



City of
Peterborough

To: Members of the Budget Committee

From: Sandra Clancy, Director of Corporate Services

Meeting Date: July 21, 2014

**Subject: Report CPFS14-020
2015 Budget Guidelines**

Purpose

A report to recommend the 2015 Budget Guidelines.

Recommendations

That Council approve the recommendations outlined in Report CPFS14-020, dated July 21, 2014, of the Director of Corporate Services, as follows:

- a) That the Draft 2015 Operating Budget reflect a 2% all-inclusive (Municipal, Education and Sewer Surcharge) increase for increased operating costs and traditional support for the capital program.
- b) That the Draft 2015 Operating Budget reflect an additional 1% all-inclusive (Municipal, Education and Sewer Surcharge) increase to fund the 2015 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 Tax Ratio Reduction Program be deferred for one year by holding the Tax Ratios for all tax classes at the 2014 level in order to provide relief for the Residential Tax Class.

- d) That the draft 2015 Operating Budget reflect a 3.2% increase in the net Peterborough Community Police Services Budget to be accommodated within the 2% general increase, and any increase in the net Police Services budget beyond the 3.2% be addressed by the 2015-2018 Council and the Peterborough Police Services Board as part of the detailed 2015 Budget deliberations to occur in January of 2015.
- e) That 2015 Budget Committee meetings be tentatively scheduled on the following dates to complete the 2015 Budget process:
- January 12, 2015 to January 15, 2015 - Detailed Review
 - January 21, 2015 - Public Meeting
 - February 2, 2015 - Anticipated Approval

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 \$4.9 million (4.5%) increase in total tax levy requirements. Approximately \$1.45 million (1.4%) of the total increase would be used to implement the capital financing policy and \$3.5 million (3.2%) would be used to fund all other operating increases.

For an average taxpayer based on an estimated 2015 median assessed value of \$215,700, 3% would add an estimated \$103 to the combined municipal, education and sewer surcharge levy.

Recommendation c) does not impact the 2015 levy requirement nor the amount of tax collected, but does reduce the tax burden shift from the Commercial, Industrial and Multi-Residential Tax Classes to the Residential Tax Class that would occur if the Tax Ratio Reduction Program were not deferred. The impact to the Residential Tax Class is estimated to be \$725,000 or 0.5% on the all-inclusive increase.

Background

2015 Budget Schedule Approved

Through Report CPCLK13-015 dated September 23, 2013, Council approved the 2014 Council Meeting Schedule which referenced December 8, 2014 as the date the 2015 Budget would be presented to Budget Committee.

Staff recommend 2015 Budget Committee meetings be tentatively scheduled on the following dates to complete the 2015 Budget process:

- | | |
|--|----------------------|
| • January 12, 2015 to January 15, 2015 | Detailed Review |
| • January 21, 2015 | Public Meeting |
| • February 2, 2015 | Anticipated Approval |

2015 Budget Process Began April 10, 2014

On April 10, 2014, staff began the process of compiling the preliminary 2015 Budget estimates.

During the various review stages, staff will ensure the 2015 Draft Budget, to be presented to Budget Committee on December 8, achieves the guidelines ultimately approved through discussions of this report.

3% All-Inclusive Increase

Staff recommend a 3% all-inclusive 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 2015 follows the same 3% increase reflected in both the 2013 and 2014 Budgets.

Based on the preliminary analysis done to date, a further \$0.8 million will have to be found through a combination of expenditure reductions and revenue increases to meet the 2% general increase target in order to present a draft budget at 3%. Any amounts included in the Police Services submission above 3.2% would be in addition to the \$0.8 million.

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

Personnel Costs (excluding Police) - \$1.8 million impact

Personnel costs are a major component of the operating budget. Negotiated settlements are in place for all employee groups with the exception of Peterborough Professional Fire Fighters Association Local 519. A 1.75% wage increase for 2015 was reached for these settlements. When grid steps and annualizations of 2014 new hires are considered, the 2015 impact is expected to be \$1.8 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 2015 Draft Budget. Three of the more significant issues are as follows:

Mandatory Benefits - Provincial Upload, 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 savings to offset Provincial cut backs in discretionary benefit funding and housing.

For 2015, the Provincial share becomes 91.4% (2014 – 88.6%) and the municipal share 8.6% (2014 – 11.4%). In dollar terms, the 2.8% shift in impact is estimated to be \$855,000.

The projected decrease in municipal costs is largely offset by a projected increase in the mandatory benefits cost per case. To date, as of May 2014, average caseloads are at 3,179, still below the budgeted average of 3,254. However, from January – May 2014, caseloads have increased steadily each month, with May surpassing the budgeted level at 3,289 cases. For this reason, staff are assuming a 1% increase to the average caseload.

