



SUBJECT: 2018 Proposed Operating Budget Overview

TO: Committee of the Whole - Budget

FROM: Finance Department

Report Number: F-38-17

Wards Affected: All

File Numbers: 435-01

Date to Committee: December 1, 2017

Date to Council: December 11, 2017

Recommendation:

Receive and file the proposed 2018 operating budget book; and

Direct staff to present the following recommendation to the Committee of the Whole - Budget on January 18th, 2018 for review and final approval, taking into consideration committee amendments:

Approve the 2018 operating budget including any budget amendments approved by the Committee of the Whole - Budget to be applied against the proposed net tax levy amount of \$159,855,656.

Purpose:

An Engaging City

- Good Governance

This report provides an overview of the 2018 proposed operating budget.

Background and Discussion:

The 2018 operating budget submission continues to adhere to the guiding principles and directions of the reports below:

- F-28-17; 2018 Budget Framework Report
- F-02-17; 20 Year Budget Driver Forecast
- F-12-17; 2016 Asset Management Financing Plan
- F-15-15; BMA Financial Condition Assessment
- F-22-12; City of Burlington's 2012 Long Term Financial Plan

The 2018 proposed operating budget is presented in a service based format allowing Council and residents to see how our services meet the needs and growing demand of our community. The identification of revenues and expenditures by service ensure staff and Council is considering service adjustments when making budget decisions, as well as providing increased transparency and awareness to the public.

Service business plans are available to the public and Council on the city website for information. These business plans provide information on the service, programs delivered and funding required to deliver the service.

2018 Proposed Operating Budget

Budget Process

The 2018 budget development process followed similar timelines to last year with Council approval scheduled for January 22, 2018.

The budget process included:

- A line-by-line review of the base budget by the Director of Finance and Service Owners (budget reductions of \$600,000)
- A corporate / strategic review by the Operating Budget Leadership Team. This team is comprised of the City Manager, Director of Finance, Director of Human Resources, Director of Planning and Building (rotating member) and the City Clerk (rotating member)
- Alignment to strategic objectives and review of business cases

Financial Summary

The 2018 net tax levy is \$159,855,656. Overall, the 2018 operating budget ensures the city's strong financial position is maintained and residents receive the programs and services they value.

The 2018 proposed budget focuses on maintaining service levels, ensuring our assets are maintained, continuing to provide strategic investments and upholding legislative requirements while ensuring competitive property taxes.

- The city's base budget is presented with a 0.46% increase.
- The estimated impact from legislative changes to the Employment Standards and Labour Relations Acts (Bill 148) of \$1 million results in an additional tax increase of 0.65%
- The annualized impact of changes made within the Transit Service to provide operational sustainability of \$1.3 million results in an additional tax increase of 0.85%
- Impacts from the 2014 arbitrated Fire settlement of \$1.2 million results in an additional tax increase of 0.78%
- The increase for the dedicated infrastructure levy of \$1.9 million results in an additional tax increase of 1.32%
- A business case to increase maintenance standards on city sportsfields for \$320K (+0.21%) brings the total tax increase to 4.19%.
- Combined with the Region of Halton increase and the Boards of Education, the overall tax increase is projected at 2.49%.

The following table provides a breakdown of the city's tax increase.

Table A: 2018 Proposed City Tax Impact

| | 2018 Budget Change | 2018 Tax Impact |
|---|-----------------------------------|--------------------------------|
| City Services | \$1,180 | 0.41% |
| Local Boards and Other Agencies | \$304 | 0.10% |
| Corporate Revenues and Expenditures | \$(149) | (0.05)% |
| Cumulative Impact (\$ / %) | \$1,335 | 0.46%* |
| Employment Standards Impacts | \$1,000 | 0.65% |
| Transit Sustainability | \$1,306 | 0.84% |
| Arbitrated Fire Settlement | \$1,200 | 0.78% |
| Capital Infrastructure Renewal | \$1,900 | 1.25% |
| Cumulative Impact (\$ / %) | \$6,741 | 3.98% |
| BUSINESS CASE | | |
| Sportsfield Maintenance Enhancements | \$320 | 0.21% |
| Cumulative Impact (\$ / %) | \$7,061 | 4.19% |
| Overall Tax Impact (City, Region, Education) | 2.49% | |

Numbers may not add due to rounding

* Base budget offset with assessment growth of 0.41%

2018 Budget Pressures

In the 2018 Budget Framework report (F-28-17), presented to Committee in June, staff indicated that the 2018 proposed operating budget will be in keeping with the objectives identified in the long term financial plan.

