

**Report to
Rapport au:**

**Council
au Conseil**

9 November 2016 / 9 novembre 2016

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**Submitted by
Soumis par:**

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**Ward: CITY WIDE / À L'ÉCHELLE DE LA
VILLE**

File Number: ACS2016-FIN-0012

SUBJECT: 2017 DRAFT OPERATING AND CAPITAL BUDGETS

**OBJET: BUDGETS PRÉLIMINAIRES DE FONCTIONNEMENT ET
D'IMMOBILISATIONS de 2017**

REPORT RECOMMENDATIONS

- 1. That City Council, at its meeting of November 9, 2016:**
 - a. Receive and table the Draft 2017 Operating and Capital Budgets for subsequent consideration by Council in Committee of the Whole at its meeting of December 14, 2016.**
 - b. Refer the relevant portions of the 2017 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 December 14, 2016;

- c. Refer the Information Technology Services 2017 Operating and Capital Budgets and the relevant portions of the ServiceOttawa Capital Budget to the Information and Technology Sub-Committee for its consideration and recommendation directly to Council sitting in Committee of the Whole to be held December 14, 2016.**
- 2. That City Council, at its meeting of December 14, 2016, sitting as Committee of the Whole:**
- a. Receive and consider the Draft 2017 Operating and Capital Budgets as recommended by the Committee of Adjustment, Crime Prevention Ottawa, the Ottawa Board of Health, the Ottawa Police Services Board, the Ottawa Public Library Board and by the Standing Committees, Transit Commission and Sub-Committees of Council, and the 2017 Draft Operating and Capital Budgets-Rate Supported as recommended by the Environment Committee, as listed in the Council Agenda and incorporating all amended pages;**
 - b. Direct the City Treasurer to bring forward the final 2017 Stormwater Fee schedule to the Finance and Economic Development Committee as part of the 2017 Tax Rate and Ratio report, as described in this report.**

RECOMMANDATIONS DU RAPPORT

- 1. Que le Conseil municipal à sa réunion du 9 novembre 2016 :**
 - a. reçoive et dépose les budgets préliminaires de fonctionnement et d'immobilisations de 2017 et qu'il les examine subséquentement en comité plénier le 14 décembre 2016;**
 - b. transmette les parties pertinentes des budgets préliminaires de fonctionnement et d'immobilisations de 2017 à chaque comité permanent du Conseil et à la Commission du transport en commun pour que ces derniers les examinent et formulent des**

recommandations au Conseil en comité plénier le 14 décembre 2016;

- c. transmette les budgets préliminaires de fonctionnement et d'immobilisations de 2017 du Service de technologie de l'information et les parties pertinentes du budget préliminaire d'immobilisations de ServiceOttawa au Sous-comité de la technologie de l'information pour que ce dernier l'examine et formule des recommandations directement au Conseil en comité plénier le 14 décembre 2016.
2. Que le Conseil municipal à sa réunion du 14 décembre 2016 en comité plénier :
- a. Reçoive et examine les budgets préliminaires de fonctionnement et d'immobilisations de 2017 comme recommandé par le Comité de dérogation, Prévention du crime Ottawa, le Conseil de santé d'Ottawa, la Commission de services policiers d'Ottawa, le Conseil d'administration de la Bibliothèque publique d'Ottawa et par les comités permanents du Conseil, la Commission du transport en commun et les sous-comités du Conseil, et les budgets préliminaires de fonctionnement et d'immobilisations de 2017 financés par les redevances comme recommandé par le Comité de l'environnement, comme l'indique l'ordre du jour du Conseil et auxquels sont intégrées toutes les pages modifiées;
 - b. Demande à la trésorière municipale de remettre la version définitive du barème des redevances de 2017 pour les services d'eaux pluviales au Comité des finances et du développement économique dans le cadre du rapport sur les taux d'imposition et coefficients fiscaux de 2017, comme décrit dans ce rapport.

EXECUTIVE SUMMARY

This report provides a high-level summary and overview of the Draft 2017 Tax- and Rate-Supported Operating and Capital Budgets tabled with City Council on November 9, 2016. Enabled by the early achievement of over \$29 million in efficiency savings, in addition to other revenues, these draft budgets provide for sustainable base budget enhancements in the areas of transit, social inclusion, arts and culture, the environment and economic development, address the growth pressures in both years, all within the 2% residential property tax increase limit directed by Council, ensuring affordability and inclusion, and continuing the City's prudent approach to its long-range financial stability.

The Draft 2017 Operating Budget for Tax-Supported Services is \$2.9 billion, which is a \$68.3 million increase over the 2016 budget and the Draft 2017 Capital Budget for Tax-Supported Services is \$604.0 million. The Draft 2017 Operating Budget for Rate-Supported Services is \$349.6 million, and the Draft 2017 Capital Budget for Rate-Supported Services is \$276.4 million. User fees for tax-supported services are being increased only as much as the cost of delivering the associated services have increased, user fees for the rate-supported services are being increased in keeping with the Long-Range Financial Plan IV, and all budgeted debt is in keeping with Council's approved guidelines.

The 2017 Draft Budgets being tabled are different from what had been anticipated in these budgets at the beginning of this term of Council in that they include service enhancements not cuts, and there is no need to use reserve funds to solve budget pressures. This is largely due to the \$29.2 million in savings delivered by the new City Manager as part of an ambitious program to change how the organization delivers internal services, to flatten City management structures and accelerate efficiency reviews. In addition, the City is receiving new revenues from assessment growth and other sources. Finally, the federal and provincial governments have been making some major new investments in municipal infrastructure and services. In addition to the federal gas tax funds, both the federal and provincial governments have announced new program funding for transit, for water and wastewater and for housing.

Any transmittal report is only able to summarize these budgets at the highest level, which is what this document does. The budget books themselves provide more details in each area.

Overall, the 2017 Draft Budgets provide for service enhancements the public has been calling for within Council's affordable residential property tax increase of 2%. The growth in assessment for 2017, valued at \$18.1 million, and the full effect of the

organizational alignment and efficiency savings of \$29.2 million, in addition to other revenues, allow this draft budget to include a number of new and significant base budget increases as well as some one-time service improvements.

These savings and new revenues mean that 2017 Draft Operating and Capital Budgets are proposing a number of new base budget programs or spending, meaning that the intent is that they be budgeted on an ongoing basis, including:

- \$2.7 million to fund a low-income bus pass, the EquiPass, which will provide a 50% discount for those living below the low-income cut-off. This is in addition to the existing discounted transit passes (the seniors pass, the youth pass, the U-Pass, and the Access Pass) and the elimination of the express bus premium;
- \$610k additional funding for community and social services agencies, with \$110k to increase the inflationary provision to 2%, and \$500k to be placed in a fund that will help agencies deal with growth, wait list and other critical, one-time issues. This is in addition to the \$23 million the City will continue to invest in the 94 agencies that run programs supporting our neighbours in need;
- \$150k in increased funding for arts, culture, heritage and festivals \$150k for the creation of an Arts Momentum Fund, with an additional \$150k planned for 2018.

The achievement of the 2017 and 2018 savings targets in a single year, \$29.2 million in total, has also enabled the City to enhance some services on a one-time basis.

