



City of
Peterborough

TO: Members of Budget Committee

FROM: Sandra Clancy, Director of Corporate Services

MEETING DATE: June 24, 2013

SUBJECT: Report CPFS13-030
2014 Budget Guidelines

PURPOSE

A report to recommend 2014 Budget Guidelines.

RECOMMENDATIONS

That Council approve the recommendations outlined in Report CPFS13-030, dated June 24, 2013, of the Director of Corporate Services, as follows:

- a) That the Draft 2014 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) That the Draft 2014 Operating Budget reflect an additional 1% all-inclusive (Municipal, Education and Sewer Surcharge) tax increase to fund the 2014 increase for tax-supported debt charges and any increase to base capital levy to continue to implement the Capital Financing Policy approved by Council at its meeting held April 23, 2012.
- c) That the 2014 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 a 3.6% increase in the net Police Services budget be accommodated within the 2% general increase and any increase in the net Police Services budget beyond the 3.6% be addressed by Council during its 2014 Budget deliberations.

BUDGET AND FINANCIAL IMPLICATIONS

The budget ultimately approved will have significant budget and financial implications for both the City and taxpayers.

Based on a number of early assumptions, a 3% all inclusive rate increase equates to a \$5.2 million (5.0%) increase in total tax levy requirements. Approximately \$1.4 million (1.4%) of the total increase would be used to implement the capital financing policy and \$3.8 million (3.6%) would be used to fund all other operating increases.

For an average taxpayer based on an estimated 2014 median assessed value of \$212,900, 3% would add an estimated \$100 to the combined municipal, education and sewer surcharge levy.

BACKGROUND

2014 Budget Schedule Approved

Through Report CPCLK12-013 dated November 13, 2012, Council approved the 2013 Council Meeting Schedule which included the following references to the 2014 Budget process:

- | | |
|---------------------|--------------------------|
| • November 4 | 2014 Budget Presentation |
| • November 25 to 28 | Detailed Review |
| • December 4 | Public Meeting |
| • December 9 | Anticipated Approval |

2014 Budget Process Already Underway

On April 9, 2013, staff began the process of compiling the preliminary 2014 Budget estimates.

During the various review stages, staff will ensure the 2014 Draft Budget, to be presented to Budget Committee on November 4, 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 continue to implement Council's Capital Financing policy approved April 23, 2012. The proposed 3% increase for 2014 follows the same 3% increase reflected in the 2013 Budget.

Based on preliminary analysis, about \$1.0 million will have to be cut from departmental submissions to meet the 2% general increase target.

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

Personnel Costs (excluding Police) - \$2.1 million impact

Personnel costs are a major component of the operating budget. Negotiated settlements have been achieved for all employee groups with the exception of Peterborough Professional Fire Fighters Association Local 519. A 1.75% wage increase for 2014 was reached for these settlements. When grid steps and annualizations of 2013 new hires are considered, the 2014 impact is expected to be \$2.1 million. These numbers do not include Police Services which are referenced in a separate section of this report.

Social Services

There are numerous issues that staff are currently working through for the 2014 Draft Budget. Three of the more significant issues are as follows:

Provincial Upload and Case Load and Cost Per Case

The Province is expected to continue with its plan to fully 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. The upload plan was announced in the fall of 2008 as part of the "Provincial –Municipal Fiscal and Service Delivery Review (The Plan) document, and The Plan was to upload the cost over the period 2010 to 2018. The Plan clearly stated municipalities benefiting from the upload of the three major social assistance benefit programs over time, will have greater room in their budgets for infrastructure spending. The Province – and some others in the community have recently argued, however, that municipalities should redirect some of these so-called "savings" to offset Provincial cut backs in discretionary benefit funding and housing.

For 2014, the Provincial share becomes 88.6% (2013 – 85.8%) and the municipal share 11.4% (2013 – 14.2%). In dollar terms, the 2.8% shift in impact is estimated to be \$856,000.

