

# Draft 2014 Business Plan

General Committee Workshop

October 5, 2013

September 26, 2012

# Workshop Agenda - Morning

Item	Agenda Item	Action Required	Time
1.	Presentation: 2014 Draft Operating Budget and Financial Condition		1 hour (9:00 a.m.)
2.	Top 5 issues relating to balancing the management of community expectations, Council Strategic Priorities and the City's financial condition.	Breakout Session Discussion	30 min (10:00 a.m.)
3.	Break		15 min (10:30 a.m.)
4.	Review of Issues identified	Discussion	45 min (10:45 a.m.)
5.	Presentation: Service Level Changes and Fee Changes >5%		30 min (11:30 a.m.)

# Workshop Agenda - Afternoon

Item	Agenda Item	Action Required	Time
6.	Lunch		45 min (12:00 p.m.)
7.	Staff Report Discussions / Recommendations	Decision	1 hr 30 min (12:45 p.m.)
8.	Break		15 min (2:15 p.m.)
9.	Continuation of Staff Report Discussions / Recommendations (if necessary)	Decision	30 min (2:30 p.m.)
10.	What would it take to help your most difficult constituent understand the importance of managing our financial condition	Open Discussion if time allows	45 min (3:00 p.m.)
11.	Next Steps		30 min (3:45 p.m.)

# Preliminary 2014 Tax Rate Supported Budget: Municipal Services

Description	Change (\$) 2014 v. 2013	Tax Rate Impact (%)
Annualization of 2013 Program Changes	749,000	
Planned increase to contributions for asset renewal	2,567,000	
Restoration of 2013 reduction to contributions for asset renewal	500,000	
Increase to Employee Costs	2,277,000	
Reduction to Salary Gapping	308,000	
Introduction of Tax Rate subsidy for Parking Services	850,000	
Increase in tax-supported debt service costs (\$605K) net of increased draw on DC reserve fund (\$365K)	240,000	
Revenue Growth from New Assessment	(1,000,000)	
Noteworthy reductions to base budget (LSRA, Vehicle Repairs, NQI, MPAC Fee)	(370,000)	
Net of individually immaterial changes to base budget	926,000	
<b>Total – Municipal Services</b>	<b>7,047,000</b>	<b>3.21%</b>

# Preliminary 2014 Tax Rate Supported Budget: Municipal Services + SLCFs + Pending Adj.

Description	Change (\$) 2014 v. 2013	Tax Rate Impact (%)
* Recommended Service Level Changes (“SLCFs”)	(1,304,000)	(0.59%)
** Pending Adjustments	(1,033,000)	(0.47%)
<b>(A) Total – SLCFs + Pending Adjustments</b>	<b>(2,337,000)</b>	<b>(1.06%)</b>
<b>(B) Total – Municipal Services (CFWD from previous slide)</b>	<b>7,047,000</b>	<b>3.21%</b>
<b>(A+B) Total – Municipal Services + SLCFs + Pending Adjustments</b>	<b>4,710,000</b>	<b>2.15%</b>

\* See Appendix “B” of Staff Report EMT003-13 for listing of SLCFs.

\*\* The 2014 Budget is a living document; preliminary numbers are updated as better information becomes available. Several such adjustments were in progress at the time this report was produced.

# Preliminary 2014 Tax Rate Supported Budget: Municipal Services + SLCFs + Pending Adj + Service Partners

Description	Change (\$) 2014 v. 2013	Tax Rate Impact (%)
County of Simcoe	1,634,000	
Police Services Board	1,200,000	
*Library Board	116,000	
**Other (e.g. Conservation Authorities, LSRA, SMDHU)	(45,000)	
<b>(A) Total – Municipal Service Partners</b>	<b>2,905,000</b>	<b>1.32%</b>
<b>(B) Total – Municipal Services + SLCFs + Pending Adj. (CFWD from previous slide)</b>	<b>4,710,000</b>	<b>2.15%</b>
<b>(A+B) Total – Municipal Services + SLCFs + Pending Adj. + Service Partners</b>	<b>7,615,000</b>	<b>3.47%</b>

\* Library Board has not submitted a preliminary 2014 budget. Staff have assumed a 2% increase to the tax-rate supported portion of the Library's budget.

\*\* Lake Simcoe Regional Conservation Authority is expected to present business cases valued at ~\$285K for Council consideration. These business cases are not included in the preliminary base budget for 2014.

