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**TO:** GENERAL COMMITTEE

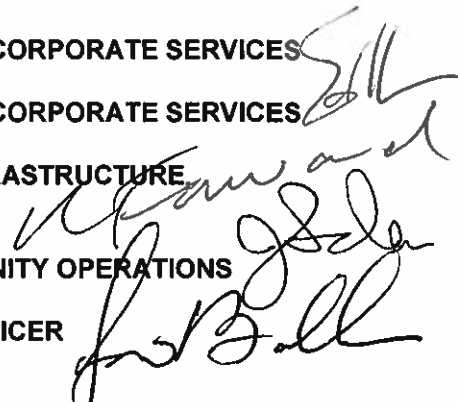
**SUBJECT:** 2012 BUDGET DIRECTIONS

**PREPARED BY AND KEY CONTACT:** E. ARCHER, CMA, GENERAL MANAGER OF CORPORATE SERVICES, x. 4419

**SUBMITTED BY:** E. ARCHER, CMA, GENERAL MANAGER OF CORPORATE SERVICES

**GENERAL MANAGER APPROVAL:** E. ARCHER, CMA, GENERAL MANAGER OF CORPORATE SERVICES  
R. FORWARD, GENERAL MANAGER OF INFRASTRUCTURE DEVELOPMENT AND CULTURE  
J. SALES, GENERAL MANAGER OF COMMUNITY OPERATIONS

**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** J. M. BABULIC, CHIEF ADMINISTRATIVE OFFICER



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**RECOMMENDED MOTION**

1. That staff prepare a Business Plan for 2012 for all tax supported services that reflects:
  - a. The cost of maintaining current programs at current service levels, based on anticipated 2012 workloads;
  - b. The cost of providing provincially mandated and cost-shared programs
  - c. The costs associated with growth in population or infrastructure that is operated and maintained by the City;
  - d. Recommendations for changes to user fees that reflect:
    - i) the full cost of providing the program or service, net of any subsidy approved by Council;
    - ii) an option to introduce, or increase, a charge for asset renewal and replacement on a fee-by-fee basis
    - iii) increased reliance on non-tax revenue;
  - e. A reasonable estimate of assessment growth;
  - f. An increase in the blended property tax rate, excluding Program Changes, of 5.0% over 2011 levels.
2. That any new fee proposals for municipal services, or fee changes of more than 5% of the current fee, be reported to Council no later than December 1, 2011;
3. That any service enhancements, changes in service or new service proposals be presented as Program Changes to allow Council to consider each Program Change on a case-by-case basis;
4. That the 2012 capital budget and 2013-2015 capital forecast include projects that consider the following:
  - a. The probability and consequences of asset failure as identified by the application of the Business Risk Exposure model presented to Council in the 2010 Corporate Asset Status Report
  - b. The degree of impact on service delivery and operating costs if the project is excluded from the capital budget
  - c. Renewal activities and works required to support existing development projects

- i) First priority – projects that support Public Safety, Environment and Transportation programs
    - ii) Second priority – projects that support Land Use Planning, Economic Development and Corporate Support programs
    - iii) Third priority – projects that support Enforcement, Arts and Culture and Recreation programs
  - d. Financial affordability
5. That staff prepare a 2012 Business Plan for Water and Wastewater services that includes:
- a. The cost of maintaining current approved programs at current service levels, based on anticipated 2012 workloads;
  - b. The costs associated with legislated changes and requirements that must be incorporated into business plans;
  - c. The costs associated with growth in population or infrastructure that is operated and maintained by the City;
  - d. Recommendations for changes to water and wastewater fees that reflect the long range financial plan for water and wastewater services approved by Motion 10-G-287, June 28, 2010;
  - e. A reasonable estimate of water consumption;
6. That, subject to the results of the ongoing Parking Strategy review, staff prepare a 2012 Business Plan for Parking Operations that includes:
- a. The cost of maintaining current approved programs at current service levels, based on anticipated 2011 workloads;
  - b. The costs associated with growth in population or infrastructure that is operated and maintained by the City;
  - c. Recommendations for parking revenues that reflect the results of the parking strategy review scheduled for completion in 2011;
  - d. A reasonable estimate of expected usage;
7. That staff advise the County and all Agencies, Boards and Commissions that the budget directions established in Motions #1-4 should be used when preparing their 2012 budget.
8. That the 2012 Budget Schedule, presented as Appendix 'A', be approved and circulated to the County and all Boards and Agencies.

