

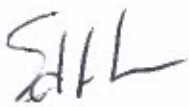

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**TO:** GENERAL COMMITTEE

**SUBJECT:** 2014 BUDGET DIRECTIONS

**PREPARED BY AND KEY CONTACT:** D. MCKINNON, CGA, DIRECTOR OF FINANCE

**SUBMITTED BY:** D. MCKINNON, CGA, DIRECTOR OF FINANCE

**GENERAL MANAGER APPROVAL:** E. ARCHER, CMA, GENERAL MANAGER OF COMMUNITY & CORPORATE SERVICES   
R. FORWARD, GENERAL MANAGER OF INFRASTRUCTURE & GROWTH MANAGEMENT 

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

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**RECOMMENDED MOTION**

1. That staff prepare a Business Plan for 2014 for all tax supported services that considers:
  - a. The cost of maintaining current programs at current service levels, based on anticipated 2014 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, including fixed assets, net of any subsidy approved by Council;
    - ii) increased reliance on non-tax revenue;
  - e. A reasonable estimate of assessment growth;
  - f. Actions to reduce the impact of the cost drivers described in paragraph 31 that are currently estimated to create a blended tax rate increase of 5.8% (excluding program changes) over 2013 levels;
2. In consideration of current economic conditions, that the preliminary estimate of a 5.8% blended tax rate increase be reduced to \_\_\_\_%.
3. That any new fee proposals for municipal services, or fee changes of more than 5% of the current fee, be presented to Council no later than December 2, 2013;
4. That the following principles be applied throughout the business planning process to assist in managing choices that balance affordability and service level expectations:
  - a. Maintain the City's ability to meet financial commitments now and in the future
  - b. Raise or introduce new user fees to reduce the need for property tax subsidies
  - c. Take a focused approach to service changes rather than "across the board" type adjustments to spending plans

- d. Maintain our disciplined approach to capital planning so that renewal needs don't get displaced by investments to fund growth.
5. That in recognition of Council's expectation for a tax rate change that is lower than the preliminary estimate, and in addition to other service or fee changes required to meet this expectation, the following service level changes be included in the 2014 Business Plan for implementation within the first quarter of 2014:
  - a. Elimination of landfill tipping fee exemption
  - b. Introduction of a due date penalty for late payments
  - c. Establishing a sponsorship program
  - d. Christmas shutdown for non-critical services
6. That any service enhancements, service reductions, 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;
7. That development of the 2014 capital budget consider the following:
  - a. A risk-based approach to project selection that considers:
    - i) The probability and consequences of asset failure
    - ii) Full lifecycle costs
    - iii) For projects not selected, the effect on services, service levels and operating costs
    - iv) Availability of financial and human resources to complete the work
  - b. A primary focus on renewal activities using the following as prioritization criteria:
    - 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
  - c. Financial affordability
8. That in recognition of the pending completion of Master Plans during the third and fourth quarters of 2013:
  - a. Capital projects approved and started in 2013 and prior periods that are planned to carry forward into 2014 be included as committed projects in accordance with existing, approved policies
  - b. The capital budget contain details only for projects to be started in 2014
  - c. The budgeted costs of completing multi-year projects started in 2014 be included in the appropriate succeeding years' capital budgets.
9. That staff prepare a 2014 Business Plan for Water and Wastewater services that includes:
  - a. The cost of maintaining current programs at current service levels, based on anticipated 2014 workloads;
  - b. The costs associated with any new legislated requirements;
  - c. The costs associated with growth in population or infrastructure that is operated and maintained by the City;
  - d. Rate increases, consistent with the 2013 Business Plan, as follows:

- i) For water: a 7% increase over 2013 rates
    - ii) For wastewater: a 12% increase over 2013 rates
  - e. Opportunities to reduce rate increases;
  - f. A reasonable estimate of water consumption;
10. That a 2014 budget for Parking Operations be produced that generally seeks to minimize any required taxpayer subsidy in contemplation of a revised Parking Strategy to be presented no later than the fourth quarter of 2013
  11. 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 2014 budget.
  12. That a 2014 Budget Development Schedule that anticipates Council's review and approval no later than January, 2014, be prepared and circulated to the County and all Boards and Agencies.

