


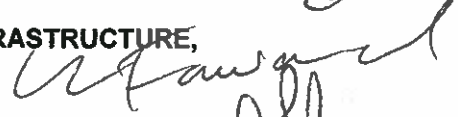

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**TO:** FINANCE AND CORPORATE SERVICES COMMITTEE

**SUBJECT:** 2013 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:** C. LADD, CHIEF ADMINISTRATIVE OFFICER 

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**RECOMMENDED MOTION**

1. That staff prepare a Business Plan for 2013 for all tax supported services that considers:
  - a. The cost of maintaining current programs at current service levels, based on anticipated 2013 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 30, that are estimated to create a 6.4% property tax increase over 2012 levels;
  
2. That staff develop adjustments to financing plans, service levels and/or service delivery methods that reduce anticipated cost increases and generally include:
  - a. Reviewing capital projects in the Capital Plan to reduce the requirements for building reserve balances;
  - b. Reviewing service levels to reduce operating cost pressures;
  - c. Introducing new or higher fees for existing services;
  - d. Working with Service Partners to reduce their funding request;
  - e. Reviewing operating costs across the corporation;

3. 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, 2012;
4. 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;
5. That the 2013 capital budget 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 2011 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
  - e. Subsequent years of multi-year projects
6. In recognition of the pending completion of Master Plans during the fourth quarter of 2012, that the capital forecast developed in 2012 be the basis for developing the 2013 capital budget;
7. That staff prepare a 2013 Business Plan for Water and Wastewater services that includes:
  - a. The cost of maintaining current approved programs at current service levels, based on anticipated 2013 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. Rate increases that reflect revisions to the long range financial plan as directed per Motion 12-G-010, showing that rates for water would increase by up to 10% and rates for wastewater would increase by up to 15%;
  - e. Opportunities to reduce rate increases, based on analysis undertaken by staff during the business plan development process;
  - f. A reasonable estimate of water consumption;
8. That staff develop adjustments to water and wastewater financing plans, service levels and/or service delivery methods that reduce anticipated cost increases and generally include:
  - a. Reviewing water and wastewater capital projects in the Capital Plan to reduce the requirements for building reserve balances
9. That staff prepare a 2012 Business Plan for Parking Operations that includes:
  - a. The cost of maintaining parking services at the service levels established in the Parking Strategy approved in the second quarter of 2012;
  - 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 approved Parking Strategy;
  - d. A reasonable estimate of expected usage;
10. 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 2013 budget.
  11. That a 2013 Budget Development Schedule that anticipates Council's review and approval no later than January, 2013, be prepared and circulated to the County and all Boards and Agencies.

## **PURPOSE & BACKGROUND**

### **Report Overview**

12. This report describes the approach staff will take when preparing the 2013 Business Plan and seeks Council's direction on guidelines 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. Over the coming months, staff will identify potential changes to services or service levels that ensures the 2013 Business Plan strikes the right balance between providing desired programs and maintaining affordable taxes and fees.

### **Background**

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. The Business Plan reflects the criteria for "distinguished budget presentation" established by the Government Finance Officers Association.
14. The 2013 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 37-39 of the 2012 Business Plan describe Barrie's financial condition.
15. 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.
16. 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.
17. As a proportion of total revenue, the corporation's reliance on user fees declined slightly in 2012 compared to prior periods, accounting for 7.0% of total revenues in 2012. In contrast, the proportion of revenue from property taxes has declined from 75% in 2007 to 72% in 2012. So while this trend demonstrates Council's adherence to the "user pay" principle reflected in the Financial Policies Framework, more needs to be done if revenue from property taxes is expected to make up a lower overall share of total revenue.
18. 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.