#### **PURPOSE & BACKGROUND**

9. The purpose of this report is to establish guidelines staff can use to complete the 2012 Business Plan. Council's budget directions identify expected services and service levels, allowing staff to efficiently build financing plans that demonstrate a clear relationship between costs, service levels and quality.
10. By focusing on business plans that describe what will be accomplished with requested resources, in addition to basic expenditure control, Council's control over the corporation's financial and non-financial resources is enhanced. The Business Plan reflects the criteria for "distinguished budget presentation" established by the Government Finance Officers Association.
11. The 2012 Business Plan will continue the emphasis on managing financial condition that has been applied throughout the last four years. This is 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. Pages 38-40 of the 2011 Business Plan and Report FIN020-11, included on this agenda, describe Barrie's financial condition.

12. For several years the City of Barrie has consistently been a low-cost municipal government. Municipal taxation per household/per capita is a common method for describing service levels. The latest annual municipal study by BMA Consulting reports Barrie's property taxes for a typical residential household are below average for communities with greater than 100,000 population.
13. Generally, lower than average taxation levels in a municipality suggest municipal service levels are also lower than average. Lower than average taxation levels could also result from higher efficiency levels or higher reliance on user fees.
14. As a proportion of total revenue, the corporation's reliance on user fees has increased, accounting for 7.0% of total revenues in 2011. In contrast, the proportion of revenue from property taxes has declined from 75% in 2007 to 70% in 2011. This demonstrates Council's adherence to a "user pay" principle that is reflected in the Financial Policies Framework.
15. In Barrie, staff have identified and implemented several process changes to improve efficiency and reduce the cost of delivering services. OMBI data shows, in comparison to peer municipalities using a consistent set of performance indicators, Barrie's service levels and efficiency are generally at or above the average for the group. While improvements are always possible, taken together these data show Barrie to be an efficient, low-cost local government.
16. However, as described in the 2011 Business Plan, the cost of delivering services is growing. Without an increase in property taxes or an increase in the level of sustainable funding from other levels of government, it can be anticipated that Council will need to make a decision regarding changes in the level and/or type of services delivered. "User pay" and "growth pays for growth" principles will continue to be important, as will carefully building the capital plan so that an appropriate balance is struck between cost, level of service and risk of failure. Increased efficiencies will continue to be pursued but those alone will not resolve the long term financial challenges the corporation is facing.

## **ANALYSIS**

### **General Economic Conditions**

17. The Barrie Census Metropolitan Area had the third highest increase (5.7%) in employment growth in Canada between July, 2010 and July, 2011. Inflation, currently at 3.6% in Ontario, is expected to moderate by the end of this year to 2.4%. Prices for commodities are expected to fluctuate, driven by the cost of inputs and the strength of demand levels in emerging and developed economies.
18. It is important to note the general measure of inflation, the Consumer Price Index ("CPI"), is a measure of the relative affordability of a basket of goods designed to represent typical household expenditures. Municipalities do not purchase the same items as a household. Generally, the value and amount of purchases in a municipality's budget for items like fuel, asphalt, cement, steel, sand and gravel and ready mix concrete make comparisons with CPI misleading.
19. Instead, staff measure affordability of municipal programs and services by comparing the ratio of property taxes to household income. Barrie's policy is to limit property taxes such that they do not exceed 4% of household income. Current property tax levels are well within this limit.

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**Business Planning Process**

20. Generally, the corporation's business planning approach includes three phases:
- a) Department workplan development – this phase employs an enterprise-wide approach for consistently identifying planned workloads and service levels and comparing those with the resources available in departments' base operating budgets. It relies on a web-based application developed by staff to consistently capture and store common information about department processes and projects. This facilitates workflow analysis so that informed recommendations can be provided to members of Council concerning the resource requirements associated with proposed service levels and projects. For example, the Department workplan helps identify the need for Program Change Forms to address a gap between expected workloads/service levels and available resources.
  - b) Operating and capital budget development – this phase relies on department workplan data to identify the operating funds required to support the corporation's programs and services. If Program Change Forms or User Fee changes are being recommended, the business case and financial impacts of each such change are identified at this phase. Similarly, building the Capital Plan relies on a review of asset condition data, risk assessments, lifecycle cost analysis and the development of a business case for each candidate project to establish enterprise-wide capital project priorities. This phase also relies on a web-based application and various datasets developed by staff to consistently capture and store common information about operating and capital budgets, which is then uploaded to the corporation's financial system.
  - c) Public engagement and reporting to Council – this phase involves producing the Business Plan document presented to Council for approval and includes steps designed to engage the public in a dialogue about the recommended Business Plan (for example, posting the Business Plan to the corporation's website and hosting a "Budget Breakfast" for community leaders). It also includes steps that support Council's review of the document using an online inquiry tool that directs specific Councillor questions to staff for a timely response in preparation for General Committee's deliberations. Program Changes and User Fee changes, as well as the Capital Plan, are reported separately from the base operating budgets to highlight the individual service level and financing decisions Council can make.
21. Consistent with Council's Strategic Plan and comments received from the Finance and Corporate Services Committee, public engagement activities will be enhanced during the 2012 Business Plan development process. Generally, the objectives of these public engagement activities are to share information about the issues the corporation is managing and to hear feedback from interested residents. The following elements will be included in the Communications Plan:
- (1) New opportunities for community dialogue surrounding the financial and non-financial factors to be managed when developing the corporation's business plan, and the relationship between the decisions made in the business plan and community services and service levels. This includes:
    - (a) a "focus group" meeting with community representatives, likely occurring in mid-October
    - (b) discussions at scheduled Town Hall/Ward meetings in September, October and November
    - (c) a web conference with residents in October

