

**Report to
Rapport au:**

**Council
au Conseil**

8 November 2017 / 8 novembre 2017

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**Submitted by
Soumis par:**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2017-CSD-FIN-0027

SUBJECT: 2018 DRAFT OPERATING AND CAPITAL BUDGETS

**OBJET: BUDGETS PRÉLIMINAIRES DE FONCTIONNEMENT ET
D'IMMOBILISATIONS de 2018**

REPORT RECOMMENDATIONS

- 1. That City Council receive and table the Draft 2018 Operating and Capital Budgets at its meeting of November 8, 2017 for subsequent consideration by Council in Committee of the Whole to be held December 13, 2017.**
- 2. That City Council refer the relevant portions of the 2018 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 13, 2017.**

3. **That City Council refer the Information Technology Services 2018 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 13, 2017.**

RECOMMANDATIONS DU RAPPORT

1. **Que le Conseil municipal reçoive et dépose les budgets provisoires de fonctionnement et d'immobilisations de 2018 à sa réunion du 8 novembre 2017 et qu'il les examine subséquemment en comité plénier le 13 décembre 2017.**
2. **Que le Conseil municipal transmette les parties pertinentes des budgets de fonctionnement et d'immobilisations de 2018 à chaque comité permanent du Conseil et à la Commission du transport en commun pour que ces derniers les examinent subséquemment et formulent des recommandations au Conseil en comité plénier le 13 décembre 2017.**
3. **Que le Conseil municipal transmette les budgets de fonctionnement et d'immobilisations de 2018 du Service de technologie de l'information et les parties pertinentes du budget 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 13 décembre 2017.**

EXECUTIVE SUMMARY

This report provides a high-level summary and overview of all the Draft 2018 Tax and Rate Supported Operating and Capital Budgets, tabled with City Council on November 8, 2017. The transmittal report summarizes these budgets at the highest level, while the budget books provide the detailed changes in each area.

The 2018 Draft Budget continues this term of Council's direction and strategy of setting a tax target of two per cent, while continuing to make important investments in physical and social infrastructure, resident safety, the environment and quality of life in communities across Ottawa. The 2018 Draft Budget ensures affordability and a prudent approach to long-term financial stability.

With the tabling of the 2018 Draft Budget on November 8, 2017, the next phase of consultation begins with public delegations at Standing Committee, Transit Commission and Board budget meetings. The final Council consideration takes place on December 13, 2017, in Committee of the Whole.

RÉSUMÉ

Le présent rapport est un sommaire général et un aperçu des budgets de fonctionnement et d'immobilisations provisoires de 2018 financés par les taxes et les redevances déposés au Conseil municipal le 8 novembre 2017. Le rapport d'accompagnement résume globalement ces budgets, tandis que les documents budgétaires fournissent des détails sur les changements dans chacun des secteurs.

Le budget provisoire de 2018 suit la même orientation et la même stratégie que le présent mandat du Conseil qui consistent à fixer un objectif fiscal de deux pour cent, tout en continuant à faire des investissements importants dans les infrastructures physiques et sociales, la sécurité des résidents, l'environnement et la qualité de vie dans tous les quartiers d'Ottawa. Le budget provisoire de 2018 assure l'abordabilité et une approche prudente pour la stabilité financière à long terme.

À la suite du dépôt du budget provisoire de 2018 le 8 novembre 2017, la phase de consultation commencera avec les délégations du public aux réunions budgétaires des Comités permanents, des conseils et de la Commission du transport en commun. Le Conseil municipal examinera le budget provisoire une dernière fois le 13 décembre 2017, en comité plénier.

BACKGROUND

On October 12, 2016, Council approved the 2017-2018 Budget Directions and Strategy report (ACS2016-CSD-FIN-0006) and adopted the following guidelines:

- a. That the City Wide levy, which includes funding for the Police, Library and Public Health, be increased by 2.00% for 2017 and 2018.
- b. That, as part of the annual budget process for 2017 and 2018, the budget allocation for the Police, Library and Public Health Boards be based on their individual pro-rated share of a 2.00% tax increase, with the understanding that the estimated 1.3% increase in taxes resulting from growth in assessment will

be maintained, and that Council request that these Boards develop their draft budgets with this annual allocation.

