

Report to:

Council

October 26, 2011

Submitted by: Marian Simulik, City Treasurer

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City Wide

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**SUBJECT: 2012 DRAFT OPERATING AND CAPITAL BUDGETS - TAX
SUPPORTED PROGRAMS**

REPORT RECOMMENDATIONS

- 1) That City Council receive and table the Draft 2012 Operating and Capital Budgets at its meeting of October 26, 2011 for subsequent consideration by Council in Committee of the Whole to be held November 30, 2011.
- 2) That City Council refer the relevant portions of the 2012 Operating and Capital Budgets to each Standing Committee of Council and the Transit Commission for their consideration and recommendation to Council sitting in Committee of the Whole to be held November 30, 2011.
- 3) That Section 14(1) of the By-law respecting the Auditor General of the City of Ottawa (By-law No. 2009-323, as amended) be amended to provide that annual increases to the budget for the Office of the Auditor General shall be in accordance with the budget strategy for the Term of Council.

BACKGROUND

On June 22, 2011, Council endorsed the Long Range Financial Plan (Part 1) report which outlined a budget preparation strategy for 2012 and for the term of Council. The strategy set the increase in the municipal portion of the tax bill to a maximum increase of 2.5 % per year during this Council's term of office.

Through the term of Council priority setting exercise, Council established its strategic funding priorities for the next three years for both operating and capital. These priorities were approved on July 13, 2011 in the report "Draft Terms of Council 2011-2014 Priorities".

On September 14, 2011, City Council adopted a report that set out the timetable and consultation process for the development of the 2012 budgets. This report includes details on the budget adjustments for those City programs under the direction of Council's Standing Committees and the Transit Commission. Separate reports will be tabled for the Ottawa Public Library Board, the Ottawa Police Services Board, the Ottawa Board of Health, Crime Prevention Ottawa and the Committee of Adjustment. This report includes a high level tax summary of the budget requirements for all of the tax supported services.

The budgets for the Water and Sewer programs, which are fully funded from revenues raised on the water bill, are not included in this report as they will be considered separately in early 2012. This timing difference allows for any adjustments made to the tax-supported portion of the integrated capital program (combined road/water/sewer capital works) to be reflected in the water/sewer rate budget. The rate-supported budget will be tabled at an Environment Committee meeting in January 2012 and approved by Council on February 22, 2012.

DISCUSSION

2012 Budget Review and Decision Process

In June 2011, Council directed that the City Manager work with the Mayor's office to develop draft annual budgets consistent with the direction provided in the Long-Range Financial Plan, identify any unforeseen issues and recommend any strategies that may be required to achieve Council's tax objective. The tabled budget achieves Council's tax objective of having the municipal portion of the tax bill increase by no more than 2.5%. Should Council approve the budget as tabled, the increase in the municipal portion of the property tax bill will be 2.39 %.

Council's approved budget strategy required that as part of the annual budget process, the budget allocation for all local Boards and Commissions be based on their individual pro-rated share of a 2.5% tax increase and the estimated 2% increase in assessment growth. Council requested that these Boards and Commissions develop their draft budgets within their annual allocation. These Boards are to table their budgets with Council on October 26, 2012.

Members of the Public and Advisory Committees are able to provide their input on the draft budgets through a variety of venues. All budget documents will be posted on the City's web site and will be available in hard copy at the City's libraries and Client Service Centers. The opportunities for public engagement are as follows:

- November 1-4: Community Consultations: The City will host four bilingual multi-ward budget consultations. In addition to a central meeting to be held at City Hall, meetings will be held in East, West and South Ottawa.
- November 7-28: Committee/Commission/Board Budget Meetings: Standing Committees of Council along with the Transit Commission, Police Services Board, and Library Board will hold meetings to consider the 2012 draft budget for their respective areas and to listen to public delegations.

- To provide comments on Budget 2012, residents can also call 311 (TTY: 613-580-2401), or e-mail 311@ottawa.ca or fax 613-560-2126.

Council will hold final budget deliberations on November 30, 2011.

