

To: Members of the Committee of the Whole - Budget

From: Joan Ford, Director of Finance

Cc: Tim Commisso, Acting City Manager

Date: January 15th, 2019

Re: Response to Staff Direction SD-27-18 - Budget Options

At the Committee of the Whole meeting of December 13th, 2018 Council budget orientation presentation the following staff direction was passed:

- 1. Direct the Director of Finance to provide budget options for the Jan. 17, 2019 Committee of the Whole- Budget meeting for up to a maximum budget increase (city portion only) of 2%, 3% and 3.25% for 2019; and*
- 2. Direct the Director of Finance to report back to the Jan. 17, 2019 Committee of the Whole - Budget meeting on the impact of removing the 1.25% infrastructure tax levy for the 2019 budget; and*
- 3. Direct the Deputy City Manager to report back to the Feb. 14, 2018 Committee of the Whole - Workshop meeting on the creation of a 4-year work plan based on this council's priorities, with consideration of the existing 25-year Strategic Plan.*

This memo addresses the first two parts of this staff direction.

Part 1 – 2019 Operating Budget Options

The Proposed 2019 Operating Budget is presented with a 3.99% city tax increase. Included in this budget are investments in key priority areas such as infrastructure renewal, transit and by-law enforcement. Investing in our assets ensures service delivery as well as provides residents with a positive service experience. The 2019 proposed budget is staff's recommendation of a budget that maintains services, provides key service enhancements and addresses known infrastructure requirements.

The proposed city increase when combined with the estimated regional and education levies results in an overall property tax increase of 2.45% or \$19.99 per \$100,000 of residential assessment.

Staff has been asked to provide options to show how the city's proposed budget could be reduced to 3.25%, 3% and 2%.

The options presented below largely result in decreased funding to the capital program. It is important to note that any changes to the dedicated infrastructure levy impacts both renewal projects as well as new projects in the capital program. The city's asset management plan is about the long-term management of our existing infrastructure.

New capital assets add to the city's base inventory and therefore increase our funding requirements for renewal needs. If we are unable to sustain our existing portfolio of assets it is recommended that we limit future expansion and/or new infrastructure. Continued investments in new or expanded assets compound our inability to financially manage our infrastructure.

Staff have provided this memo for information and have attempted to communicate the future challenges and impacts that each of the options pose.

Option A – 3.25% (0.74% tax reduction from 3.99%)

	2019 Proposed Tax Levy	2019 City Tax Impact	\$ Impact on Tax Bill	2019 Overall Tax Impact
Staff Proposed 2019 Budget	\$167,556,586	3.99%	\$19.99	2.45%
<u>Budget Options</u>				
Elimination of Leaf Pickup program	\$ (450,000)	(0.28%)		
Capital Program Reduction (New Projects)	\$ (750,000)	(0.47%)		
	\$166,356,586	3.25%	\$17.36	2.13%
Difference		(0.74%)	(\$2.63)	(0.32%)

Financial Impact: Operating Budget Reduction - \$1,200,000
 Impact on 10-year Capital Program - \$7,500,000
 Impact per \$100,000 Assessment - \$2.63

Options for service reductions are:

- Elimination of the loose-leaf collection program.

Benefits

- Ongoing operating savings of \$450,000 (0.28% tax reduction) and approximately \$45,000 of average annual renewal costs for the replacement of equipment.
- Allows for 2,400 staff hours to be reassigned to other program areas including parks, trails, sportsfield maintenance, and road maintenance.
- Allows for winter snow fighting equipment to be ready in November. Currently only one weekend of turnaround time between leaf collection and winter work.
- Loose-leaf collection is not always completed due to onset of winter weather. This frustrates residents and challenges staff to convert equipment over to snow fighting in a timely fashion.
- Results in reduced greenhouse gas emissions from equipment operating for 6 weeks and trucking by contractor to Halton Waste Disposal site. Currently leaves are collected and trucked to a central area and later picked up by a contractor who transports them to the Halton Region transfer station where the city pays a tipping fee to dispose of the leaves.
- Halton Region provides bagged yard waste every other week from April to December.
- In lieu of this program, the city would promote more environmentally friendly options including mulching leaves on site or composting at home.

Drawbacks

- Reduced service to residents
 - This will increase collection of bagged leaves by Halton Region Waste Services.
 - Will require extensive public education / communication.
- 2019 capital program reduction of \$750,000 for new infrastructure (0.47% tax reduction).
 - Results in ongoing reduction of funding to the 10-year capital program of \$7.5 million.