The following guideline was approved as part of the 2016 Budget Timeline and 2016 – 2018 Budget directions report (ACS2015-CMR-FIN-0038):

- a. That the budget allocation for Transit Services be based on 2.5% increase to Transit levy, as identified in the Transit Affordability Plan, and a pro-rated share of the estimated 1.3% increase in taxes resulting from growth in assessment, and that Council requests the Commission develop its draft budget within this allocation.

In 2017 Council approved the Long Range Financial Plan V – Tax Supported Capital (ACS2017-CSD-FIN-0017), which set the 2018 budgetary guidelines for these services. It adds \$10.5 million from taxation plus inflation to renew existing assets.

In 2016 Council approved the Recommended Water, Wastewater and Stormwater Rate Structure report (ACS2016-CSD-FIN-0008), which set a new rate structure for water and sewer services starting in 2018. On September 27, 2017, Council approved the Long Range Financial Plan V – Water, Wastewater and Stormwater Supported Programs (ACS2017-CSD-FIN-0023), which set the 2018 budgetary guidelines for these services, including an increase in revenues for water services of four per cent, wastewater services of five per cent and stormwater services of five per cent.

Staff used the Council-approved budget directions and strategies to prepare the 2018 Draft Operating and Capital Budgets for Committee, Commission and Council consideration. As per the term of Council budget process, the adoption of a guideline does not restrict Council's ability to amend the budgets during final consideration at Council.

The 2018 draft budgets tabled with Council on November 8 are presented by Standing Committees, Boards and Transit Commission. They consist of the following documents:

City Departmental Submission

Finance and Economic Development Committee
 Agriculture and Rural Affairs Committee
 Community and Protective Services Committee
 Transportation Committee
 Planning Committee
 Environment and Climate Protection Committee
 Audit Committee
 Information and Technology Sub-Committee

Boards and Commission

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

This report provides an overview of all the draft budgets being tabled with Council. Summaries of the draft budget submissions are provided as attachments.

DISCUSSION**Overview – 2018 Draft Budget**Tax Supported Services

The 2018 Draft Budget tabled on November 8 achieves Council's tax objective of limiting the increase of the municipal portion of the residential property tax bill to two per cent. As directed by Council and included in the Transit Affordability Plan, this budget also includes a 2.5 per cent increase to the Transit levy.

Council also approved a budget direction requiring all local Boards and the Transit Commission be assigned a pro-rated share of the increase in property tax revenues and the estimated increase in assessment growth. Council requested the Boards and the Commission develop their 2018 draft budgets within their allocations. The budgets tabled on November 8 comply with this request.

Rate Supported Services

The Rate Supported 2018 draft budget, which includes water, wastewater and stormwater services, was developed within the Council-adopted revenue increases: four per cent for water, five per cent for wastewater and five per cent for stormwater.

Overall Operating Budget Estimates/Projected Taxation

The 2018 draft budgets require \$32.1 million in net additional tax. This is projected to increase the average residential property tax bill for City and Police services by two per cent and for Transit Services by 2.5 per cent. The following table shows the estimated levy increases for the average urban and rural home and the average commercial property:

Table 1 - Property Tax Impact

	Urban Home		Rural		Commercial Property	
	Average Assessment : \$404,000		Average Assessment : \$404,000		Average Assessment : \$460,000	
Area	2017	2018	2017	2018	2017	2018
City Wide	2,327	2,373	2,166	2,209	5,104	5,206
Police	592	603	592	603	1,298	1,324
	2,918	2,977	2,757	2,812	6,402	6,530
\$ Change		58		55		128
% Change		2.00%		2.00%		2.00%
Transit	645	661	195	200	1,416	1,451
\$ Change		16		5		35
% Change		2.50%		2.50%		2.50%
Garbage Fee	84	86	84	86	-	-
TOTAL	3,648	3,724	3,036	3,098	7,818	7,981

These estimated increases are based on the current draft budget's funding requirements. The actual increases will depend on the Council-adopted budget, assessment data from the Municipal Property Assessment Corporation (MPAC) and any changes to tax policy adopted by Council before tax rates are finalized.

The Municipal Property Assessment Corporation re-valued all properties as of January 1 2016, and released new property assessment values. These new values will be used for the 2017 to 2020 taxation years., The increase in current value assessment (CVA) will be phased in equally over the four-year period. Decreases in assessment will be implemented immediately with no phase-in.