Building the Budget

Council adopted a 2012 to 2014 budget strategy earlier this year when adopting the Long Range Financial Plan (LRFP) (Part 1) report. The strategies included a tax objective with a maximum increase of 2.5% for the municipal portion of the tax bill.

The draft budgets have been prepared in accordance with Council's budget strategy including:

- All new operating budget needs were established through Council's strategic initiatives setting process. The annual operating budget envelope for Council's Strategic Initiatives was based on the value of the Provincial upload. The annual capital budget envelope for Council's Strategic Initiatives is based on the estimated \$34 million envelope as identified in the 2011 capital budget.
- In order to maximize Council's ability to achieve its stated taxation direction and to minimize potential risk factors, the LRFP (Part 1) report identified certain strategies to be used throughout the development of the budget. These strategies, and other budget assumptions are as follows:
 - The non-discretionary costs associated with maintaining existing city services were given first funding priority along with funding any part-year costs built into the previous year's budget.
 - In certain areas, more risk is being taken in the budget knowing that there are reserve funds to smooth fluctuations in expenditures where necessary. Examples include winter maintenance and child care.
 - The budget does not include any one-time sources of revenue unless they are used to fund expenditures that are also of a one-time nature. The One-time and Unforeseen Account has been reduced to fund select one-time initiatives identified in the budget.
 - Recreation user fees have not been increased. Other user fees and revenues are increased in accordance with Council's Fiscal Framework to reflect the increased cost of providing the service or program. This includes Transit fares which have been increased by 2.5%. Revenues accounts have also been adjusted to reflect growth in usage.

- In preparing the draft estimates, staff has reviewed the 2011 operating results to date, and where warranted, adjustments have been made to the 2012 draft budget to reflect these results.

During the preparation of the 2011 Capital budget, Council was advised that the tax supported funding available for the capital program would be restricted in 2012 and 2013, as a result of spending and debt authority advanced in 2009 to fund the Infrastructure Stimulus Program. The 2012 draft capital estimates recommend that Council take advantage of current low interest rates and favourable construction pricing to advance transportation network spending by adding an additional \$125 million in debt authority. The construction of the LRT project will result in significant traffic disruption and in order to prepare for that as much transportation work should be undertaken in advance. This will allow less regular rehabilitation work to be undertaken during the construction period to minimize overall traffic disruption.

Overall Operating Budget Estimates

The net additional tax requirement identified in the draft budgets is **\$29.6 million, or 2.39%** expressed as a tax rate increase. The following table shows the net 2012 taxation changes for City Departments and for the local boards and commissions.

Table 1 – 2012 Tax Increases

	2011 Taxation	2012 Tax Increase *	
		\$ Increase	% Increase
Boards & Commission			
Police	209,651	5,137	2.45%
Library	39,416	957	2.43%
Transit	205,643	5,137	2.50%
Public Health	11,082	277	2.50%
Ctee of Adjustment	-	-	-
Crime Prevention	624	10	-
	466,416	11,518	2.47%
City Departments	768,877	18,051	2.35%
Total Taxation	1,235,293	29,570	2.39%
* Net of Assessment Growth			

Total anticipated full time equivalent staff positions required to deliver services for City Operations and the Boards and Commission is 15,306 in 2012. The Service Ottawa initiatives identified in the budgets will result in a net decrease of 47 full time equivalents across all city departments in 2012.

Projected Taxation for 2012

The impact of the budgets tabled is that an urban taxpayer with an average home assessed at \$304,800 will see a tax increase of 2.39%, or \$75 per year for City services. The following table shows the various levy increases for both an average home and an average commercial property.

Table 2 – Property Tax Impact

	Urban Home		Commercial	
	Average Assessment : \$304,800		Average Assessment : \$250,230	
Area	2011	2012	2011	2012
City Wide	1,714	1,744	2,621	2,666
Police	507	520	776	795
Transit	545	559	833	854
Fire	282	299	431	457
Garbage Fee	91	93	-	-
TOTAL	3,139	3,214	4,661	4,773
\$ Change		75		112
% Change		2.39%		2.39%

These impacts as presented are preliminary and are based on certain assumptions that will only be confirmed once the final program spending and assessment data are confirmed.