Specifically, the 2017 draft budget includes \$6.6 million in a one-time contribution to capital. These are one-time funds because they will be needed in 2018 to offset anticipated growth needs. Included recommended one-time investments, funded from this contribution as well as the One-Time and Unforeseen provision:

- \$200k contribution to the Environmentally-Sensitive Lands Acquisition Fund;
- \$1.5 million for the Cyrville Fire Station;
- \$2.5 million for the Downtown Ottawa Truck Tunnel Environmental Assessment;
- \$550k increase to the One-Time and Unforeseen account to provide seed funding (\$300k) for projects supporting Energy Evolution, a Term of Council priority with the goal of increasing energy conservation, energy efficiency and the use of renewable energy generation in Ottawa; and \$250k for the Great Canadian Theatre Company;
- \$250k additional funds for the parks and recreation renewal fund;

- \$345k for the Canada 150 Maple Grove project, planting maple trees as a legacy;
- \$1 million top-up to the rural road upgrades program;
- \$0.5 million to support Ottawa's bid for the 2021 Canada Summer Games;

In addition to the new and one-time initiatives above, the 2017 Draft Budgets also include significant base budget increases to some core City services. These include:

- Funding for 24 new paramedics and two new ambulances, which is the 2017 commitment in the overall increase of 43 paramedics from 2016-2018;
- Funding for 25 new police officers, which is the 2017 commitment to increasing the number of new police officers to 75 from 2016-2018;
- \$4.5 million in additional funding for Winter Operations, bringing the 2016-2017 total to \$9 million in new funding;
- \$320k in additional parks maintenance and an additional \$500k contribution to capital for parks and recreation renewal funding which, together with planned 2018 funding, will result in a total of \$16.5 million in spending in this area from 2015-2018, compared with \$6 million that was spent in total from 2010-2014;
- Funding for 10 new locations for adult school crossing guards, an expanded red-light camera program and proceeding with new pedestrian crossings; and
- \$24.8 million for the retrofit, rehabilitation or replacement of five communal well systems in rural Ottawa; and
- \$5.4 million increased contribution to capital pay-as-you-go to help maintain the City's assets in a state of good repair.

In addition, the City has received funding from the federal and/or provincial governments to enable a number of significant capital investments, including:

- A \$67 million investment in 2017 for Stage 2 Light-Rail Transit (LRT);
- \$2.5 million for the Bayshore to Kanata LRT Environmental Assessment;
- \$18.4 million for 17 new buses to help the City get ready for Light Rail;
- \$8.4 million in new cycling infrastructure, as part of the total \$73 million (including federal / provincial funding) 2015-2018 investment in cycling infrastructure ;

- There are a number of significant housing investments, with the City receiving federal funding in the amount of \$2.8 million from the homelessness Partnering Strategy and \$16 million for Social Housing Repairs, and provincial funding of \$12.2 million through the Social Housing Apartment Retrofit Program and \$3.8 million for a Survivors of Domestic Violence Pilot.

In addition, as part of the organizational alignment, several FTEs were redeployed to address critical shortages. These include two FTEs that were redeployed to create two additional Park Planner positions within the Recreation, Cultural and Facility Services Department to improve on project delivery timelines for park and facilities capital projects. As well, a new heritage planner position has been created to expand frontline heritage planning services. This position will help deliver on the priorities of the Mayor's Task Force on Heritage Matters and work with heritage property owners, particularly those whose properties are vacant, to preserve their buildings and avoid demolition by neglect. As well the position will work with property owners to proactively designate new heritage buildings and review and create new heritage conservation districts.

These are all in addition to the services and programs residents and businesses rely on. The City's 15,000 employees work hard every day in delivering services. Each Committee, Transit Commission and Board budget book describes what is planned for 2017 in more detail. They describe the parks and recreation centres that will be fixed, the new facilities that will be built, the roads that will be repaved and rehabilitated, the sidewalks, cycling facilities and multi-use pathways that will be repaired or constructed, the new clean water projects, the services at long-term care programs, the progress on the City's LED street lighting program, and much more.

Every budget is about everything the City does – as such, each year's budget is the result of a year-long conversation between residents and their Council, between City staff and stakeholders and between the municipality and the upper levels of government. Each includes new initiatives discussed and determined by Council and Committee over the year or raised as part of the previous year's budget discussions, combined with continuing operations, legislative requirements, long-range plans, new opportunities from other levels of government, and Council's Term of Council priorities

The majority of the new, base budget enhancements in the 2017 Draft Budgets are responses to public feedback that began during last year's budget – including funding a low-income bus pass, increasing sustainable funding for community and social service agencies and local arts groups, more money for environmental projects, more transit,

more cycling and pedestrian infrastructure, better snow-clearing and more road rehabilitation, more police and more paramedics and more investment in infrastructure.

With the tabling of the 2017 Draft Budgets on November 9, 2016, City Council and the public will begin the next phase of their dialogue on what the City's spending priorities should be, with delegations appearing at Standing Committee, Transit Commission and Board budget meetings and then final Council consideration taking place on December 14, 2016, in Committee of the Whole

OVERVIEW AND BACKGROUND

The City of Ottawa is a municipal leader in long-range financial planning which, in turn, provides successive City Councils with the tools it needs to establish an annual budget that funds important programs and services, builds and takes care of infrastructure, makes strategic investments in priority areas, and takes care of unforeseen issues – all while ensuring that property taxes and user fees remain as affordable and predictable as possible for residents and businesses. The 2014-2018 City Council has adopted fiscal sustainability as one of its Term of Council priorities.

The Draft 2017-18 Tax- and Rate-Supported Operating and Capital Budgets have been developed in a year of tremendous change at the City of Ottawa. The new City Manager arrived at the beginning of May with a clear mandate and an ambitious direction from City Council to identify and produce, as soon as possible, efficiency savings to rebalance City spending away from administration and towards core City services. The federal and provincial governments have launched major funding programs for municipal transit, water and wastewater services, and affordable and social housing, providing the City with the opportunities and challenges of advancing Council's plans in these areas - Ottawa has received commitments for \$227.3 million in new or enhanced transit projects, \$115.3 million in water and wastewater projects, and \$35.4 million in affordable and social housing projects – all of which must be completed, or very nearly so, by the end of 2018.

Finally, as the nation's capital, the City of Ottawa will be hosting the country for Canada's 150th birthday in 2017, and there will be federal and provincial funding available for some of those programs as well. It will be an exciting time for residents and businesses, and the City spent this year preparing to be an active participant in and support for the year of celebration. It is anticipated there will be added expenses as well, and the City expects the Federal and Provincial governments to assist in offsetting the costs of hosting the numerous planned events from those levels of government in 2017.

This report provides a high-level summary and overview of the Draft 2017 Tax- and Rate-Supported Operating and Capital Budgets tabled with City Council on November 9, 2016. Enabled by the early achievement of over \$29 million in efficiency savings, in addition to other revenues, these draft budgets provide for sustainable base budget enhancements in the areas of transit, social inclusion, arts and culture, the environment and economic development, address the growth pressures in both years, all within the 2% residential property tax increase limit directed by Council, ensuring affordability and inclusion, and continuing the City's prudent approach to its long-range financial stability.

This budget was developed to try to ensure that the service enhancements addressed some of the City's challenges holistically. Many of the recommended increases support more than one Council priority – for example, investments in transit, pedestrian and cycling infrastructure also support environmental goals, investments in a low-income bus pass, increased support for community agencies and increasing sustainable funding for the arts also supports economic development, and investments in taking care of parks, recreation facilities and roads also promotes fiscal sustainability.

City Council and the public will be continuing their dialogue on the draft budgets, with final Council consideration taking place on December 14, 2016, in Committee of the Whole.

Multi-year Budget Directions Initially Established in 2015, \$33.6 Million in Unfunded Pressures Identified for 2017-2018 Budgets

Every draft budget prepared for consideration by Council and the public is based on directions provided by City Council and in keeping with Council's stated priorities. In February 2015, during the 2015 budget process, Council was advised that the financial challenges facing the City in the years ahead required looking beyond the traditional one year budget window and required a multi-year approach. Taking a multi-year approach would allow Council and staff the necessary time required to develop and implement strategies that might take years to put in place.

In response, in October 2015, City Council adopted budget directions for the 2016-2018 draft budgets. These directions included developing draft budgets based on an increase to the City-wide tax levy of 1.75% a year, which would mean that residential taxpayers experience no more than a 2% increase. Each annual budget was to build in an annual efficiency target to ensure that Council directions could be achieved. At the time, it was anticipated that the efficiency targets would need to be \$15.7 million in 2017 and \$17.9 million in 2018 in order to fund existing services and address annual growth pressures, and that one-time reserve funds would be required to balance the budget.

