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**TO:** GENERAL COMMITTEE

**SUBJECT:** 2016 BUSINESS PLAN AND BUDGET DIRECTIONS

**PREPARED BY AND KEY CONTACT:** C. MILLAR, DIRECTOR OF FINANCE AND TREASURER EXTENSION #5130 *C. Millar*

**SUBMITTED BY:** C. LADD, CHIEF ADMINISTRATIVE OFFICER

P. ELLIOTT-SPENCER, GENERAL MANAGER OF COMMUNITY & CORPORATE SERVICES *PES*

R. FORWARD, GENERAL MANAGER OF INFRASTRUCTURE & GROWTH MANAGEMENT *R Forward*

R. BUNN, EXECUTIVE DIRECTOR – INNOVATE BARRIE *R Bunn*

R. JAMES-REID, EXECUTIVE DIRECTOR – ACCESS BARRIE *RJR*

Z. LIFSHIZ, EXECUTIVE DIRECTOR – INVEST BARRIE *Z Lifshiz*

**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** C. LADD, CHIEF ADMINISTRATIVE OFFICER *C Ladd*

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**RECOMMENDED MOTION**

1. That staff prepare a Business Plan for 2016 for all tax supported services that considers:
  - a) The cost of maintaining current programs at current service levels, based on anticipated 2016 activities;
  - b) Annualization of prior period decisions;
  - c) The financial impact on the 2016 budget of Council directions throughout 2015;
  - d) Recommendations for changes to funding sources that result in a decreased reliance on property taxes;
  - e) An estimate of assessment growth based on the value of newly assessed property throughout 2015;
  - f) The continuation of an annual 1% Dedicated Infrastructure Renewal Fund;
  - g) Contributions to reserves that are consistent with the Financial Policies Framework.
  
2. That staff prepare a Business Plan for 2016 for Water and Wastewater services that includes:
  - a) The cost of maintaining current programs at current service levels, based on anticipated 2016 activities;
  - b) Annualization of prior period decisions;

- c) Recommendations for changes to user fees that reflect the full cost of providing the program or service, including fixed assets, net of any subsidy approved by Council;
  - d) An estimate of water consumption that reflects past consumption patterns and forecasted conditions in 2016;
  - e) Contributions to reserves that are consistent with the Financial Policies Framework and Council direction that reflect, to the extent possible, the anticipated current and future commitments against the reserves.
3. That staff prepare a Business Plan for 2016 for Parking Services that includes:
    - a) The cost of maintaining current programs at current service levels, based on anticipated 2016 activity;
    - b) Annualization of prior period decisions;
    - c) Options to eliminate the annual operating deficit, and if necessary, a subsidy from the tax rate.
  4. That any significant impacts to the 2016 budget, such as recommended changes in level of service, or changes in staff complement levels, be presented to Council for consideration.
  5. That any user fees that are added, removed, or increased/decreased by 5% or more of the current fee, be presented to Council within the Business Plan Binder no later than December 14, 2015.
  6. That a ten year Capital Plan be developed that includes a one year capital budget, a four year forecast, and a five year outlook.
  7. That staff prepare the 2016 Capital Budget that advances the City's strategic priorities with appropriate consideration given to factors such as:
    - a) Resource availability – financial, scheduling, and staff resources;
    - b) Addressing the City's most critical needs;
    - c) Master plans and infrastructure implementation plans;
    - d) Council's strategic goals.
  8. That staff continue to find new and innovative ways to increase public education and engagement during the 2016 Business Plan and Budget development process.
  9. That the 2016 Budget Development Schedule identified in Appendix A, be used to develop the 2016 Business Plan for Council's review and approval no later than January 2016.
  10. That staff advise the County and all Agencies, Boards and Commissions of Council's expectations that:
    - a) The budget directions established herein be used when preparing their 2016 budgets;
    - b) Budgets be prepared in accordance with the 2016 Budget Development Schedule.