2011 Operating Budget – City Operations (Departments) and Transit

Total 2012 tax supported operating expenses for City Operations are \$1.7 Billion and is \$441 million for Transit Services which is a \$76 million increase over last year. Operating expenditures are funded through property taxes (54%); Payments in Lieu of Property Taxes (7%), federal and provincial grants (18%), fees and service charges (18%) and other miscellaneous revenue sources (3%).

A summary of the budgetary requirements for City Operations and Transit, shown by Standing Committee/Commission and department is provided in Document 1.

The changes to the 2012 budget estimates and the source of their funds are shown by category in the following table.

Table 3 – Budget Changes in City Operations and Transit

	City Operations	Transit*
	Millions	
2% Assessment Growth	15.2	4.3
Tax Increase 2.35% / 2.50%	18.1	5.1
Revenue Growth	20.5	8.0
Service Ottawa Savings	7.4	0.1
Provincial Uploads	2.7	-
2011 Base Adjustments	2.3	-
Funds available	66.2	17.5
Funds used as follows:		
Maintain services	45.1	11.0
Growth needs	9.2	6.3
Legislated programs	7.9	0.2
Council Priorities	4.0	-
Funds used	66.2	17.5

Growth in Tax Assessment and Tax Increases

Assessment growth is projected to be 2% in 2012 which provides \$19.5 M in taxes to support city operations and transit. The tax increase for city operations was 2.35% or \$18.1 million and 2.5% for transit or \$5.1 million.

Revenue Growth

While user fees in various programs have been adjusted to reflect the increased cost of providing the service, recreation fees have not been increased for a second year in a row.

A 2.5% transit fare increase commencing in July 2012 is provided for in this budget.

Service Ottawa Savings

Efficiency savings resulting from the Service Ottawa initiatives are built into each year's budget. The total anticipated 5-year savings is \$40.7M which is comprised of both corporate and departmental specific initiatives. For 2012 \$8.0M has been distributed across departmental budgets, including \$89,000 in Transit and \$517,000 in Public Health.

Provincial Uploading

In 2010 Ontario began uploading a portion the cost of social assistance benefits annually and will assume full responsibility of Ontario Works (OW) benefits currently paid by municipalities by 2018. Initially the Province paid 80 % of Ontario Works benefits, and the municipalities paid 20 %. Currently the municipal share is 18.8% which will be reduced over time, and is projected to save the City \$36 million by 2018. In the meantime the Province announced yearly OW rate increases of 2% in 2011 and 1% in 2012, which results in the City costs for this program increasing before the Province assumes it.

The value of the 2012 upload of Ontario Works has been allocated through the Term of Council Priorities process to fund a number of strategic initiatives in the operating budget. Annual cumulative amounts during the term of Council are as follows:

Table 4 – Provincial Upload

Provincial Uploading by Year (\$ '000)			
2012	2,720	2,720	2,720
2013	-	5,135	5,135
2014	-	-	5,010
Total	2,720	7,855	12,865

Maintaining existing programs and services

The majority of the expenditure increase in 2012 is to maintain existing City services and programs. Labour inflationary adjustments add \$24.4 million in pressures to the 2012 budget for City Operations. These labour cost adjustments include announced increases to the OMERS pension plan contribution rates. In addition \$6.1 million is required to provide full year funding for staff and station costs at the new Ottawa South and West Fire Stations and for paramedic positions.

Various inflationary pressures totalling \$11 million for the cost of purchased goods and services (such as fuel) are also required for City Operations.

Transit service costs include increased fuel costs of \$9.8 million. Labour costs are increasing by \$9 million, which is offset by \$12.2 million in cost reductions resulting from the optimization program implemented in 2011.

Growth

The City Operations budget includes \$9.2 million in increased costs due to growth in population or in City capital infrastructure. Included in this amount is \$3.8 million in additional debt servicing costs for debt previously approved by Council and issued in 2011 or to be issued in 2012. Growth in the City's inventory of building and parks requires increased funding for the maintenance of those assets.