The projected decrease in municipal costs is largely offset by a projected increase in the mandatory benefits cost per case. To date, as of April 2013, average caseloads are below the budget of 3,425 at 3,202. However, the average cost per case to date is \$651.42, well above the 2013 Budget approved of \$614.02.

As part of the 2013 Provincial budget, the Province made several changes that will impact the Cost per Case of Mandatory Benefits. These changes come into effect October 2013 and include:

- a 1% increase to benefits provided to all recipients,
- an additional increase of \$14 for single adults without children,
- a \$200-a-month earnings exemption to allow social assistance recipients to earn more without impacting their assistance,
- An increase in Ontario Works asset limits.

The Province has estimated the impact of these changes to be a \$143,000 increase in 2014 Peterborough CMSM costs beginning January 2014.

Although it is early in the 2014 Budget process, staff expect to recommend a zero increase to the average caseload, but a 7.4% increase in cost per case to \$659.55.

When all other program increases are considered, such as the negotiated increase in salaries and benefits, inflationary cost increases with some contracts and goods and services, addition of renovation costs in the OW admin budget, and the change in the cost per case for mandatory benefits, the resulting value of the upload is reduced to approximately \$0.3 million.

In April 2013, through report CSSS13-003, Council approved a new Discretionary Benefit policy that resulted in a reduction in discretionary benefits cost per case to approximately \$14-\$15 per month. Previously the amount had been in excess of \$20 per case per month. The Provincial subsidy is \$10 per month. The shortfall is being funded by a transfer of budget previously allocated for homelessness. In addition, staff have met with Ministry officials to present a case for the \$10 per case per month cap to increase, and it appears unlikely the Province will increase the cap beyond \$10.

If the Ministry does not increase the \$10 cap, the shortfall predicted for 2014 is \$400,000. Staff may recommend that the funds come from a combination of an addition to tax base and a contribution from the Social Services Reserve. A proposed strategy would be to gradually add the additional funds required to the tax base over the remaining five years of the upload (2014-2018). The Social Services reserve would be used each year to offset the balance until the full amount required is funded from the property tax base.

Chart 1 provides details of what the strategy could look like.

Chart 1

Possible Discretionary Benefit Funding Strategy to gradually add \$400,000 into the tax base

Year	Upload Value/ Tax Base	Reserve
2014	\$80,000	\$320,000
2015	\$160,000	\$240,000
2016	\$240,000	\$160,000
2017	\$320,000	\$80,000
2018	\$400,000	0

Community Homelessness Prevention Initiative

One time funding from Ministry of Community and Social Services was provided to the City to assist in the transition to the Community Homelessness Prevention Initiative guidelines. This funding will end March 31, 2014. Provincial 100% homelessness funding will go from approximately \$2,931,000 in 2013 to \$2,046,000 in 2014. It is intended that program spending will be adjusted to accommodate the shortfall so as not to increase the municipal portion of costs. However, there has been some discussion about the benefits of increasing the Rent Supplement Program while adjusting the other homelessness program areas as a means of stabilizing funding and assisting in keeping citizens in their homes longer so they do not find themselves in the situation of requiring the other services. Chart 2 lists the two types of funding and their amounts for 2013 and 2014.

Chart 2

Provincial Homelessness Funding

Program Funding	2013	2014
Base	\$1,718,400	\$1,746,600
One-time	\$1,213,200	\$300,000
Total	\$2,931,600	\$2,046,600

Through report PLHD13-001 dated June 3, 2013, staff have presented a draft Housing and Homelessness 10 Year Plan to be approved later in 2013. It is expected that the plan will come into effect January 1, 2014. Any budget implications, as a result of the implementation of the specific actions over the next 10 years, will need to be approved as part of future Budgets.

Utilities

Staff estimate that electricity expenses will increase by approximately 7% in 2014. However, the City does have a Price Hedging contract in place 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 1%.

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 2014, the City-County proportionate shares are the same as in 2013. The County's share is 53.7% and the City's is 46.3%.

