

2004 OPERATING BUDGET

Recommendation

The City Manager and the Commissioner of Finance & Corporate Services in consultation with the Senior Management Team and the Director of Budgeting and Financial Planning, recommends:

That the following report on the 2004 Operating Budget be received for information purposes, and;

That following the Mayor's Summit the 2004 Operating Budget process include the following:

That staff undertake a core services review;

That the process of aligning services with resources be undertaken;

That the Operating Budget process include recommendations to avoid reliance on reserve/surplus "one-time" funding;

That a report be provided to a future Budget Committee with options for consideration in the 2004 Operating Budget process; and

That the external strategic planning consultants be engaged to undertake the core services review.

Purpose

To inform the Budget Committee on the current status of the 2004 Operating Budget and obtain approval for the next steps in the budget process.

Background - Analysis and Options

2004 Operating Budget Process - Current Status

Last year's Operating Budget process introduced the concept of envelope funding wherein departments are assigned funding envelopes by Senior Management to address non-controllable increases prior to the preparation of departmental budgets.

The consistent growth experienced by the municipality places significant pressure on the operating budget. The non-controllable issues in the 2004 Operating Budget presents major funding challenges and will require revisiting the assigned funding envelopes and base budgets before a balanced budget can be achieved.

Significant 2004 Non-Controllable Impacts And Why Assessment Growth Isn't Enough

Although the City is experiencing high growth, the cost impacts of servicing that growth exceed the new assessment growth revenue. Over the last few years, the Municipality has experienced assessment growth increases averaging approximately 5%; that same 5% increase in the 2004 Operating Budget would generate approximately \$3.5m in new revenue. This is insufficient to cover the known non-controllable issues in the 2004 Operating Budget.

The impact of the non-controllable increases is significantly higher in the 2004 Operating Budget when compared to previous years. It is important to identify why the non-controllable impacts are significantly higher in 2004 when compared to previous years and why assessment growth is insufficient to cover these types of cost increases.

Growth Impacts

There are significant growth related cost impacts that are incurred with no additional revenue sources provided to offset their operating costs. Therefore they are an increased burden on the tax rate. A major example of this is that over the last few years, two new fire stations and a new resource library were approved. The operating cost impact in 2004 for these existing approvals alone is approximately \$4.5m, with almost no additional increase in revenue. Historical analysis indicates that taxation, including assessment growth, accounts for only approximately 50% of the funding source, with the remaining 50% funded primarily from user fees. In the case of fire halls and libraries, since there is almost no user fees generated; virtually all of the funding must come from taxation. Assessment growth averaging 5% is insufficient to cover these increases when combined with all the other cost increases.

Significant Price and Volume Increase

The combined 2004 Operating Budget price and volume impact for the contracted services relating to the winterization program and waste collection is approximately 15% to 20%, or \$2.2m; the price increase in recycling alone is 30%. In addition, these services also do not recover revenue and must rely fully on taxation funding.

New Infrastructure Added Prior To Complete Build Out

The addition of new community centres, Libraries, Fire Halls, Parks and other infrastructure as a result of growth over the last few years has occurred prior to the complete build out of the areas (tax base) being serviced. Therefore, operating costs are incurred prior to the build out of the assessment base. Consequently, assessment growth is not sufficient to cover the associated cost increases at the time of the opening of new facilities.

Tax Rate For New Assessment Does Not Account For Cost Increases

The tax rate is in last year's dollars. Applying last years rate to new assessment collects taxes in last years dollars. With the cost increases that will be incurred in the 2004 Operating Budget, there is a funding shortfall between new assessment revenue and associated cost increases. Federal and provincial government revenue streams are based on income and sales taxes; these revenues increase as income and goods and services sales rise in the economy. The municipality does not have this luxury; the tax levy generated is based on a tax rate applied to a fixed assessment base and the base growth does not increase in proportion to volume and cost increases, as they do in the Federal and Provincial sector via income and goods & services sales.