- The list of 2019 projects that would be impacted are:

RFP New Materials Storage	\$	200,000
Fire Emergency Response Drone	\$	50,000
New Sweeper for Downtown	\$	125,000
By-Law Support Vehicle - Supervisor	\$	35,000
Brant St. at Elgin Right Turn Elimination	\$	314,000
Traffic Calming Projects	\$	26,000
Total	\$	750,000

Should this option be considered, an amendment to the 2019 capital budget would be required for the projects identified above. Future years would need to be amended as part of the 2020 capital budget. The removal of \$7.5 million of funding from the 10-year capital budget and forecast would limit the city's ability to address any requests for future new infrastructure. This would constrain future investments to implement recommendations resulting from the integrated transportation mobility plan, cycling master plan, school closure opportunities, and enhanced neighbourhood amenities such as splash pads and skate parks.

Option B – 3% (0.99 % tax reduction from 3.99%)

	2019 Proposed Tax Levy	2019 City Tax Impact	\$ Impact on Tax Bill	2019 Overall Tax Impact
Staff Proposed 2019 Budget	\$167,556,586	3.99%	\$19.99	2.45%
<u>Budget Options</u>				
Elimination of Leaf Pickup program	\$ (450,000)	(0.28%)		
Capital Program Reduction (New Projects)	\$ (750,000)	(0.47%)		
Capital Program Reduction (New Projects)	\$ (400,000)	(0.25%)		
	\$ 165,956,586	3.00%	\$16.47	2.02%
Difference		(0.99%)	(\$3.52)	(0.43%)

Financial Impact: Operating Budget Reduction - \$1,600,000
 Impact on 10-year Capital Program - \$11,500,000
 Impact per \$100,000 Assessment - \$3.52

In addition to the items included in Option A, a further service reduction option is:

- Further reduction of \$400,000 of funding to the capital program for new infrastructure (0.25% tax reduction).
 - This would result in an ongoing reduction of funding to the capital program and require the removal of an additional \$4 million of projects from the 10-year capital program.
 - The remaining new / enhanced project meeting this dollar threshold is:

Elgin Street Promenade (Phase 4)	\$	680,000
Total	\$	680,000

Should this option be considered, an amendment to the 2019 capital budget would be required for the projects identified above. Future years would need to be amended as part of the 2020 capital budget.

The Elgin Street Promenade is included in the Core Commitment Implementation Strategy as a short term initiative to improve active transportation in the downtown and enhance the connectivity of existing pedestrian and cycling connections to the Centennial Multi-use Pathway and the Downtown Transit Terminal through the creation of an enhanced promenade with landscaping and pedestrian facilities that meet Accessibility for Ontarians with Disabilities (AODA) guidelines. The first three phases of this project have been completed. The final phase of this project is planned for 2019 and extends from Pearl Street to Martha Street.

The completed Elgin Promenade will create a significant piece of downtown infrastructure through an east-west pedestrian and cycling corridor that provides opportunities for active transportation including cycling connections, access to transit, walkability and accessibility and brings significant social, environmental and economic benefits to the downtown core. The promenade connects the downtown to the Downtown Transit Terminal and the Centennial Multi-use Pathway which extends northeast across the City.

Without funding for this project, the final phase of this project can not be completed and the objective of connecting the east and west sides of the downtown through a safe, accessible cycling and pedestrian connection will not be realized.

Option C – 2% (1.99 % tax reduction from 3.99%)

	2019 Proposed Tax Levy	2019 City Tax Impact	\$ Impact on Tax Bill	2019 Overall Tax Impact
Staff Proposed 2019 Budget	\$167,556,586	3.99%	\$19.99	2.45%
Budget Options				
Elimination of Leaf Pickup program	\$ (450,000)	(0.28%)		
Capital Program Reduction (New Projects)	\$ (750,000)	(0.47%)		
Capital Program Reduction (New Projects)	\$ (400,000)	(0.25%)		
Capital Program Reduction (Renewal Projects)	\$ (1,610,000)	(1.00%)		
	\$ 164,346,586	2.00%	\$12.90	1.58%
Difference		(1.99%)	(\$7.09)	(0.87%)

Financial Impact: Operating Budget Reduction - \$3,210,000
 Impact on 10-year Capital Program - \$27,600,000
 Impact per \$100,000 Assessment - \$7.09

In addition to the items included in Options A & B, a further service reduction option is:

- Reduction of \$1,610,000 of funding to the capital program for renewal (1% tax reduction).
 - This would result in an ongoing reduction of funding to the capital program and require the removal of \$16.1 million of renewal projects from the 10-year capital program.
 - Examples of projects that would be reduced to meet the remaining value required for the service reduction are:

	Original Budget	Reduced Budget	Reduction
Local Road Resurfacing Program	\$ 2,917,000	\$ 2,217,000	\$ 700,000
Repair & Renewal of Community Centres	\$ 2,116,000	\$ 1,486,000	\$ 630,000
Total	\$ 5,033,000	\$ 3,703,000	\$ 1,330,000

Should this option be considered, an amendment to the 2019 capital budget would be required for the projects identified above. Future years would need to be amended as part of the 2020 capital budget.