To achieve the efficiency targets and offset growth pressures, the report identified the following strategies: reviewing expenditures to identify any reductions that could be undertaken that do not affect service delivery (e.g. reductions to advertising, increasing class sizes for employee training, reducing overtime, etc.), adjusting revenue budgets that were exceeding the budget (not of a one-time nature), increasing the user fees and charges in line with the cost of delivering the service as identified in the Fiscal Framework; establishing a corporate efficiency target based on an analysis of how City services are provided with a focus on attaining productivity savings from administrative restructuring, rationalization of accommodations, a review of the summer student program and a review of fleet standards, and establishing department-specific efficiency targets based on an operational review of winter operations (which was already being conducted by KPMG), Paramedic Services and of Parks, Building and Grounds.

At that time, Councillor Egli also directed staff to develop a corporate budget challenge function that would provide an effective and formal 'early warning' system for spending during the year, and for efficiency plan. Shortly thereafter, during the tabling of the 2016 Draft Operating and Capital Budget, Council adopted a complementary motion by Councillor Qaqish and Cloutier directing staff to find opportunities to consolidate functions and find opportunities to reduce the overall compensation envelope by reviewing the organizational structure, management and administrative business support positions, vacancies and workload in relation to services and processes, with a focus on internal-facing programs and service delivery.

In December 2015, the City Manager's office informed Council of the establishment of a formal Service Review Program to conduct the previously-identified reviews and look at more efficient ways to deliver services through extensive reviews and consultations with City departments. These reviews were to be conducted by a multi-stakeholder team with a mix of operational experience, financial and process review expertise, and occurred under the guidance of an executive management sponsor and with involvement of the respective Standing Committee Chair.

At the same time, it established a Budget Review Board with the following members: Mayor, City Manager, Treasurer, Deputy Treasurer Corporate Finance and Manager of Budget and Financial Planning, City Clerk and Solicitor and Deputy City Managers and the Chair and Vice-Chair of the Audit Committee. The Budget Review Board conducts quarterly reviews on the status of the budgeted versus actual results before the quarterly Operating and Capital Budget Status reports are finalized and issued for Council consideration and also reviews the draft operating and capital budget including

a detailed review of each department's budget estimates. It also looks at the non-departmental budget, including capital formation contributions, common revenues, and taxation, and the format and presentation of the budget.

New City Manager, New Approach = \$29.2 million in Efficiency/Alignment Savings Achieved, Core City Services Protected and Enhanced Where Possible

In March 2016, City Council appointed Steve Kanellakos to be Ottawa's new City Manager, with a start date of May 2nd and a clear mandate to revitalize the organization and refocus its efforts towards delivering and, where possible, enhancing core City services. The new City Manager immediately began meeting with the Mayor, City Councillors, City staff at all levels and major stakeholders to identify pressure points, priorities and opportunities. Once the initial feedback had been received, the new City Manager developed a plan to deliver all of the required efficiency savings for the remaining Term of Council in time to be included in the Draft 2017-2018 Operating and Capital Budgets, while renewing the organization and enhancing services in some key areas identified by Members of Council and stakeholders.

The first phase of the organizational alignment took place on July 13, 2016. It resulted in the creation of a smaller executive decision-making team (reduced from 21 to 9 members) with clear lines of accountability. Departments were consolidated based on service areas, allowing for simplified reporting relationships and clearer mandates, and efficiencies of \$1.5 million were achieved. The 8 FTEs eliminated were in addition to the reduction of 52.40 FTEs already achieved in the 2016 Budget.

The second phase of the organizational alignment was completed in the first week of October 2016. It was the result of the focused efforts of the new Senior Leadership Team to flatten the management structure, consolidate and align service areas to better support the public, streamline administration, and plan for delivering services within the Council-established tax target.

This alignment resulted in change for approximately 1400 employees. Fifty management FTEs and 74.24 business support FTEs were eliminated. Nearly \$17 million (\$16.96 m) in savings were achieved.

Several of the service reviews identified in the 2017 and 2018 Budget Strategy were also completed, yielding a combined total of \$10.2 million in annual savings, as follows:

- Review of Winter Operations (\$2.7 million in savings) - The completed review, outlined in the "Review of Winter Operations Report" (ACS2016-COS-PWS-

0026), approved by Council on July 13, 2016, identified cost containment strategies and operational adjustments which will begin during the 2016/2017 winter season;

- Ottawa Paramedic Service Review (cost avoidance of 3 FTEs) – The completed review, outlined in the “Ottawa Paramedic Service Review” report (ACS2016-EPS-GEN-0005), approved by Council on October 26, 2016, identified the need to add an additional 26 paramedics over the next two years to improve response times and mitigate against the number of rural resources being deployed to meet the concentration of calls in the urban core. It also identified 3 FTEs that could be redeployed to core City services, to reduce growth pressures;
- Fleet Services Review (\$6 million in savings) – In July, 2016, Fleet Services was realigned from the Public Works department to the Corporate Services Department. The completed review, outlined in the Information Previously Distributed report “Fleet Services Review” report (ACS2016--CSD-FLT-0003), received by the Finance and Economic Development Committee on November 1, 2016, identified \$1 million in base budget savings and an annual reduction of \$5 m in pay-as-you-go contributions to the Fleet Reserve;
- Review of Parks, Building and Grounds Operations (\$1.5 million in savings) - This review explored methods to rationalize services to City parks and buildings, including staffing levels, cleaning methods and supplies, and cost containment strategies. Since the review began, Buildings and Facilities Management structures under consideration were realigned from Public Works and Environmental Services to the Recreation, Cultural Services Department. The 2017-2018 draft budgets incorporate the savings that have been identified.

Other, more targeted efficiency savings, totalling just over \$575 k, were identified as part of the organizational review in several areas, including, traffic, solid waste and fire.

Taken together, the alignments, service reviews and other efficiencies have yielded \$29.2 million in savings. These savings contribute to addressing the 2017 and 2018 growth pressures and, together with an increased assessment growth and other contributing factors described later, provide Council with the ability to increase investment in some priority areas while respecting the Council-directed residential property tax cap of 2%. They also establish a stable foundation for City staff. Because there are fewer layers of management, our expert staff can be empowered in their work. Accountability is streamlined and there is no longer a need for the hiring and spending

freeze processes that can hamper productivity and efficiency, allowing staff to focus fully on delivering Council's priorities.

The organization is now able to close the formal service review process and move forward with a continuous improvement program under the direction and accountability of each General Manager. Priorities will be clarified in early 2017. The remaining programs outlined in the 2017 and 2018 Budget Strategy will proceed under the new framework, as follows:

- Rationalization of Accommodations - This review will be completed by the General Manager, Corporate Services and City Treasurer. In addition to addressing the results of the organizational alignment, the review will consider the relative benefit to the taxpayer with respect to City-owned versus leased administrative space.
- Review of the Summer Student Program – this will be an ongoing initiative, with the goal to ensure the program incorporates the cost-effectiveness of using summer students. For the 2016 campaign, senior managers identified their essential hiring requirements, ensuring no impact on core City services. It is expected this will occur in each year.

Developing the Draft 2017-2018 Tax- and Rate-Supported Budgets

Revised 2017-2018 Budget Directions - Financial Stability, Affordable Tax Rate and More Money for Key Core City Services

As indicated above, in October 2015, City Council adopted budget directions for the 2016-2018 draft budgets, including developing the tax-supported budgets based on an increase to the City-wide tax levy of 1.75% year, so that residential taxpayers owners would experience no more than a 2% increase, and where every annual budget was to build in an annual efficiency target.

In the intervening time, several assumptions that were included in the October 2015 report changed materially. The reassessment data for 2017-2020 provided by the Municipal Property Assessment Corporation (MPAC) in 2016 revealed that, for the first time since 2005, the values for the commercial class in Ottawa would move them below the provincial range of fairness, meaning that the residential property taxpayer no longer has to shoulder more of the tax burden of a budgetary increase. In practical terms, it means that Council could set budget directions based on a 2% City-wide levy, which would result in the same 2% tax increase for residential taxpayers assumed by

previously setting the direction at 1.75%. This change would generate an additional \$3.1 million for 2017.