## **PURPOSE & BACKGROUND**

### **Report Overview**

13. This report describes the approach staff will take when preparing the 2014 Business Plan and seeks Council's direction on guidelines and principles staff can use. Council's budget directions allow staff to efficiently build financing plans that demonstrate a clear relationship between costs, service levels and quality. Based on known financing requirements and anticipated changes to current services, preliminary forecasts call for a property tax increase that is higher than Council has historically considered acceptable. This report proposes four principles for assessing potential service level changes that will be considered throughout the business plan development process to assist in striking the right balance between providing desired programs and maintaining affordable taxes and fees. The report also provides some suggested service level changes that are consistent with the proposed principles.

### **Background**

14. 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. The Business Plan reflects the criteria for "distinguished budget presentation" established by the Government Finance Officers Association.
15. The 2014 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 2013 Business Plan describe Barrie's financial condition.
16. 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.
17. 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.

18. As a proportion of total revenue, the corporation's reliance on user fees has generally remained around 7.0% of total revenues over the past several years. In contrast, the proportion of revenue from property taxes has increased from 72% in 2012 to 76% in 2013 due to reduced contributions from reserves associated with payments to the Royal Victoria Regional Health Centre now that its expansion is complete. Continued adherence to the "user pay" principle reflected in the Financial Policies Framework will be required if revenue from property taxes is expected to make up a lower overall share of total revenue.
19. 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.
20. However, as described in the 2013 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**

21. As this report is being written during the second quarter of 2013, it is difficult to anticipate the economic conditions that will influence Barrie's local economy in 2014. The Ontario economy, as measured by Real GDP, is forecast to grow moderately but generally slower than the national average in 2013. Momentum will build, however, resulting in a 2.5% - 2.8% increase in GDP for 2014, driven by increased US demand for goods and services and a slightly weaker Canadian dollar. New and resale housing markets are anticipated to demonstrate a "gradual cooling" in 2013 and 2014, offset somewhat by stronger commercial real estate markets. Ontario's unemployment rate is forecast to remain around 7% in 2013 and 2014; consumer prices are expected to increase by approximately 1.5% in 2013 and 1.7%-1.9% in 2014.
22. 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.
23. 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.
24. Nonetheless, staff are sensitive to the potential for general economic conditions to influence residents' perceptions of the value of local government services and their ability to pay for planned services and service levels. Staff will monitor economic signals and maintain a dialogue with members of Council throughout the business plan development process to ensure there is a proper match between service levels and cost expectations.

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## Business Planning Process

25. 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.
  - 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.
26. Public engagement activities were enhanced during the 2012 and 2013 Business Plan development processes, and staff anticipate these enhanced activities will also be used for the 2014 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:
    - i) a series of workshop-type meetings with Council, likely occurring in mid-October
    - ii) discussions at scheduled Town Hall/Ward meetings in the fourth quarter, as available
  - (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 produced in 2013 will be available via online and social media outlets throughout the Business Plan development process

### **2010 – 2014 Strategic Plan**

27. Council's Strategic Plan includes five goals, each with a series of strategies that describe how results will be achieved. The 2013 Business Plan (pages 18-20) describes the actions staff would take in 2013 to make progress toward Council's expected outcomes. Actions to address Council's updated strategies based on their mid-term review will be incorporated into 2014 workplans.

### **2014 Tax-Supported Operating Budget**

28. 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, 3.6% of household income is required to pay for property tax-supported services.
29. 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.
30. The 2014 forecast in the Long Range Financial Plan anticipates a 4.1% tax levy increase. This forecast assumed:
- 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 2014, preliminary estimates indicate a 6.9% tax increase on the City's portion of the tax bill is required excluding program changes. This translates into a blended 5.8% property tax increase. Staff recognize this rate of increase is unlikely to be supported by taxpayers and are working to identify changes in service and service levels that could reduce the increase. Recommended Motions #3-5 describes the actions that will be taken over the next six months in preparation for the Business Plan's publication.