# Preliminary 2014 User Rate Supported Budget: Water & Wastewater Rate

Description	Change (\$) 2014 v. 2013
<b>Revenues:</b>	
Prescribed rate increase (Water = 7%, WW = 13%)	4,836,000
<b>Expenditures:</b>	
Increase in tax-supported debt service costs net of increased draw on DC reserve fund	577,000
Increase to employee costs	433,000
Increase to SCADA service contract & communications upgrade	259,000
Decrease to Chemical costs	(135,000)
Decrease to Utilities	(128,000)
Increase to Other expenses (net of other revenue)	3,000
<b>Sub-Total – Increase to expenditures</b>	<b>1,009,000</b>
<b>Total - Increased transfer to Capital reserves (Revenues less Expenditures)</b>	<b>3,827,000</b>
Recommended Service Level Changes (“SLCFs”)	149,000
<b>Total – Increased transfer to Capital reserve adjusted for recommended SLCFs</b>	<b>3,678,000</b>

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# Preliminary 2014 User Rate Supported Budget: Parking Rate

- The year over year spending has not changed significantly, however, the parking rate supported budget generates an operating deficit of approximately \$850K per year
- Historically, the operating deficit has been funded by the Parking Rate Reserve, however, this reserve will be fully depleted at the end of 2013.
- The preliminary budget assumes a tax rate subsidy of \$850K to cover the 2014 operating deficit, however, a staff report will be presented to Council in October which will recommend options for reducing this deficit.



# Today's Key Messages:

1. We are not on a financially sustainable path. We must live within our means and not spend tomorrow's paycheck today.
2. Strengthening our financial condition requires additional strategies and different choices than we've made to date.
3. We cannot maintain current service levels at the level of taxation described in the 2014 Budget Directions.
4. The current gap between resource availability and service demand will continue to increase as community growth continues and as our assets age.

# Objectives for the Day

1. Identify the current State of affairs influencing the development of our 2014 Business Plan
2. Acknowledge the changes required to balance expectations regarding taxes, service levels, asset renewal and community growth
3. Make decisions regarding:
  1. Service level adjustments that help reduce, but not eliminate, the funding gap associated with our 2014 budget
  2. Fees and Charges for 2014 that reduce pressure on the property taxpayer while continuing to make services available for use
4. Recieve additional direction to achieve the budget target
5. Develop a shared understanding of our financial condition and the need to manage it differently.

# What do we mean by “Sustainable”?

- We need to balance the requirement to provide services, maintain assets and support growth with affordability using fairly limited revenue tools.
- To be sustainable we need to match service levels with available revenue to avoid putting today's costs on the grandchildren of tomorrow
- The knowledge we now have regarding our assets has been a game changer. The rules have been changed but we are still adjusting.
- We need to live within our means while balancing the costs of the over 60 + services we deliver

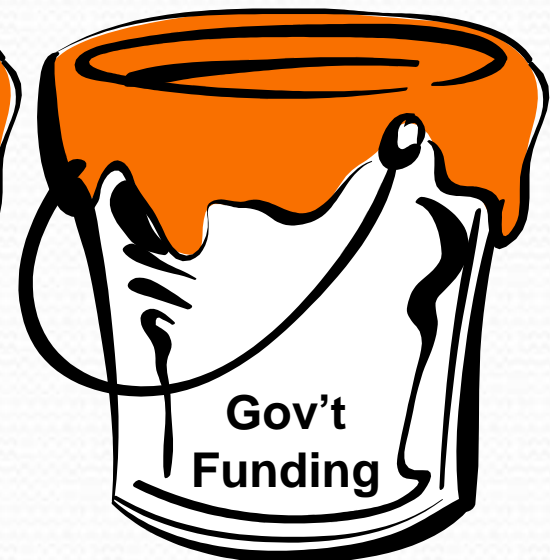
# Service Demands Are Growing

- Public expects increasingly more service
- Asset condition generally continues to decline
- Increases in staffing have not kept pace with growth or increased service demands.
- We can no longer afford to increase service levels without a corresponding increase in revenue to provide and maintain them.