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**PURPOSE & BACKGROUND**

11. This report describes the approach staff will take when preparing the 2016 Business Plan and seeks Council's direction on guidelines and principles for staff use. Council's budget directions will allow staff to efficiently build financing plans that demonstrate a clear relationship between costs and service levels.
12. As part of the 2016 Business Plan development, service level changes will be assessed to strike the right balance between providing the desired programs and maintaining affordable taxes, rates, and user fees.
13. The City of Barrie's approach to budgeting emphasizes the use of business plans that describe what will be accomplished with requested resources. This enhances Council's control over the Corporation's financial and non-financial resources, since choices about services and service levels drive costs.
14. For several years the City of Barrie has participated in the annual municipal study prepared by BMA Management Consulting Inc. The latest study (2014) compares 98 municipalities across Ontario in a variety of categories such as Socio-economic indicators, Municipal Financial Indicators, Revenue and Expenditures, user fees, tax policies, relative taxes, water and wastewater costs, and taxes as a percentage of income.
15. For tax comparison purposes, the City typically compares its tax level to other municipalities with populations greater than 100,000. In 2014, the taxes reported for single detached homes in Barrie were below the average for municipalities with populations greater than 100,000 (Barrie \$3,192 vs. average \$3,574). Taxes vary from municipality to municipality based on a number of factors. Lower than average taxation levels in a municipality could be due to municipal service levels that are also lower than average. As well, lower than average taxation levels could also result from higher efficiency levels or higher reliance on user fees.
16. The City will continue to focus on increasing its reliance on non-tax revenues in 2016 by applying the user-pay principles reflected in the City's Financial Policies Framework. In 2016, any proposals for new user fees will be highlighted separately in the 2016 Business Plan Binder so that Council has the opportunity to review each new fee before it is incorporated into the City's Business Plan.
17. The continued focus for 2016 will be the execution of the growth management plans and investment in renewing the City's current infrastructure.

**ANALYSIS**

**2014 – 2018 Strategic Plan**

18. The strategic plan set out for the term of the 2014-2018 Council includes four key goals: Vibrant Business Environment; Responsible Spending; Inclusive Community; and, Well Planned Transportation. The 2016 Business Plan will seek to align with these strategic objectives and incorporate the necessary steps within the 2016 work plan to achieve the desired outcomes.

2016 Tax-Supported Operating Budget

19. The tax-supported operating budget will be developed in accordance with division and department work plans that describe the resources required to maintain existing services and service levels. The Corporation's Financial Policies Framework establishes an affordability threshold for property tax-supported services. Specifically, it states that annual property taxes for a typical household will not exceed 4.0% of household income. The City of Barrie's property taxes in 2015 represent 3.6%.

Water and Wastewater Rate Supported Budgets

20. The Corporation's Financial Policies Framework establishes an affordability threshold for water and wastewater services. Specifically, it states that annual water/wastewater costs for a typical household will not exceed 2.5% of household income.
21. The 2016 Budget will include revenue increases from rates that are consistent with the most current Water Operations Branch Drinking Water System Financial Plan. It is anticipated that rates will be set at 2.5% for Water and between 3.0% - 4.0% for Wastewater.

2016 Budget Pressures and Opportunities

22. Continuing with the strategy implemented for the 2015 Business Plan, staff will highlight known budget pressures and opportunities within the 2016 Business Plan. At this stage of the Business Plan process it is too early to provide reliable estimates. Therefore, dollar values have not been provided. Once the requirements for 2016 are known with greater certainty, staff will create a series of scenarios that will provide Council with the opportunity to choose an option that they are comfortable with both from a service level and an affordability perspective.
23. The known pressures and opportunities are presented by the following categories: maintaining current service levels; revenue growth; improving the City's financial condition; costs and savings relating to prior period decisions; and, legislative requirements.

**a) Required to Maintain Current Level of Service:**

- i) Employee Compensation: The City is party to various collective agreements negotiated with its unionized workforce and manages compensation for its non-unionized staff on an annual basis. Both collective agreements, for CUPE and BPPFA expired on December 31, 2014. As such, the Corporation has entered into negotiations with CUPE and BPPFA, the recommended increase for non-union typically follows settlement with CUPE. The Human Resources department will address any recommended salary adjustments by way of staff reports to Council as new information becomes available.

In addition, new agreements for the Corporation's employee benefits were awarded in 2014. The term of the agreement covers five years but will be subject to annual renewal of benefit rates based on the City's experience rating. Updated rates for 2016 will be provided in late October/early November.