The framework report projected a city tax increase of 4.00% for 2018. This assumed assessment growth at 0.6%. Staff have brought forward a 2018 proposed budget with a total city tax increase of 4.19%. The 2018 budget includes assessment growth at 0.41%.

Since the Framework Report was presented, a number of significant budget pressures have emerged impacting the 2018 Proposed Operating Budget.

- **Bill 148– Fair Workplaces, Better Jobs Act.**

This Bill will amend the Employment Standards Act and the Labour Relations Act and will come into effect January 1, 2018. An example of one of the changes is the increase to minimum wage to \$14/hr on January 1, 2018 and then to \$15/hr in 2019. The proposed 2018 budget includes \$1.0 M of additional costs.

- **Transit Sustainability**

At the Committee of the Whole Workshop on September 7, 2017 council received a presentation from Transit staff on the challenges facing the department's operations. At that time Council directed staff to immediately take the necessary steps to address safety concerns, the level of supervision and appropriate preventative maintenance. The annualized impact of these changes is approximately \$1.3 M to the proposed 2018 budget.

- **Arbitrated Fire Settlement**

The impact of arbitrated Fire settlement awards is impacting municipalities across the province. The 2018 impact from the 2014 settlement of approximately \$1.2 M is included in the proposed budget.

Partially mitigating the impact of the above noted budget pressures and reduced assessment growth and was achieved through the following:

- a thorough review (deep dive) of the base budget resulting in savings of \$600,000
- continued reliance on one-time revenue of \$220,000 for assessment growth stabilization

Overall this has reduced the city tax increase by 0.53%.

2018 PROPOSED BASE BUDGET

Base Budget Pressures

Human Resource Management

Municipalities are service organizations that rely heavily on human resources to deliver the range and quality of services that residents have come to expect. Human resource costs (including benefits, training, etc.) as a percentage of the City's gross budget has changed from 50.5% in 2004 to 46.2% proposed for 2018.

The year-over-year base increase for human resource costs is approximately \$5.1 million or 4.7%. Excluding the impacts from Bill 148, Fire Interest Arbitration and Transit sustainability impacts the increase is \$1.86 million or 1.7%.

Local Boards & Committees

Local Boards include the Burlington Public Library, Burlington Museums, Art Gallery of Burlington, Burlington Performing Arts Centre (BPAC), Tourism Burlington and the Burlington Economic Development Corporation (BEDC). For 2018 a base budget increase of 2.0% was provided for local boards, equating to \$295,910.

Investment in the Capital Program

The city continues to make good progress on its infrastructure renewal needs as Council has provided *Predictable Infrastructure Investment*, in the form of a dedicated incremental infrastructure levy. The proposed budget includes a 1.25% (\$1.9 million) levy as recommended in the city's Asset Management Financing Plan.

A recent review of the Vehicle Depreciation Reserve Fund (VDRF) recommended that the annual contributions to the reserve fund be increased from 3% to 4% per annum to ensure long-term financial sustainability. This increased contribution has an incremental \$32,000 ongoing impact to the operating budget.

Budget Savings and Increased Revenues

Finance undertook a detailed line by line review of the base budget and met with each of the 38 services. This review resulted in over \$600,000 in budget reductions through changes to both expenditures and revenues. In addition, service owners were asked to provide efficiency improvements they have implemented. This information is summarized in Appendix B.

Some highlights of expenditure savings or revenue increases in the 2018 proposed budget include:

- reduction in hydro cost of \$475,000 and contracted maintenance costs of \$75,000 as a result of the ongoing conversion of streetlights to LED technology
- reduction in natural gas costs of \$55,000 based on recent trends
- reduction in telephone costs of \$41,000 as a result of a detailed review of phone usage and adjustments to the contract with the phone provider
- reduction in debt charges of \$461,000 as a result of favourable construction tenders from early contracts.
- reduction in salt costs of \$126,000 as a result of favourable tender pricing
- reduction in professional and consulting costs of \$102,000 across a number of services due to a decreased reliance on external services.
- reduction in vacancy rebate costs of \$85,000

- increase in registration fee and rental revenues of \$181,000 to reflect increased volume of participants as well as increases to fees
- increase in Building Permit fees of \$186,000 to reflect an increase in the costs to administer enforcement of the Building Code (Bill 124)
- increase in Development Application and Approval Processing (DAAP) fees of \$140,000 to reflect an increase in volume and a 2% increase in fees
- increase in parking fines of \$215,000 and daily parking revenues of \$150,000 to better align with historical revenue trends
- increase in Transit advertising revenues of \$170,000 as a result of a new advertising contract.