The average cost per case to date is \$667.03, above the 2014 Budget approved of \$659.55. However, the Province has made several changes that will impact the Cost per Case of Mandatory Benefits in 2015. These include a 1% rate increase to benefits provided to all recipients and an additional increase of \$30/month for single individuals. Although both are good news to the most vulnerable in our community, it does increase the average cost per case for 2015 to \$683.68, or 3.7%.

Altogether, the net impact of changes to Mandatory Benefits is expected to be approximately \$94,000.

Discretionary Benefits

In keeping with the direction established through the 2014 Budget process as well as report CSSS13-003 dated April 22, 2013, whereby to maintain the same level of service for Discretionary Benefits, the additional municipal cost share of \$400,000 would be gradually added to the tax base in increments of approximately \$80,000 annually, with the balance funded from the Social Services reserve until the full amount required is funded from the property tax base. For 2015, which represents year 2 of the strategy, approximately \$148,500 will be drawn from the reserve to help offset the municipal share.

Community Homelessness Prevention Initiative (CHPI)

Report CSSSJSSC14-003 – Discretionary Benefits and Housing Stability Funding Update dated June 12, 2014 provided the most recent update to Council on the CHPI program.

Due to the expiration of the \$300,000 one-time grant and the desire to maintain the same basic level of service in 2015, staff expect that some program changes and an additional draw from the Social Services Reserve will account for 1/3 of the shortfall, however it is expected that overall the net municipal cost will increase by \$200,000, with the City share being \$150,000 and the County share being \$50,000.

On July 15, 2014, as part of the reintroduction of the Provincial Budget, the Minister of Finance announced that the CHPI one-time funding would be annualized. At this time, staff are awaiting further details as to what the specific amount will be for Peterborough.

Potential Draws from Social Services Reserve

In the 2013 – 2014 budget years, the Reserve has been used extensively to respond to needs in the community without putting undue pressure on the tax base. The key program areas focus on maintaining a revised level of service for Discretionary Benefits (estimated at \$857,800) which became effective May 1, 2013 and supporting the Housing Stability Fund (estimated to be \$408,000) for OW, ODSP and Low Income families. At the end of 2014, it is expected that the reserve will have a balance of \$3.0 million, a net decrease of \$1.0 million from 2013 ending balances.

Chart 2 summarizes a number of draws from the Social Services Reserve that are planned in 2015.

Chart 2
Social Services Reserve

Uncommitted Balance Dec 31/14 (projected)		\$3,003,300
10 Year Loan - Leasehold improvements	\$1,080,000	
Brock Mission	\$415,000	
Support for Homelessness	\$195,000	
Discretionary Benefits	\$148,500	
Temporary Caseworker	\$72,300	
Potential Draws on Reserve		\$1,910,800
Projected Reserve balance December 31/15		\$1,092,500

Net Value of Upload

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 \$0.2 million

Utilities

Although the City does have a Price Hedging contract in place that should mitigate at least a portion of any increase, staff estimate that electricity expenses will increase by approximately 5% in 2015. This equates to approximately \$.05 million when the electricity used in street lights is included.

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 2015, the County's share is 54.0% (2014 – 53.7%) and the City's is 46.0% (2014 - 46.3%).

Assessment – 0.86% 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 increase by 0.86% overall and with each class as follows for 2015:

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

The key difference in the growth assumptions noted above, when compared to previous years, is that the preliminary analysis completed so far does not substantiate any realizable growth in the Commercial sector, particularly in light of the ongoing province-wide assessment appeals which may be settled in the 2015 taxation year.

Police Services

There are a number of issues that will impact the 2015 Budget for Police Services and how and when the police final 2015 budget is determined. These impacts have been identified by Financial Services staff without the benefit of any discussions with the Police Chief or members of the Peterborough Lakefield Police Services Board.

- **“Old” and “New” Board responsibilities:** Effective December 31, 2014, the Amalgamated Peterborough Lakefield Community Police Service will be de-amalgamated and will be replaced by the Peterborough Community Police Service effective January 1, 2015. As per Council direction given December 9, 2013, based on recommendations outlined in Report CAO13-017 of the Chief Administrative Officer dated December 2, 2013, the Ontario Civilian Police Commission, has been informed the City will use the existing police infrastructure (minus any infrastructure that may be transferred to Selwyn as part of the de-amalgamation process) and existing administration and personnel to continue to provide adequate and effective police services to City residents post de-amalgamation beginning January 1, 2015 subject to annual budget approval processes as set out in the Police Services Act.

At its meeting held June 30, 2014, based on recommendations outlined in Report OCS14-005 dated June 23, 2014 of the City Solicitor, Council established the Peterborough Police Services Board and appointed Councillors Clarke and McWilliams as the Council representatives on the Board and Garth Wedlock as the Council-appointed citizen representative. Council also recommended to the Province that the existing Provincial appointees to the Peterborough Lakefield Community Police Services Board be appointed to the Board.