# Why Aren't Current Services Sustainable?

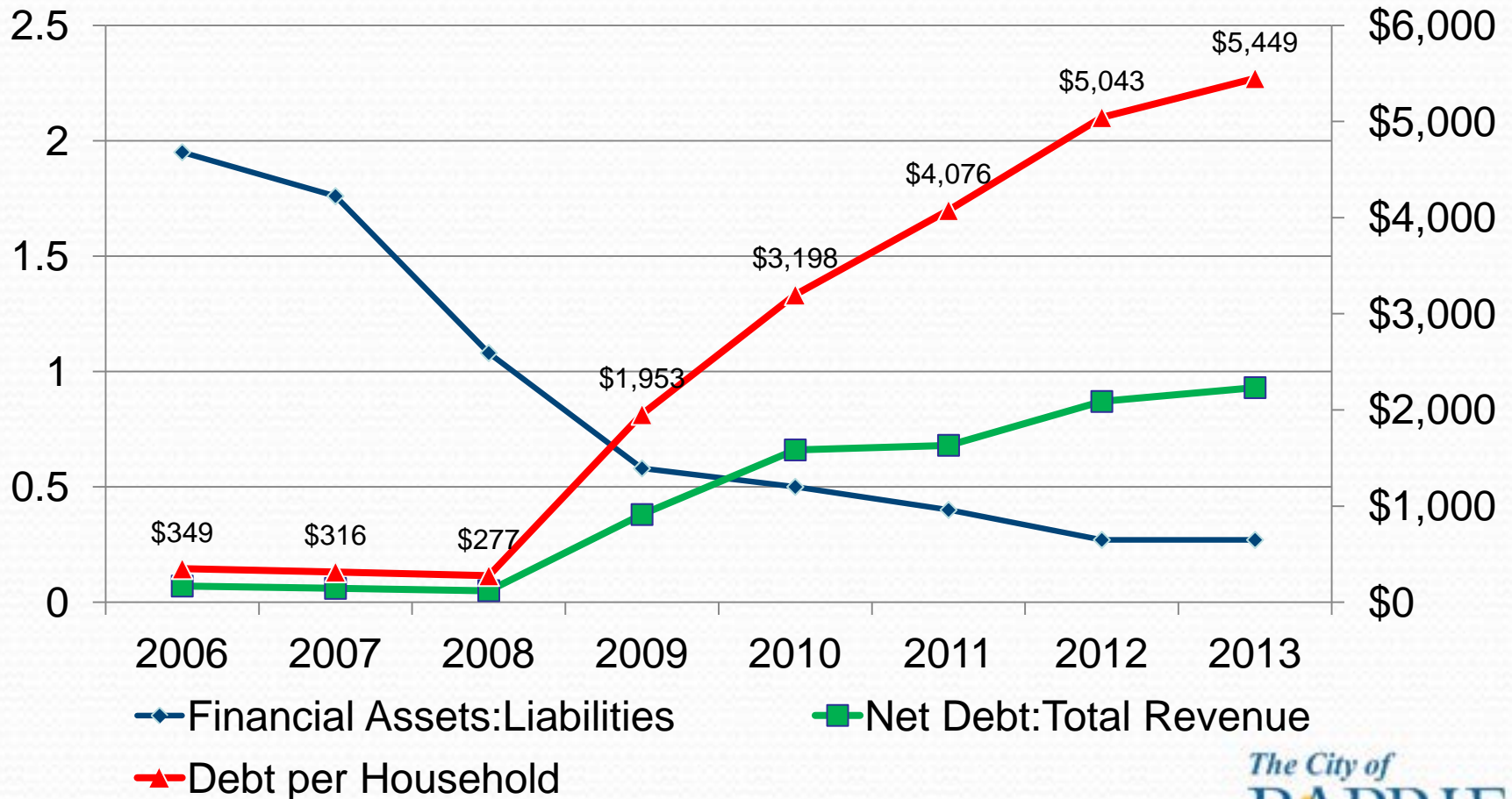
- Budgets don't accurately reflect the resources required to meet current and future service requirements
  - CPI does not reflect how municipal costs behave
  - We added new facilities, but we haven't added resources to adequately maintain them over their lifecycle
  - Discounts and fee exemptions increase requirements for taxpayer subsidies
  - We are using asset renewal funds for the City's share of growth, capacity building, strategic projects and new opportunities.