FINANCIAL SUSTAINABILITY & BUDGET RISKS

The city continues to closely monitor revenue sources and financial strategies to maintain financial sustainability as outlined in the objectives of the city's long-term financial plan. The budget includes a number of potential risks which continue to be monitored by staff. Some of these items are outlined below:

Tax Write-offs

Annually the city budgets for tax write-offs based on assessment reductions or property class changes agreed to by MPAC and/or the Assessment Review Board (ARB). Annual write-offs have traditionally been approximately \$1 million. In 2017 write-offs are estimated to total \$2 million due to continued processing of longstanding appeals being resolved by the ARB. These write-offs have depleted the allowance account which will require a provision to be made at year-end as part of the retained savings. The budget for write-offs has been increased by \$50,000 to \$1.175 million.

Growth Impacts

As indicated in the 20 year simulation report, impacts from growth account for a portion of the city's increased costs year over year. In the 2018 proposed base budget, growth-related impacts of approximately \$405,000 are reflected in the base budget resulting from technical and maintenance costs from the expansion of business applications and technology across the organization as well as the increased utility costs for Nelson Pool and splashpad.

These growth costs and other inflationary increases have been offset by assessment growth which allows a municipality to finance increased costs without increasing taxes.

Over the past five years Burlington's weighted assessment growth was:

- 2013 0.87%
- 2014 0.58%
- 2015 0.97%
- 2016 1.16%
- 2017 0.15%

The weighted assessment growth for the 2018 budget is **0.41%** which provides approximately \$611,000 of additional revenue to offset inflation and growth related costs in the base budget. As stated above, assessment reductions and class changes have contributed to the low assessment growth. Staff continue to believe a portion of this is one-time in nature and have maintained \$220,000 (0.15%) in one-time revenue in the budget to provide assessment growth stabilization.

2018 PROPOSED BUSINESS CASE

The 2017 Approved Budget included \$200,000 to implement the first phase of the Enhanced Sportsfield Maintenance Strategy. Included with the 2018 budget is a business case to provide the remaining funding requirements of \$320,320 and 3.2 FTE to fully implement this strategy. This business case aligns with the city's Strategic Direction of a Healthy and Greener City. It will result in improved turf resilience and playability as well as demonstrates environmental leadership and stewardship of our natural assets.

ADDITIONAL ITEM FOR CONSIDERATION

In addition to the one business case recommended in the 2018 budget, a second business case has been included in the Proposed Operating Budget Book for Council's consideration. This business case includes 5 additional Transit operators to provide appropriate industry standard layover times into routes. This would improve schedule adherence and reliability of the service. This business case for \$372K would add an additional 0.24 % tax increase above the Proposed 2018 Budget of 4.19%. Should Council wish to consider some or all of this bussiness case, each additional operator is equivalent to \$74,500 or 0.05%.

BUDGET ALIGNMENT TO THE STRATEGIC PLAN

Council approved Burlington's Strategic Plan 2015-2040 in April 2016 (Report CM-01-16). The strategic plan includes four strategic directions:

- A City that Grows
- A City that Moves
- A Healthy and Greener City
- An Engaging City

The city's strategic plan clearly sets forth initiatives to plan for the future. It is staff's responsibility to resource, administer and deliver strategies and initiatives laid out in the plan. The following items have been included in the 2018 operating base budget which help to support the initiatives of the city's Strategic Plan.

A CITY THAT GROWS

- Funding in 2018 to retain Land Economics consulting services for development proposals.

A HEALTHY AND GREENER CITY

- Funding in 2018 to conduct a Parks Master Plan update in association with the new Official Plan. This plan will result in updated policies ensuring that appropriate revised standards for parkland acquisition / cash-in-lieu are applied to a city that is intensifying.

AN ENGAGING CITY

- 1.25% levy increase (\$1.9 million) dedicated to the renewal of the city's infrastructure as recommended in the city's Asset Management Plan.
- Funding in 2018 to develop culturally specific programming for both youth and adults and to engage new Canadians and educate the public to the rich cultural fabric of our community.