- ii) Utilities: Rates for both electricity and gas are anticipated to increase for 2016. A preliminary estimate indicates the City could experience rate increases of 5% (hydro) and 6% (natural gas). The Energy Management Group will continue monitoring industry news to provide the best information available when building the 2016 Budget. In addition, the Energy Management Group will bring forward recommendations for energy conservation and capital investment targeted at mitigating rate increases through reductions to current energy consumption. The

Energy Management Group will seek to maximize the financial benefit of grants and subsidies that may become available;

- iii) Insurance: Staff anticipate the cost for municipal insurance premiums will continue to rise as a result of increasing litigation involving municipalities, and a shrinking market for municipal insurance coverage;
- iv) Provincial Blue Box Funding Program: The City currently receives an annual provincial operating grant to support the Blue Box Program. The 2014 Steward Obligation was decided by arbitration and municipalities were awarded 50% of reported net costs. Waste recovery legislation is currently under review and once implemented, may affect the level of Provincial funding in the 2016 Budget and future years;
- v) Winter Control: The winter operations budget is calculated based on a five year rolling average of actual costs and recent trending over the past five to ten years indicates winter operating costs are increasing. The increases are driven by the recent record number of snow events in 2013 and 2014, increases in the lane kilometres of roads and sidewalks to be maintained, increases in the cost of contracted services and the amount of materials purchased, as well as the number of freeze-thaw cycles.

**b) Revenue Growth:**

- i) Assessment Maximization: Staff continue to work with the Municipal Property Assessment Corporation (MPAC) in order to ensure that assessments relating to new residential and non-residential properties are being picked up as quickly as possible, as well as ensuring any omissions in current properties are appropriately included in the assessment roll. The objective of these efforts is to maximize the additional tax revenues available for 2016.

**c) Required to Improve Financial Condition:**

- i) Dedicated Infrastructure Renewal Fund: The 2016 Business Plan will include a full year of the new Dedicated Infrastructure Renewal Fund that was introduced in the 2015 Business Plan. This new methodology will eliminate the previous 12 year amortization ramp-up contribution approach. The contribution to the Tax Capital Reserve will also be adjusted to reflect the change in amortization of newly capitalized assets vs. fully depreciated assets in 2015;
- ii) Water and Wastewater Capital Reserve Contributions: The 2016 Budget will include reserve contributions to be consistent with Council's direction in the most recent Water Operations Branch Drinking Water System Financial Plan;
- iii) Discounts and Exemptions Reserve: In response to the updated Development Charges By-law in August 2014, Discounts and Exemptions Reserves were created to provide a funding source for various discounts provided to developers within the updated By-law. An initial contribution of \$200K was made in the 2015 Business Plan, with the expectation that contributions may need to be ramped up moving forward as more information becomes available.

**d) Costs Related to Prior Period Decisions:**

- i) Transit: The Corporation's new Transit P3 Operating Agreement will come into effect in July 2015, with the completion of construction on the Transit Garage. The full annualized cost of the contract will be experienced in 2016 with additional pressures for the debt component, and an annual inflationary adjustment. This however, is anticipated to be offset with increased transit revenues, and will also provide a superior service standard for residents;
- ii) Debt Servicing: Annualization costs associated with the planned 2015 late fall debenture issue will impact the 2016 Business Plan. In addition, Staff anticipate a further planned 2016 debenture issuance will be needed to replenish the Corporation's cash reserves to fund the internal financing requirements of future capital projects;
- iii) Annualized service level changes approved in 2015: Any service level change or new position approved in the 2015 business plan that was introduced mid-year will impact the 2016 budget as the full year annualized cost is realized. In addition, the 2015 Business Plan approved five new positions in 2016 for the Right Size Roads and Parks Operations service level change.
- iv) Snow Clearing of Parking Lots: The recent Council direction to move snow clearing from the parking rate to the tax base will result in an additional pressure in the 2016 tax supported budget.

**e) Cost Savings/Revenues Related to Prior Period Decisions:**

- i) Cost savings and cost avoidance from LED street light project: The 2016 Budget will include cost savings for maintenance and hydro costs. These savings will be partially offset by debt servicing costs as result of the capital investment. The City will also be applying for a Provincial rebate from the Ontario Power Authority and if successful would reduce the debt issuance by \$1 million. In the long term, this project will yield future cost avoidance returns.

**f) Costs Driven by Legislative Requirements:**

Regulatory compliance is an externally imposed pressure the Corporation has limited ability to directly mitigate. Examples expected to impact the 2016 budget include:

- i) Stormwater ponds and watercourses: Increase to meet annual maintenance requirements;
- ii) Sanitary: bituminous fiber lateral repair program;
- iii) Rail Operations: contract increases in fees and upgrades to meet regulatory requirements.

**Review of User Fees**

24. The Financial Policies Framework directs the Corporation to strive to recover the full cost of services including: direct materials; staff time; corporate support overhead; capital costs and amortization; and, any other applicable costs. However, full cost recovery is also subject to appropriateness based on several other conditions such as:

- a) Extent of private, commercial and community benefit (note: community benefit includes environmental considerations);
- b) Use of service by non-residents (including tourists);
- c) Rates for commercially available services;
- d) Impact of changing user fees on demand levels/utilization rates.