19. However, as described in the 2012 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**

20. As this report is being written during the second quarter of 2012, it is difficult to anticipate the economic conditions that will influence Barrie's local economy in 2013. Provincial forecasts anticipate Ontario's real GDP growth in 2013 will be 2.2%, driven by continued consumer spending, robust capital investment by businesses and increases in net trade. Increased competitiveness of emerging economies that are increasing their share of US imports and high oil prices are factors that could exert downward pressure on growth.
21. 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.
22. 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.
23. 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. Recognizing that the City of Barrie is a low-cost municipal government, 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.

### **Business Planning Process**

24. 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.
25. Public engagement activities were enhanced during the 2012 Business Plan development process, and staff anticipate these enhanced activities will also be used for the 2013 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 "focus group" meeting with community representatives, 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 2011 will be available via online and social media outlets throughout the Business Plan development process
  - (4) Feedback from the 2011 citizen survey
- 2010 – 2014 Strategic Plan**
26. Council's Strategic Plan includes five goals, each with a series of strategies that describe how results will be achieved. The 2012 Business Plan (pages 17-19) describes the actions staff would take in 2012 to make progress toward Council's expected outcomes. Actions to address Council's strategies will be incorporated into 2013 workplans to build on work that started in 2012.

**2012 Tax-Supported Operating Budget**

27. 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.
28. 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.
29. The 2013 forecast in the Long Range Financial Plan anticipates a 3.5% 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 2013, preliminary estimates indicate a 7.7% tax increase on the City's portion of the tax bill is required. This translates into a blended 6.4% 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 Motion #2 describes the actions that will be taken over the next six months in preparation for the Business Plan's publication.

30. Performance improvements have become a routine part of annual operations throughout the corporation. In 2012, recommendations from six service reviews are being implemented to produce approximately \$600,000 in cost reductions. 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.
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.
32. Plans for 2013 service delivery are under development. At this point, preliminary information about specific factors influencing the tax-supported 2013 operating budget include the following:

Increase in tax-supported debt service charges	\$2,700,000
Annualization of 2011 Program Change costs (net)	\$464,000
Transfer to the Tax Capital Reserve to restore funds used for the 2012 Enhanced Roads Maintenance Program	\$1,000,000
Increase in transfer to Tax Capital Reserve for new assets brought into service in 2012 (Note 1)	\$1,000,000
Increase in transfer to Tax Capital Reserve for existing assets in accordance with the Long Range Financial Plan (Note 1)	\$720,000
Allowance for new subsidy requirements for Parking, Recreation Programs and other services where projected net costs exceed	\$1,000,000

planned levels	
Costs for sustaining existing service levels	\$1,640,000
OMERS contribution rate increase	\$527,000
Estimated increase in cost of utilities	\$303,000
Service Partners (Note 2)	\$2,250,000
Implementation of sustainable Waste Management Strategy	\$630,000
Increase in costs for full utilization of 79 Bell Farm Rd facility	\$286,000
Facilities costs for Allandale Train Station	\$129,000
Transit - increase in contract costs	\$1,700,000
Transit - storage needs (resulting from the development of Welham Rd. building for Transit Garage)	\$900,000
<b>Total</b>	<b>\$15,249,000</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. This figure assumes, for planning purposes only, that collectively there will be a 3% increase over 2012 levels in Service Partner budgets.
33. These cost changes suggest the affordability of municipal services will be challenging for some taxpayers to accept. To address this, staff can develop plans 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 include:
- a. Reviewing capital projects in the Capital Plan to reduce the requirements for building reserve balances
  - b. Reviewing service levels to reduce operating cost pressures
  - c. Introducing new or higher fees for existing services
  - d. Working with Service Partners to reduce their funding request
  - e. Reviewing operating costs across the corporation
34. 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

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.

35. 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

36. 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.
37. 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 2012 Business Plan, and continue to apply for 2013 planning.