Council Information Session

As in prior years, the budget review process includes a council information session for the operating budget. This session provides council with the opportunity to ask questions on the proposed budget to service owners. The budget information session for members

of Council will be held on December 12, 2017, in rooms 305 and 307, from 1:00 p.m. – 4:00 p.m. A detailed agenda is included in Appendix A.

| 1:00 – 2:30 pm | |
|---|---|
| Room 305 | Room 307 |
| <ul style="list-style-type: none">• Internal Support & Administration• Leisure | <ul style="list-style-type: none">• Public Safety• Customer Relations & Citizen Representation• Local Boards & Other Agencies |

| 2:30 – 4:00 pm | |
|---|---|
| Room 305 | Room 307 |
| <ul style="list-style-type: none">• Maintenance | <ul style="list-style-type: none">• Design & Build• Roads & Transportation |

The operating budget review form will be provided to all members of council. Staff propose that each Council member use this form to highlight proposed amendments to the operating budget. The consolidated listing of the budget review form will assist in budget review at the COW-Budget review meeting which will be held on January 18, 2018. Please return your completed form to the Director of Finance, in order to allow time for consolidating the information and distributing the summary for committee review by **January 2, 2018**.

Financial Matters:

Approval of the 2018 Operating Budget will establish the authority for preparing the 2018 Tax Levy By-law. The proposed city increase of 4.19%, which, when combined with the Region of Halton and educational taxes, provides an overall property tax increase of 2.49% for urban residential taxpayers. For each \$100,000 of residential assessment, this translates into an overall increase of \$21.03.

Public Engagement Matters:

Staff will continue to use the city's website as a communication medium through videos, webcast and online surveys.

The City is continuously looking for ways to improve and increase transparency for the public. A revised version of Burlington Open Budget, on the city's website, is available to the public to allow residents to view the city's 2018 budget data in an intuitive and illustrative form.

The City hosted a Telephone Town Hall on the 2018 Proposed Budget on Wednesday, October 18, 2017 for residents, businesses and community partners. Participants learned about and discussed the proposed 2018 budget priorities with Mayor Rick Goldring and senior staff.

In this live, call-in session, residents, organizations and business owners were able to ask questions about the upcoming budget and respond to polling questions. There was an emphasis placed on resident satisfaction with value for service, increased funding for transit, and support for city infrastructure renewal funding.

Report F-48-17 on the results of this community engagement is provided on this agenda.

Budget Timelines:

| | |
|-------------------|--|
| December 1, 2017 | Proposed operating budget overview at Committee of the Whole - Budget (COW-Budget) |
| December 12, 2017 | Operating budget Council information session |
| January 2, 2018 | Operating budget review forms due |
| January 18, 2018 | Operating budget review and approval at COW- Budget |
| January 22, 2018 | Council approval of the operating budget |

Conclusion:

The proposed 2018 budget presents a balanced program aimed to address some initiatives in the Strategic Plan, the city's commitment to the asset management plan and providing value for service to residents.

Respectfully submitted,

Lori Jivan

Coordinator of Budgets and Policy

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Appendices:

- A. Council Information Session Detailed Agenda
- B. Service Efficiency Improvements

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.

Appendix A

Operating Budget Council Information Session - December 12, 2017

| Room 305 | Room 307 |
|---|---|
| 1:00 – 2:30 PM | |
| Internal Support & Administration <ul style="list-style-type: none"> • Information Technology • Financial Management • Human Resources • Corporate Management • Communications • Corporate Legal • Geographic Information and Mapping • Asset Management • Internal Audit • Fleet Management • Corporate Signs Leisure <ul style="list-style-type: none"> • Recreation • Organized Sport Support • Arts and Culture | Public Safety <ul style="list-style-type: none"> • Fire Communication • Fire Prevention and Public Education • Emergency Response • Animal Control • By-law Enforcement • Emergency Management Customer Relations & Citizen Representation <ul style="list-style-type: none"> • Council and Citizen Committee • Service Burlington Local Boards & Other Agencies <ul style="list-style-type: none"> • Library • Tourism • Museums • BEDC • AGB • BPAC • Halton Court Services |
| 2:30 – 4:00 PM | |
| Maintenance <ul style="list-style-type: none"> • Roadway and Sidewalk Maintenance • Parks and Open Space Maintenance • Tree Management • Surface Water Drainage • Environment and Energy • Cemetery | Design & Build <ul style="list-style-type: none"> • Community Design and Development Review • Facilities and Buildings – Design and Construction • Planning Policy • Parks and Open Space – Design and Development • Building Code Permits and Inspection Roads & Transportation <ul style="list-style-type: none"> • Transit • Traffic Operations Management • Roads and Structures – Design and Construction • Transportation Planning • Parking Management |