



City of
Peterborough

TO: Members of Budget Committee

FROM: Sandra Clancy, Director of Corporate Services

MEETING DATE: June 18, 2012

SUBJECT: Report CPFS12-039
2013 Budget Guidelines

PURPOSE

A report to recommend 2013 Budget Guidelines.

RECOMMENDATIONS

That Council approve the recommendations outlined in Report CPFS12-039, dated June 18, 2012, of the Director of Corporate Services, as follows:

- a) That the Draft 2013 Operating Budget reflect a 2% all-inclusive (Municipal, Education and Sewer Surcharge) tax increase for increased operating costs and traditional support for the capital program.
- b) And that the draft 2013 Draft Operating Budget reflect an additional 1% all-inclusive (Municipal, Education and Sewer Surcharge) tax increase to fund the 2013 increase for tax-supported debt charges and capital levy to implement the new Capital Financing Policy approved by Council at its meeting held April 23, 2012.
- c) That the 2013 Draft Budget reflect reductions to the Commercial and Industrial Classes Tax Ratio in accordance with the Tax Ratio Reduction Program but not the Multi-residential Class.

- d) That if the 2013 Police Services Budget submitted by the Board cannot be accommodated within the 2% general increase without significantly impacting other areas of the budget, staff report back to Council for further direction before the draft budget is submitted

BUDGET AND FINANCIAL IMPLICATIONS

The draft budget will be subject to detailed reviews by Council sitting as Budget Committee the week of November 26, 2012. The budget ultimately approved will have significant budget and financial implications for both the City and taxpayers.

Based on a number of assumptions, a 3% all inclusive rate increase equates to a \$4.6 million increase in total tax levy requirements. Approximately \$1.3 million of the total would be used to implement the new capital financing policy and \$3.3 million would be used to fund all other increases.

For an average taxpayer based on a 2012 assessment of \$206,000, 3% would add an estimated \$97 to the combined municipal, education and sewer surcharge levy.

BACKGROUND

2013 Budget Schedule Approved

Through Report CPCLK11-012 dated September 26, 2011, Council approved the 2012 Council Meeting Schedule which included the following references to the 2013 Budget process:

- | | |
|---------------------|--------------------------|
| • November 5 | 2013 Budget Presentation |
| • November 26 to 29 | Detailed Review |
| • December 5 | Public Meeting |
| • December 10 | Anticipated Approval |

2013 Budget Process Already Underway

On April 10, 2012, staff began the process of compiling the preliminary 2013 Budget estimates.

During the various review stages, staff will ensure the 2013 Draft Budget, to be presented to Budget Committee on November 5, achieves the guidelines ultimately approved through discussions of this report.

3% All-Inclusive Increase

Staff recommend a 3% all-inclusive tax increase comprised of a 2% general increase and a 1% component to implement Council's new Capital Financing policy approved April 23, 2012.

Based on preliminary analysis that staff have been able to complete to date, it will be difficult to accommodate all of the financial impacts which are known or assumed within a 2% general increase.

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

Personnel Costs

Personnel costs are a major component of the operating budget. All employee group agreements are coming up for renewal before the end of 2012 which adds an additional element of uncertainty for the 2013 Budget.

Even before considering the impact of any settlements on the 2013 Budget, grid steps, annualization of new 2012 hires and annualization of some 2012 contract changes will add an additional \$826,700 that needs to be accommodated.

Chart 1 shows the 2012 approved compensation base for all employee groups, the estimated impact of grid steps and annualization, and the impact of a 1% increase on the starting base.

Chart 1

2013 Base Compensation by Employee Group + Impact of a 1% increase

Employee Group	2012 Approved FTE	Compensation Including Benefits	Grid Steps Annualization of 2012 Hires & Contract Changes	2013 Base Compensation Including Benefits
C1	C2	C3	C4	C5
Police	193.000	\$20,595,478	\$544,799	\$21,140,277
Local 126	228.396	\$14,798,107	\$72,216	\$14,870,323
L504	154.708	\$10,283,725	\$13,788	\$10,297,513
Fire	93.000	\$10,973,814	\$115,652	\$11,089,466
Non Union	117.853	\$12,935,277	\$29,381	\$12,964,658
ATU	83.366	\$5,457,736	\$50,076	\$5,507,812
Library	29.425	\$1,527,662	\$689	\$1,528,351
Mem Centre	11.922	\$269,992	\$26	\$270,018
Other	47.516	\$1,312,927	\$0	\$1,312,927
Concessions	4.467	\$103,631	\$26	\$103,657
Total	963.653	\$78,258,349	\$826,653	\$79,085,002

1 % Increase Equals

\$790,850

OMERS

On August 25, 2010, the Ontario Municipal Employees Retirement System (OMERS) announced a three-year contribution rate increase. The rates increased for both employees and the employer by 1% in 2011, 1% in 2012 and are to increase by 0.9% in 2013. The 2013 impact to the City of Peterborough is estimated to be approximately \$0.5 million.