31. 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. Currently only one program change is being proposed for 2014 relating to the provision of Organic Collection/Recycling to multi-residential units in the amount of \$600,000. When this is considered, the estimated blended tax rate increase would be 7.3%.
32. Plans for 2014 service delivery are under development. At this point, preliminary information about specific factors influencing the tax-supported 2014 operating budget include the following:

<b>Prior Period Decisions</b>	
Increase in tax-supported debt service charges	\$2,000,000
Annualization of 2013 Program Change costs (net)	\$893,000
<b>Strengthening Barrie's Financial Condition</b>	
Transfer to the Tax Capital Reserve to restore 2013 reduction	\$500,000
Planned increase to Tax Capital Reserve per Long Range Financial plan. (Note 1)	\$1,500,000
<b>Sustaining Existing Service Levels</b>	
Employee Costs (including succession planning and OMERS estimate)	\$2,200,000
Reduced Salary Gapping	\$300,000
Estimated increase in cost of utilities	\$300,000
Estimated increase in insurance premium	\$270,000
Historical Landfill Site Investigation/Remediation	\$250,000
Pavement Marking (Note 2)	\$350,000
Storm Ponds	\$400,000
Subsidy for Parking Services (Note 3)	\$700,000
<b>Service Partners (Note 4)</b>	
County of Simcoe - Operating	\$0
County of Simcoe - Contribution to Reserve to reflect capital requirements for 2014	\$3,046,000
Other Service Partners	\$1,564,000
<b>Total required to maintain current service levels</b>	<b>\$14,273,000</b>
Less: Estimated Assessment Growth (0.8%) (Note 5)	(\$1,450,000)
<b>Net Anticipated increase in base budget for 2014</b>	<b>\$12,823,000</b>
<b>Increased Level of Service (Program Changes)</b>	
Implementation of sustainable Waste Management Strategy (Note 6)	\$600,000
<b>Estimated Program Changes for 2014</b>	<b>\$600,000</b>
<b>Total Anticipated increase for 2014</b>	<b>\$13,423,000</b>

Notes:

1. In September 2010 Council approved updates to the Financial Policies Framework that established a plan for reducing the corporation's reliance on debt financing by, in part, introducing a charge to operations for asset renewal/replacement (see FIN020-11 for details)
2. The Ministry of Environment now requires latex based paint to be used for pavement marking. The increase of \$350,000 reflects the fact that the latex paint is more costly and will require up to two to three applications per year.
3. A Parking Rate Strategy report will be presented to Council in the fall of 2013 with recommendations for increasing revenues such that the reserve deficit will be eliminated.
4. The operating budget for Simcoe County has been included at the same level as 2013 based on preliminary information provided by County staff; however, they have forecasted a capital requirement for 2014 of approximately \$3.0M (Paramedics \$1.4M and Local Housing Corp \$1.6M). Further to feedback provided by members of Council on the 2013 Business Plan, the County's operating and capital funding requests will be shown separately, so the \$3.0M

funding requirement will be reported as a "Transfer to Reserve". A 3% increase over 2013 levels for all other service partners has been included for planning purposes.

5. It is difficult to project assessment growth at this point in the year. MPAC has not yet begun issuing supplementary assessments for 2013. As such, a conservative estimate of 0.8% has been utilized for this analysis. This estimate will be refined as the business plan nears completion.
6. The costs reported here for the implementation of the Sustainable Waste Management Strategy reflects an estimate that anticipates an increase in service level for the provision of Organic Collection/Recycling services to Multi-Residential units and some increased Multi-Unit collection service. These are optional services that have not yet been approved by Council. A Request for Proposals has been issued for the core service plus these optional services; responses to the RFP will provide a refined cost estimate. The new services will be included as a Program Change for Council's consideration.

### **Water and Wastewater Rate Supported Budgets**

33. 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.
34. Currently, 0.8% of household income is required to pay for water and wastewater services as compared to 0.9% in 2012. The 2014 budget will include revenue increases from rates of 7% for water and 12% for wastewater. These rates are consistent with those included in the 2013 Business Plan and maintain rates that are within Council's affordability threshold established in the Financial Policies Framework.
35. However, the recommended rates differ from those included in the Financial Plans filed with the Province in accordance with O.Reg 453/07 of the Safe Water Drinking Act. An updated Financial Plan will be submitted to the province once growth management plans are in place and revised financial forecasts are available.
36. Factors influencing water and wastewater budget changes from 2013 to 2014 include:

<b>Prior Period Decisions</b>	
Increase in user rate-supported debt service charges	\$928,000
<b>Strengthening Barrie's Financial Condition</b>	
Transfer to Capital Reserves	\$2,338,000
<b>Sustaining Existing Service Levels</b>	
Increase in Chemical Costs	\$300,000
Increase in Utility Costs	\$228,000
Employee Costs (Including succession planning and OMERS)	\$149,000
Service Contract Increases	\$200,000
<b>Legislative Requirements</b>	
One Call Service	\$250,000
<b>Net Anticipated increase in base budget for 2014</b>	<b>\$4,393,000</b>