- (2) A series of print, broadcast and online messages, supported by notices posted on social media outlets
- (3) A digital video about the City's business plan, made available to the community in December through online and social media outlets
- (4) Feedback emanating from a new 2011 citizen survey planned for completion in the fourth quarter

#### **2010 – 2014 Strategic Plan**

22. Council's Strategic Plan includes five goals, each with a series of strategies that describe how results will be achieved. The 2011 Business Plan (pages 15-16) describes the actions staff would take in 2011 to make progress toward Council's expected outcomes. Actions to address Council's strategies will be incorporated into 2012 workplans to build on work that started in 2011.

#### **2011 Tax-Supported Operating Budget**

23. The tax-supported operating budget will be developed in accordance with department workplans 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. Currently, 3.5% of household income is required to pay for property tax-supported services.
24. The City of Barrie is one of a relatively small number of municipalities that has a robust financial policies framework and a long range financial plan to serve as a guide for business planning and decision making. However, the real impacts of such tools are cumulative, not instant. The corporation's business planning continues to evolve. For it to truly be sustainable, continued focus is needed on the connection between resources, service levels, quality, and cost.
25. The 2012 forecast in the Long Range Financial Plan anticipates a 4.5% tax levy increase. This plan assumes:
  - current services and service levels continue to be provided
  - assessment growth of 1.0%
  - no new services or service levels
  - capital spending financed by a combination of debt and reserves

After accounting for service level changes approved by Council for implementation in 2012, preliminary estimates indicate a 5.9% tax increase on the City's portion of the tax bill is required. This translates into a blended 5.0% property tax increase.

26. Performance improvements have become a routine part of annual operations throughout the corporation. Currently, six service reviews are underway to identify net cost reduction opportunities. Tax-supported services included in these reviews are in the Operations (waste management), Information and Communications Technology departments and Leisure, Transit and Facilities (recreation facility management and recreation program administration) departments.
27. Results from these service reviews will be available in the fourth quarter of 2011. Recommendations from these reviews will be presented as part of the staff report published in January to support Council's deliberations of the 2012 Business Plan.

28. As in prior periods, staff will present requests for new resources as Program Changes. Council will have the discretion to approve each recommended Program Change on a case-by-case basis.
29. Plans for 2012 service delivery are under development. At this point, preliminary information about specific factors influencing the tax-supported 2012 operating budget include the following (items in bold type reflect items that were not originally included in the long range financial plan forecast):

|   |                    |
|---|--------------------|
| <b>Temporary Fire Station #5 (Note 1)</b>   | <b>\$3,000,000</b> |
| Increase in tax-supported debt service charges  | \$1,500,000        |
| Increased transfer to Reserves in accordance with the Long Range Financial Plan                                   | \$1,300,000        |
| <b>Increased transfer to the Tax Capital Reserve in accordance with the recommendations in FIN020-11 (Note 2)</b> | <b>\$1,100,000</b> |
| Compensation adjustments and Annualization of positions approved in 2010  | \$1,329,000        |
| <b>Transit – contract increases, fuel increases and annualized costs for GO Station shuttles</b>                  | <b>\$800,000</b>   |
| <b>Facilities</b>   | <b>\$600,000</b>   |
| <b>New Waste Collection contract costs</b>  | <b>\$412,000</b>   |
| <b>Integration of rail services into the corporation from ACDC (Note 3)</b>                                       | <b>\$395,000</b>   |
| <b>OMERS contribution rate increase</b>   | <b>\$292,000</b>   |
| Utilities   | \$279,000          |
| Reduced Fire Services revenue associated with motor vehicle accident response                                     | \$200,000          |
| LESS: Recoveries from Rate Supported budgets  | (\$65,000)         |
| Revenue from new taxable assessment   | (\$1,600,000)      |
| <b>Total</b>  | <b>\$9,542,000</b> |