#### **2013 Capital Budget**

38. The current Capital Plan adopted by City Council in January consists of a detailed Capital Budget for 2012 and a Capital Forecast for the next three years. The annual Capital Budget approved by Council identifies the specific projects that will be undertaken for the coming year as well as the maximum expenditures allowed for project implementation. In the development of the 2013 Capital Budget staff intend to use the approved capital forecast as the basis for the 2013 capital budget, with adjustments only for critical issues arising in 2012 that need to be addressed in 2013.
39. Master Plans 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 are currently being developed. They are scheduled for completion by 2012 year-end. Given the magnitude and significance of the needs that will emerge from this exercise, as well as the time required to interpret and integrate the information, it is staff's intent to produce a single year capital budget for 2013. Following Council's adoption of the Master Plans, staff will commence developing a five-year capital plan that integrates the most critical renewal and growth needs for Council's consideration as part of the 2014 Business Plan.
40. The 2013 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 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. 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.
41. The corporation's capital asset renewal requirements exceed its ability to afford them. Therefore, for planning purposes EMT will once again apply a prioritization process that influences judgments about which capital projects should be included. Thus, Recommended Motion #4 seeks Council's approval of the program prioritization criteria.

42. 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

**Water and Wastewater Rate Supported Budgets**

43. Annual Water and Wastewater budgets have been 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.
44. Currently, 0.9% of household income is required to pay for water and wastewater services. The 2012 budget will include revenue increases from rates of 10% for water and 15% for wastewater. These increases maintain rates that are within Council's affordability threshold established in the Financial Policies Framework and have been determined based on the updated analysis on the Water and Wastewater Financial Plan identified in the following section of this report.
45. Factors influencing water and wastewater budget changes from 2012 to 2013 include:

Financing charges	\$4,520,000
Preventative Maintenance	\$400,000
Utilities	\$235,000
Source Water Protection Costs	\$300,000
Compensation adjustments	\$185,000
Transfer to Capital Reserves per Financial Plan	\$2,280,000
Less: Development Charge recoveries	(\$1,174,000)
<b>Total</b>	<b>\$6,746,000</b>

Water and Wastewater Financial Plan Update

46. In January, Motion 12-G-010 provided the following direction to staff:

"That staff in the Finance Department investigate the feasibility of implementing a 10 year rate strategy for water and wastewater rates and services including the impact on the timing and financing of reserves, capital projects and rate structure, and report back to Finance and Corporate Services Committee in 2012 as part of the updated Drinking Water System Financial Plan".

As described in Staff Report FIN005-12 (Water and Wastewater Financial Plan update), staff recognize the concerns expressed by customers about the cost of water and wastewater services and Council's desire to address them. It is important to note that while last year's one-time circumstances are factored into staff's analysis, the financial plan and any decisions Council

takes once it receives the updated plan needs to consider several years' worth of both historical trends and forward-looking information to ensure the plan remains viable in accordance with the province's Regulation 453/07.

Key Assumptions:

47. In updating the City's Water and Wastewater Financial Plan, staff have incorporated the following into the analysis:
- a. The updated 10-year Capital Plan, including the effects of in-year changes including reducing the capital budget for the Sunnidale Reservoir by \$4.5M and increasing the Surface Water Treatment Plant budget by \$2M as identified in Staff Report FIN006-12.
  - b. Updated reserve balances as of December 31, 2011 which include transfers of the 2011 year end surpluses identified in Staff Report FIN001-12.
  - c. Actual financing costs associated with the Surface Water Treatment Plant, as well as updating financing cost forecasts related to the December 2012 debt issue for Wastewater rate supported assets.
  - d. Estimated replacement value of water and wastewater assets based on PSAB 3150 data and applying the Non-Residential Building Construction Price Index provided by Watson & Associates.
  - e. Development Charge funding for annual debenture costs associated with the Surface Water Treatment Plant and the Water Pollution Control Plant (WPCC) expansion is 44% and 60% respectively as permitted under the 2008 DC background study.
  - f. Key inflationary assumptions:
    - Salary and Benefit increases of 2% per year
    - Hydro rate increase of 5% per year
    - General Operating increase of 2% per year

Water & Wastewater Development Charge Reserves

48. The annual contributions from Development Charge reserves to fund financing charges in the updated financial plan as noted above are as follows:

	2012	2013 and Beyond
Transfer from Water DC Reserves to finance debt	\$2,710,239	\$3,484,692*
Transfer from Wastewater DC Reserves	\$3,527,812	\$3,928,283*

\*Future growth in the annexation lands will allow for a larger share of financing costs to be funded from development charges.