As noted above, the achievement of most of the 2-year efficiency target before the end of 2016 also changed the budget assumptions. In addition, the October 2015 report did not include budget directions for the rate-supported services. In order to estimate the available level of revenues to fund operations and to provide future contributions to the water and sewer capital reserve funds to cash finance the forecasted rate capital program, staff assumed a 2017 and 18 increase of 5% as contained in the Council-approved Long Range Financial Plan (LRFP) IV report. These same rate increases are recommended to be incorporated into developing the 2017 draft budget and forecasts.

To ensure that Council could consider this new information in advance of the development of the 2017-2018 Draft Budgets, the City Treasurer provided revised recommendations in the report, "Revised 2017-2018 Budget Directions and Strategy" (ACS2016-CSD-FIN-0006), and on October 12, 2016, Council approved the following specific directions to guide staff in the development of the 2017-2018 draft budgets:

- a. The City Wide levy, which includes Police, Library and Public Health, be increased by 2.00% for 2017 and 2018.
- b. That, as part of the annual budget process, the budget allocation for Police, Library and Public Health Boards be based on their individual pro-rated share of a 2.00% tax increase and maintain the estimated 1.3% increase in taxes resulting from growth in assessment, and that Council request that these Boards develop their draft budgets within their annual allocation.
- c. That the Rate supported (water and sewer services) 2017 draft budget be developed assuming a 5% increase in the water rate as projected in the 2012 Rate Supported Long Range Financial Plan.
- d. That the City Treasurer be authorized to utilized the Tax Stabilization reserve fund at year end 2016 to address any funding requirements stemming from the implementation of the efficiency strategies.

The Draft Budgets tabled meet Council's directions.

Federal and Provincial Funding Programs

The federal and provincial governments have been making some exciting new investments in municipal infrastructure and services. In addition to the federal gas tax

funds, both the federal and provincial governments have announced new program funding for transit, for water and wastewater and for housing.

These funds enable the City to move forward on Council's long-term plans and address some unforeseen, immediate needs. For example, Ottawa has received commitments for \$227.3 million in new or enhanced transit projects, \$115.3 million in water and wastewater projects, and \$35.4 million in affordable and social housing projects – all of which must be completed, or very nearly so, by the end of March 2018.

These new funding streams have been welcome, but it is important to note that the priorities for the funding reflect those of the government funder and sometimes require staff to realign priorities to optimize funding for all of the City's projects and priorities.

As City Council takes time to develop and approve long-term plans, and also has on-going, formal relationships with many community partners and stakeholder groups like the Alliance to End Homelessness, the Community Health and Resource Centres, the Council of the Arts, and the Aboriginal Working Group, to name a few, the City has been able to respond to each call and has been successful in securing funding.

For the 2017-2018 horizon, federal and provincial funding is allowing much-needed infrastructure to proceed ahead of schedule, including the pedestrian and cycling bridge at Clegg Street and Stage 2 Light-Rail Transit.

Consultation

Every budget is about everything the City does – as such, each year's budget is the result of a year-long conversation between residents and their Council, between City staff and stakeholders and between the municipality and the upper levels of government. Each includes new initiatives discussed and determined by Council and Committee over the year or raised as part of the previous year's budget discussions, combined with continuing operations, legislative requirements, long-range plans, new opportunities from other levels of government, and Council's Term of Council priorities, among other factors. Often, when funding is reduced or removed by the other levels of government or agencies like the United Way to community groups and agencies, they look to the City for increased support. This on-going dialogue informs the development of each budget. The majority of the new, base budget enhancements in the 2017 Draft Budgets are responses to public feedback that began during last year's budget – including funding a low-income bus pass, increasing sustainable funding for community and social service agencies and local arts groups, more money for environmental projects, more transit, more cycling and pedestrian infrastructure, better snow-clearing

and more road rehabilitation, more police and more paramedics and more investment in infrastructure.

Municipal government is known to be the level of government closest to the people, but it also has a limited toolkit with which to raise revenues (i.e. property taxes, development charges and user fees) to address needs expressed. Therefore, every draft budget tries to find a balance among the competing needs, emerging issues and opportunities and an affordable tax target as set by Council. This effort is informed and guided by the budget process adopted by City Council as part of the 2015-2018 Council Governance Review report (ACS2014-CMR-CCB-0062), which provided that the City Manager work with the Mayor's office to develop draft annual budgets that are consistent with Council's approved budget directions and that the draft budgets will also identify any one-time issues and recommend any additional strategies that may be required to achieve Council's direction. Council specifically added that, "the Mayor will consult with each Member of Council with respect to the Member's individual budget priorities and concerns before the Mayor's office works with the City Manager to develop draft annual budgets". This was to ensure that some specific ward-based priorities that would not typically come to Committee and Council could also be considered and understood during budget development.

With respect to formal consultations for the budget, on July 8, 2015, in considering the report from the City Treasurer entitled, "Budget Consultation Process" (ACS2015-CMR-FIN-0033), City Council established a new budget consultation process that would see councillor-led consultations occur prior to the tabling of the draft budgets instead of following the tabling, as was traditional. As the report noted:

"There was a general consensus among Members of Council that because the budget consultation occurs after the budget has been tabled, priorities are not incorporated or reflected in the Draft Budget. Some Members expressed their belief that this has created the perception that consultation is being done on a completed document.

The broad consensus among Members of Council is to conduct consultations before the Budget Tabling stage. This would allow Members of Council to solicit feedback from residents on ward-specific and citywide priorities, which would then be provided to the Mayor and staff for possible inclusion in the Draft Budget."

On June 22, 2016, City Council approved the "Proposed 2017 Budget Timeline and Consultation Process" report (ACS2016-CMR-FIN-0018), which outlined that, in addition

to the councillor-led consultations, the web content (including the Budget Primer) and the budget email box, at the suggestion of Councillor Tierney, an interactive online budget consultation and feedback tool was made available. The budget allows residents to increase their understanding of how tax dollars are allocated between services and allows the tax impact of changes to that allocation, to reflect the residents spending priorities, to be identified. An open ended question was included to provide residents with an opportunity to identify other suggestions for consideration.

Six multi-ward, Councillor-led consultations, as well as two single-ward consultations, took place in September and October. To date, the City has received budget ideas and feedback from residents, key partners and stakeholders through a variety of ways, including the Councillor-led Budget consultations, the Budget planning tool available on ottawa.ca, the City's social media channels, Twitter and Facebook, through ServiceOttawa and 3-1-1 and via email at budget@ottawa.ca. As of November 3, 2016, there were 1419 visits to the budget planning tool, with 245 completed responses (the tool closes on November 9, 2016). All of the feedback from all of the channels is being consolidated and reviewed and has been used to develop the 2017 Draft Budget.

As of this writing, most Councillors had met with the Mayor to discuss their budget priorities. In addition, the City Manager has met with every Member of Council on the priority areas of investment for their communities, and has also met with many of the City's major stakeholder groups. The challenge with every budget is that it is impossible to meet all the priority needs for every community and stakeholder group and keep property taxes and user fees affordable, as directed by Council. That said, by advancing the efficiency savings, staff has been able to accommodate the growth pressures anticipated for 2017 and 2018. Together with new revenues, as detailed elsewhere in this report, there were enough funds available to address some priority needs both on an on-going basis and with some one-time investments.

Finally, the June 22, 2016 Budget Timeline and Consultation Process report included a schedule for the Budget Review Boards with Committee Chairs and Vice-Chairs.

The City Manager's office, the City Treasurer, relevant senior staff, and a representative from the Mayor's office met with all Committee Chairs and Vice-Chairs (or their representative) between September 16th and September 26th, 2016 to discuss each Committee's budget pressures and priorities. These meetings informed the budget development process.

As noted in a November 3, 2016 memorandum from the City Manager to Council, the initial intent was for staff to meet again with the Chair and Vice-Chair of each Standing

Committee prior to the tabling of the draft budget. Unfortunately, the recent alignment and other significant changes to the management structure along with initiatives such as the water rate report, mid-term governance and two major infrastructure initiatives did not allow the budget information to be finalized early enough to allow for this.

To ensure that the spirit of the Council direction is upheld, full Budget Review Board meetings with Committee Chairs to review their respective committee's budget will occur prior to the each Committee's meetings to consider their draft budgets.

