

Report to/Rapport au :

Council / et au Conseil

October 24, 2012

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CITY WIDE / À L'ÉCHELLE DE LA VILLE

Ref N°: ACS2012-CMR-FIN-0045

SUBJECT: 2013 DRAFT OPERATING AND CAPITAL BUDGETS - TAX SUPPORTED PROGRAMS

REPORT RECOMMENDATIONS

That City Council:

1. **Receive and table the Draft 2013 Operating and Capital Budgets at its meeting of October 24, 2012 for subsequent consideration by Council in Committee of the Whole to be held November 28, 2012; and**
2. **Refer the relevant portions of the 2013 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 28, 2012.**

BACKGROUND

On June 22, 2011, Council endorsed the Long Range Financial Plan (Part 1) report, which outlined a budget preparation strategy 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 June 13, 2012, City Council adopted a report that set out the timetable and consultation process for the development of the 2013 budgets. This report includes details on the 2013 budget changes 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 the impact on the tax bill of all of the budgets supported from taxation.

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. A term rate-supported budget will be considered at the Environment Committee in January, 2013 with Council approval later that month.

DISCUSSION

2013 Budget Review and Decision Process

In June 2012, 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 2013 draft budget achieves Council's tax objective of limiting the increase to the municipal portion of the tax bill to no more than 2.5%.

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 increase in assessment growth. Council requested that these Boards and Commissions develop their draft budgets within their annual allocation. The budgets being tabled by the various Boards with Council comply with that request.

Members of the public 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:

- October 29 - November 7 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. Dates, times and locations are posted on the City's web site.
- November 6-26: 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 2013 draft budget for their respective areas and to listen to public delegations.

To provide comments on Budget 2013, residents can also call 311 (TTY: 613-580-2401), or e-mail budget2013@ottawa.ca or fax 613-560-2126 or use the Twitter hashtag #ottbudget.

Council will hold final budget deliberations on November 28, 2012.

Overall Operating Budget Estimates / Projected Taxation

The net additional tax requirement identified in the draft budgets is \$29.6 million, which will result in a 2.09% tax bill impact. For an urban residential taxpayer, with an average home assessed at \$314,500, this will result in an additional \$67 per year for City services, including garbage collection. The following table shows the various levy increases for both an average urban and rural home and an average commercial property.

Table 1 – Property Tax Impact

Area	Urban Home		Rural		Commercial	
	Average Assessment : \$314,500		Average Assessment : \$314,500		Average Assessment : \$264,070	
	2012	2013	2012	2013	2012	2013
City Wide	1,743	1,787	1,743	1,787	2,673	2,740
Police	520	533	520	533	797	817
Transit	558	572	48	49	856	877
Fire	302	310	144	148	464	476
Garbage Fee	93	82	93	82	-	-
TOTAL	3,216	3,283	2,548	2,598	4,790	4,910
\$ Change		67		50		120
% Change		2.09%		1.98%		2.50%

The tax impacts provided are preliminary and are based on certain assumptions that will only be confirmed once the final program spending and assessment data are confirmed.

The 2013 taxation year will use the new property assessment values currently being released by the Municipal Property Assessment Corporation (MPAC). These new values will be used for the 2013 to 2016 taxation years with the increase in current value assessment (CVA) to be phased in equally over the four year period. At this time the impact of these reassessments on the overall distribution of taxes between properties within the City is only known for residential / farm properties. The 2013 tax policy report, to be approved in April 2013, will detail all of the impacts of the reassessment.

Full Time Equivalents

The budgets being tabled include the number of full-time equivalent (FTE's) positions that are required to deliver City services. During 2012 an exercise was undertaken at OC Transpo to reconcile the number of FTE's with the compensation budget. Previous budgets had included efficiencies, which reduced the compensation accounts but had not reduced the number of FTE's, this adjustment is being made as part of the 2013 budget.

The total budgeted full time equivalent staff positions required to deliver services for City Operations and the Boards and Commission is 14,486 in 2013. This is a reduction of

139 FTE's from 2012 and includes reductions from the Service Ottawa initiatives, increases for the new facilities that will be opened in 2013, the correction of FTE's identified from the OC Transpo review and further reductions from the introduction of double-decker buses.