As identified in Appendix B, the Water Development Charge reserve is currently in a negative position, which means the City is currently borrowing from other development charge reserves to

finance the water debt. This is an unsustainable practice that will be reviewed as part of the City's 2013 DC background study. The 2013 DC background study will incorporate the Annexed Lands Secondary Plan/Infrastructure Master Plans. There are many factors contributing to the negative Water DC reserve, including prior period Council decisions offering Development Charge Discounts.

#### Capital Plan

49. At the end of 2012, the Annexed Lands Secondary Plan and related Infrastructure Master Plan works will be completed and result in significant changes to the City's 10 year capital plan. As previously identified, the analysis reflected in this report is from the current 2012 10 year Capital Plan. Moving forward, staff will be reviewing the water and wastewater financial plan annually incorporating the most current information available to ensure the system is both sustainable and affordable based on the City's Financial Policy framework and provincial regulation 453/7.

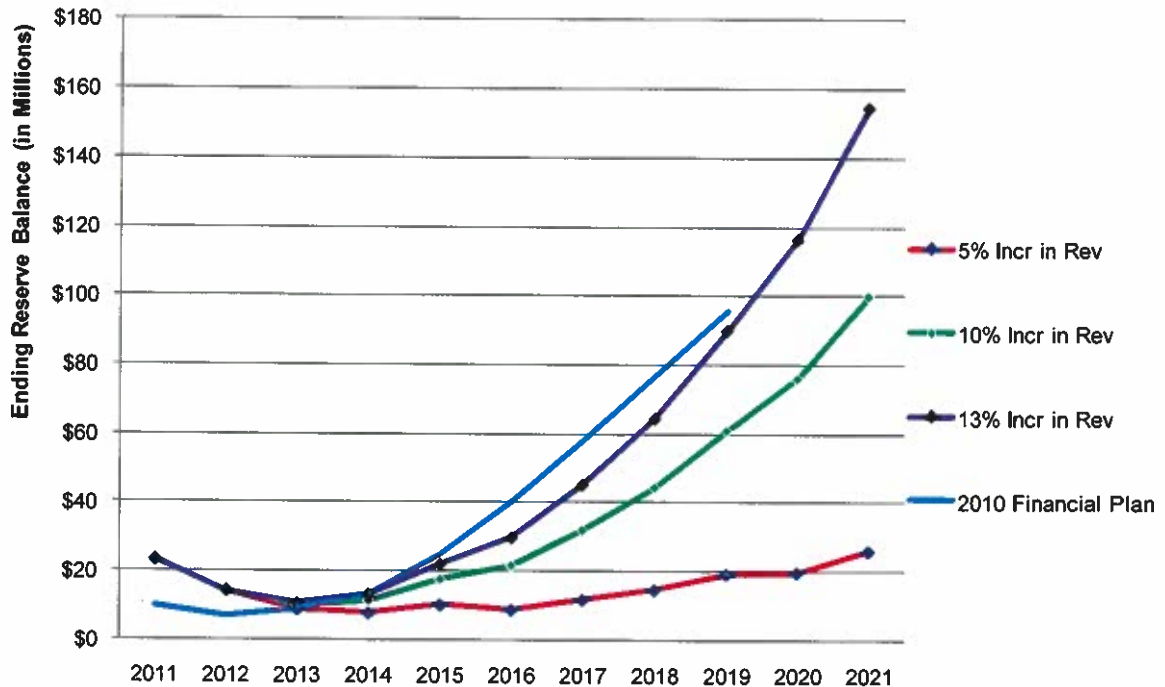
#### Replacement Value of Water and Wastewater Assets

