0	4.3	4.4e	4.1	3.9	4.0	3.9
Employment Growth	0.7	1.1	1.8	1.7	1.1	0.9	0.8
CPI Inflation	1.2	1.8	1.7	2.2	2.2	2.1	1.9

Although the Province is forecasting inflation at 2.2% for 2019, with the exceptions of fuel and electricity, the City has instructed staff to submit Draft Budgets assuming a 2.0% inflationary increase.

Impacts subject to inflationary pressures are difficult to quantify, but a conservative estimate of the impact to the operating budget for expenses, other than personnel costs and other pressures specifically addressed, would be \$0.5 million.

Personnel Costs (excluding Police) - \$2.3 million impact

Personnel costs are a major component of the operating budget. All contracts are settled for the 2019 budget year. When grid steps and annualizations of 2018 new hires are considered, the 2019 impact is expected to be \$2.3 million. These numbers do not include Police Services which are referenced in a separate section of this report.

In January 2018, the Province raised the minimum wage in Ontario to \$14.00/hour with the intention of increasing it to \$15.00 on January 1, 2019. Should the 2019 increase happen, preliminary estimates indicate that the 2019 budget impact would be \$100,000, with \$30,000 of this amount estimated for cost implications of contracts with suppliers such as, security, courier and cleaning services.

Utilities

Although the City has a Price Hedging contract in place that mitigates a portion of cost increases in the price of electricity consumed, electricity budgets need to increase in 2019 in the order of approximately \$0.6 million. The amount would have been much higher, but savings in re-lamping street lights is conservatively estimated to save the City approximately \$0.3 million per year. Until the capital costs are recouped, the savings are being used to finance the capital costs of re-lamping. Staff are following up on all energy retrofit projects to ensure anticipated savings are being realized.

Fuel Prices

Fuel prices have been increasing steadily since June 2017. Each \$.01 price per litre increase equates to a budget impact of approximately \$31,000. To align the 2019 Budget with the current pump price (net of HST rebates) will mean a budget impact of \$500,000.

City/County Weighted Taxable Assessment

The Consolidated Service Agreement with the County of Peterborough uses the previous year's weighted average current value assessment to calculate the City-County proportionate share for both Provincial Offences and Social Housing. For 2019, the County's share is 54.8 (2018 - 54.5%) and the City's is 45.2 (2018 - 45.5%).

Social Services - Mandatory Benefits - Provincial Upload Complete

The Province has fulfilled its obligation to upload social assistance benefit costs. The programs affected include: Ontario Works (OW) – Mandatory Benefits, OW - Discretionary Benefits and portions of Addiction Services and OW Administration. For 2019, the Provincial share remains at 100.0%. In dollar terms, the percentage shift in funding that the City has grown accustomed to, and estimated to be \$861,000 in 2018, is not available to offset Social Services programming costs, infrastructure and other costs throughout the City's Operating Budget.

Transfers to Other Organizations

Police Services

Staff recommend that the increase in the Police Services portion of the draft 2019 Operating Budget reflect no more than the Operating portion of Net Tax Levy increase (estimated to be 2.9%), and any increase in the net Police Services budget beyond the estimated Operating Portion of the Net Tax Levy increase be addressed by Council as part of the detailed 2019 Budget deliberations to occur in January 2019.

With such an approach, Council can then determine, when reviewing all of the priorities from various department budgets, to what extent any additional Police amounts should be considered over and above the 2.9% Operating component of the Guideline. Alternatively, Council may determine reductions should be made elsewhere in departmental budgets to be able to provide Police more than the 2019 increase in the Operating portion of the Net Tax Levy.

Paramedic Services

At the Joint Services Steering Committee meeting held on June 14, 2018 County staff delivered the 2017 Year End Performance Report for Paramedic Services.

Along with the performance data, the Report anticipates that the 2019 Paramedics Operating Budget should include increased staffing and one additional 24 hour ambulance in order to respond to the increasing call volume experienced in recent years, the continual and ongoing offload delays, and the ever increasing trends for response.