Changes in fees influence the level of taxpayer subsidy that is provided for fee-based programs. Increasing the Corporation's reliance on fee revenues to support programs and services has been a direction consistently followed during each of the last several business planning cycles.

#### Managing Reserves and Reserve Funds

25. The 2016 Business Plan will continue to emphasize the importance of managing the City's financial condition. The City's financial condition will be measured based on guidance from the Public Sector Accounting Board (PSAB), Canada's standard-setter for public sector financial reporting, about assessing a government's financial condition. The key elements of financial condition (i.e. sustainability, flexibility, and vulnerability) can be described using a series of indicators.
26. Reserves and reserve funds help a municipality accomplish two goals – achieve tax stability, and contribute to the orderly provision of services. Typically, reserves are a way of financing large capital expenditures and determine affordability thresholds for the five year capital plan. They also provide a source for funding unplanned events or emergencies, or are used to take advantage of opportunities that were not anticipated when the budget was prepared.

#### 10 Year Capital Plan

27. The current Capital Budget adopted by City Council in March consists of a detailed Capital Budget for 2015, and includes future years' costs for multi-year projects that are commencing in 2015. The Capital Budget also forecasts projects for the 2016 - 2019 timeframe (capital forecast), and the capital funding requirements (capital outlook) for 2020-2024.
28. Master plans that outline asset expansion and additional requirements to address existing capacity and capability issues within the City, as well as growth driven requirements in the annexed lands, have now been completed through the growth management planning process. These formed the basis for the consideration of additional capacity and growth projects throughout the development of the 2015 Capital Budget, and will continue to be a key input to the 2016 Capital Budget.
29. The City's approach to asset management planning will form the foundation for the consideration of asset renewal and replacement projects throughout the development of the 2016 Capital Budget.
30. The 2016 Capital Budget, as in previous years, will incorporate data produced over the last several years to assess the condition and remaining useful life of the Corporation's tangible capital assets. It will reflect a decision making framework that considers a comprehensive risk assessment process and lifecycle cost analysis.
31. The City's Capital Project Control Policy allows for multi-year approvals for project phases that will span multiple years. As such, approximately \$25.7 million (total budget) and \$7.48 million from the Tax Capital Reserve has already been committed in the 2016 Capital Budget for projects

that commenced in 2015 or prior. The inclusion of any new proposed works in the 2016 Capital Budget will also reflect any constraints associated with the level of financial and staffing commitment required to address the magnitude of work being carried forward from prior periods. With the completion of the growth management master planning process and ongoing advancements in asset management planning, the City will continue to prepare a long range capital plan that will include a one year capital budget (2016), and a ten year capital plan (2016-2025) that includes more detail in the first five years (capital budget and capital forecast).

32. The Corporation's capital asset renewal requirements exceed the City's affordability thresholds. In alignment with the City's Portfolio Governance Framework, the Portfolio Governance Team (comprised of senior and executive staff), will be applying a prioritization process that influences judgments about which capital projects should be recommended. Thus, Recommended Motion #7 seeks Council's approval of the program prioritization principles.
33. Continued effort will be directed towards capturing the operating and maintenance savings/or expenditures associated with capital investments in a manner that allows those savings and/or expenditures to be captured in the operating budget for 2016 and beyond.

#### Capital Funding

34. In accordance with Council's direction to reduce debt levels, staff have identified an approach to funding capital projects which would first look to external funding opportunities, such as grants or development related funding, and then our own reserves. The City's cash flow requirements, interest rate projections, who is benefiting from the project, and potential debt repayment strategies, are included in the analysis. For example, repayment using development charges would be considered. This approach is intended to ensure that all external sources of funding for projects are fully leveraged and that when debt financing is recommended it is based on a solid rationale that will be communicated to Council.
35. As reported to Council in early April, the Federal Government announced that it is making the Federal Gas Tax Program (FGT) permanent. The eligibility criteria for using FGT funds were broadened and reporting requirements were made less onerous. This has provided the City which a much more reliable and flexible source of funding. It is important to note that one of the key criteria for use of the FGT, is the City's ability to demonstrate that asset management plans are being used to guide infrastructure planning and investment decisions.
36. An updated Development Charges By-law and supporting Development Charges Background Study were brought to Council for approval in August 2014. The Development Charge Background Study and recommended By-law will provide updated development charges based on growth management plans, and introduce a Social Housing category of eligible costs which will reduce the tax burden associated with the County of Simcoe's Capital Program.