50. In 2011, York Region completed a water and wastewater rate review and identified an appropriate reserve balance to be 20% of the replacement value of assets. As identified in Appendix C and D, the City of Barrie's estimated replacement value for water assets is \$496M and \$880M for wastewater assets. Following York Region's example would equate to optimal reserve balances for the City of Barrie of \$100M for water and \$176M for wastewater. Building and maintaining adequate reserve balances will reduce the City's need for future debt financing.

#### Water Capital Reserve Balance

51. The chart below benchmarks three water rate revenue increase scenarios (5%, 10% and 13%) against the City's 2010 Financial Plan. These scenarios were chosen because:
- a. the 5% scenario has been generally discussed by some members of Council as a preferred increase for 2013
  - b. the 10% scenario reflects staff's analysis of Council's direction to turn the current six-year financial plan into a 10-year plan
  - c. the 13% scenario reflects the increase identified in the original, approved 2010 long range financial plan

**Water Reserve Balance Scenarios**

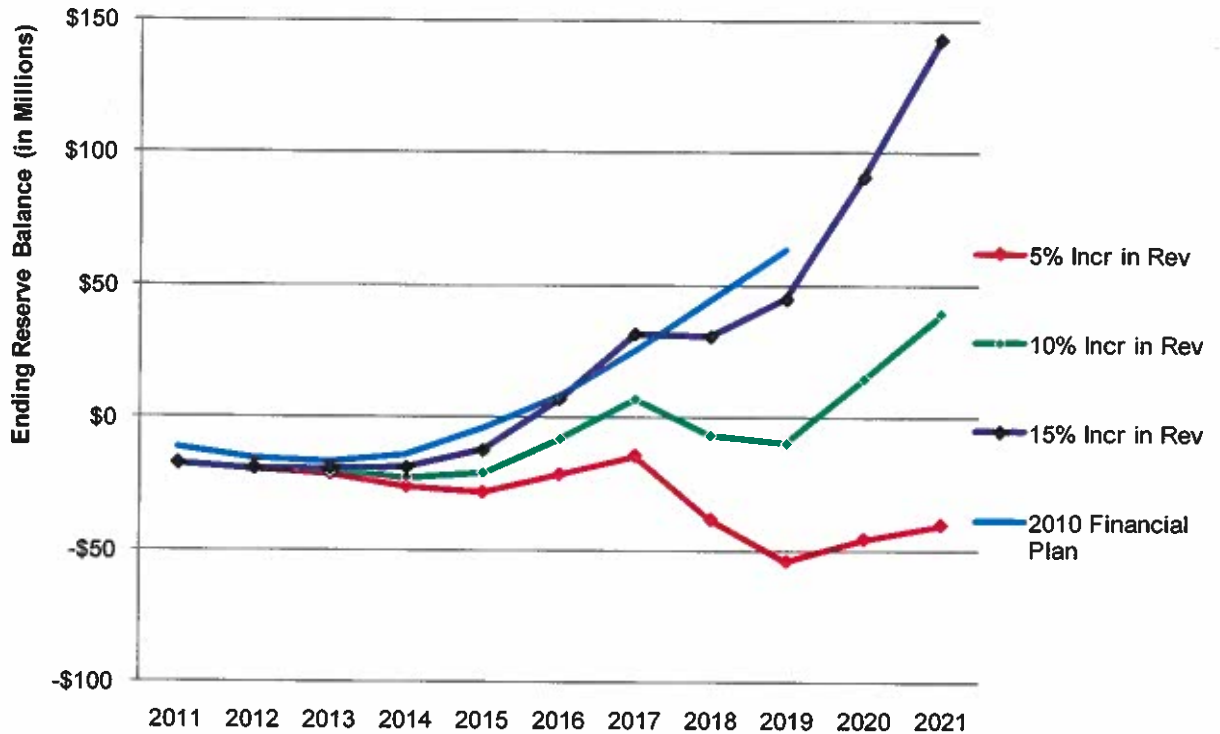


52. While the ending 2011 reserve balance, which includes the 2011 year end surplus, is slightly ahead of the 2010 financial plan forecast, continued capital plan pressures primarily related to the Sunnidale reservoir, will continue to draw down the reserve above contributions over the next two years. However, reducing the annual rate increase from 13%, as recommended in the 2010 financial plan, to 10% over the next ten years will smooth the rate increases and build the water capital reserve closer to the desired levels based on the current 10 year capital plan.
53. As identified in Appendix C, while a significant portion of the City's water assets are relatively new, approximately \$65M of water assets will reach the end of their useful lives within the next 20 years.

Wastewater Reserve Balance

54. The chart below benchmarks three wastewater rate revenue increase scenarios (5%, 10% and 15%) against the City's 2010 Financial Plan. These scenarios were chosen because:
  - a. the 5% scenario has been generally discussed by some members of Council as a preferred increase for 2013
  - b. the 10% scenario reflects staff's analysis of Council's direction to turn the current six-year financial plan into a 10-year plan
  - c. the 15% scenario reflects the increase identified in the original, approved 2010 long range financial plan