The additional costs would be funded on City/County allocation based on the 2016 Census with the City's portion being 58.62% (County 41.38%). Year one costs are not eligible to be cost shared with the Province. Estimated Budget impacts for an enhanced level of service to the community are as follows:

Year	Total	Province	City	County
2019	\$1,232,000	-	\$722,197	\$509,803
2020	\$1,406,800	\$517,950	\$504,608	\$354,791
2021	\$1,406,800	\$681,200	\$412,333	\$291,066

The recommendations of the Joint Services Steering Committee were to not only receive the information, but to write to the Province to share concerns and seek further assistance in delivering the service. Representatives from both the City and County expressed concerns surrounding the potential for increased costs and encouraged Peterborough County-City Paramedics (PCCP) staff to explore alternative options.

In any event, City staff are reluctant to suggest that any increase in cost as a result of enhanced levels of service can be included in the 2019 Draft Budget within the all-inclusive increase and recommend it be placed 'Below– the–Line' for presentation in the 2019 Draft Operating Budget.

There is a Paramedics Reserve in the amount of \$805,426 that could help phase in any increase.

Storm Water Protection and Sewer Surcharge – 0.63% Impact on All-inclusive

On February 13, 2017, in consideration of Report USEC17-001 Water Resource Protection, Council resolved the following:

- c) That related to a dedicated stormwater protection fee:
 - i) Council recognize the need to, over time, increase the annual stormwater funding allocation by an additional \$6.2 million, subject to annual budget discussions; and
 - ii) In the first year, being 2018, an additional amount up to \$620,000 be included in the "All Inclusive" budget, subject to budget discussions and final budget approval.
 - iii) Storm water protection fee charges to individual properties based on the Variable Rate Option which considers the impervious surface associated with the property;
- d) That, related to an increased sanitary sewer surcharge, the 2018 Draft Budget and Work Program include the first year of a 10-year phase-in, or \$350,000, to gradually fund an additional annual amount of \$3.5 million in sanitary funding through increases in the sanitary sewer surcharge.

As part of the 2018 Budget deliberations, Council rejected the idea of a separate fee for Storm water protection, and instead opted to fund the required amount through the tax base. Accordingly, 2019 includes the second increment of \$620,000.

As part of the 2018 Budget deliberations, Council approved an increase in the Sewer Surcharge Rate of 2.08% from 95% of the Water Rate to 97.1% (0.26% impact on 'All-Inclusive' rate) on of the Water Rate to collect an additional \$350,000 in Sewer Surcharge. For 2019, it is recommended that the Draft

Operating Budget will reflect the second incremental increase in the Sewer Surcharge Rate of 2.04% from 97.1% to 99.14%.

Education Rates – expected to decrease slightly

Although Education Rates are established by the Province, they affect the final all-inclusive tax increase. Draft Education Rates are typically published by the Province in December of each calendar year for the following year. For the last number of years, the rate has been declining as assessment in the Province has increased. The 2019 Draft Budget will be prepared and presented to Council based on the premise that the Education rates will decrease 4.0% as in 2018.

Tax Ratios and the Tax Ratio Reduction Plan

Tax ratios are applied to current value assessment to determine weighted value assessment that is, in turn, used to calculate municipal tax rates.

Tax ratios have a direct bearing on the tax rate calculations and ultimately determine the relationship that industrial, commercial, and multi-residential municipal tax rates have to the residential tax rate.

Continuing the Tax Ratio Reductions Program does not impact tax levy requirements. It does, however, shift the tax burden from one property tax class to another.

Staff recommend that the revised Tax Ratio Reduction Program continues for the 2019 Draft Budget and reflects reductions:

- i) to the Commercial and Industrial Class Tax Ratios but not the Multi-residential Class, and
- ii) at the reduced rate established through the 2016 Budget process.

The Commercial Class will achieve the goal of a tax rate of 1.5% of the residential class by 2020, the Industrial Class by 2021.