Transit services continue to see increased ridership so an additional \$6.3 million has been added to provide additional service hours and for maintenance of new park and ride facilities.

Legislated programs and services

Legislated programs and services include child care, public health, social housing, long term care, social services, the costs of the Municipal Property Assessment Corporation and the cost of paramedic services. Changes in this category of costs include:

- Ontario Works caseload is estimated to increase by 2.5% and a 1% rate increase has been incorporated in the budget,

- Inflationary increase on fee subsidy rates for child care purchase of service agencies,
- An increase in Personal Support Worker's in Long Term Care facilities,
- An increase of funding to service agencies for Homelessness Support and Social Supports to Housing,
- Annualization of phased-in hiring of 24 Paramedics approved in 2011.

Council Priorities

New initiatives have been added to the 2012 budget that address Council's strategic priorities. These have all been approved by Council. In total \$4.0 million of council priorities have been added to the budget. This is added to the amounts already included in the base budgets from prior years. Initiatives receiving funding include: \$200,000 for operating costs associated with a new a new artificial ice surface ("Rink of Dreams"); \$700,000 for the Emerald Ash Borer Strategy; \$500,000 to fund environmental sustainability initiatives; \$500,000 for a Parks Master Plan; \$120,000 towards cycling safety initiatives. In addition \$500,000 to fund action plans and strategies that will be developed in response to recent and ongoing work on the Senior's Summit has been provided for.

2011 base budget adjustments

Adjustments to the 2011 base budgets are made after reviewing the forecasted year-end actual expenditures and revenues. The adjustments also reflect items previously budgeted that are no longer required. Base budget adjustments for City Operations reflect subsidy adjustments for the housing program. Adjustments are also made to reflect additional revenues from solid waste recycling markets based on 2011 results.

The transit service budget reflects a base budget adjustment for the removal of one-time funding for bridge financing that was included in the 2011 budget.

Auditor General (AG) Office Budget – Annual Budgetary Increases

The establishment of the annual budget for the AG's office has been set by by-law based on a fixed percentage of the City's overall operating expenditure budget.

In the LRFP 4 (Part 1) report, Council approved a budgetary strategy that the tax target for all local Boards and Commissions be established based on a prorated share of the Council directed 2.5% tax increase and the estimated 2% increase in assessment growth. It is recommended that the AG's by-law be amended in order to provide annual increases to the budget for the Office of the Auditor General in accordance with the budget strategy for Boards and Commissions.

Impact of Capital on Operating

Certain capital projects identified for funding in 2012 will result in increased operating costs for the City. These projects are primarily in the growth and strategic initiatives categories of capital. The additional costs result from the requirement to both operate and maintain the capital asset

after it has been constructed or purchased. The operating impact of these projects is identified with each project's description.

2012 Draft Capital Budget – City Operations and Transit

The capital authority being requested in 2012 is \$835.7 million. This includes the total cost of the integrated water/wastewater/roads program but not water and wastewater capital projects which are funded entirely from water and sewer surcharge revenues. Those projects will be included in the capital plan tabled separately with the Rate supported budget.

Included in the 2012 capital is a multi-year budget request to deal with the City's transportation network. The project is called "Ottawa on the Move" and it provides an additional \$125 million of tax supported debt authority to deal with the backlog of road works that should be undertaken in advance of the start of the construction of the City's light rail project in order to minimize disruption. As per previous Council direction the capital program was to be constrained until 2013 as a result of the advancement of spending to fund the Infrastructure Stimulus Program. As can be seen in the following table the result would have been minimal investment in the renewal and repair of the transportation network over the next two years (\$47 million) and increased investment the subsequent years when light rail is also anticipated to be under construction. As a result of Ottawa on the Move the spending on renewal of roads is advanced during the next three years and is then reduced starting in 2015 as the construction of light rail takes place.

