SUBJECT: 20-year budget driver forecast

TO: Committee of the Whole - Budget

FROM: Finance Department

Report Number: F-02-17
Wards Affected: All
File Numbers: 100-01
Date to Committee: January 19, 2017
Date to Council: January 23, 2017

Recommendation:
Receive and file finance department report F-02-17 regarding the 20-year budget driver forecast.

Purpose:
Address other area of responsibility

Background and Discussion:
On November 26, 2012, City Council approved the Long Term Financial plan (Report F-22-12), which contains the following key strategic objectives for the city:

1. Competitive Property Taxes
2. Responsible Debt Management
3. Improved Reserves and Reserve Funds
4. Predictable Infrastructure Investment
5. Recognized Value for Services

Other related reports:
CM-01-16: Burlington’s Strategic Plan 2015-2040
RPM-09-12: Joseph Brant Hospital Contribution Agreement
F-39-13: Asset Management Financing Plan
CW-20-15: Asset Management Plan Update
Discussion:

The purpose of this report is to present the 2017–2036 operating forecast. The simulation uses the 2017 proposed budget (as submitted) as a starting point and adjusts the 2018 – 2036 forecast based on estimated budget drivers and the 2017 capital budget and forecast.

As with any modeling tool, the simulation forecast has greatest precision in the first year. It is imperative that the results are simply used as an information tool regarding major budget drivers and future projected tax impacts. Not only does it provide an analysis of what the future financial picture for the City of Burlington might look like, but it also helps assess financial risks and the affordability of existing and new services, existing and future capital investments, as well as provides an opportunity to analyze sensitivities to assumptions.

When forecasting into the future, it is difficult to predict with 100% accuracy given uncertainties around:

- Changes in economic conditions and market demands
- Fluctuations in customer expectations
- Legislative changes
- Reassessment impacts
- Operating impacts from approved capital initiatives
- Joint venture and other business agreements
- Business process improvements

When updating the 20-year forecasting model, staff considered the general outlook for the city. Staff have shown a realistic scenario where assessment growth is maintained at 0.6% per annum; no new legacy projects are forecasted; and infrastructure renewal funding is addressed over the 20-year time horizon, as per the Asset Management Financing Plan (F-39-13 and CW-20-15). These components provided the basis for estimating budget drivers (as per Appendix A) and include the following assumptions within each item:

Maintaining Current Service Levels – Base Budget

Inflationary Impacts and User Fees

- With the exception of human resources and commodities (hydro, water, fuel etc.), 2.0% inflation per year has been applied to all other expense categories
(materials and supplies, purchased services and contributions to local boards and committees)

- The increases to User Rates and Fees assumed a 2.0% increase per annum, which is dependent on the nature of the revenues and external market conditions.

- An annual increase of 3% to the Vehicle Depreciation Reserve Fund to sustain the City’s fleet and equipment inventory.

Corporate Expenditures/Revenues

- An annual increase to the provisions for Insurance and Contingency Reserves of $100,000 each.

- An increase in Investment Income of $100,000 per year in 2019 and beyond given the current low interest rate environment.

- Reversal of one-time revenue of $220,000 for assessment growth stabilization in 2018.

Other Expenditures

Infrastructure Renewal Funding and Joseph Brant Hospital

- An annual increase of 1.25% for Dedicated Infrastructure Renewal Funding from 2017-2022, reduced to 1.0% for 2023-2033 and 0.5% for 2034 and 2036. This provides funding for capital renewal, as per the Asset Management Financing Plan (approved 20-year scenario).

- An annual increase of $200,000 (2020-2024) in order to phase in required increase for debt charges.

- Includes the repositioning of the hospital levy to infrastructure renewal in 2019 ($1.5 million), 2026 ($800,000) and 2027 ($2.5 million).

Business Cases

- Details from the 2017 Capital Budget and Forecast as well as growth related operating impacts in the future.

- In order to address Service enhancements, similar to the one included in the 2017 Proposed Budget for Tree Service ($254K), $600,000 have been included.
in the 2018 Forecast for Playfield Service levels, reducing to $400,000 annually from 2019 and beyond for other Service enhancements.

**Allowance for Unknown Factors**

As with all forecasts, it is imperative to recognize that there are a vast number of unknown factors that will likely occur in the future that could impact the model. In order to address these unpredictable factors, an amount of $100,000 has been included in the 2019 forecast, increasing by $50,000 per year until 2027, and maintained at $500,000 beyond that.

**Assessment Growth**

The weighted assessment growth for the 2017 budget is 0.15%. Assessment growth is estimated to be 0.6% in 2018 and maintained unchanged for the remainder of the 20-years. Over the last 5 years, weighted assessment growth has ranged from a low of 0.15% to 1.16%. The five year average is 0.75%.

**Financial Matters:**

The proposed 2017 Budget reflects a city tax impact of 4.23%, resulting in an overall tax impact of 2.48% (City, Region and Education).

The simulation forecasts the city tax impact from 2018 to 2036 to begin at 4.96% reducing to 2.90%. The overall tax rate impact (City, Region and Education) ranges from 2.93% in 2018 to 2.27% in 2036.

While staff will look for ways to smooth out the timing of operating impact from prior approved capital projects, it is important for council to recognize the significant pressures in 2018. One way to stabilize significant spikes would be to partially advance a known 2018 budget pressure. While this would increase the 2017 budget, it could assist in mitigating the 2018 forecasted impact.

**Total Financial Impact**

The model indicates tax increases as follows (detailed in Appendix A):

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net City Tax Increase</strong></td>
<td>4.23%</td>
</tr>
<tr>
<td><strong>Overall Tax Bill</strong></td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>--------------</td>
</tr>
<tr>
<td></td>
<td>2.48%</td>
</tr>
</tbody>
</table>

**Conclusion:**

The 20-year budget driver forecast is a tool that provides a high level summary of major budget drivers and the expected tax impacts. This will be helpful to establish future budget targets, as well as provide the ability to undertake tax impact sensitivity analysis should circumstances change.

Respectfully submitted,

Meri Gjeka
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**Appendices:**

- a. 20-year forecasted budget drivers
- b. 20-year tax increase forecast graph

**Report Approval:**

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.