# Funding Buckets for Municipalities



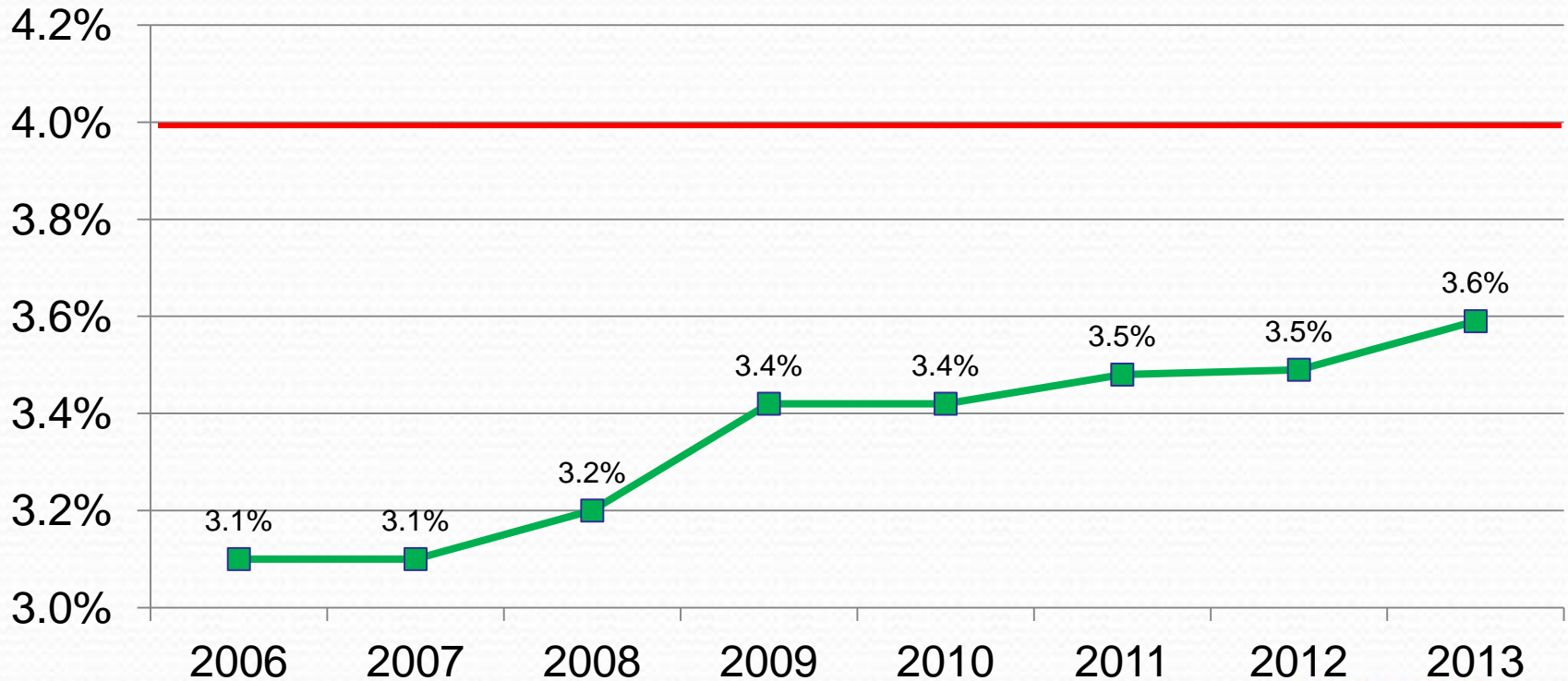
Issue Debt

# Sustainability Trends Are Not Favourable



# Choices That Increase Revenues Are Available

## Municipal Taxes as a % of Household Income





# Property Tax Comparison – 2012

Property Type	Barrie	Cities 100,000+ Avg.
Detached Bungalow	\$3,033	\$3,378
Senior Executive	4,996	5,931
Walk-up Apartment	1,117	1,494
Mid/High Rise	1,252	1,694
Office Bldg (sq. ft)	3.49	3.39
Std. Industrial (sq. ft.)	1.07	2.04