2013 Operating Budget – City Operations (Departments) and Transit

Total 2013 tax supported operating expenses for City Operations are projected to be \$1.7 Billion and are \$448 million for Transit Services, which is a \$50.8 million increase over last year. Operating expenditures are funded through property taxes (54%); Payments in Lieu of Property Taxes (7%), federal and provincial grants (19%), fees and service charges (17%) 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 2013 budget estimates and the source of their funds are shown by category in the following table. A brief description of the changes in each category follows the table.

Table 2 – Budget Changes in City Operations & Transit Services

	City Operations	Transit
	Millions	
Assessment Growth	15.9	4.0
Tax Increase	17.3	5.4
User Fees	2.1	4.2
Revenue Growth	8.8	-
Service Ottawa Savings	6.4	0.1
Provincial Uploads	4.9	-
Funds available	55.4	13.7
Funds used as follows:		
2012 Base Adjustments	3.8	8.8
Maintain services	27.5	3.8
Growth needs	8.6	1.1
Legislated programs	6.7	-
Council Priorities	8.8	-
Funds used	55.4	13.7

Funding Sources:

Growth in Tax Assessment and Tax Increases

Assessment growth from new development is projected to be slightly under 2% in 2013, which will provide \$19.9 million in additional taxation revenues to support City

operations and Transit. The revenues generated from the proposed tax increases are \$17.3 million for City operations and \$5.4 million for Transit.

User Fees

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 third consecutive year.

A 2.5% transit fare increase commencing in July 2013 is provided for in this budget.

Revenue Growth

The increase in revenues reflects the additional funding received on cost-shared programs, growth in Parks & Recreation users, an additional \$1 million from the Ontario Lottery and Gaming Corporation per the revised contribution agreement and projected increases in Payment in lieu of taxation properties.

The increased Transit revenues represent the annualization of the 2012 U-Pass revenues.

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 2013, \$8.8 million has been distributed across departmental budgets, including \$116,000 in Transit. Additional funding of \$2.3 million will be required for on-going support costs such as hardware / software maintenance and license fees associated with the implementation of the technology solutions bringing the net savings to \$6.5 million.

Provincial Uploading

In 2010, Ontario began uploading a portion of 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 17.2% which will be reduced over time, and is projected to save the City \$36 million by 2018.

The 2013 draft budget reflects a 1% increase in OW rates as announced by the Province this year along with a projected increase in caseload of 2.5%. The City's cost for this program will continue to increase before the Province assumes full funding.

The value of the 2013 upload of Ontario Works is \$4.9 million and has been allocated through the Term of Council Priorities process to fund a number of strategic initiatives in the operating budget. The Parks, Recreation and Culture Department is presently embarking on a comprehensive facility by facility review that is being funded from within existing resources and, accordingly the Master Plan Funding will not be required in 2013. Therefore, it is recommended that the funding (\$0.5M) be redirected to Community & Social Services to fund changes related to discretionary benefits.

Use of Funding Sources:

2012 Base Budget Adjustments

When preparing the budgets, the 2012 actual budget experience is reviewed to adjust for revenue losses or gains that happened in the year, or for expenditure eliminations, such as the National Equestrian Park. The Transit service budget reflects base budget adjustments for the removal of one-time funding for bridge financing that was included in the 2012 budget and for adjusting the fare box revenues to reflect 2012 projections.

Maintaining existing programs and services

The majority of the expenditure increase in 2013 is to maintain existing City services and programs. Labour inflationary adjustments add \$24.1 million in pressures to the 2013 budget for City Operations. These labour cost adjustments include announced increases to the OMERS pension plan 2013 contribution rates.

In addition, various inflationary pressures totalling \$9.5 million for the cost of purchased goods and services (such as fuel) are required for City Operations, annualization of part year budgets provided in 2012 along with inflationary increases to the City's capital reserve fund in accordance with Council policy.

Labour related costs for Transit services are projected to add \$6.6 million to the 2013 draft budget. Annualization of service increases introduced in 2012 along with inflation on fuel and bus parts plus increases to the Transit capital reserve fund per Council policy will add \$6.2 million. Offsetting these increases will be the projected operational savings of \$9 million from the introduction of the new double-decker buses in 2013.