Comparative All Inclusive Tax and Sewer Surcharge Rates and Levies

Taking all the above recommendations into consideration, the following chart summarizes the residential tax and sewer rates and resulting levies for a median single family dwelling:

Comparative All Inclusive Tax and Sewer Surcharge Rates and Levies For Median Single Family Dwelling (Not on Waterfront)					
Ref C1	Description C2	2018 C3	2019 C4	Change from 2018	
				Amount C5	% C6
1.01	Gross Expenditures	271,277,730	276,703,285	5,425,555	2.0%
1.02	Amount raised from taxation (see note 3)	127,413,039	131,695,619	4,282,580	3.4%
1.03	Effect of tax ratio plan on change in all-inclusive rate				0.4%
1.04	Effect of 2019 Real Assessment Growth on change in all-inclusive rate				-0.5%
2.00	<u>Residential Tax Rates</u>				
2.01	Municipal	1.2568950%	1.2485740%	-0.0083210%	-0.7%
2.02	Education (estimate)	0.1700000%	0.1632000%	-0.0068000%	-4.0%
2.03	Total	1.4268950%	1.4117740%	-0.0151210%	-1.1%
3.00	<u>Average Annual Water Rates</u>	472.51	486.69	14.18	3.0%
4.00	Sewer Surcharge Effective Rate	97.08%	99.14%	2.1%	2.1%
	<u>Levies / Collected</u>				
5.00	Water Revenues	17,100,000	17,613,000	513,000	3.0%
5.01	Sewer Surcharge	15,936,700	16,763,100	826,400	5.2%
6.00	Estimated Median Assessed Value - SFD Not on Waterfront	243,800	251,700	7,900	3.2%
7.00	<u>Residential Tax Levy on Assessment</u>				
7.01	Municipal	3,064.31	3,142.64	78.33	2.6%
7.02	Education	414.46	410.77	-3.69	-0.9%
7.03	Total	3,478.77	3,553.41	74.64	2.1%
7.04	<i>Per month</i>	<i>289.90</i>	<i>296.12</i>	<i>6.22</i>	<i>2.1%</i>
8.00	Sewer Surcharge Payable	458.71	482.50	23.79	5.2%
8.01	<i>Per Month</i>	<i>38.23</i>	<i>40.21</i>	<i>1.98</i>	<i>5.2%</i>
9.00	Stormwater Protection Surcharge payable	0.00	0.00	0.00	N/A
9.01	<i>Per Month</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>N/A</i>
10.00	Total Municipal Tax, Sewer and Stormwater	3,523.02	3,625.14	102.12	2.9%
10.01	<i>Per Month</i>	<i>293.59</i>	<i>302.10</i>	<i>8.51</i>	<i>2.9%</i>
11.00	Combined Mun and Ed Tax Plus Sewer Surcharge & Stormwater	3,937.48	4,035.91	98.43	2.50%
11.01	<i>Per Month</i>	<i>328.12</i>	<i>336.33</i>	<i>8.20</i>	<i>2.50%</i>
Notes 1 The tax levies shown are for the median single family dwelling unit (not on waterfront) assessed at \$ 243,800 for 2018 and \$ 251,700 for 2019. Individual tax levies and percentage changes will vary depending on actual assessed values each year. 2 A \$1,650,031 change in net tax levy for 2019 equates to a 1% change in the Combined Municipal and Education Tax on Assessment plus Sewer Surcharge. For example, to lower the 2019 proposed 2.5% increase to 1.5%, \$1,650,031 net tax levy funded expenditures would have to be cut.					
If All inclusive rate increase is set at 3.00%, then the amount of net tax levy that must be deducted from the budget is -\$825,015 This assumes that a 1% increase equals: \$1,650,031					

2019 Capital Budget

The amount of capital work to be done to maintain the City's assets or expand its infrastructure due to increasing demands continues.

No Request to Increase Provision for Additional Capital Financing

At its meeting held April 23, 2012, based on recommendations in Report CPFS12-011, dated April 4, 2012, Council approved a new Capital Financing Policy. The new policy identified additional capital levy and created additional capacity to issue new debt, but increased the amount of annual principal and interest to be repaid that has to be budgeted in the annual operating budget.

The following was established:

- c) That the maximum current year annual debt repayment is based on 15% of the City's consolidated own-purpose revenues (Net Revenues), inclusive of the tax-supported current year debt payment, which is limited to 8% of the corporation's own purpose revenues; and
- d) That, to phase-in the new maximum debt limit, the total annual amount of new tax-supported debt charges and any increase in the capital levy provision be limited so that the impact on the residential all-inclusive tax increase does not exceed 1% per year.