Source: BMA Municipal Study, 2012

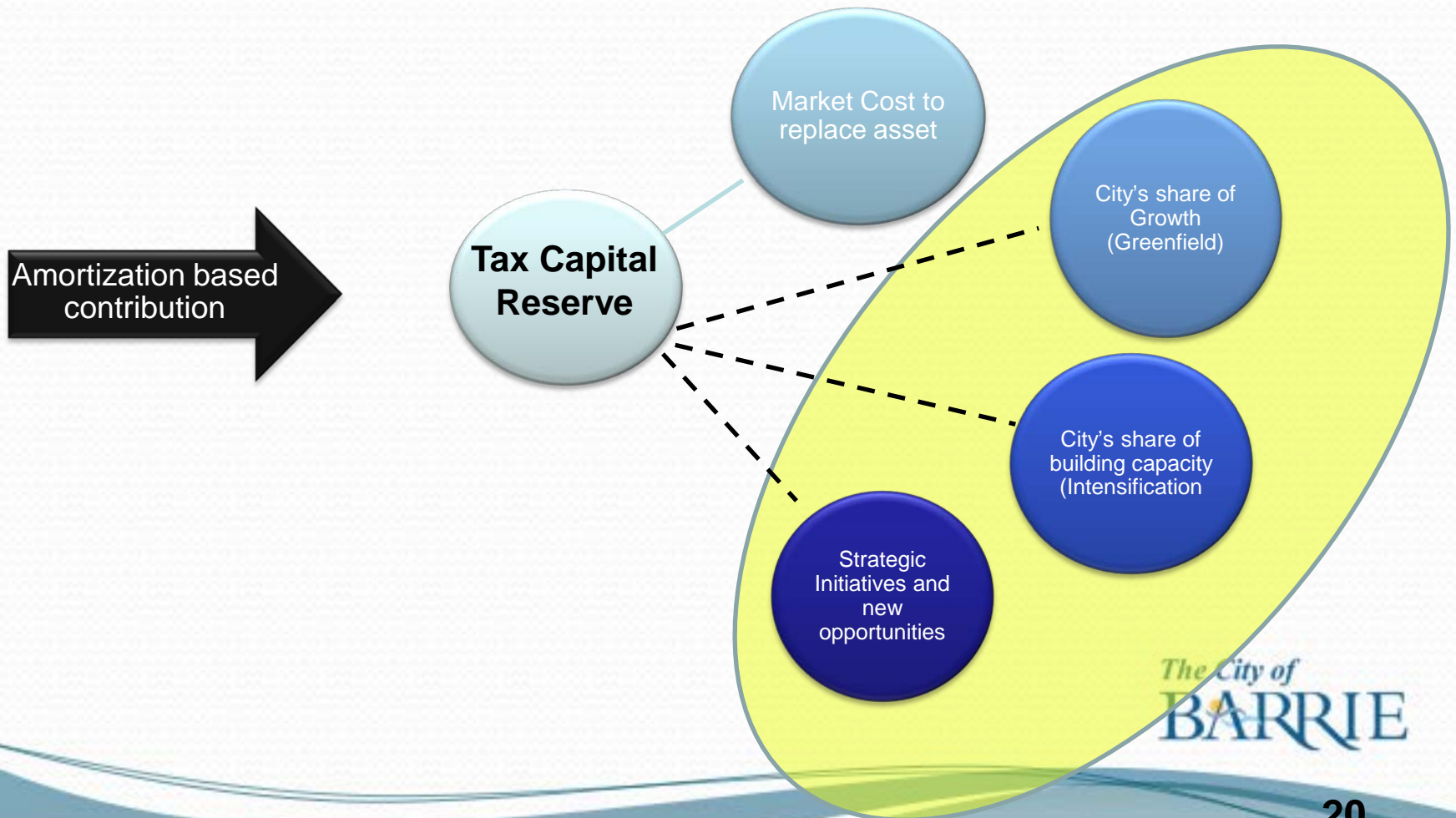
# User Fees and Charges

- Generally reflect choices about the level of “community benefit” vs. “individual benefit” associated with programs and services
- Users have discretionary access and/or choice about the level of service they consume
  - Parking
  - By-law
  - Fines
  - Permit applications