### Wastewater Reserve Balance Scenarios



55. The current wastewater reserve balance is slightly lower than was projected in the 2010 financial plan. The original 2010 financial plan included 19% annual revenue increases and projected the wastewater reserve would be slightly above a breakeven point in 2016. Modifying this plan to 15% annual increases would achieve the same objective and build up reserves over 10 years closer to desired levels.
56. As identified in Appendix D, approximately \$255M of wastewater assets will reach the end of their useful lives over the next 20 years.

#### Parking Rate Supported Budget

57. Council's recent approval of a new Parking Services Strategy will influence planned costs and revenues for Parking services in 2013. Based on comparisons with peer municipalities, staff anticipate changes to Parking services will reduce the relatively higher availability of free parking opportunities and strengthen the potential for revenue generation. However, fully realizing all of the new revenue opportunities included in the Parking Services Strategy will not occur until 2014 or 2015. Meanwhile, 2013 gross expenditures, including debenture costs of \$968,000 associated with the Collier Street parkade, are anticipated to be greater than 2013 projected revenues.
58. Work continues on identifying a financing plan to fund a deficit in Parking Services, if a deficit is realized in 2013. The balance in the Parking Rate Reserve is insufficient to sustain the level of financial support currently required in the short term to keep Parking services as a self-sustaining operation. This means funding will need to be provided as a subsidy from the tax-supported operating budget, or from a different reserve (like, for example, the Tax Rate Stabilization

Reserve). Staff will provide more information as it becomes available and seek Council's direction regarding an appropriate method for funding Parking services in 2013.

### **Service Partner Budgets**

59. 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 2013 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**

60. The 2013 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 2012 Business Plan in January, 2013.
61. The expected development process will provide Council with the same amount of time used in the 2012 Business Plan process to review the recommended plan. Public engagement activities will commence in the third quarter and continue throughout the fourth quarter.

### **ENVIRONMENTAL MATTERS**

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

### **ALTERNATIVES**

63. 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 reductions in specific services and/or service levels, or 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 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 2013 Business Plan. The anticipated approval in 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**