<b>Increased Level of Service (Program Change Forms)</b>	
Increasing Preventative Maintenance - Exercising Valves (Note 1 )	\$300,000
Comprehensive Corrosion Control Program (Note 2 )	\$200,000
<b>Estimated Program Changes for 2014</b>	<b>\$500,000</b>
<b>Total Anticipated increase for 2014</b>	<b>\$5,393,000</b>

Notes:

1. Current resources to support effective valve maintenance are insufficient for maximizing their useful lives, resulting in premature failures and costly replacements. The Program Change reflects an investment intended to provide maintenance resources that reduce the risk of premature valve failure.
2. The objective is to reduce the risk of main breaks by introducing a systematic approach to corrosion control. Currently, corrosion control is ad hoc. This Program Change represents the first year of a program that would take a total of six years (with corresponding annual spending increases) to fully implement.

**Parking Rate Supported Budget**

37. It is anticipated that the updated Parking Strategy scheduled for Council's consideration in the fall of 2013 will include options for revenue generation. Benchmarking data shows Barrie's operating costs for parking services are well below average but so are revenues. While opportunities for cost reduction have not been, nor will be, ignored, if Council wants to avoid a taxpayer subsidy for parking services then additional revenues for this service will need to be considered.

**Service Level Adjustments**

38. The cost changes described in this report suggest the affordability of municipal services will be challenging for some taxpayers to accept. Over the past three years a number of service reviews and process improvement projects have been completed that produced cost savings, cost avoidance, new revenues and service efficiencies. Staff anticipate more will be required to strike the right balance between the level of service provided by the City and the taxes charged in 2014.
39. Appendix B presents the City's Enterprise and Department Services as described in the 2013 Business Plan (see 2013 Business Plan, p. 63). The appendix uses a colour code as follows:
  - a. Green: services where a review has been completed within the last three years
  - b. Yellow: services where a review is currently underway
  - c. Blue: services that will be reviewed as part of the ERP system implementation

By illustrating the service reviews that have been undertaken or are underway it becomes clear that the majority of the City's services and their related expenditures have undergone heightened scrutiny over the last three years. These reviews augment the routine monitoring staff perform to identify and implement changes that improve service and/or produce net cost reductions. If the preliminary estimate of the tax rate increase is deemed to be unacceptable, staff anticipate that service level changes will be required in 2014.

40. To address this, staff can develop proposed adjustments in the months leading to the publication of the business plan that identify changes in financing plans, service levels and/or service delivery methods that reduce anticipated cost increases. Generally, these plans would follow a set of principles that would assist Council in managing choices that balance affordability and service level expectations. There are four principles:
- a. Maintain the City's ability to meet financial commitments now and in the future. This means:
    - i) We will stick with our Long Range Financial Plan and continue our slow, but deliberate, planned increases to our Capital Reserves
    - ii) Our day-to-day service levels may need to be adjusted to support our asset renewal and growth management plans
  - b. Raise or introduce new user fees to reduce the need for property tax subsidies. This means:
    - i) We will reduce or eliminate subsidies and identify new fees where possible
    - ii) We prefer to maintain service levels with a lower subsidy, or no subsidy, as opposed to service cuts
    - iii) Service reductions are a last resort for addressing affordability constraints
  - c. Take a focused approach to service changes, rather than "across the board" type adjustments to spending plans. This means:
    - i) We will deliver a manageable set of programs and services that are appropriately resourced
    - ii) We will look for opportunities to improve service efficiency
    - iii) We will not over-promise and under-deliver, so we will identify service adjustments in the Business Plan as a Program Change
  - d. Maintain our disciplined approach to capital planning so that renewal needs don't get displaced by investments to fund growth. This means:
    - i) We will continue using a rigorous, structured process for evaluating capital projects based on objective data and a business case
    - ii) We will maintain a focus on projects that maximize our existing infrastructure's service potential
41. In previous periods efforts to identify service level changes have generally resulted in a combination of relatively small changes to particular services and "across the board"-type cost reductions that strain existing resources. The most substantive changes were produced by deferring capital projects to future periods through the reduction of planned transfers to capital reserves and reductions in daily services by increasing the value of the corporation's "salary gapping" budget. The difficulty in identifying substantive service level changes partly due to the fact that such changes typically take time to plan and implement such that the savings are available in the next budget year.
42. To present more fulsome options, staff recommend four service level changes be developed for implementation in 2014. If the direction in paragraph #5 is approved, analysis to evaluate policy

and fiscal implications can begin and improve the likelihood that meaningful service level changes will be identified for 2014. The recommended service level changes are as follows:

- a. Elimination of the landfill tipping fee exemption: Elimination of the one free load of waste up to 100kg/resident per year is consistent with the 2011 service review, the Sustainable Waste Management Strategy and the principle of raising fees or introducing new fees to increase reliance on non-tax revenues. Approving this service level change would allow for an appropriate communication plan to be developed for early implementation in 2014 which will allow for an increased revenue stream to be realized earlier in the year.
- b. Introduction of a due date penalty: The Municipal Act allows municipalities to charge up to a 1.25% interest charge on any outstanding taxes at month end and a 1.25% penalty that can be charged on an installment when it becomes past due. Most municipalities use both penalty and interest mechanisms however; the City is currently only charging month end interest. Preliminary estimates suggest that the due date penalty could generate \$170,000 to \$270,000 in revenue each year.
- c. Establish a sponsorship program: This initiative would generate one-time revenues that could help reduce the need for debt financing and strengthen the City's financial condition.
- d. Christmas shutdown for non-critical services: A common practice in municipalities is to suspend all non-critical services between Christmas and New Years. Staff could use banked vacation or lieu time during this period. This could indirectly lead to reduced costs by reducing the number of banked hours held by staff and mitigate the need for overtime costs that might be generated at other points during the year. At a minimum, it would generate productivity savings by closing offices during a traditionally low period of service demand.

#### **Review of User Fees**

43. 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) 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 four business planning cycles.

#### **Managing Reserves and Reserve Funds**

44. 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.

45. In September, 2011 Council approved Staff Report FIN020-11. The report described strategies that strengthen the corporation's financial condition with a focus on building reserve and reserve fund balances and reducing the corporation's reliance on debt financing. Those strategies were incorporated into the 2013 Business Plan, and continue to apply for 2014 planning.

#### **2014 Capital Budget**

46. The current Capital Plan adopted by City Council in January consists of a detailed Capital Budget for 2013 and includes future years' costs for multi-year projects that are commencing in 2013. The annual Capital Budget identifies the specific projects that will be undertaken for the coming year as well as the maximum expenditures allowed for each project. Considering the status of growth plans and Council's pending review of them, staff anticipate following the same approach for the 2014 capital budget.
47. Master Plans are currently under development that will outline asset expansion and additional requirements to address existing capacity issues within the City, as well as growth driven requirements in the annexed lands. They are scheduled for completion in the third quarter of 2013. Following Council's adoption of the Master Plans, staff will develop a five-year capital plan that integrates the City's highest-priority renewal and growth needs as part of the 2015 Business Plan.
48. The 2014 capital budget, as in previous years, incorporates 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. The financing plan will reflect the guidance provided by the Financial Policies Framework and consider long-term financial impacts as reported by the corporation's Long Range Financial Plan.
49. Each year there are several projects where work carries forward into the following year. The inclusion of any new proposed works in the 2014 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.
50. The corporation's capital asset renewal requirements exceed the City's affordability thresholds. Therefore, as in prior periods staff recommend that EMT apply a prioritization process that influences judgments about which capital projects should be recommended. Thus, Recommended Motion #6 seeks Council's approval of the program prioritization criteria.
51. Consistent with the approach used in each of the last two years, EMT's prioritization process considers the impact of a particular capital project on a set of ranked municipal service areas. 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

### Service Partner Budgets

52. The City's Service Partner budgets made up approximately 44% (approximately \$76M) of the total 2012 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; Physician Recruitment

These organizations need to develop their 2014 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.

### Other Considerations

53. There are other items that may have financial implications for the City but the timing and/or value are uncertain. These include:
- PowerStream Investment Opportunities: As a shareholder in PowerStream through its ownership of Barrie Hydro Holdings Inc. ("BHHI"), the City of Barrie may be requested to make equity investments that increase both the value of its investment and generate the potential for increased dividends. Such requests would be considered by BHHI in accordance with the approved Shareholder's Agreement. The next BHHI meeting is scheduled for June 24, 2013.
  - Centre for Excellence in Education: The City has committed \$14.0M to this project, of which \$2.7M has already been allocated for property acquisition. It is not anticipated that there will be a need for funding in 2014 but it is important to remind Council that a funding plan for this project does not yet exist. Considering its scale, it is reasonable to anticipate that reserve funding and/or debt financing will be required.