# Reserves

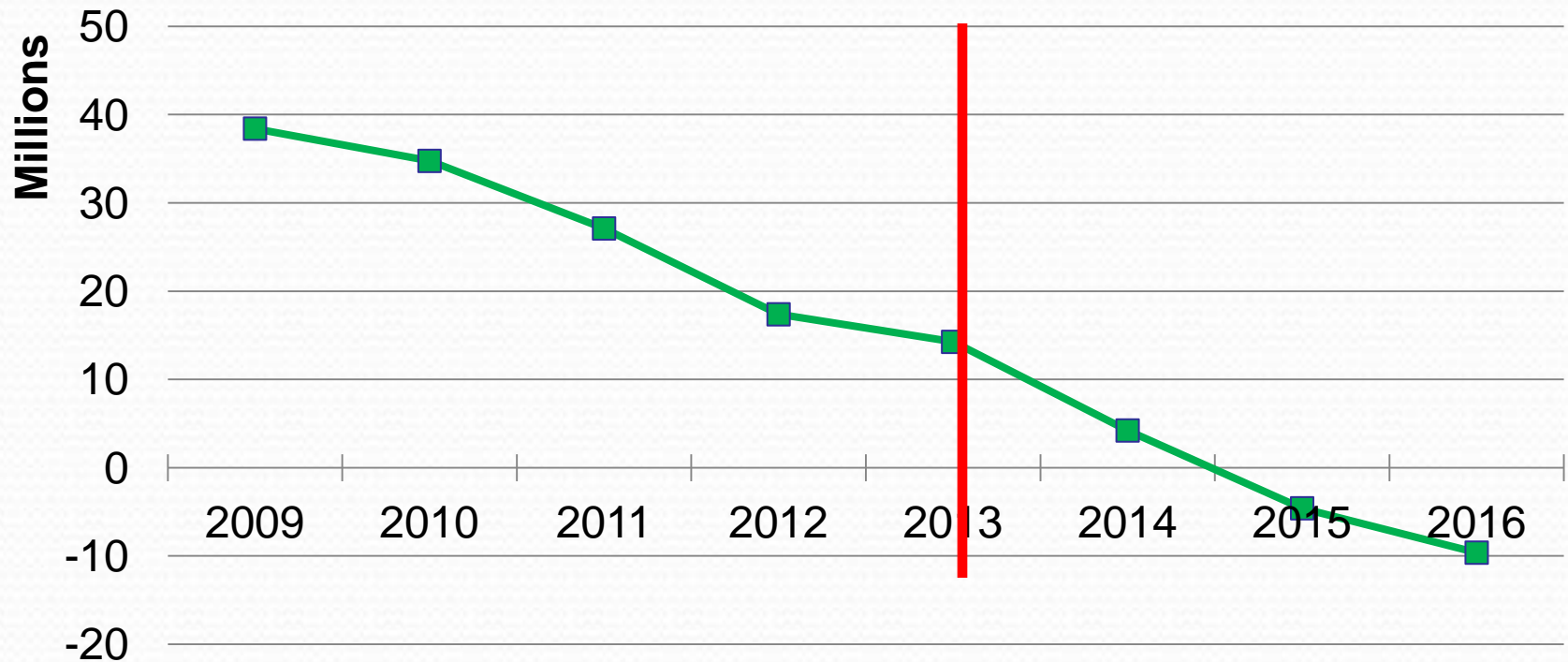
- Reserves Are Not Just For “Rainy Days”;
- Reserves help to:
  - smooth tax rate increases over an extended period of time to ensure funds are available when we need them
  - Reserves help to decrease our reliance on debt financing
- Contributions to reserves are not sufficient

# Funds Going Into the Tax Capital Reserve Are Lower Than Funding Requirements



# Committing Expenditures Beyond Funding Availability

## Tax Capital Reserve less Commitments



# So what is the impact...

- Insufficient Capital Investment is leading to increased Operating Costs
- Inability to fund planned renewal and replacement needs
- This leads to more costly emergency repairs and more frequent service interruptions

# Debt

- Financing decision to spread the capital cost of an asset over multiple years
  - Ontario municipalities cannot take on debt to fund operating costs like salaries (provincial and federal govts can)
  - Intent is to match the benefit period with the repayment term (“intergenerational equity”)
  - Helps prevent significant spikes in property tax changes
- Other sources of funding aren’t available, but we want the asset now
  - Reserves, senior govt or other sources can’t fund the full cost

# Debt

- Limits exist on the amount of debt cities can carry
  - Barrie’s limit is lower than the provincial limit
  - Today, approx. 16% of the property tax bill goes to making debt payments
- Market conditions could influence decisions to increase debt
  - Historic low interest rates, for up to 40-year terms, can minimize a City’s costs to finance asset construction or acquisition
  - Allows reserves to be invested at higher rates (i.e. “good” debt)
  - Issuing debt now means you can’t issue as much in the future