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

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

65. 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'**

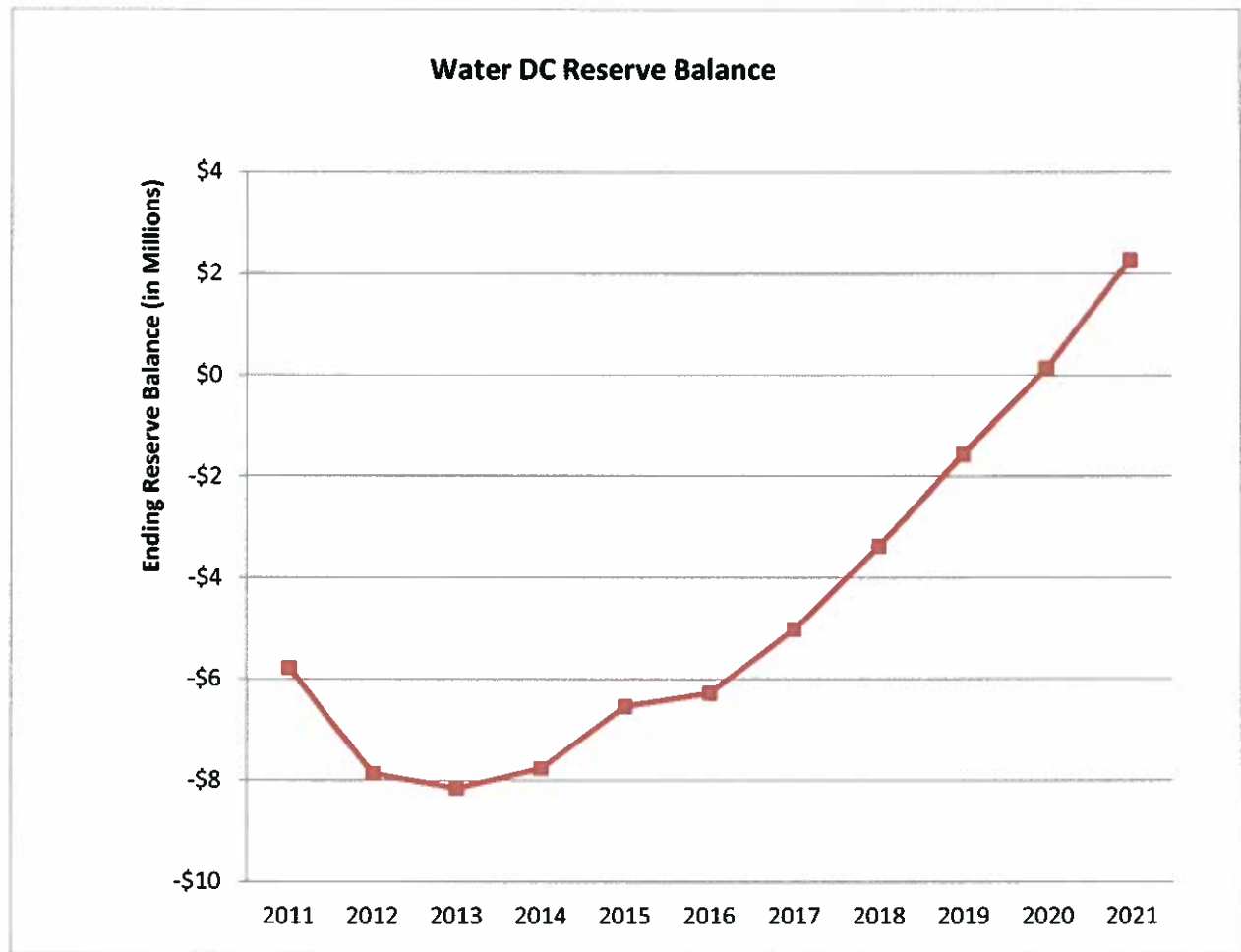
**Proposed 2013 Business Plan Development Schedule**

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<b>Date</b>	<b>Activity</b>
<b>June 2012</b>	<b>Committee/Council approval of the 2013 Budget Directions</b>
<b>July – November 2012</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 2012</b>	Public engagement events commence
<b>October – December 2012</b>	<b>Council Strategic Sessions on Specific Budget Components</b>
<b>December 2012</b>	<b>2013 Business Plan distributed to Council</b>
<b>January 2013</b>	<b>Committee/Council review and approval</b>