Full-Time Equivalents

The draft budgets include the number of full-time equivalent (FTEs) positions that are required to deliver City services. To deliver services for City operations, the Boards and Transit Commission in 2018, the City will need 15,091 budgeted FTE staff positions.

While there are 82.43 more FTEs in the draft 2018 Budget than in 2017, there is a net reduction of 4.52 FTEs over the current term of Council. For 41 of the new FTEs, there is no impact on the tax rate as they are offset by either provincial revenues, fees or existing budgets. The remaining FTEs are either for emergency services (police and paramedics) or a result of new or expanded infrastructure.

	City Services	Transit*	Police	Library	Public Health	Rate	Total
2014 Budget	8,583.04	2,981.30	1,930.30	458.98	508.41	633.08	15,095.11
2015 Budget	8,573.54	2,981.30	1,939.55	457.50	506.41	634.08	15,092.38
2016 Budget	8,532.14	2,981.30	1,956.60	457.50	506.41	635.08	15,069.03
2017 Budget	8,487.68	2,985.30	1,984.60	461.55	506.41	582.62	15,008.16
2018 Draft	8,546.11	2,985.30	2,007.60	462.55	506.41	582.62	15,090.59
Term of Council Change	(36.93)	4.00	77.30	3.57	(2.00)	(50.46)	(4.52)

*** 2018 Transit Numbers does not include transition to Light Rail**

The following table shows the change in FTEs over this term of Council.

During this term of Council there have been significant additions to core City services, including 38 new paramedics, 28 FTEs to support Children services and 75 new police officers. Effectively the City has been able to absorb the impact of growth without significantly changing the total number of staff.

2018 Tax Supported

Operating Budget

Total 2018 tax-supported operating expenses are projected to be \$3.055 billion, a \$108 million increase over 2017. Operating expenses are funded through property taxes (53 per cent), Payments in Lieu of Property Taxes (six per cent), federal and provincial grants (22 per cent), fees and service charges (17 per cent) and other miscellaneous revenue sources (two per cent).

A summary of the 2018 budgetary requirements shown by Standing Committee, the Boards and Transit Commission is provided in Document 1.

The following table outlines changes to the 2018 budget estimates and the source of their funds

Table 2 - Budget Changes (\$Millions)

	City Services	Transit	Police	Library	Public Health	Total
<u>Available Funding:</u>						
Assessment Growth	-17.1	-3.3	-3.3	-0.6	-0.1	-24.4
Tax Increase	-19.4	-6.5	-5.2	-0.8	-0.2	-32.1
User fee / Revenues	-0.9	-2.7	-0.7	0.0	-0.1	-4.4
Provincial cost sharing	-46.2	0.0	-0.6	0.0	-0.3	-47.1
Funding Envelope	-83.6	-12.5	-9.8	-1.4	-0.7	-108.0
<u>Funding Pressures:</u>						

Base Adjustments	14.8	-1.7	-0.5	-0.6	-0.3	11.7
Maintain services	40.8	11.9	7.7	1.7	0.7	62.9
Growth needs	24.6	2.3	2.6	0.3	0.2	30.1
Council Priorities	3.3	0.0	0.0	0.0	0.0	3.3
Net Funding Pressures	0.0	0.0	0.0	0.0	0.0	0.0

Available Funding

Growth in Tax Assessment and Tax Increases: \$56.5 million

Tax assessments of new development are projected to increase by 1.3 per cent in 2018, which will provide an additional \$24.4 million in tax revenues. The revenues generated from the proposed tax increases are \$32.1 million.

User Fee / Revenue Increases and Provincial Cost Sharing: \$51.5 million

The Draft Budget increases user fees in line with the increased cost to deliver services, in accordance with the Fiscal Framework. The user fees and revenue adjustments are projected to generate \$4.4 million. This includes the 2.5 per cent increase to transit fares, which will generate an additional \$4.6 million in revenues.

The Draft Budget includes any known or projected increases in provincially cost-shared programs, including on social services. The largest increase in Provincial revenues is in the child care area, reflecting the new provincial program. Additional revenues are expected to be \$47.1 million.

Funding Pressures

Base Adjustments: \$11.7 million

The main adjustments for City services includes an additional \$2.3 million for winter maintenance, bringing the 2018 Budget to \$68.3 million, a level recommended by auditing firm KPMG. The budget also includes an additional \$400,000 for the pot hole repair program, 5.4 per cent more than in 2017.