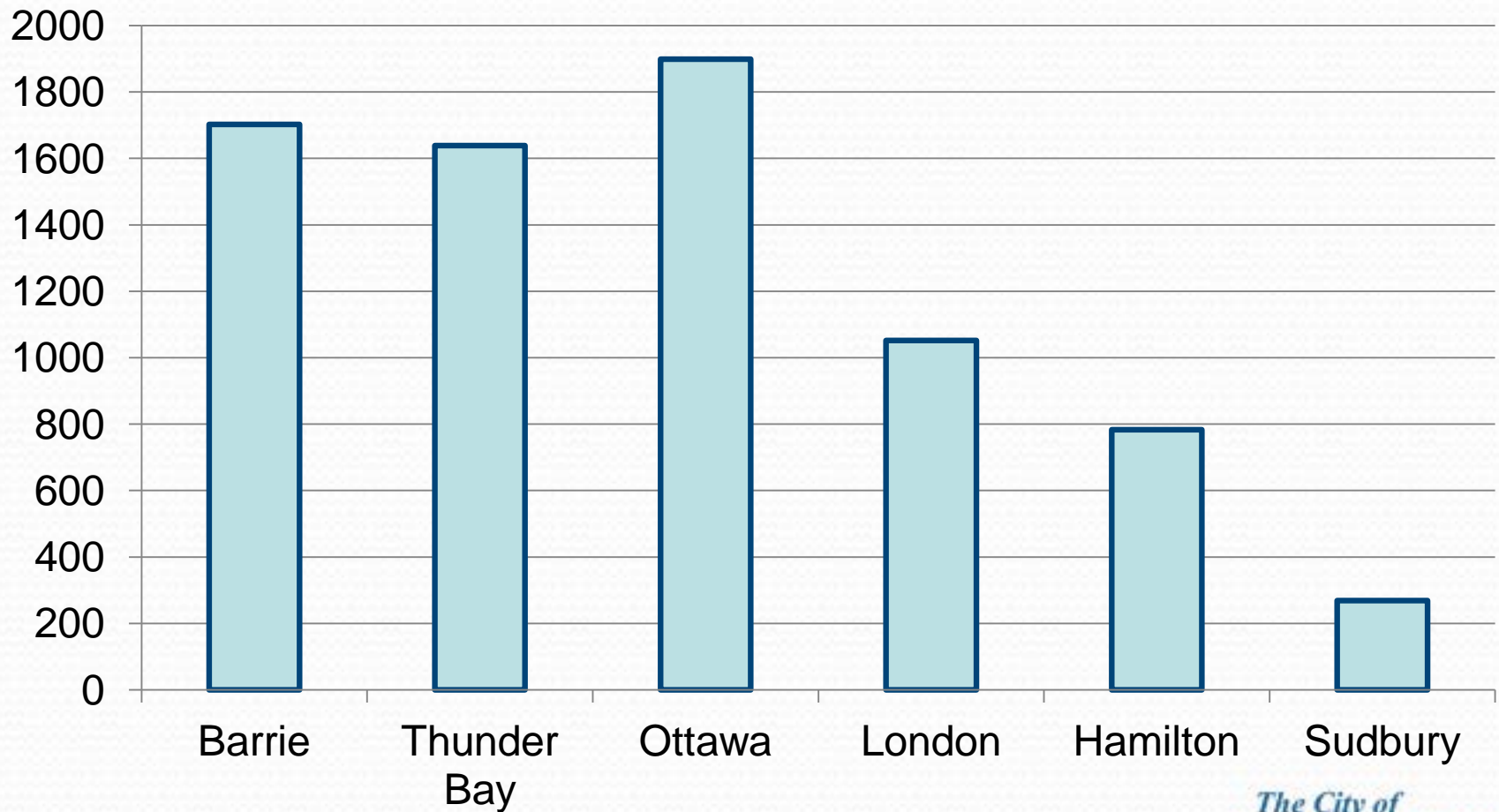
# Why Do Debt Levels Matter So Much?