Notes:

- Actual costs and timing of Temporary Station #5 will, in part, be determined by the results of a Request for Proposal process that confirms an existing building is available and can be configured to serve as a Fire Station. The cost estimate provided here includes \$1.3M for facilities, materials and supplies and purchased services, and \$1.7M in salaries and benefits costs (representing  $\frac{3}{4}$  of a full year's costs and including the cost of promoting four firefighters to Captain).
  - See FIN020-11, also on this agenda, for details.
  - As a result of the manner in which ACDC is financed (through a promissory note) and the historical approach to the expenditures associated with ACDC operations, incorporating ACDC into the City's 2012 Business Plan is estimated to result in a net financial expenditure increase of approximately \$395,000. However, the transfer of the net assets is estimated to provide the City with a gain of approximately \$900,000 (representing the accumulated net surpluses over the years) plus allow the City to retain the sale proceeds for 2.4 acres of land abutting the Allandale Station (estimated at \$1.4 million).
30. Currently, the corporation's user fees do not reflect all of the administrative costs associated with providing the City's programs and services. This means that taxpayers are subsidizing fee-based programs and services beyond the direct subsidy associated with a particular program or service. While there are many factors that influence the fees charged, the Financial Policies Framework calls for fees to recover a portion of costs based on:

- a. Operating and capital costs, including an allocation of corporate overhead
- b. Extent of private, commercial and community benefit (note: community benefit includes environmental considerations)
- c. Use of service by non residents (including tourists)
- d. Rates for commercially available services
- e. Impact of changing user fees on demand levels

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 four business planning cycles.

31. As part of the fee review, staff will review the fee structure at the Sandy Hollow Landfill in contemplation of eliminating free landfill access. Applying the minimum tipping fee to all incoming loads not only helps reduce the administrative costs required to support the service but it also reflects Council's desire to protect the environment.

#### Managing Reserves and Reserve Funds

32. 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. They 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.
33. Staff Report FIN020-11, also on this agenda, describes strategies that strengthen the corporation's financial condition with a focus on building reserve and reserve fund balances and reduce the corporation's reliance on debt financing. If approved, these strategies would be incorporated into the 2012 Business Plan.

#### **2011 – 2014 Capital Plan**

34. The 2012 capital budget is part of a robust four-year plan designed to coincide with the term of Council. It incorporates data produced over the last two years to assess the condition and remaining useful life of the corporation's tangible capital assets and reflects staff's judgment about the highest and most critical needs, based on a decision making framework that considers a comprehensive risk assessment process and lifecycle costing analysis. It relies on a financing plan that reflects the guidance provided by the Financial Policies Framework and considers long-term financial impacts as reported by the corporation's Long Range Financial Plan.
35. The corporation's capital asset renewal requirements exceed its ability to afford them. Therefore, for planning purposes EMT will apply a prioritization process that influences judgments about which capital projects should be included. Thus, Recommended Motion #5 seeks Council's approval of the program prioritization criteria.
36. EMT's prioritization process would consider the impact of a particular capital project on a set of ranked municipal programs. The ranking reflected EMT's judgment about the relative importance of each program to the community's quality of life. Where affordability concerns prompt decisions about which projects deemed to be "critical" should be recommended as part of the capital budget, the program ranking would help identify which critical projects should be considered first. Subject to Council's approval, programs will be ranked as follows:
  - a) First priority – Public Safety, Environment, Transportation
  - b) Second priority – Land Use Planning, Economic Development, Corporate Support
  - c) Third priority – Enforcement, Arts and Culture, Recreation

**Water and Wastewater Rate Supported Budgets**

- 37. The Water and Wastewater budgets were developed in accordance with the long range financial plan approved by Council in June 2010. 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.
- 38. Currently, 0.8% of household income is required to pay for water and wastewater services. The 2012 budget will include revenue increases from rates of 13% for water and 19% for wastewater. These increases maintain rates that are within Council's affordability threshold established in the Financial Policies Framework.
- 39. Factors influencing water and wastewater budget changes from 2011 to 2012 include:

|   |                    |
|---|--------------------|
| Financing charges                           | \$7,340,000        |
| Contracted Services                         | \$459,000          |
| Utilities                                   | \$350,000          |
| Chemicals                                   | \$200,000          |
| Compensation adjustments                    | \$156,000          |
| Annualization of positions approved in 2011 | \$42,000           |
| <b>OMERS contribution rate increase</b>     | <b>\$39,000</b>    |
| Less: Development Charge recoveries         | (\$2,167,000)      |
| <b>Total</b>                                | <b>\$6,419,000</b> |