The additional \$13.6 million expense for Children's services, funded by provincial (Child Care Expansion Plan - CCEP) and federal (Canada-Ontario Early Learning and Child Care Plan - ELCC) governments, are included in the child care budget. This program began in 2017 as part of the Province's commitment to support access to licensed child care for 100,000 additional children across the province over the next five years.

These increases are offset by a one-time adjustment of \$4.2 million.

Maintain Services: \$62.9 million

Compensation and benefit increases because of contract settlements require \$39.2 million. Purchased services and contracts and provincially legislated programs are projected to increase by \$15 million because of inflation. The cost to maintain services also includes an additional \$3.6 million in debt servicing costs and an additional \$2.1 million for inflation and Parks renewal.

Growth Needs: \$30.1 million

The amounts shown under City Services include the increase in solid waste costs associated with an increase in households, Recreation, Cultural and Facility Services for new City facilities, Parks growth and 14 new paramedics to address higher call volumes. The Police Service needs an additional \$2.6 million: \$1 million to hire 25 new officers and \$1.6 million to annualize the 2017 new hires.

Council Priorities: \$3.3 million

The tax contribution for the renewal of existing assets includes an additional \$10.5 million in accordance with Long Range Financial Plan V. This is offset with 2017 one-time reversals of \$7.2 million.

2018 Draft Capital Budget and 2019-2021 Capital Forecast

The Capital program requirements for 2018 and forecasts for 2019 to 2021 were developed in accordance with the Council-approved Transportation Master Plan, Infrastructure Services Master Plan, 2017 amended Development Charges Background Study and Long Range Financial Plan V. Debt funding, used to fund eligible components of the capital program requirements, will be used in accordance with Long Range Financial Plan V and Fiscal Framework. The City will continue to increase the contribution to capital to bring funding closer to a "state of good repair", as identified in Long Range Financial Plan V.

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.

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 one per cent of taxes from property;
- Additional debt is permitted for legacy projects;
- Principle and interest for tax supported debt is not to exceed 7.5 per cent of own source revenues.

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

2018 Draft Capital Budget – Tax Supported

The capital authority requested for tax-supported operations in 2018 is \$527.8 million. This includes the tax-supported component of the integrated water, wastewater and roads program, and the draft capital submissions 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, are presented later in this report. The Tax and Rate combined capital authority for 2018 is \$729.4 million.

The integrated program of works requires funding from either tax-supported (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's budget book as they fall under its legislative mandate.

Table 3 reflects the tax-supported portion of the integrated program, while Table 5 presents the rate-funded component.

Table 3 - 2018 Tax Supported Capital Program Funding Summary (\$000)

2018 Request (\$000)	Renewal of City Assets	Growth	Regulatory/ Strategic Initiatives	Grand Total
Total Authority	287,146	167,157	73,533	527,836
Funding Requirement				
Revenue	732	40,290	14,500	55,522
Reserves	211,005	10,505	57,773	279,283
Development Charges (Cash/Debt)	746	53,047	60	53,853
Debt Funding	74,663	63,315	1,200	139,178
Total	287,146	167,157	73,533	527,836

2018 Draft Rate Supported Operating Budget

The revenue projections for 2018 use the same consumption projections used in 2017 of 81 million m³. This consumption level is consistent with 2015 and is not adjusted for the anomalies experienced in 2016 (dry summer/high consumption) and 2017 (wet summer/low consumption). The 2018 Draft Rate budget is consistent with the Rate Long Range Financial Plan V approved by Council in September 2017. The water and wastewater rates are established according to the overall revenue target and forecast consumption for 2018.

In the new rate structure, which will be implemented in 2018, 20 per cent of the revenue is a fixed charge per water meter account, with the remaining 80 per cent based on the forecast consumption. The stormwater fee is a fixed fee based on the property type for residential properties and the assessment value for Industrial, Commercial and Institutional (ICI) properties.

The user rates and service charges fund the operating requirements of the water and sewer system, provide the funds to allow cash financing of capital works and repay debt used on capital works.

The 2018 Budget also includes a 100 per cent volumetric rate (ie. current rate) as the new structure, but it will not be put in place on January 1, 2018. The proposed rate increases follow the recommendations from the Rate Supported Long Range Financial Plan V:

- four per cent increase in water revenue
- five per cent increase in wastewater revenue
- five per cent increase in stormwater revenue

For the average connected household using 15 m³ of water, this will be an additional \$7.50 per year. The new fixed charge will have a greater impact on households that consume very little water.