Process Notes: Speed and Timing of Organizational Alignment Means Draft Budget Books Reflect Previous Departmental Structure, Stormwater Rate Implementation work is in progress

The 2017 Draft Operating and Capital Budget books do not entirely reflect the new organizational structure. While the new departmental names are reflected, there was not enough time to fully realign the significant numbers of cost centres and cost elements in SAP to reflect the new structure, and ensure the accuracy of the reflection of previous budgets and actual and the forecast inside of new City departments and branches. Once Council adopts the budget, staff will do the work necessary to ensure cost centres are appropriately reassigned, and the final budget presented next year will fully reflect the new structure.

As well, as indicated earlier, some enhancements to services will not be able to be 'seen' in the budget documents, as some positions in the organization alignment were redeployed to address frontline service issues.

On October 26, 2016, City Council adopted a new Rate Structure for Water, Wastewater and Stormwater Services in the City of Ottawa. . The new rate structure for water and wastewater will not come into effect until 2018, when the new water billing system is implemented.

For the draft 2017 stormwater fees, however, as identified in the report, work still needs to be done to make a final determination on what those fees will be. Specifically, the Rate Report, noted that, once Council approved the new structure, "there will be additional work required to finalize the rates...[including] properties that are not connected will be identified, including whether they are outside the urban boundary; land use codes will be linked to property codes and to water billing accounts; and the appropriate Stormwater Flat Tiered fee will be aligned with each ICI property...".

To address this issue for the Draft 2017 Budget Process, staff is recommending that the City Treasurer bring forward the final 2017 Stormwater Fee schedule for those not connected to City services (which will reflect the four-year phase-in approved by City Council) for consideration as part of the 2017 Tax Rate and Ratio report in Q1 of 2017.

Although the Stormwater Fee schedule would typically be brought to the Environment Committee, for this year only, staff recommends its inclusion in the Tax Rate and Ratio report that will be brought to City Council through the Finance and Economic Development Committee.

Finally, the 2017 Draft Budgets tabled with Council on November 9th are presented by Council Committees and the Transit Commission, as well as the Boards for whom Council has final budget approval authority, and will consist of the following documents:

City Council Committees and Commissions

- Finance and Economic Development Committee
- Agriculture and Rural Affairs Committee
- Community and Protective Services Committee
- Transportation Committee
- Transit Commission
- Planning Committee
- Environment Committee (Tax- and Rate-Supported Budgets)
- Audit Committee
- Information and Technology Sub Committee

Boards/Committee of Adjustment

- Police Services Board
- Library Board
- Public Health Board
- Committee of Adjustment
- Crime Prevention Ottawa Board

The Boards and Committee of Adjustment have their own budget consultation and approval process. City Council will consider those budgets only on December 14, 2016, sitting as Committee of the Whole, after their Boards have formally approved them for submission.

DISCUSSION

Overview – 2017 Draft Budget

The Draft 2017 Operating Budget for Tax-Supported Services is \$2.9 billion, which is a \$68.3 million increase over the 2016 budget and the Draft 2017 Capital Budget for Tax-Supported Services is \$604.0 million. The Draft 2017 Operating Budget for Rate-Supported Services is \$349.6 million, and the Draft 2017 Capital Budget for Rate-Supported Services is \$276.4 million. User fees for tax-supported services are being increased only as much as the cost of delivering the associated services have increased, user fees for the rate-supported services are being increased in keeping with the Long-Range Financial Plan IV (LRFP4), and all budgeted debt is in keeping with Council's approved guidelines.

Any transmittal report is only able to summarize these budgets at the highest level, which is what this document does. The budget books themselves provide more details in each area.

Overall, the 2017 Draft Budgets provide for service enhancements the public has been calling for within Council's affordable residential property tax increase of 2%. The growth in assessment for 2017, valued at \$18.1 million, and the full effect of the organizational alignment and efficiency savings of \$29.2 million, in addition to other revenues, allow this draft budget to include a number of new and significant base budget increases as well as some one-time service enhancements.

On an on-going basis, the 2017 Draft Operating and Capital Budgets include the following new base budget programs or spending:

- \$2.7 million to fund a low-income bus pass, the EquiPass, for those living below the low-income cut-off. This is in addition to the existing discounted transit passes (the seniors pass, the youth pass, the U-Pass, and the Access Pass) and the elimination of the express bus premium;
- \$610k additional funding for community and social services agencies, with \$110k to increase the inflationary provision to 2%, and \$500k to be placed in a fund that will help agencies deal with growth, wait list and other critical, one-time issues. This is in addition to the \$22 million the City will continue to invest in the 94 agencies that run programs supporting our neighbours in need;
- \$300k for the establishment of seed funding for projects supporting Energy Evolution, a Term of Council priority with the goal of increasing energy

conservation, energy efficiency and the use of renewable energy generation in Ottawa;

- \$145k in increased funding for arts, culture, heritage and festivals \$150k for the creation of an Arts Momentum Fund, with an additional \$150k planned for 2018.

As described in detail in the Overview and Background section of this report, the new City Manager developed a transition plan that included a review of the organization's financial situation and its overall effectiveness. As part of this review, staff was directed to find solutions that would achieve the corporate efficiencies for both 2017 and 2018, for inclusion in the 2017 Budget. The achievement of the 2017 and 2018 savings targets in a single year, \$29.2 million in total, enabled the City to enhance some services immediately. Specifically, the 2017 draft budget includes \$7.2 million in a one-time contribution to capital and operations. These are one-time funds, as they will be needed in 2018 to offset anticipated growth needs, but it was deemed prudent to set these funds aside in 2017 in order to address one-time needs or provide one-time investments in 2017.

These one-time investments include:

- Cyrville Fire Station \$1.5M;
- Truck Tunnel Study \$2.5M;
- Albert and Slater road restatement work post LRT \$1.145M;
- Rural Roads rehabilitation \$1.0M (\$0.5M 2017; \$0.5M 2018);
- Contribution to the Environmentally-Sensitive Lands Acquisition Fund \$200k;
- Additional funds for the parks and recreation renewal fund \$0.250M (2018);
- \$550k increase to the One-Time and Unforeseen account to fund the Great Canadian Theatre Company (\$250k) and Energy Evolution (\$300k);

Strategic investments are also being made to support Ottawa's bid for the 2021 Canada Summer Games (\$0.5M) and for the Canada 150 Maple Grove project (\$0.345M) - planting maple trees as a legacy.

In addition to the new and one-time initiatives above, the 2017 Draft Budgets also include significant base budget increases to core services. These include:

- Funding for 24 new paramedics and two new ambulances, which is the 2017 commitment in the overall increase of 43 paramedics from 2016-2018;
- Funding for 25 new police officers, which is the 2017 commitment to increasing the number of new police officers to 75 from 2016-2018;
- \$4.5 million in additional funding for Winter Operations, bringing the 2016-2017 total to \$9 million in new funding;
- \$320k in additional parks maintenance and an additional \$500k contribution to capital for parks and recreation renewal funding which, together with planned 2018 funding, will result in a total of \$21.0 million in spending in this area from 2015-2018, compared with \$6 million that was spent in total from 2010-2014;
- Funding for 10 new locations for adult school crossing guards, an expanded red-light camera program and proceeding with new pedestrian crossings; and
- \$24.8 million for the retrofit, rehabilitation or replacement of five communal well systems in rural Ottawa; and
- \$5.4 million increased contribution to capital pay-as-you-go to help maintain the City's assets in a state of good repair.

In addition, the City has received funding from the federal and/or provincial governments to enable a number of significant capital investments, including:

- A \$67 million investment in 2017 for Stage 2 Light-Rail Transit (LRT);
- \$2.5 million for the Bayshore to Kanata LRT Environmental Assessment;
- \$18.4 million for 17 new buses to help the City get ready for Light Rail;
- \$8.4 million in new cycling infrastructure, as part of the total \$73 million (including federal/provincial funding) 2015-2018 investment in cycling infrastructure;
- There are a number of significant housing investments, with the City receiving federal funding in the amount of \$2.8 million from the homelessness Partnering Strategy and \$16 million for Social Housing Repairs, and provincial funding of \$12.2 million through the Social Housing Apartment Retrofit Program and \$3.8 million for a Survivors of Domestic Violence Pilot.