New Staff Positions

As part of the administrative staff reviews of the 2013 Draft Budget, before it is submitted to Council, the CAO will critically review all new staff requests from department heads who report directly to him.

If, in his view, the need for new staff can be justified and can be accommodated within the overall guideline rate increase for 2013 adopted by Council, the new position will be recommended.

The CAO has no direct authority over the Police Budget and new police staff that may be requested.

As in recent budget documents, any requested positions not recommended will be clearly identified.

Social Services

There are numerous issues that staff are currently working through for the 2013 Draft Budget. Three of the more significant issues are as follows:

- Provincial Upload – The Province is expected to continue with its plan to fully upload social assistance benefit costs, which began in 2010 and are expected to end in 2018. For 2013, the provincial share becomes 85.8% (2012 – 82.8%) and the municipal share 14.2% (2012 – 17.2%). In dollar terms, the 3% shift in impact is estimated to be \$869,000. The programs affected include: Ontario Works (OW) – Mandatory Benefits, OW - Discretionary Benefits and portions of Addiction Services and OW Administration.
- Facility lease – The term for the lease of the current premises expires March 31, 2013. Staff are considering several options and will present more specific information to Council as it becomes available.
- OW Mandatory Benefits – To date, as of April 2012, average caseloads are tracking slightly below budget at 3,249 against a budgeted caseload of 3,296. However, average cost per case to date is \$683.35, above the

2012 Budget which was approved at \$656.65. For 2013, staff estimate caseloads will increase by 3.9% to 3,425, which is consistent with the provincial projections for Ontario. Cost per case is expected to decline by 6.5% to \$614.02 and reflects both a 1% rate increase effective January 1, 2013 and the removal of the mandatory Community Start-up and Maintenance Benefit from OW benefits which will become part of the Consolidated Housing and Homelessness Funding envelope.

In addition to the above, staff are working through the implications of:

- New funding cap for Discretionary benefits
- Reduced scope of operations for the Peterborough Employment Resource Centre
- The consolidation of funding for 6 Housing programs into 1 funding envelope
- The future of the Community Drop-in Centre, the 2013 cost to potentially increase by \$50,000 as presented in Report CSSS12-008 dated June 18, 2012.

Utilities

Staff estimate that electricity expenses will increase by between 7% and 10% in 2013. However, the City has entered into a Price Hedging contract that should mitigate at least a portion of the increase. In preparing electricity estimates, staff will consider any expected change in consumption and increase the price by 5%. The impact is estimated to be \$207,000.

Investment Revenues

In recent announcements, the Bank of Canada is considering a small string of interest rate hikes later this year, saying that some “modest” reduction in stimulus “may” become appropriate. However, the language used is intentionally vague in that the timing and magnitude of any tightening will be “weighed carefully”.

At this point, staff are reluctant to suggest that even a modest increase to the \$1.3 million budget for investment revenues is possible, but will reconsider later in the year should interest rates begin to climb.

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 2013 the County’s share is 53.7% (53.4% in 2012).

Increase in Assessment - Four-Year Assessment 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 will be based on a January 1, 2012 valuation date.

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

CVA based on January 1, 2012 valuation date: \$280,000

CVA based on January 1, 2008 valuation date: \$240,000

Change in CVA (total amount to be phased-in): \$40,000

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

Taxation Year	2012	2013	2014	2015	2016
Valuation Date	January 1, 2008	January 1, 2012	January 1, 2012	January 1, 2012	January 1, 2012
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, 2012 Valuation Date.

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

Assessment – Real Growth Projections

Various events and activities influence assessment growth. These include zoning changes, subdivision activity and building permits.

Staff have completed an initial review, including the impact of the annexation of the Coldsprings Settlement Area in the Township of Otonabee-South Monaghan, of these activities and suggest the following estimates for real assessment growth in 2013:

- Residential – 1.25%
- Multi-residential - 0.75%
- Commercial – 1.00%
- Industrial – 0.00%

Economic Factors - Consumer Price Index (CPI)

For April 2012, as reported by Stats Canada, the CPI for Canada was 2% and Ontario 2.1%.