**Parking Rate Supported Budget**

- 40. Subject to the results of the ongoing review of Parking services, the Parking Rate supported budget will generally reflect 2011 gross expenditure levels. Gross expenditures in 2012 are anticipated to be \$2.0 million. These expenditures include debenture costs of \$968,000 associated with the Collier Street parkade. In 2011, this prompted a draw from the Parking Rate Reserve of \$874,000 to balance the budget.
- 41. A review of OMBI data shows Barrie's costs to maintain parking spaces is consistent with other municipalities. While there are slightly more parking spaces per capita available in Barrie, revenue earned per space is significantly lower compared to other OMBI municipalities. This is not to say that Barrie's parking rates are low. Rather, this reflects the relatively higher availability of free parking opportunities provided in Barrie.
- 42. A staff review of Parking services is underway and includes representatives from the BIA. The balance in the Parking Rate Reserve is insufficient to sustain the level of support currently required to keep Parking services as a self-sustaining operation. This means changes to parking services will be required – including options for new revenue streams or changing its status as a self-funding service. A report to Council will be presented in 2011 that recommends changes to address the current unsustainable financial model.

**Service Partner Budgets**

- 43. The City's Service Partner budgets made up 43% (approximately \$76M) of the total 2011 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:



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|                     |  |
|---------------------|--|
| 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; Physician Recruitment |

These organizations need to develop their 2012 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.

#### **Business Plan Development Schedule**

44. As outlined in Appendix "A", the 2012 Business Plan starts with Council's approval of budget directions. Based on the proposed approach and schedule, approval of the 2012 Business Plan is anticipated in January, 2012.
45. The proposed development process provides Council with the same amount of time used in the 2011 Business Plan process to review the recommended plan. Based on comments received from Council and the Finance and Corporate Services Committee regarding the business planning process, staff have included time earlier in the schedule compared to prior periods for public engagement events to occur.

#### **ENVIRONMENTAL MATTERS**

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

#### **ALTERNATIVES**

47. There are two alternatives available for consideration by General Committee:

**Alternative #1**

General Committee could adjust the maximum acceptable tax levy and/or user fee change it is willing to consider.

A higher maximum acceptable tax levy and/or user fee creates the risk that taxation or fee levels will exceed the thresholds established in the Financial Policies Framework. A lower threshold would be appropriate if General Committee also identified the services and/or service levels to be reduced, or the non-tax revenues that would need to increase, to account for the reduction in taxation. By identifying adjustments now to the threshold amounts for taxes and/or user fees, staff would be in a good position to evaluate workplan and related financial changes that would be required to produce a Business Plan that meets Council's expectations.

**Alternative #2**

General Committee could change the proposed Business Plan development schedule.

The City of Barrie's Business Plan process is a comprehensive series of steps designed to identify planned workloads, service levels and related financing plans for the entire organization. A significant level of coordination is required and the proposed schedule reflects, in staff's judgment, the best approach for applying Council's directions and engaging the community in a dialogue about issues related to the 2012 Business Plan. The anticipated January 2012 allows staff to adequately plan and execute workplans that secure lower prices from suppliers and provide enough time to complete all required tasks.

**FINANCIAL**

48. There are no direct financial implications from the recommendations in this report.

**LINKAGE TO 2010-2014 COUNCIL STRATEGIC PLAN**

49. The recommendation(s) included in this Staff Report are not specifically related to the goals identified in the 2010-2014 City Council Strategic Plan.

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**Appendix 'A'**

**Proposed 2012 Business Plan Development Schedule**

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| <b>Date</b>            | <b>Activity</b>   |
|------------------------|---|
| <b>August 2011</b>     | <b>Committee/Council approval of the 2012 Budget Directions</b>   |
| August – November 2011 | Staff produce workplans, draft operating, capital and rate budgets; informal updates with the Finance and Corporate Services Committee will occur throughout the development schedule |
| September 2011         | Public engagement events commence   |
| <b>December 2011</b>   | <b>2012 Business Plan distributed to Council</b>  |
| <b>January 2012</b>    | <b>Committee/Council review and approval</b>  |

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