Council could increase the provision for new tax-supported debt and/or capital levy in 2019 and still be within the policy of new debt that could be issued. However, staff are not recommending the additional provision for the 2019 Draft Budget for the following reasons:

- Tax Supported Debt Financing – In 2019, \$1.2 million of debt principal and interest payments will mature and become available to be re-purposed to issue new debt. This will translate into approximately \$10.6 million in capital financing for the 2019 Budget.
- Casino Revenues – In 2018, Council approved the staff recommendation to utilize casino gaming revenues (2018 - \$1.35 million) for Capital Financing. For 2019, the estimate for casino revenues will increase to \$4.0 million, an increase of \$2.65 million.

Dividends from City of Peterborough Holdings Inc. (CoPHI) and Sale of PDI

The City is expecting to receive \$5.784 (\$5.667 – 2018) million in dividend payments in 2019 from CoPHI, the Peterborough Utilities Group of Companies.

Should the sale of Peterborough Distribution Inc. (PDI) occur, regardless of the budget year, a reduction in the dividend amount in 2019 or 2020 would be required.

Regardless of the sale date, for the purposes of preparation of the Draft 2019 Budget and subject to further Council discussion and direction, staff recommend that similar to the COPHI dividend payment, any additional investment proceeds from the sale of PDI, be directed towards enhancing Capital financing, and not be used for purposes of reduction in the net tax levy.

New Arena

One of the most significant financing considerations for the 2019 Capital Budget is the financing of the New Arena. The facility, including pool, is estimated to be a \$54.0 million. The Province has committed \$18 million towards the project. Staff are awaiting confirmation as to whether or not there will be financial participation by the Federal level of government. In any event, financing the municipal portion of the project will be a significant financial challenge.

Pre-commitments of Capital Financing

Chart 2 summarizes the pre-commitments of funding Council has made towards the 2019 Capital program. Altogether, Council has pre-committed \$11,653,447 in funding to ten different projects or initiatives. Of this amount, \$5,156,447 is tax supported. Projects 3 and 4, Cleantech Commons and the Site Plan approval for 1637 Hetherington Drive are reports recommended for approval at the June 25, 2018 General Committee meeting.

Chart 2
2019 Capital Pre-commitments

	Project Name	Report Reference	Debenture – Lease	Development Charges	Casino Reserve	Operating Budget	Tax Supported Debt/Capital Levy	Total 2019 Commitment
1	Crawford Drive and Harper Road Extension - 2018-2019	PLPD17-026 (2019 only)		\$2,000,000	\$1,000,000		\$1,000,000	\$4,000,000
2	Three 40 foot Transit Buses	IPSTR18-016				\$397,000		\$397,000
3	Cleantech Commons	IPSEC18-018	\$3,100,000					\$3,100,000
4	Site Plan Approval – 1637 Hetherington Drive	IPSEC18-019					\$390,000	\$390,000
5	PMC – Floor	CPPS17-015					\$2,000,000	\$2,000,000
6	Peterborough Operations Centre - New Generator	USDIR18-006					\$450,000	\$450,000
7	Canoe Museum – Capital Build	CSD17-030					\$500,000	\$500,000
8	Hospice Peterborough 2016 – 2018	CPFS15-036					\$200,000	\$200,000
9	Humane Society 2017-2021	OCS16-002					\$400,000	\$400,000
10	Fairhaven	CPFS12-062					\$216,447	\$216,447
11	Total		\$3,100,000	\$2,000,000	\$1,000,000	\$397,000	\$5,156,447	\$11,653,447

Public Meeting held on June 6, 2018

The first public meeting for the 2019 Budget was held on June 6, 2018. Staff have summarized the input from the presentations by the public stakeholders and provided some preliminary comments. These are attached to this Report as Appendix A.

Summary

If the recommendations in this report are approved, staff will prepare a Draft Budget that reflects a target 2.5% all-inclusive tax increase. There are however, several impacts that are unknown at this time and there is risk in committing to this increase. As always, preparing a Draft Budget, supporting existing levels of service at a reasonable cost to taxpayers will be a difficult task.

Submitted by,

Prepared by,

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Attachment:

Appendix A 2019 Budget - Response to Public Input at Guideline Stage