Growth

The City Operations budget includes \$11.7 million in increased costs due to growth in population or in City capital infrastructure. The majority of the increase is associated with the facility and programming costs for new and upgraded recreational and community centres along with increases for new parks and related infrastructure. These include the Richcraft recreational complex in Kanata, Chapman Mills community building and the Francois Dupuis Pool. These costs are partially offset by projected increases of \$3.1 million in programming revenues.

Transit services has included \$1.1 million for the costs associated with the O-Train expansion and for the additional Para Transpo service demands.

Legislated Programs

Legislated programs and services include child care, social housing, long term care, social services, the costs of the Municipal Property Assessment Corporation and the cost of paramedic services. The estimated costs in this category are projected to increase by \$6.7 million. The following areas are contributing to this increase:

- Ontario Works caseload is estimated to increase by 2.5% and a 1% rate increase
- Social Housing increases for cost indexing per provincial calculations
- Family and Emergency Shelter 1% rate increase

The 2012 Provincial Budget included changes that affect the City and social assistance recipients resulting in a reduction of \$6.6 million in 2013 provincial funding:

- Introduction of a funding cap on Discretionary Benefits in July 2012
- Removal of the Community Start Up and Maintenance Benefits (CSUMB) as a benefit for social assistance recipients

Through realignment and reallocations, the City will provide \$4.4M in additional investments to continue to provide the majority of Discretionary Benefits for the most vulnerable and lowest income residents. The City will also maintain the Community Start Up Benefit and will establish an emergency transition fund for extreme hardship.

Council Priorities

Additional funding for Council's priorities have been added to the 2013 budget that address Council's strategic priorities. In total \$8.8 million of Council priorities have been added to the budget. This is in addition to the amounts already included in the base budgets from prior years. Some of the initiatives receiving funding include:

- \$5.5 million for increasing the contribution to capital for renewal of infrastructure as a result of adoption of the Long Range Financial Plan;
- \$500,000 for increased economic development initiatives;
- \$975,000 for increased forest cover and the Emerald Ash Borer Strategy;
- \$1.0 million for the Arts, Heritage and Cultural Plan;
- \$300,000 towards undertaking Community Development Plans in advance of LRT implementation.
- \$500,000 for increased initiatives related to the Older Adult Plan.

Impact of Capital on Operating

Certain capital projects identified for funding in 2013 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.

2013 Draft Capital Budget – City Operations and Transit

The capital authority being requested in 2013 is \$277.5 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 rate capital plan to be considered by the Environment Committee in January.

In the next few months Council will receive the results of the OLRT project procurement. As this project is the single largest capital work the City has ever undertaken, the budget authority has not been included with the rest of the 2013 capital works, but will be considered and approved separately. The Transit LRF that was approved in 2011 forecast how the OLRT and all other transit projects could be funded. When the report is brought forward all of the reserve, gas tax, and development charge and debt continuity schedules will be updated to reflect the actual funding of this project.

Included in the Transit budget is a 10 year forecast of capital works to allow the Commission and Council to see the capital impact of this project during the construction period.

The 2013 capital program is smaller than usual as a result of Ottawa on the Move. As was outlined in the 2012 budget process, Council was advised that the tax supported funding available for the capital program would be restricted in 2013, as a result of spending and debt authority advanced in 2012 to undertake the Ottawa on the Move infrastructure rehabilitation program. It was recommended that Council take advantage of current low borrowing rates, favourable construction pricing and to manage the significant traffic disruption expected with the construction of the LRT project by advancing transportation network spending into the 2012 budget. The advancement of these works will allow for less regular rehabilitation work to be undertaken during the LRT construction period to minimize overall traffic disruption.

While numerous Ottawa on the Move (OTM) projects have commenced in 2012, a substantial amount of work still remains to be completed in 2013 while other works will commence in 2013 and be completed in 2014 and into 2015. Staff will be providing an update on the status of OTM projects at the November 7th Transportation Committee budget meeting.

While the 2013 capital program has been reduced because of the advancement of projects under the OTM program, the plan as presented to Council during the 2012 budget deliberations will again see a similar advancement of rehabilitation works from 2015 into 2014. A listing of the proposed works for 2014 is included in the draft budget document.