This creates a unique situation whereby the Peterborough Lakefield Police Services Board, which is responsible for the Amalgamated Service up to December 31, 2014, is likely providing some preliminary input on the Police 2015 Budget, but it should be, in staff's view, the Peterborough Police Services Board that gives final endorsement to a 2015 Police budget to be submitted to the City Council for consideration as part of its 2015 budget deliberations.

- **Net revenue loss from Selwyn:** The 2014 police budget includes a \$866,966 revenue from Selwyn in accordance with the formula set out in the Amalgamated Service agreement between the City and Selwyn. For 2015, the City will provide contract Police Service to the Lakefield Ward within Selwyn for a base fee of \$534,335. (Refer to Report CAO14-012, of the Chief Administrative Officer, dated June 2, 2014), resulting in a \$332,631 revenue reduction compared to 2014.

- **Cavan Monaghan and Douro Dummer Contract Policing Opportunities:** City and Police staff are in separate negotiations with Cavan Monaghan and Douro-Dummer staff, to explore the possibility of the City providing contract policing services to each. If the City reaches agreement with one or both of the townships, some of the fixed cost presently incurred by the Police Service can be recovered through the policing agreements.
- **2013 Operating Surplus used to reduce 2014 net requirements creates a potential base 2015 problem:** The 2014 Police Operating Budget reflects a \$239,580 revenue from the 2013 operating surplus. (Refer to Report CAO14-008 dated March 31, 2014) and there is no certainty there will be any 2014 operating surplus available to replace all or part of the \$239,580 to offset 2015 tax requirements.
- **2013-2015 Collective Agreements 2015 Impact:** Under terms of the various Police Associations Collective Agreements covering the three-year period 2013-2015, on January 1, 2015, the rates will increase by higher of 1.5% or the February 1, 2015 rate of inflation for Ontario. When combined with the July 2014 compensation increase of 1.25%, the effective 2015 increase over 2014 will be 2.13% and that will be higher if inflation exceeds the 1.5% level.

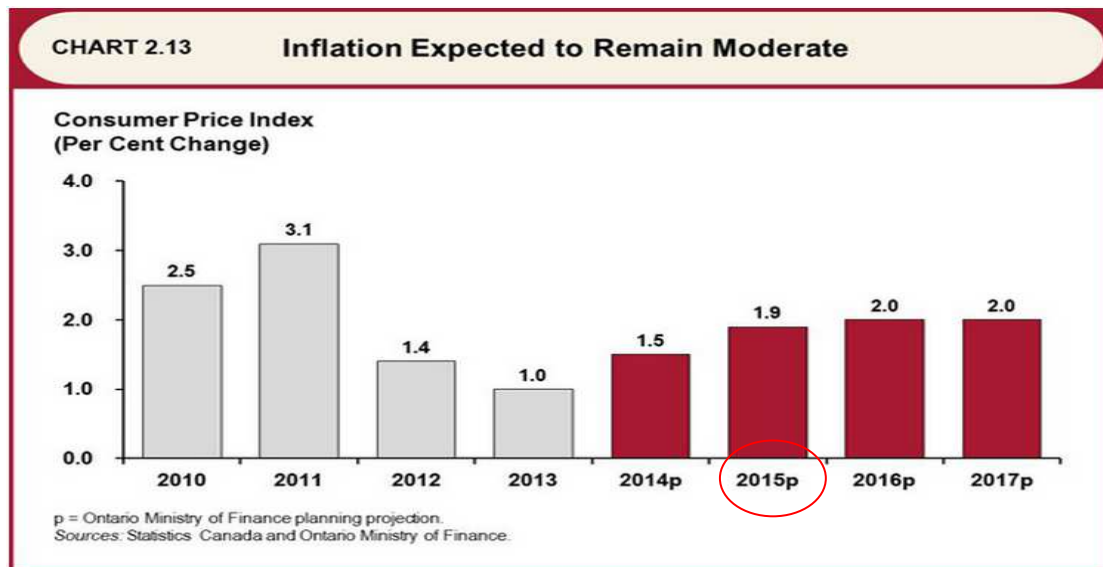
Based on key assumptions, the 2% + 1% equates to a net increase in the amount to be raised from taxation of 4.5% or \$4.9 million. The Operating component (or the 2%) results in an increase to the Net Tax Levy in the range of 3.2% or \$3.5 million. That means all departmental requests and outside board requests have to be accommodated within a 3.2% tax levy increase for staff to meet the proposed 2015 budget guidelines.

Accordingly, staff recommend the Draft 2015 operating budget reflect a 3.2% increase in the net Police Services to be accommodated within the 2% general increase, and any increase in the net Police Services budget beyond the 3.2% be addressed by the 2015-2018 Council and the Peterborough Police Services Board as part of the detailed 2015 Budget deliberations to occur in January of 2015.