The 2017 Draft Operating and Capital Budget for Tax-Supported Services achieves Council's tax objective of limiting the increase on the municipal portion of the residential property tax bill to 2.0%. As directed by Council and as identified in the Transit Affordability Plan, this budget also incorporates a 2.5% increase to the Transit levy, with transit fares rising by 1.25% on January 1, 2017. In addition, as noted above, Council also approved a budget direction requiring those local Boards for whom Council has final budget approval authority (the Ottawa Board of Health, Ottawa Police Services, Ottawa Public Library, Committee of Adjustment and Crime Prevention Ottawa) be assigned a pro-rated share of the increase in property tax revenues and the estimated increase in assessment growth. Council requested that these Boards develop their 2017 draft budgets within their allocation and the draft Board budgets being tabled with Council on November 9th, 2016 comply with that request.

The Draft 2017 Rate-Supported budget, which includes water, wastewater and stormwater services, has been developed within the 5% rate increase as directed by Council.

Overall Operating Budget Estimates

Projected Taxation

The net additional tax requirement identified in the 2017 draft budgets is \$49.9 million, which is estimated to result in an overall increase of 2.0% on the average residential property tax bill for City and Police services (excluding transit) and 2.5% for Transit Services. The following table shows the various estimated levy increases for both an average urban and rural home and an average commercial property.

The impacts are preliminary and are based on the current draft budget funding requirements. Actual impacts on individual households and businesses will be a function of the Council-adopted budget, assessment data from the Municipal Property Assessment Corporation (MPAC) and any changes to tax policy adopted by Council prior to the finalization of tax rates.

In 2016, new property assessment values have been released by the Municipal Property Assessment Corporation (MPAC) which have re-valued all properties as of January 1 2016. These new values will be used for the 2017 to 2020 taxation years with the increase in current value assessment (CVA) to be phased in equally over the four year period. In general, residential homeowners that see their assessment increase in value in excess of the average for the residential property class will see a tax increase greater than 2% while those that increase less than the average will see a

lower tax increase. Based on preliminary data, the average increase in residential property values is 3.98 %. Staff will provide additional information on the impacts of this reassessment as it becomes known.

Table 1 - Property Tax Impact

	Urban Home		Rural		Commercial Property	
	Average Assessment : \$395,400		Average Assessment : \$395,400		Average Assessment : \$304,650	
Area	2016	2017	2016	2017	2016	2017
City Wide	2,219	2,263	2,061	2,102	3,333	3,400
Police	564	575	564	575	845	862
	2,783	2,838	2,625	2,678	4,178	4,262
\$ Change		55		53		84
% Change		2.00%		2.00%		2.00%
Transit	612	627	180	185	922	945
\$ Change		15		5		23
% Change		2.50%		2.50%		2.50%
Garbage Fee	82	84	82	84	0	0
TOTAL	3,477	3,549	2,887	2,947	5,100	5,207

Fewer Full Time Equivalents

The draft budgets being tabled reflects the City administrative restructuring that was implemented in July and in October. For all services (including Rate-supported), the total number of budgeted full time equivalent staff positions required to deliver services for City Operations and the Boards and Commission is 15,069.3 in 2017. This represents a net reduction of 80.08 FTE's from the 2016 complement. City Operations will see a 132.24 FTE reduction from the reorganization and operational efficiencies and the draft budgets recommend 24 additional Paramedics and 25 front-line Police officers be hired.

As part of the organizational alignment, several FTEs were redeployed to address critical shortages. Specifically, the Call Centre received 3 reappointed FTEs to ensure service level standards continue to be met. As well, two FTEs were redeployed to

create additional Park Planner positions within the Recreation, Cultural and Facility Services Department to improve on project delivery timelines for park and facilities capital projects. A new heritage planner position has been created to expand frontline heritage planning services. This position will help deliver on the priorities of the Mayor's Task Force on Heritage Matters and work with heritage property owners, particularly those whose properties are vacant, to preserve their buildings and avoid demolition by neglect. As well the position will work with property owners to proactively designate new heritage buildings and review and create new heritage conservation districts.

As these are not additional FTEs, they will not specifically appear in the draft budget books.

2017 Tax-Supported Operating Budget

Total 2017 tax-supported operating expenses are projected to be \$2.918 Billion which is a \$68.3 million increase over last year. Operating expenditures are funded through property taxes (53%); Payments in Lieu of Property Taxes (7%), federal and provincial grants (20%), fees and service charges (18%) and other miscellaneous revenue sources (2%).

A summary of the 2017 budgetary requirements shown by Standing Committee, Boards and Commission is provided in Document 1.

The changes to the 2017 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 (\$Millions)

	City Services	Transit	Police	Library	Public Health	Total
<u>Available Funding:</u>						
Assessment Growth	-9.8	-3.9	-3.9	-0.4	-0.1	-18.1
Tax Increase	-19.4	-6.2	-5.0	-0.9	-0.3	-31.8
User fee / Revenues	-10.8	-2.4	-0.9	0.0	0.0	-14.1
Provincial cost sharing	-12.7	0.0	0.0	0.0	-0.8	-13.5
Funding Envelope	-52.7	-12.5	-9.8	-1.3	-1.2	-77.5
<u>Funding Pressures:</u>						
Base Adjustments	12.4	0.9	0.8	-0.3	0.4	14.2
Maintain services	34.5	11.4	7.7	1.5	0.7	55.8
Growth needs	13.2	0.2	1.3	0.1	0.0	14.8
Council Priorities	21.8	0.0	2.0	0.0	0.2	24.0
Net Funding Pressures	29.2	0.0	2.0	0.0	0.1	31.3
Operational Efficiencies	-29.2	0.0	-2.0	0.0	-0.1	-31.3

Available Funding**Growth in Tax Assessment and Tax Increases \$49.9 M**

Assessment growth from new development is projected to be 1.3% in 2017, which will provide \$18.1 million in additional taxation revenues. The revenues generated from the proposed tax increases are \$31.8 million.

User Fee / Revenue Increases and Provincial Cost Sharing \$27.6 M

Increases to user fees in line with the increased cost to deliver the service have been incorporated into the draft budget in accordance with the Fiscal Framework. Total increases to user fees and charges are projected to generate \$14.1 million. This amount reflects a 1.25% increase in transit fares effective January 1, 2017, which is projected to generate \$2.4 million in additional revenues.

Where increases are projected in provincially cost-shared programs, revenues have been adjusted including the impact of the continued Provincial upload of social services. The additional revenues are expected to be \$13.5 million.

Funding Pressures**Base Adjustments \$14.2 M**

The main adjustment for City services is the elimination of the one-time funding from the Fleet reserve of \$11.5 million. Given the pressures facing the City in 2016 stemming primarily from 2015 and the fact that the savings from the implementation of the efficiency strategies would not be fully realized in 2016, this bridge funding was required to achieve Council's 2016 tax target objective. With the implementation of the organizational restructuring and operational efficiencies, one-time funding will no longer be required in 2017 to achieve Council's taxation target.

The adjustments reflected under Transit provides for additional funding for insurance claim experience. The Police adjustment reflects the annualization of the 25 officers hired in 2016.

Maintain \$55.8 M

Compensation and benefit increases to reflect contract settlements account for \$37.5 million of the pressures shown in Table 2. Inflationary increases on purchased services and contracts including hydro are projected to increase by \$16.8 million. Savings in fuel costs of \$4.0 million are expected to be realized from the hedging strategy that the City employs to lock in future fuel prices at favourable levels. Increases of \$6.1 million are also reflected for debt servicing costs and for additional capital reserve contributions to support maintaining and rehabilitating the City's infrastructure investment.