Table 6 – 2013 Capital Program Funding Summary (\$000)

2013 Request (\$000)	Renewal of City Assets		Growth		Strategic Initiatives/Regulatory		Grand Total
	City Purposes	Transit	City Purposes	Transit	City Purposes	Transit	
Total Authority	65,709	29,210	97,406	16,150	63,994	5,025	277,494
Less: Revenue	750	-	700	-	10,240	-	11,690
Less: WIP Funding	3,000	-	-	-	-	-	3,000
City Requirement	61,959	29,210	96,706	16,150	53,754	5,025	262,804
Funding							
Reserves	58,866	29,035	12,507	12,908	45,259	5,025	163,600
DC's (Cash/Debt)	908	-	78,986	3,242	893	-	84,029
Debt Funding	2,185	175	5,213	-	7,602	-	15,175
Grand Total	61,959	29,210	96,706	16,150	53,754	5,025	262,804

Capital Strategic Initiatives

In 2011, Council established its term of Council capital priorities, which were outlined in the 2012 Capital Budget document for the 2012-14 period. The specific projects are

listed as Document 3. Staff are recommending the following spending realignment to augment other Council priorities.

Parks and Recreation Master Plan \$1.0 Million

Funding of \$1 million was approved in the 2012 budget for this initiative with an additional \$1 million in funding added in each year from 2013 to 2014. The Parks, Recreation and Culture Department is presently embarking on a comprehensive facility by facility review that is being funded from within existing resources and, accordingly the Master Plan Funding will not be required in 2013. Therefore, it is recommended that the 2013 funding be redirected to fund 50% of the Rideau Canal Pedestrian Footpath project that is included in the 2013 draft capital estimates.

Environmental Strategy \$0.750 million

Funding of \$0.750 million was approved in the 2013 budget for this initiative. Due to significant organizational change in 2012, this initiative will be developed as part of the Environment Services workplan in 2013 and, accordingly, it is proposed that the 2013 funding be redirected as follows:

- Forest Cover and the Emerald Ash Borer Strategy \$0.250 million
- Cultural Capital Grants \$0.500 million

Capital Budget Forecasts for 2014 to 2016

The Capital forecast for future years is included with Document 2. As mentioned previously, a separate 10 year forecast for Transit services only (excluding LRT) is included in the tabled draft budget document.

The capital budget estimates in these documents have been prepared based on Council's priorities as approved during the 2011 strategic planning exercise.

Debt and Reserves

The City funds its capital program through a combination of tax funds from reserves, development charges on the growth portion of eligible projects, 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 supported debt is not to exceed 7.5% of own source revenues and 15% for rate supported debt.

The recommended 2013 draft operating and capital budgets allow the City to continue to respect these principles.

The LRT capital requirements will represent the City's single largest capital investment. As this budget and the required financing will not be considered by Council until December, it would be premature to present the debt and reserve fund schedules that would normally be included in the tabled draft budget document. These will be completed and included in the final adopted budget document.

In addition to the normal increase to the City Wide Capital Reserve Fund based on the construction price increase, the adoption of the recommendations in the "Long Range Financial Plan IV – Tax Supported Capital" (LRFP) report, will see the contributions increase by \$5.5 million per year for both the renewal of existing assets and the increase in the asset base, as a priority within Council's approved tax targets.

Also approved by Council in the LRFP report as part of the financial plan to provide funding for rehabilitation to achieve the good state of repair level, is the recommendation to limit the capital funding for strategic initiatives to \$20 million per year starting in 2015. Limiting the funding to \$20 million will allow \$15 million to be redirected to capital renewal and rehabilitation works.

Based on the above strategies, the City will be able to undertake the level of works forecasted over the 2013-16 period and take significant strides to ensure city infrastructure is maintained at the good state of repair level.

RURAL IMPLICATIONS

There are no rural implications.

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 of this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk implications.

FINANCIAL IMPLICATIONS

As outlined in the report.

ACCESSIBILITY IMPACTS

There are no accessibility implications with this report.

TECHNOLOGY IMPLICATIONS

There are no technology implications with this report.

TERM OF COUNCIL PRIORITIES

Term of council priorities have been incorporated into the 2013 draft estimates.

SUPPORTING DOCUMENTATION

Document 1	2013 Draft Operating Budget Summaries
Document 2	2013 Draft Capital Budget Summaries
Document 3	2013 Capital Strategic Initiatives
Document 4	2013 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.