#### Service Partner Budgets

37. The City's Service Partner budgets made up approximately 40% (approximately \$79.0M) of the total 2015 amount levied on City of Barrie taxpayers. The following are the services provided to the City of Barrie property owners by these boards, commissions and agencies:
  - Policing                      Barrie Police Services Board
  - Library                        Barrie Public Library Board
  - Social Services              County of Simcoe (Ontario Works, Social Housing, Child Care, and Long-Term Care)
  - Land Ambulance            County of Simcoe



- Museum and Archives County of Simcoe
  - Airport Lake Simcoe Airport Commission
  - Tourism Tourism Barrie
  - Environment Lake Simcoe Regional Conservation Authority and Nottawasaga Valley Conservation Authority
  - Health Simcoe Muskoka District Health Unit; Royal Victoria Hospital funding for expansion including Cancer Care Centre and Physician Recruitment
38. These organizations need to develop their 2016 operating budgets concurrently with the City. Subject to General Committee's feedback about the recommendations in this report, staff will contact each Service Partner to coordinate budget plans and timelines.
39. The City provides annual financial support to various Service Partners. These costs are generally reflected in the operating budget, and are funded primarily from the tax base, although development charges and user rates are also impacted.
40. Service Partner budgets include both operating and capital requirements. However, with the exception of the County of Simcoe, the capital requirements have remained relatively stable over time. The fluctuation in the County of Simcoe capital program is being managed through the County of Simcoe Capital Reserve with an equal annual contribution to minimize the year over year impact to the tax base.

#### Business Planning Process and Development Schedule

41. The Corporation's business planning approach integrates three phases: departmental work plan development; operating and capital budget development; and Public engagement and reporting to Council.
42. Consistent with Council's Strategic Priority of Responsible Spending, and in an effort to improve the understanding of how tax dollars are spent, the following is a listing of public education/engagement activities planned for the 2016 Budget and Business Plan:
- a) Creation of a Budget Education Video to be shared on various platforms (i.e. website, social media, and community presentations);
  - b) Dedicated web page for budget information;
  - c) Online surveys and public engagement via social media to seek input into the proposed service level changes prior to the Council workshop in the Fall of 2015;
  - d) Dedicated email address for public feedback;
  - e) This Week in Barrie articles and ads;
  - f) Promotion of engagement via Monitors at Recreation Centres and City Hall;
  - g) Business Community presentations Roadshow - beginning in the Fall 2015;
  - h) Politically Speaking Broadcast – Rogers;

- i) Post Budget - full page information in the newspaper and tax bill insert.
43. A Council workshop will be planned this year ahead of the budget binder distribution, to allow Council the opportunity to provide input into service level changes in preparation for the 2016 Business Plan.

#### **ENVIRONMENTAL MATTERS**

44. There are no environmental matters related to the recommendations.

#### **ALTERNATIVES**

45. The following alternative is available for consideration by General Committee:

**Alternative #1** General Committee could change the proposed Business Plan directions and development schedule.

The City of Barrie's Business Plan Development Schedule has been integrated with the City's new Portfolio Governance Program. It represents a comprehensive series of steps that takes into consideration dependencies between these two key initiatives. A significant level of coordination is required and the proposed schedule will be designed to reflect, in staff's judgment, the best approach for applying Council's directions and engaging the community in a dialogue about issues related to the 2016 Business Plan. The anticipated approval in January 2016 allows staff to adequately plan and execute work plans that secure lower prices from suppliers and provide enough time to complete all required tasks.

#### **FINANCIAL**

46. There are no financial implications for the Corporation resulting from the proposed recommendations.

#### **LINKAGE TO 2014-2018 COUNCIL STRATEGIC PLAN**

47. The recommendations included in this Staff Report are intended to support the objectives of the 2014-2018 City Council Strategic Plan.
- Vibrant Business Environment
  - Responsible Spending
  - Inclusive Community
  - Well Planned Transportation

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**Appendix A**

**Proposed 2016 Business Plan Development Schedule**

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<b>Date</b>	<b>Activity</b>
June 2015	Committee/Council approval of the 2016 Budget Directions
June – September 2015	Staff produce work plans; draft operating, capital, and rate budgets; informal updates with the Finance and Corporate Services Committee will occur throughout the development schedule
October 2015	Public engagement events commence
October 2015	Council Workshop
December 2015	2016 Business Plan distributed to Council
January 2016	Committee/Council review and approval

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