Increased Services and Costs Culminating in 2004

As mentioned earlier, the non-controllable cost increases in the 2004 Operating are significantly higher than in previous years. This is a result of the issues discussed above combined with the fact that many of these issues have culminated in 2004. Traditionally, the cost impact of growth related facilities and infrastructure have been spread out over many years; price and volume increases have not been as significant in the past. In the 2004 Operating Budget, the City is burdened with a culmination of events all occurring in one year. In addition, the known costs to is not an inclusive list. Departments have yet to submit their operating budgets, including any staffing increase requests, and any economic impact has yet to be accounted for in the budget process.

- New Facility Impacts in 2004.

In the 2004 Operating Budget, there is the increased impact of two new fire stations, a new resource library and the expansion of three community centres. With the facility impacts occurring together in 2004, revenue sources, such as user fees and assessment growth, are insufficient to cover these costs.

- OMERS Benefit Impact

It was initially designed that the elimination of the OMERS pension plan holiday would be phased in over a three year period. This has changed, and the remaining entire impact, including an increased rate, must be absorbed in the 2004 Operating Budget. This is a result of the economic downturn impacting investments by OMERS with significantly lower returns; this dramatic change in OMERS policy could not have been anticipated by staff. In addition, the contribution rates have increased creating even a greater cost impact. The impact of the return of OMERS in the 2004 Operating Budget is approximately \$2.2m.

- Price and Volume Increases Greater Than Previous Experience

The price and volume increases across the City included in the 2004 Operating Budget are significantly higher than we have experienced in the past. Some examples include recycling collection up 30% in price as mentioned earlier and insurance costs up 25% to 30%.

All of the above issues are permanent in nature and require permanent funding sources; they will become part of the base budget. The magnitude of the issues and the reasons for their occurrence make clear that assessment growth is insufficient to cover the associated costs.

A list of some of the known major non-controllable increases identified to date is outlined below for the Budget Committee's information. It is evident from the list that assessment growth of approximately 5% or \$3.5m is insufficient to cover the magnitude of the non-controllable increases in the 2004 Operating Budget. As mentioned earlier in this report, departmental operating budgets, including any additional staff increases, have yet to be submitted and any economic impacts on revenues are yet to be included in the 2004 Operating Budget.

Some of the major non-controllable increases in the 2004 Operating Budget identified to date include but are not limited to:

	2004 Budget Impact
Two New Fire Hall Impacts	\$2.7m
Waste/Winterization/Roads (inclgd. \$650k for yard waste)	3.0m
Benefits – OMERS/Canada Life	2.5m
New Resource Library	1.8m
Community Centre Expansions	<u>0.9m</u>
Sub-total	\$10.9m
Surplus/Reserves Subsidies	<u>5.5m</u>
Total	<u>\$16.4m</u>

Next Steps in the Budget Process – Link to the Strategic Plan

In order to achieve the objectives of the strategic plan, the plan must be linked to the budget process. The Budget process is the mechanism by which the municipality allocates resources on a priority basis.

At the recent Mayor's Summit, it was recognized that allocating resources in the 2004 Operating Budget is an important issue and will be a challenging task in 2004. To assist Council in their decision making process, the following guidance into the Operating Budget process was provided by Council to staff.

- Staff undertake a critical core services review
- Align services with resources
- Provide recommendations to avoid a reliance on reserve/surplus "one-time" funding
- Report back to the Budget Committee with options

As part of this approach in linking the strategic plan to the budget process, it is recommended that the external strategic planning consultants meet with Commissioners, Directors and appropriate management staff. The resulting outcome will produce information to assist the Budget Committee in their decision making process. The external consultant in consultation with staff will design an appropriate process that captures the relevant information to address our immediate needs, i.e. 2004 Operating Budget decisions.

Staff look forward to discussing the 2004 Operating Budget status and next steps with the Budget Committee.

Conclusion

The 2004 Operating Budget current status reflects significant non-controllable cost increases in excess of any new assessment growth and user fee revenue. It is requested that the Budget Committee support the Budget process, as profiled in the recent Mayor's Summit.

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Respectfully submitted,

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