Table 5 - Tax Spending on Asset Renewal – Roads

	2012	2013	2014	2015	TOTAL
- Original Plan (\$M)	21.4	25.7	60.1	54.6	161.8
- Proposed Plan (\$M)	75	75	75	30	255

The Ottawa on the Move project has total authority of \$340 million as it includes significant integrated roads/sewer/wastewater projects which require funding from water and wastewater sources. While this authority is identified in the budget it will be confirmed by Environment Committee and Council as part of the rate budget in January 2012. In addition certain projects have associated provincial revenues or development charge.

In order to take advantage of today's low interest rate environment it is intended that the \$125 million of debt authority on the project will be issued in 2012. The debt servicing will start in 2013 and will be repaid using funds available from a reduced roads capital program during the light rail construction period.

Document 2 to this report shows the recommended 2012 capital budget authority by Standing Committee and department. The following table provides a summary of the program and the financing sources.

Table 6 - Capital Program Funding Summary

Tax Supported Budget (Excluding Police & Library)	2012 Request			
	Renewal	Growth	Strategic Initiatives	Total
	\$000	\$000	\$000	\$000
Expenditure Authority	541,471	231,270	62,972	835,713
Revenue	38,335	38,114	10,721	87,170
Net Financing Required	503,136	193,156	52,251	748,543
Reserves				
- City Purposes	73,368	4,912	35,640	113,920
- Transit	23,565	3,063	12,111	38,739
- Rate Base Integrated Program	51,295	-	-	51,295
Gas Tax - Cash & Debt	24,650	24,062	-	48,712
DC - Cash & Debt	7,324	156,958	1,225	165,507
Ottawa on the Move - Rate Supported Sources	179,363	-	-	179,363
Debt Financing				
City Purposes	9,725	4,000	3,275	17,000
Ottawa on the Move				
- Tax Supported Debt	125,000	-	-	125,000
- Rate Base Integrated Program	8,846	-	-	8,846
Transit		161		161
Total	503,136	193,156	52,251	748,543

As per Council policy the budget provides for an inflationary increase in the contributions to fund the capital program.

Capital Budget Forecasts for 2013 to 2015

The Capital forecast for future years is included with Document 2. These forecasts show the increase in spending authority required for the Light Rail project (Tunney's to Blair). New authority for the light rail project is requested in 2012 to advance the design phase while \$1.8 billion in authority is forecast for 2013.

The capital budget estimates in these documents have been prepared based on Council's strategic planning exercise recently completed.

Debt and Reserves

The City funds its capital program through a combination of tax funds from reserves, debt and grants from senior levels of government.

The City has historically maintained balances in its various reserves in order to preserve some flexibility to adjust spending plans when emergencies or unusual spending requirements occur.

Existing fiscal framework guidelines regarding debt are as follows:

- The increase in debt servicing for non-legacy projects will not be greater than one-quarter of 1% of taxes from property;
- Additional debt is permitted for legacy projects;
- Principle and interest for tax and rate supported debt is not to exceed 7.5% of own source revenues.

The recommended 2012 draft operating and capital budgets allow the City to continue to respect these principles.

RURAL IMPLICATIONS

The Agriculture and Rural Affairs Committee will review and make recommendations on the 2012 budget.

CONSULTATION

The consultation on the Draft Operating and Capital budgets will be conducted during the Standing Committee review of these draft estimates and during the four multi-ward bilingual budget consultation meetings (centre, east, west, south) held during November.

LEGAL IMPLICATIONS:

There are no legal impediments to implementing the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS:

There are no risk management implications to implementing the recommendations in this report.

ACCESSIBILITY IMPLICATIONS:

Provisions for accessibility initiatives are incorporated in the tabled budgets.

FINANCIAL IMPLICATIONS

Financial implications are identified within the report.

SUPPORTING DOCUMENTATION

- Document 1 2012 Draft Operating Budget Summaries
- Document 2 2012 Draft Capital Budget Summaries
- Document 3 2012 Draft Operating and Capital Budget – Tax Supported Programs; on file with the City Clerk

DISPOSITION

Budgets will be amended as per Council deliberation and adoption.

The City Clerk and Solicitor will prepare the required amending By-laws to put into effect the recommended revisions as noted in the Report. The City Clerk and Solicitor will place the amending by-laws on Orders of the Day of Council.