When considering its economic outlook when preparing its most recent budget, the Province used 2% as its projection for inflation.

2012 Ontario Budget

TABLE 2.6 Ontario Economic Outlook (Per Cent)							
	2009	2010	2011	2012p	2013p	2014p	2015p
Real GDP Growth	(3.2)	3.0	1.8e	1.7	2.2	2.4	2.5
Nominal GDP Growth	(0.9)	5.3	4.2e	3.4	4.1	4.2	4.3
Employment Growth	(2.5)	1.7	1.8	0.9	1.3	1.5	1.6
CPI Inflation	0.4	2.5	3.1	1.7	2.0	2.0	2.0

e = estimate. p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The City's 2013 Draft Budget will be prepared assuming a similar 2% inflationary increase. Although difficult to quantify, a conservative estimate of the impact to the operating budget for expenses subject to inflationary pressures, other than personnel costs, would be \$0.5 million

Police Services

As part of the 2012 Budget process, Council expressed concern about the Police 2012 initial budget request representing an 8.4% increase and the Board ultimately agreed to limit its 2012 increase to 5.7% for 2012 at its May 16, 2012 board meeting.

As reported through report CPFS12-044 Police Services Business Plan Consultation dated June 18, 2012, the Police Services Board are beginning their 2013 - 2015 Business plan consultation process.

If, after the business plan consultation process, the Board submits a 2013 Budget that reflects enhancements that, if accommodated, would significantly impact other areas of the City budget in order to accommodate a 2% general increase, staff would like the ability to go back to Council for further direction before the draft budget is submitted.

Education Rates

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. However, staff have been reasonably accurate in estimating what they think the change is going to be. For the last number of years, the rate has been declining between 4-5% a year as assessment in the Province has increased. Although for purposes of the preliminary analysis contained in this report, no change to the education rate has been assumed. The 2013 Draft Budget will be prepared and presented to Council based on the premise that the Education rates will decrease slightly as in previous years.

1% to Implement New Capital Financing Policy

The one factor that will affect the 2013 Draft Budget the most will be the recent decision Council made to increase capital financing.

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

The following motions were included in Report CPFS12-011 and approved:

- c) *That the annual draft operating budget include a 5% increase in the capital levy provision as a means of providing more capital levy to support the capital budget requirements.*
- 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.*

Recommendation b) of this report reinforces Council's intent to include the above motions in the 2013 Draft Budget.

No change to Multi residential Tax Ratio

The Tax Ratio Reduction Program was approved in 2009 through Report CPFPRS09-005 presented to the April 6, 2009 Budget Committee. The Program was to take place over the eight-year period 2010-2017 and the tax ratios for the Multi-residential, Commercial and Industrial classes were to be reduced each year so that by the year 2017, a 1.50 tax ratio for each of the classes has been achieved.

The program was implemented in the 2010 year. For 2011 and 2012, Council continued with the program for the Commercial and Industrial Classes but did not reduce the tax ratio for the Multi-residential class. It is recommended that the 2013 Draft Budget reflect reductions to the Commercial and Industrial Classes Tax Ratio in accordance with the Tax Ratio Reduction Program but not the Multi-residential Class at this time.

Other Council Recommendations to be Included in 2013 Budget Process

In addition to the recommendations in this report, there are three recommendations that Council approved as part of the 2012 Budget process that have implications for the 2013 process. As part of Report CPFS11-022, 2012 and Future Budget Guidelines dated June 21, 2011, Council directed staff to consider a number of measures to mitigate tax increases in 2012 as well as future budgets. The motions read as follows:

- i) *That, as part of the 2012 and future years' budget process, staff identify areas to improve staff efficiencies, through work/job flexibility, multi-tasking, retraining and the use of technology.*
- k) *That, as part of 2012 and future years' budget process, staff undertake a review of all City facilities with a view to identifying opportunities for the imposition of a cost recovery model.*

- l) That, as part of 2012 and future years' budget process, staff consider alternate service delivery methods.*

Staff will also incorporate these along with the direction provided through this report in preparing the 2013 Draft Budget.

SUMMARY

If the recommendations in this report are approved, staff will prepare a draft budget that reflects a 3% all-inclusive tax increase, with 1% of that being used for the new Capital Financing Policy. However, there are several impacts that are unknown at this time and there is substantial risk in committing to this increase. As always, preparing a 2013 Draft Budget, supporting existing levels of service at a reasonable cost to taxpayers will be a difficult task.

Submitted by,

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