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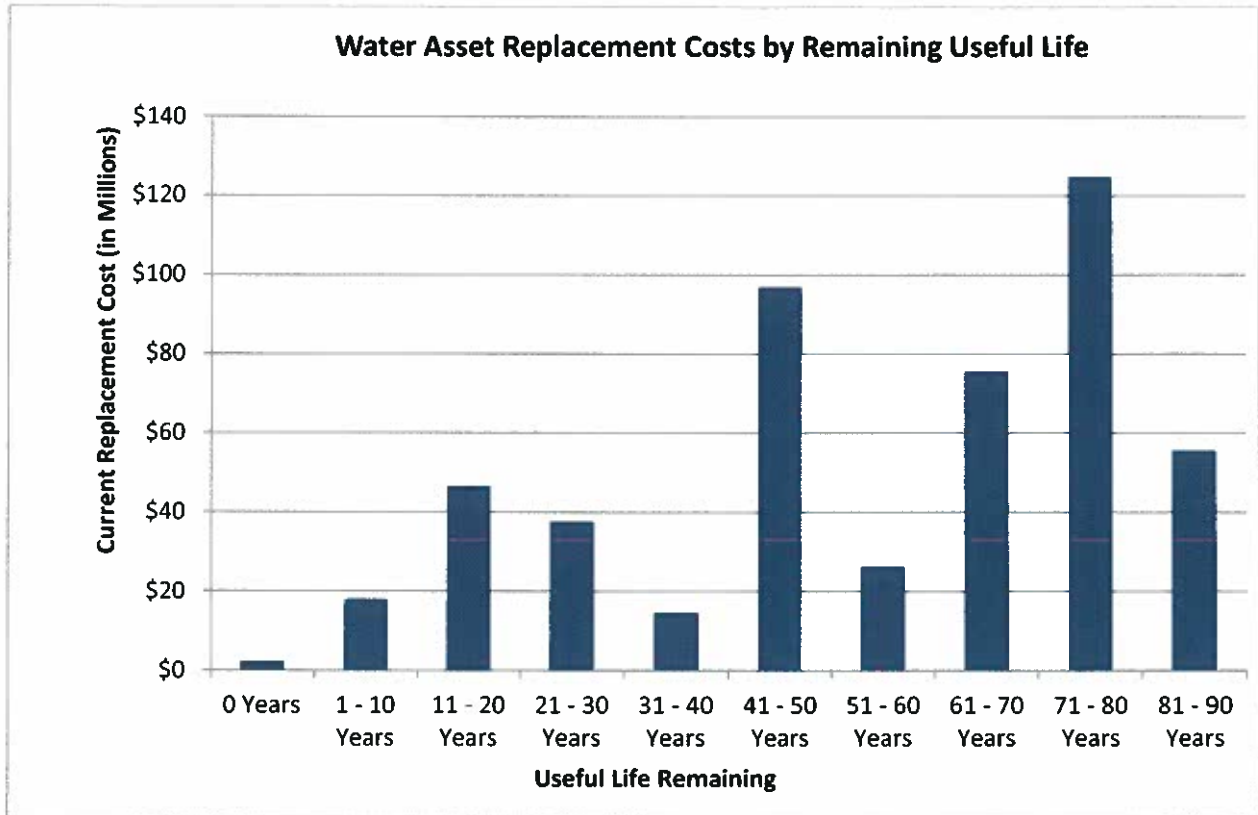
Appendix B



**Appendix C**

**Estimated Replacement Value of Water Assets**

The total estimated replacement cost of City of Barrie's water assets is approximately \$495M. The chart below allocates the replacement values by remaining useful life of assets.



**Appendix D**

**Estimated Replacement Value of Wastewater Assets**

The total estimated replacement cost of City of Barrie’s wastewater assets is approximately \$880M. The chart below allocates the replacement values of wastewater assets by remaining useful life.