With such an approach, the 2015-2018 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, the 2015-2018 Council may determine reductions should be made elsewhere in departmental budgets to be able to provide Police more than the 3.2%

Economic Factors - Consumer Price Index (CPI) projected to be approximately 2.0% for 2015

On May 1, 2014, the Ministry of Finance when considering Ontario's Economic Outlook and Fiscal Plan, projected inflation for 2015 at 1.9%.



More recent information published by the financial sector, such as RBC and BMO, forecast 2015 inflation in a range from 1.7% to 2.0%. For 2015, the City's Draft Budget will be prepared 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.

Other Expected 2015 Budget Impacts

While Financial Services staff are still compiling the 2015 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:

- Waste Management – decrease in Tipping Fees and soft commodity prices in Recycling - \$483,000
- Increase in Fuel costs - \$165,000
- Public Works – additional provision for Winter Control - \$265,000
- Transit – net impacts are estimated to be \$740,000
- Parking - reduction in revenues - \$105,000
- Increase in Property Taxation write-offs - \$150,000
- Humane Society - \$12,300

Additional Revenues are Expected in the Following areas:

- Peterborough Sport and Wellness Centre - \$222,000
- Penalty and interest - \$150,000

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 between 4-5% a year as assessment in the Province has increased. The 2015 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.

Debt Servicing Costs – principal and interest payments

The Province calculates the City's Annual Debt Repayment Limit by comparing debt servicing costs, which is the amount of principal and interest payments made during the year, to the amount of the City's own-purpose revenues. The Provincial cap is 25% of own-purpose revenues. According to the Provincial limit, this equates to annual debt principal and interest payments for 2014 of approximately \$45.9 million. The City's more stringent internal debt limit adopted by Council is 15% of own-purpose revenues, or \$27.5 million. For 2014, according to the internal limit, the City has used, or has made commitments to use 73% ($\$20.0 \text{ million} / \$27.5 \text{ million} = 73\%$) of its debt capacity.

Debt Capacity – additional debt that can be issued - \$61.0 Million

2015 represents the third full year of implementing the new policy. The policy effectively created capacity to issue debt and move important capital works forward. 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. Assuming all Tax Supported debt was issued for a term of ten years and non-tax-supported for 20 years, the policy would allow \$27.0 million in tax-supported debt and \$34.0 million in non-tax-supported debt for a combined amount of \$61.0 million.

The policy also limited the impact to the residential homeowner by establishing a cap on how quickly debt could be incurred. The 2015 Draft Budget will include the third installment of the 1% additional capital financing.

For 2015, the policy allows the issuance of an additional \$7.0 million in tax-supported debt.

Altogether for 2015 from the tax base, the City's Capital program will have available the \$7.0 million in tax-supported debt and \$8.3 million in Capital Levy for a total of \$15.3 million.

No change to Property Tax Ratios

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 - 2014, Council continued with the program for the Commercial and Industrial Classes but did not reduce the tax ratio for the Multi-residential class.

For the 2015 Draft Budget, it is recommended that the Tax Ratio Reduction Program be deferred for one year by holding the Tax Ratios for all tax classes at the 2014 level in order to provide some relief for the Residential tax Class. The impact is estimated to be \$725,000 or 0.5% on the all-inclusive increase.

Chart 3 shows the impact on each of the classes if the Tax Ratio Reduction Program is deferred.

Chart 3**Impact of Deferring Tax Ratio Reduction Program
On \$100,000 of Assessed Value for each Tax Class**

Class	Property Assessed at for 2015	If ratio changed		If No change to ratio		Change	
		2015 Mun Tax rate	2015 Mun Levy	2015 Mun Tax rate	2015 Mun Levy	2015 Mun Levy \$	2015 Mun Levy %
Res	100,000	1.264787%	\$1,264.79	1.256652%	\$1,256.65	-\$8.13	-0.64%
MR	100,000	2.462806%	\$2,462.81	2.446965%	\$2,446.97	-\$15.84	-0.64%
Comm	100,000	1.998490%	\$1,998.49	2.035965%	\$2,035.97	\$37.47	1.88%
Ind	100,000	2.244238%	\$2,244.24	2.402216%	\$2,402.22	\$157.98	7.04%

The deferral of the tax ratio reduction program means the municipal tax levy increase from 2014 to 2015 for all classes for an assessed value of \$100,000 will be 3.6%. As an example, the equivalent municipal levy in 2014 for the Industrial Tax Class was \$2,319.21. The levy would have actually decreased by \$74.97 to \$2,244.24 if the tax ratio was changed; the impact of the deferral on the Industrial Class will increase the municipal levy by \$83.01 or 3.6%.

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

Submitted by,

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