Assessment – 0.9% 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 suggest the following estimates for real assessment growth in 2014:

- | | |
|---------------------|-------|
| • Residential | 1.00% |
| • Multi-residential | 0.75% |
| • Commercial | 0.75% |
| • Industrial | 0.00% |

Police Services**Previous Guideline used for 2013 Police Budget**

The 2013 guideline approved by Council through Report CPFS12-039 dated June 18, 2012 contained the following recommendation:

"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."

The recommendation was made as part of the 2013 guideline report to ensure a situation similar to the 2012 budget process did not occur for the 2013 budget process. City staff felt compelled to present a Draft 2012 Budget that achieved Council's 2.5% guideline for 2012 but had to accommodate an initial 8.4% - \$1.6 million increase in the Police 2012 Operating Budget. To accommodate the Police request within the 2012 guideline, many other City departments' requests were limited or scaled back.

The 2013 Budget complied with Council's 2013 guideline, but accommodated a 4.5% increase for Police Services operating requirements in the Police Budget lines. In addition, the 2013 Budget accommodated an additional \$161,000 set aside in Contingency for the Police impact of adjusting to the City-wide benefit overhead percentage from 28% to 29% and a \$24,800 adjustment to reflect a change in the City/SEL police sharing ratio from 3.85% to 3.74%.

The 4.5% figure was based on the fact that the City's overall 2013 tax levy was expected to increase by 4.5% within the "2%-general-plus-1%-capital-guideline" that was set by Council. The 4.5% figure did not represent what Financial Services thought the Police 2013 Budget final figure should be. Rather, the 4.5% figure represented the amount Financial Services staff thought could be reasonably accommodated within Council's "2%-general-plus-1%-capital-guideline" without significantly impacting other areas of the budget. The difference between what was included in the 2013 Budget and the Police request was \$425,969.

Ultimately, the Police Services Board accepted the reduction and approved their 2013 budget with a 4.5% increase over the 2012 base amount. When combined with the 2013 base budget adjustments for City-wide benefit overhead percentage and the City/SEL police sharing ratio, the 4.5% became 5.4%.

2014 Police Budget

To be able to comply with the 5.4% increase for 2013, the Board relied heavily on a negotiated settlement approved by the Board in December 2012 which deferred any 2013 increase to October 1, 2013. The following increases in compensation rates were approved.

- October 1, 2013 3%
- January 1, 2014 1.75%
- July 1, 2014 1.25%
- March 1, 2015 1.5% or the 2014 Ontario CPI percentage as of February 1, 2015, whichever is greater, retroactive to January 1, 2015

The annualization of the 2013 increase, plus the 2014 increases results in an effective compensation increase of 4.57% for 2014. When applied to the 2013 full-time staff complement, the resulting increase is estimated to be \$0.8 million in compensation, plus benefits of \$0.2 million for a combined amount of \$1.0 million. In addition to this amount, the annualization of 2013 new hires and 2014 grid steps could add an additional \$0.2 million. (These numbers are Financial Services staff estimates only at this time, as Police staff have not yet provided any 2014 budget numbers.)

The \$1.2 million equates to a 5.64% budget increase in the net base cost of Police Services. The final request could be higher as there may exist other contractual arrangements or inflationary pressures that will be included in the final 2014 Budget Request that is received from the Police Board.

Although still early in the process, the 2% + 1% equates to a net increase in the amount raised from taxation of 5% or \$5.2 million. The Operating component (or the 2%) results in an increase to the Net Tax Levy in the range of 3.6% or \$3.8 million. That means all departmental requests and outside board requests have to be accommodated within a 3.6% tax levy increase for staff to meet the proposed 2014 budget guidelines.

Accordingly, staff recommend that the 2014 Draft Budget reflect a 3.6% net increase in the Police Services budget. Any additional amounts the Board requests over and above the 3.6% will be clearly identified. 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% + 1% guideline. Alternatively, Council may consider reductions be made elsewhere in departmental budgets to be able to provide Police more than the 3.6%.