Growth Needs \$14.8 M

The additional amount to address growth related pressures are as follows:

Caseload 2.5% increase \$4.0M (cost shared with province);

Paramedics 12 FTE increase \$1.7M;

Tax Remissions \$1.5M (to address reassessment appeals);

City Wide Capital Reserve Fund contribution \$3.4M – additional contribution to address growth in the City's capital infrastructure;

Solid Waste growth in households \$0.5M;

Maintaining new City facilities and Parks \$0.5M;

Police additional 25 officers \$1.3M;

Public Health \$0.2M to deal with infection control challenges in the community, mental health and indigenous health (subject to Provincial cost-sharing);

Social Agencies –increase to the inflationary provision of \$0.110M; and

Arts & Heritage Plan - funding \$0.150M for 2017, with another \$0.150M planned for 2018.

Council Priorities \$24.0 M

The amount of \$21.8 million for City Services reflects the additional \$5.4 million contribution to the City’s capital reserve fund in accordance with the Long Range Financial Plan IV document along with \$5.0 million to fund the initiatives approved in the “Term of Council Priorities” report.

Additional strategic investments are recommended in the draft budget:

- Increase to One-Time and Unforeseen Provision \$0.550M to fund the Great Canadian Theatre Company (\$250k) and Energy Evolution (\$300k);
- Implementation of a low income bus pass - EquiPass \$2.7M;
- Provision of base budget sustainability funding to address community agency one-time funding requirements \$0.5M;
- Installation of additional Red Light Cameras \$0.8M (offset by additional ticket revenues).

As a result of accelerating the implementation of operational and administrative efficiencies in 2017, additional savings of \$6.6 million will be generated which will be contributed to the City Wide Capital reserve fund on a one-time basis. As outlined in the “Revised 2017-2018 Budget Directions” these funds will be used to achieve Council’s 2018 tax target.

The requirement of \$2.0 million in the Police budget reflects the additional investment in the Information Technology initiative.

An additional \$0.2 million is proposed in the Public Health draft budget to address infection control challenges in the community, mental health and indigenous health issues.

2017 Draft Capital Budget and 2018-20 Capital Forecast

The Capital program requirements for 2017 and forecasts for 2018-20 have been developed in accordance with the Council approved Transportation Master Plan, Infrastructure Services Master Plan and 2014 Development Charges Background

Study. Debt funding used to fund eligible components of the capital program requirements will be in accordance with the constraints as presented in the LRFP4 and Fiscal Framework documents. As well the City will continue to increase the contribution to capital over the term in order to bring funding closer to a “good state of repair” level as was identified in the LRFP4.

In the previous Term of Council, several significant planning documents were approved that define the capital works that is required to service growth and to maintain assets in a good state of repair. These documents serve as the source for the capital program to be developed for 2017. The rules and targets with respect to the use of debt for these capital works has been defined in a number of financial policies and will be applied in the funding of the 2017 capital budget.

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. This budget also reflects the prospect of two-thirds senior government funding, particularly for public transit infrastructure projects. In 2017, when availability of funding is clarified, the possibility of considering other projects for this stimulus funding will be explored.

Council’s approved Fiscal Framework guidelines regarding debt include:

- 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.

The capital program developed and tabled with Council adheres to these key principles.

Debt represents less than 9% of the cost of the City’s assets, which is the equivalent of a \$27,000 mortgage on a \$300,000 home. The 2017 Draft Tax- and Rate-Supported Capital budgets authorize \$117 million in new debt authority, to fund \$880 million in capital projects. Because the City retires old debt and issues new debt each year, the budgeted net debt for 2017 is \$1.78 billion, which is a \$67 million increase from 2016.

As approved by Council, all new capital strategic initiatives as reflected in the “Term of Council Priorities” report are reflected in the 2017 capital budget submissions.

In alignment with the direction approved in the Long Range Financial Plan, the level of investment in rehabilitation works is projected to increase over the 2017-20 period. The roads growth program has been reviewed and adjusted to reflect the current and projected economic situation which has seen a slowdown in housing growth resulting in lower development charge revenues.

Public Transit Infrastructure Funding (PTIF) Program

Projects that met the funding criteria as set out in the Infrastructure Canada guideline document were approved by Council on September 14, 2016 and have been submitted through the application process to PTIF.

These projects have been included in the 2017 draft budget document and are listed as a section within the appropriate Standing Committee document (Agriculture and Rural Affairs, Transportation and Finance and Economic Development) and Transit Commission.

As was outlined in the Council report, the City's new funding requirement on these projects estimated at \$76.2 million is to be funded on an interim basis through debt. As these projects represent an advancement of works that was scheduled to be undertaken in future years, the City Treasurer has been authorized to refinance the debt requirement with the appropriate sources of funds as identified in future capital forecasts and that the refinancing be reported back through the budget process.

The process to begin refinancing these PTIF projects will begin in 2017. Projects that have been identified as being the source of funds will include a comment in the budget narrative. It will state that the project authority for the project will be reduced and the funding used to eliminate a portion of the PTIF project debt financing.

Clean Water and Wastewater Fund (CWWF) Program

Based on the eligibility criteria provided by Infrastructure Ontario, a list of potential eligible projects was submitted and approved by Council on October 26. These projects have been submitted to the CWWF for approval. In accordance with the report recommendation, these projects have been included the Environment Committee – Rate-Supported draft budget document with the appropriate Federal, Provincial and City funding shares identified. The City funding portion is projected to be \$46.2 million.

2017 Draft Capital Budget – Tax-Supported

The capital authority being requested for tax supported operations in 2017 is \$604.0 million. This includes the tax supported component of the integrated water / wastewater / roads program. It also reflects the draft capital submission from the Police and Library Boards. The water and wastewater capital projects which are funded entirely from water and sewer related reserves, development charges and debt is presented later in this report. The total Tax and Rate combined capital submissions for 2017 totals \$880.4 million.

The program of works referred to as “integrated” requires funding for the various work components from either tax supported sources (City Wide Capital reserve fund or tax-supported debt) or rate-supported sources (Water or Sewer capital reserve funds or rate-supported debt). Although these projects have both tax and rate funding components, they are included in the Transportation Committee budget book as they fall under their legislative mandate. For presentation purposes, Table 3 only reflects the tax-supported portion of the Integrated program while Table 5 presents only the rate-funded component.

Table 3 - 2017 Tax Supported Capital Program Funding Summary (\$000)

2017 Request (\$000)	Renewal of City Assets	Growth	Regulatory/ Strategic Initiatives	Grand Total
Total Authority	320,848	184,398	98,731	603,977
Less: Revenue	68,693	96,292	45,518	210,503
Funding Requirement	252,155	88,106	53,213	393,474
Funding				
Reserves	152,656	15,533	35,467	203,656
Development Charges (Cash/Debt)	4,340	41,564	3,979	49,883
Debt Funding	95,159	31,009	13,767	139,935
Total	252,155	88,106	53,213	393,474

In accordance with direction provided by Members of Council during the 2016 budget review held with Councillors, differences between the 2017 draft budget submission and the 2017 forecast as reflected in the 2016 budget book will be provided to all Members of Council under separate cover in the week following the tabling of the draft budgets. Included will be a brief description of why a project was either deferred to another year or why the funding requirement increased or decreased.

2017 Draft Rate Supported Operating Budget

The revenue projections for 2017 utilize the same projected consumption levels as in 2016. Revenues in 2016 are projected to be in excess of budget due to abnormally hot and dry summer weather.

The new rate structure as adopted by Council on October 26, 2016, will see the introduction of a fixed plus volumetric block rate for water and wastewater along with the introduction of a new Storm Water fee along with a corresponding decrease in the sewer surcharge rate. The effect will be revenue neutral in that the total amount of revenue raised under the new structure will be the same as the former. However, by introducing a fixed charge component to the water and waste water rate structure, the extent of a revenue shortfall is reduced should actual water consumption fall below the level budgeted. The introduction of a Storm Water fee shifts the revenue for these services from the sewer surcharge, which is currently based on water consumption to a fixed charge. This will add additional stability to storm water management revenues. The introduction of the fixed plus volumetric block rate for water and wastewater will be introduced in 2018 when the current billing system is upgraded to allow for this functionality.