### Business Plan Development Schedule

54. The 2014 Business Plan starts with Council's approval of budget directions. Based on the proposed approach, staff will develop a schedule that anticipates approval of the 2014 Business Plan in January, 2014.
55. The planned development process will provide Council with utilize the same approach that was used in the 2013 Business Plan process to review the recommended plan. This would include Council Strategic sessions on the following specific budget components:

- a. Tax rate supported operating budget
  - b. User rate supported operating budget
  - c. Capital Budget
56. Public engagement activities will commence in the third quarter and continue throughout the fourth quarter.

#### **ENVIRONMENTAL MATTERS**

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

#### **ALTERNATIVES**

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

**Alternative #1** General Committee could amend Motion 2 to remove the expectation for specific guidance about a tax rate increase that is lower than the preliminary 5.8% increase described in this report.

A lower threshold would be appropriate if General Committee believes the preliminary 5.8% blended increase is unacceptable. This will require changes in specific services and/or service levels and/or increases in non-tax revenues to account for the reduction in taxation. By identifying a maximum acceptable tax increase, General Committee provide staff with sufficient lead time to to evaluate workplan and related financial changes 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 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 2014 Business Plan. The anticipated approval in January 2014 allows staff to adequately plan and execute workplans that secure lower prices from suppliers and provide enough time to complete all required tasks.

#### **FINANCIAL**

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

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

60. 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 2014 Business Plan Development Schedule**

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<b>Date</b>	<b>Activity</b>
<b>June 2013</b>	<b>Committee/Council approval of the 2014 Budget Directions</b>
<b>July – November 2013</b>	Staff produce workplans, draft operating, capital and rate budgets; informal updates with the Finance and Corporate Services Committee will occur throughout the development schedule
<b>September 2013</b>	Public engagement events commence
<b>October – December 2013</b>	<b>Council Strategic Sessions on Specific Budget Components:</b>  <b>Tax rate supported operating budget</b>  <b>User rate supported operating budget</b>  <b>Capital Plan</b>
<b>December 2013</b>	<b>2014 Business Plan distributed to Council</b>
<b>January 2014</b>	<b>Committee/Council review and approval</b>

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**Appendix 'B'**

**Service Reviews by Department Service**



Enterprise Service	Department Service	Enterprise Service	Department Service
Asset Planning and Management	Policy Development and Management	Fire & Emergency Services	Suppression
	Data Management and Analysis		Prevention
	Capital Budget Development		Training
	Infrastructure Planning		Emergency Planning
	Facility Development		Dispatch
	Design and Construction		Taxation Services
	By-law Enforcement		Water and Wastewater Billing
	Prosecution Services		Reception
	Regulatory Investigations		Switchboard
	POA		Council Secretariate
Corporate Communications	Communications	Recreation Programs	Recreation Programs - Recreation
	Intergovernmental Affairs	Facility Operations - Recreation	Facility Maintenance
Corporate Finance	Corporate Finance and Accounting	Parking	Parking
Corporate Sustaining Services	Purchasing	Parks	Park Maintenance
	Compensation Management	Permits & Inspections	Regulatory Inspection
	Recruitment	Planning and Economic Development	Permit Application Processing
	Health and Safety		Regulatory Review (Building)
	Labour and Employee Relations	Long Range Planning	Long Range Planning
	Employee Development and Support	Marketing	Marketing
	IT Application Delivery and Data Management	Business Development	Business Development
	Infrastructure Tool Access (Data/Voice)	Facilitation	Facilitation
	Professional Legal Advice	Data Provision	Data Provision
	Real Estate Services	Roads	Surface Maintenance
Driver and Technician Training	Storm Water Management	Storm Water Management	
Culture	Fleet Management	Transit	Transit
	Mail & Print	Water	Water Treatment
	Records and Information	Wastewater	Water Distribution
Environmental Operations	Facilities Operations - Corporate	Winter	Wastewater Collection
	Event Management		Wastewater Treatment
	Culture Community Support		Winter Control
	Solid Waste Collection and Disposal		
	Waste Reduction and Disposal		

Service Review Completed
Service Review Underway
ERP