Economic Factors - Consumer Price Index (CPI) projected to be 2% for 2014

For April 2013, as reported by Stats Canada, the 12-month All-items CPI for both Canada and Ontario was 0.4%. The modest rate of inflation was due in large part to a -6% drop in the price of gasoline. Excluding gasoline, CPI would have been 0.8%.

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

TABLE 2.6 Ontario Economic Outlook
(Per Cent)

	2010	2011	2012	2013p	2014p	2015p	2016p
Real GDP Growth	3.2	1.8	1.6	1.5	2.3	2.4	2.4
Nominal GDP Growth	5.2	4.7	2.9	3.0	4.1	4.2	4.2
Employment Growth	1.7	1.8	0.8	1.2	1.4	1.5	1.5
CPI Inflation	2.5	3.1	1.4	1.5	2.0	2.0	2.0

p = Ontario Ministry of Finance planning projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

The City's 2014 Draft Budget will be prepared assuming a similar 2% 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.

Other Expected 2014 Budget Requests

While Financial Services staff are still compiling the 2014 Budget requests, the following are just some items that have been discussed with staff or Council to date and are additional budget pressures to existing service levels:

- Recycling – soft commodity prices and increases in processing costs - \$0.4 million
- Public Works – additional Storm Sewer work - \$65,000
- Housing – increased transfers to Providers - \$160,000
- Increase in the Community Investment Grants (CSD13-010) dated May 13, 2013 - \$15,000
- Starting a Contribution to a Centennial Fountain Reserve to fund future unexpected maintenance and repair costs.
- Increase in the Contribution to Little Lake Musicfest to assist with increasing costs to acquire acts

It may be that only some or none of these requests can be accommodated within the 3% guideline.

Education Rates 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 between 4-5% a year as assessment in the Province has increased. The 2014 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 Continue to Implement Capital Financing Policy

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.*

2013 was the first full year of implementing the new policy. The policy effectively created capacity to issue debt and move important capital works forward. Examples include further enhancements to the Airport and numerous infrastructure enhancements within the road right-of-way.

The amount of debt that can be issued depends largely on the term of the debt and the interest rates available in the market place. At time of approval, assuming all debt was issued for a term of ten years, the policy created the capacity to issue \$37 million in tax-supported debt and \$29 million in non tax-supported debt for a combined amount of \$66 million.

The Province calculates the City's Annual Debt Repayment Limit which is 25% of its own-purpose revenues. The internal debt limit adopted by Council is 15% of own-purpose revenues. This equates to an annual debt repayment limit of approximately \$26.6 million. According to the internal limit, the City has used, or has made commitments to use 75% (\$20.0 million /\$26.6 million = 75%) of its debt capacity.

The 2014 Draft Budget will include the second installment of the 1% additional capital financing. However, unlike 2013 where a combination of increased base capital levy and tax-supported debt charges was included, for 2014 it may be necessary to use the additional 1% solely for increasing tax-supported debt charges. Capitalized, the 1% equates to approximately \$11.4 million of new tax-supported debt.

Pre-commitment of 2014 Capital Budgets

Council has already made a number of pre-commitments against the 2014 Capital Budget as follows:

- Museum Storage Facility - \$2.0 million
- Airport Crosswind Taxiway - \$1.0 million
- Airport Taxiway Bravo - \$2.4 million
- Seneca – additional Airside Improvements - \$2.1 million
- Fleming College – Kawartha Trades and Technology Centre - \$1.0 million over 3 years (2014-2016) - \$0.3 million

In total, \$7.8 million of 2014 capital works has already been approved or 68% of the additional capital financing in 2014.

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 - 2013, 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 2014 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.

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 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 2014 Draft Budget, supporting existing levels of service at a reasonable cost to taxpayers will be a difficult task.

Submitted by,

Sandra Clancy
Director of Corporate Services

Contact Person:
Sandra Clancy
Director of Corporate Services
Phone: 705-742-7777 Ext. 1863
Toll Free: 1-855-738-3755 Ext 1863
Fax: 705-876-4607
E-mail: sclancy@peterborough.ca