All those connected to City sewer services will continue to pay their share of storm water services through the sewer surcharge on the water bill in 2017. Those residents not connected to City services, the full rate will be phased in over four years, beginning in 2017. The revenue associated with these accounts will be deducted from the sewer surcharge paid by those receiving a water bill. Once the new water billing system is implemented, water bills will clearly show the water and wastewater rates and a separate storm water fee.

The water and sewer user rates and service charges fund not only the operating requirements of the water and sewer system but also provides the funds to allow cash financing of capital works and repay debt used on capital works.

In keeping with the recommendations from the Rate-Supported LRFP4report, the 2017 Draft Rate Budget proposes the following:

- water charge of \$1.891 / m³ (per thousand litres);
- The sewer surcharge of 117 per cent remains unchanged;
- An increase to individual fire supply charge rates of 5 per cent.

For the average household, this represents an annual increase of 5 per cent or approximately \$43 per year.

The Draft Rate Budget also contains Fee Schedules for services provided on a cost recovery basis.

The changes to the 2017 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 4 - Operating Budget Changes in Rate Operations (\$Millions)

	Water	Sewer
Available Funding:	\$M	\$M
Rate / User Fee Increase	-8.8	-9.5
Funding Pressures		
2016 Base adjustments	0.3	0.0
Maintain services	2.9	1.6
Growth	0.1	0.0
Capital Contributions	3.0	4.0
Debt Servicing	2.5	3.9
Efficiencies	0.0	0.0
Total	8.8	9.5

Available Funding

The rate increase for 2017 will generate additional revenues of \$18.3 million for water and sewer services.

Funding Pressures

2016 Base Budget Adjustments \$0.3 M

The adjustments reflect reduced level of recoveries for capital works and an increase to the Fire Supply revenues based on current experience.

Maintaining existing programs and services \$4.5 M

The increase is primarily for projected 2017 labour contract settlements, increments and benefit changes (\$2.5M) along with increases for hydro (\$1.3M).

Capital Contributions \$7.0 M

Increased contribution reflects available funds from the proposed 5% rate increase.

Debt Charges \$6.4 M

Increased debt charges associated with the 2016 debt issue.

2017 Water and Wastewater Capital Program

The capital authority being requested in 2017 is \$276.4 million. This includes the rate funded component of the Integrated Road, Water and Sewer program. A listing of the proposed works for 2017 is included in the draft budget document.

Table 5 - 2017 Capital Program Funding Summary (\$000)

2017 Request (\$000)	Renewal of City Assets	Growth	Regulatory/ Strategic Initiatives	Grand Total
Total Authority	234,397	35,742	6,255	276,394
Less: Revenue	61,280	0	970	62,250
Funding Requirement	173,117	35,742	5,285	214,144
Funding				
Reserves	122,462	5,642	2,772	130,876
Development Charges (Cash/Debt)	1,385	28,085	703	30,173
Debt Funding	49,270	2015	1,810	53,095
Total	173,117	35,742	5,285	214,144

The Capital Budget is primarily for infrastructure renewal, amounting to 85% of the total 2017 budget. The Capital Budget is funded from Water and Sewer reserves, development charges, the issuance of new debt, along with government grants. In 2017, annual debt payments for water and wastewater services will be approximately 12.7% of 2017 City own-source revenues. This is within the 15% the debt limits as established by Council.

The Capital forecast for future years is included with Document 2. The capital budget estimates in these documents have been prepared based on Council's approved Transportation Master Plan, Infrastructure Services Master Plan and the 2014 Development Charges Background Study. Debt financing used to fund eligible components of the capital program has been applied in accordance with the constraints as presented in the Long Range Financial Plan IV and the Fiscal Framework documents

September 30 3rd Quarter Status Report / 2016 Year End Forecast

As per the recommendations approved by Council in the December 2015 staff report "Budget Challenge and Service Reviews", a third-quarter status report is to be provided as part of the tabling of the 2017 draft budget.

As was reported to Council in the June 30th Status report, it is still projected that the City will end the year in a surplus position. This does not reflect the additional one-time costs that will be incurred in the fourth quarter to implement the administrative restructuring strategy. Council has authorized the City Treasurer to use the Tax Stabilization reserve as part of the year end close procedures to address these additional costs. The "Disposition of 2016 Tax and Rate Supported Surplus / Deficit" report will be submitted to Council in early 2017 and will present the final year end results.

Table 6 - 2016 September 30 Operating Results / Year End Forecast

	YTD Net Surplus / (Deficit)	Forecasted Expenditures	Forecasted Revenues	Forecast Surplus (Deficit)
Tax Supported				
Elected Officials	314	11,222	0	300
Office of the Auditor General	35	1,790	0	0
City Manager's Office	42	1,468	0	0
City Clerk & Solicitor	70	32,515	-521	125
Transportation Services	0	51,388	-5,740	0
Community and Social Services	-5,491	596,304	-397,808	-5,830
Public Works & Environmental Services	-11,848	258,384	-64,529	-9,858
Emergency and Protective Services	-3,387	275,606	-79,373	-4,425
Parks, Recreation and Cultural Services	85	190,301	-65,276	185
Corporate Services Department	750	108,118	-6,930	1,075
Planning, Infrastructure & Economic Development	661	74,333	-47,981	834
Service Innovation & Performance Department	318	34,159	-1,234	435
Non Departmental - All Services	13,892	321,273	-1,885,038	17,470
Total Tax Supported Programs	-4,559	1,956,861	-2,554,429	311
Rate Supported				
Water	7,667	159,356	-165,371	6,015
Sanitary	6,809	142,810	-176,394	7410
Stormwater	491	26,183	-300	290
Total Rate Supported Programs	14,966	328,350	-342,065	13,715
Total Tax & Rate Supported Programs	10,407	2,285,211	-2,896,494	14,027

Budget Reviews and Consultation

As noted earlier, Councillor-led public consultation meetings were held over the September 15 to October 18 timeframe at various locations across the city. The input provided from the public during these sessions was forwarded to the Mayor and the City Manager for their consideration while developing the draft budget.

Following the tabling of the draft budgets, 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 document will also be posted on the web site in both English and French and in an accessible format.

The opportunities for public engagement are as follows:

- November 22 – December 8: Committee / Commission / Board Budget Meetings: Standing Committees of Council along with Advisory Committees, the Transit Commission, Police Services Board, Board of Health and Library Board will hold meetings to consider the 2016 draft budget for their respective areas and to listen to public delegations.

A complete listing of meetings and dates is attached as Document 1.

To provide comments on the Draft 2017 Budgets, residents can e-mail budget@ottawa.ca or contact their local Ward Councillor.

Council will meet on December 14, 2016 to consider the draft budget and any recommendations stemming from the budget meetings held by the Standing Committees, Boards and Commission, and will then adopt the 2017 budget.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

CONSULTATION

This is described in detail in the Overview and Background section of this report.

COMMENTS BY THE WARD COUNCILLOR(S)

Not applicable.

ADVISORY COMMITTEE(S) COMMENTS

Not applicable.

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

There are no risk impediments to implementing the recommendations in the report.

ASSET MANAGEMENT IMPLICATIONS

Not applicable

FINANCIAL IMPLICATIONS

As outlined in the report.

ACCESSIBILITY IMPACTS

There are no accessibility impact implications with this report.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

TECHNOLOGY IMPLICATIONS

Not applicable.

TERM OF COUNCIL PRIORITIES

The recommendations in this report support the 2015-18 Term of Council priorities (FS1 “Demonstrate sound financial management”).

SUPPORTING DOCUMENTATION

Document 1 – 2017 Draft Operating Budget Summaries

Document 2 – 2017 Draft Capital Budget Summaries

Document 3 – 2017 Draft Operating and Capital Budgets Documents By Standing Committee, Boards, Commission (on file with the City Clerk).

Document 4 – Comparison of 2017 Draft capital Submission with 2017 Forecast (to be provided under separate cover)

DISPOSITION

The draft budgets will be reviewed by the respective Standing Committees, Boards, Commission and Advisory Committees at public meetings to be held from November 22 to December 8. The recommendations stemming from these reviews will be forwarded for Council consideration at its meeting on December 14.