The stormwater fee will continue to be phased in for not-connected properties, at 50 per cent of full fees in 2018. For the average rural household, this five per cent increase to their bill will cost approximately \$1.39 per year (not including the 25 per cent phase in added in 2018).

The Draft Rate Budget also contains fee schedules for services provided on a cost recovery basis.

The changes to the 2018 budget estimates and the source of their funds are shown by category in the following table.

Table 4 - Operating Budget Changes in Rate Operations (\$Millions)

	Water	Sewer	Storm
<u>Available Funding:</u>			
Rate/User Fee Increase	6.5	6.4	2.2
<u>Funding Pressures:</u>			

Maintain services	2.4	0.6	0.1
Capital Contributions	2.7	-1.8	1.0
Debt servicing	1.4	7.6	1.1
Total	6.5	6.4	2.2

Available Funding

Based on the 2017 consumption levels and the Council-approved revenue increases, the rate increases for 2018 will generate additional revenues of \$15.1 million for water, sewer and stormwater services.

Funding Pressures

Maintaining existing programs and services: \$3.1 million

The increase is primarily because of projected labour contract settlements, increases and benefit changes.

Capital Contributions: \$1.9 million

Overall increase contribution of \$1.9 million.

Debt Charges: \$10.1 million

The debt issue in 2017 increased debt charges.

2018 Water and Wastewater Capital Program

The capital authority requested for 2018 is \$201.6 million. This includes the rate funded component of the integrated road, water and sewer program. A list of the proposed work for 2018 is included in the draft budget.

Table 5 - 2018 Capital Program Funding Summary (\$000)

2018 Request (\$000)	Renewal of City Assets	Growth	Regulatory/ Strategic Initiatives	Grand Total
Total Authority	189,992	8,555	3,010	201,557
Funding Requirement				
Revenue	260	-	825	1,085
Reserves	120,106	1,309	2,185	123,600
Development Charges (Cash/Debt)	1,360	4,146	-	5,506
Debt Funding	68,266	3,100	-	71,366
Total	189,992	8,555	3,010	201,557

Infrastructure renewal makes up 95 per cent of the total 2018 Capital Budget. The Capital Budget is funded from water and sewer reserves, development charges, new debt and government grants. In 2018, annual debt payments for water and wastewater services will make up approximately 13.6 per cent of the City's source revenues in 2018. This is within the 15 per cent debt limit established by Council.

The capital forecast for future years is included in Document 2. The capital budget estimates in these documents were prepared based on Council's approved Transportation Master Plan, Infrastructure Services Master Plan, 2017 Development Charges Background Study and the 2017 Rate Long Range Financial Plan V. Debt financing used to fund Eligible components of the capital program will be funded by debt, in accordance with the constraints of the Long Range Financial Plan V and the Fiscal Framework documents.

Budget Reviews and Consultation

Councillor-led public consultation meetings were held between September 12 and October 26 across the city. The input provided 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 can provide input on the draft budgets. All budget documents will be posted on ottawa.ca and will be available in hard copy at public libraries and Client Service Centers.

The public can also attend Committee, Board and Transit Commission budget meetings between November 14 and December 7. These meetings will consider the 2018 Draft Budget for each respective area and listen to public delegations.

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

To provide comments on the Draft 2018 Budget, residents can email budget@ottawa.ca or contact their local Ward Councillor.

Council will meet on December 13 to consider the Draft Budget and any recommendations from the budget meetings held by the Committees, Boards and Transit Commission, and will then adopt the 2018 Budget.

RURAL IMPLICATIONS

There are no rural implications associated with 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 – 2018 Draft Operating Budget Summaries

Document 2 – 2018 Draft Capital Budget Summaries

Document 3 – 2018 Draft Operating and Capital Budgets Documents by Standing Committee, Boards, Commission (on file with the City Clerk).

Document 4 – Comparison of 2018 Draft capital Submission with 2018 Forecast (to be provided under separate cover)

DISPOSITION

The draft budgets will be reviewed by the respective Standing Committees, Boards, Transit Commission and Advisory Committees at public meetings held from November 14 to December 7. The recommendations stemming from these reviews will be forwarded for Council consideration at the meeting on December 13.