- Decisions about debt influence a City's credit rating
  - Lower credit rating increases the interest charge on future debt
  - Having a plan, and sticking to it, helps maintain or improve a credit rating
- Debt has to be repaid
  - Debt payments reduce the amount of operating funds available for other programs and services
  - Like a household, relying too much on debt financing without ensuring the repayment plan is affordable eventually prompts Cities to reconcile 'wants' and 'needs'

# Barrie's Current Debt is Manageable, But More Pressures are Coming

- Reliance on debt financing has been higher than average compared to other municipalities
  - Debt payments as a share of total taxes higher than average
  - Well within both Council's policy and provincial threshold
- Growth plans assume the City will issue more debt
  - How much, and when, depend on Council's choices regarding:
    - The availability of alternate financing sources, including developer contributions
    - Affordability for taxpayers, now and in future periods
    - The pace of growth
    - The service levels we provide

# Debt Per Capita



2014 Capital Budget

# 2014 Draft Capital Budget

# Draft 2014 Capital Master Plan

Category	Gross	Tax Capital	Water	Wastewater	Debenture
Committed	\$33,482	\$7,780	\$1,238	\$500	\$14,562
Legislated	\$3,345	\$1,695	\$-	\$1,650	\$-
Corporate	\$2,011	\$1,923	\$-	\$-	\$-
Highest Rank	\$12,448	\$6,228	\$3,183	\$1,321	\$-
<b>TOTAL</b>	<b>\$51,286</b>	<b>\$17,626</b>	<b>\$4,421</b>	<b>\$3,471</b>	<b>\$14,562</b>

Category	Gross	Tax Capital	Water	Wastewater	Debenture
Considering	\$12,448	\$9,481	\$1,613	\$673	\$-
No Longer Considering	\$17,978	\$4,793	\$3,598	\$6,000	\$-

# Draft 2014 Capital Master Plan Impacts on Future Years

Category	Gross	Tax Capital	Water	Wastewater	Debenture
2015 Committed	\$17,304	\$8,815	\$250	\$-	\$6,321
2015 Pending Approval	\$6,400	\$4,980	\$720	\$700	\$-
<b>2015 Total</b>	<b>\$23,704</b>	<b>\$13,795</b>	<b>\$970</b>	<b>\$700</b>	<b>\$6,321</b>
<b>2016 Committed</b>	<b>\$5,525</b>	<b>\$5,024</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>

# The Good News

- Our capacity to understand and identify issues that can improve or impair the City's financial condition is continually evolving
- We have adopted internationally recognized best practices in asset management and capital investment planning
- We have taken a comprehensive approach to growth management that includes a robust assessment of affordability
- We are in the process of implementing an ERP system that will provide better data for decision making and greater opportunities for analysis

# How Can We Become Sustainable?

- We set aside funds for future service obligations
- We make - and follow – plans that address both current and future requirements
- We balance perspectives of what is affordable with investments required to sustain assets that service levels depend on
- We “Live within our means”
- We understand that we can’t be all things to all people



## In closing:

- We are not on a financially sustainable path.
- We must live within our means and not spend tomorrow's paycheck today.
- We cannot maintain current service levels at the level of taxation described in the 2014 Budget Directions.
- The current gap between resource availability and service demand will continue to increase as community growth continues and as our assets age.

# Breakout Discussion #1

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## Group 1, Group 2, Group 3, Group B

What are the top 5 issues relating to balancing the management of community expectations, Council's strategic Priorities and the City's Financial Condition?

## Group A, Group C

What are the top 5 issues relating to balancing the service delivery pressures with the City's Financial Condition?

# Service Level and Fee Changes

# Service Level Change Principles

- Maintain the City's ability to meet financial commitments now and in the future
- Raise or introduce new user fees to reduce the need for property tax subsidies
- Take a focused approach to service changes rather than “across the board” type adjustments to spending plans

# Service Level Changes

- Service level changes have been developed by staff that fall into the following categories
  - Service level changes that we require approval on today in order to provide sufficient time for implementation to maximize the financial savings available in 2014
  - Service level changes for which we require Council direction to pursue
  - A set of service level changes that will be proposed to try to achieve Council's direction of a 2% blended tax rate increase

Note: some service level changes will need to be discussed in camera due to the nature of the change

# 2014 User Fee Increases > 5%

- Appendix D of the SR identifies the user fee increases that exceed 5% and new fees proposed that have been included in the base
- GC is being asked to approve these new and increased fees today
- If any of the recommendations are not approved it will result in a larger gap between our current position and Council's direction

**NOTE: In instances where staff felt a more fulsome business case for new fees was required – a Service Level adjustment form was prepared. If the SLC is not approved it simply represents a lost opportunity to close the gap.**