The Asset Management Plan is built on the premise of being able to address the city’s infrastructure needs at the right time in the asset’s life cycle and in the most cost-effective manner. This is vital to

ensure that city assets continue to provide a standard of service that residents expect and to minimize long-term costs.

Resurfacing a road at the optimum time results in a cost of 1x. Delaying this treatment begins to compromise the base materials, escalating costs to 3x the original value. Further delay results in the street requiring full reconstruction at a cost of 10x the original value. Removal of funding to the local road resurfacing program will result in sub-optimal timing of construction and cost escalation.

Deferring the renewal of community centres will also result in an increase in the total long-term costs to the City. This includes increased operating and maintenance costs as the facilities age as well as increased risk of system failures impacting service delivery. Recent examples of emergency facility closure include Appleby Ice Centre in December of 2018 and Nelson Outdoor Pool in the Summer of 2017.

Part 2 – Impact of removing 1.25% infrastructure tax levy

Staff interpreted the direction to include the impact for the 2019 budget year only with future dedicated levy increases continuing.

At a high level, the impacts associated with any reduction or removal of the dedicated infrastructure levy includes:

- Impact on the city's asset management financing plan and the city's ten-year capital program. Removing the 1.25% dedicated infrastructure levy for 2019 removes the equivalent of \$2 million of capital projects (renewal/ new) in the budget year, and \$20 million worth of capital projects over the ten-year capital program as the levy has a cumulative impact
- The removal of one year of funding leads to an unsustainable funding plan.
- An increase to the city's unfunded renewal needs, meaning a backlog of renewal projects beyond the 2016 amount of \$126.5 million that will require immediate attention. It is important to recognize that it is possible for the Unfunded Renewal Needs (URN) to grow to a point where the possibility of tackling the immediate requirements and continuing to keep pace with current needs will not be possible due to capacity constraints and unreasonably high financing requirements.

- Deferred maintenance and deferred renewal is inevitable. The result will be an increase in the total long-term costs to the City of Burlington by way of;
 - increased operating and maintenance costs to prolong the life of the asset from accelerated infrastructure deterioration
 - Increased rehabilitation costs due to deterioration beyond the life of the asset
 - Escalation of capital costs due to required higher cost rehabilitation treatments
 - Emergency, unscheduled maintenance due to system failures impacting service delivery
 - Passing costs to future generations to manage existing assets
- Infrastructure renewal investment is crucial to replacing and upgrading assets to better adapt to climate change

Joan Ford
Director of Finance

Staff Direction - Budget Options

	2019 Proposed Budget	\$ Change	2019 Tax Impact
Base Budget	\$ 139,412,523	\$ 2,553,283	1.58%
Regulatory/Contractual Obligations	\$ 1,654,985	\$ 1,654,985	1.03%
Assessment Growth	\$ (1,024,665)	\$ (1,024,665)	-0.64%
Subtotal Base Budget	\$ 141,067,508	\$ 4,208,268	1.97%
Joseph Brant Hospital Levy	\$ 3,100,000	\$ (1,700,000)	-1.05%
Infrastructure Renewal funding	\$ 22,145,700	\$ 3,701,000	2.30%
Infrastructure & Hospital Funding	\$ 25,245,700	\$ 2,001,000	1.25%
Subtotal Base plus Capital Funding	\$ 166,313,208	\$ 6,209,268	3.22%
Public Transit Enhancements	\$ 1,028,778	\$ 1,028,778	0.64%
Other Recommended Service Enhancements	\$ 214,600	\$ 214,600	0.13%
Staff Proposed 2019 Budget	\$ 167,556,586	\$ 7,452,646	3.99%

Budget Options

Elimination of Leaf Pickup program	\$ (450,000)	\$ (450,000)	-0.28%
Capital Program Reduction (New Projects)	\$ (750,000)	\$ (750,000)	-0.47%
Subtotal 3.25%	\$ 166,356,586	\$ 6,252,646	3.25%
Capital Program Reduction (New Projects)	\$ (400,000)	\$ (400,000)	-0.25%
Subtotal 3.00%	\$ 165,956,586	\$ 5,852,646	3.00%
Capital Program Reduction (Renewal Projects)	\$ (1,610,000)	\$ (1,610,000)	-1.00%
Total 2.00%	\$ 164,346,586	\$ 4,242,646	2.00%

New/Enhanced Capital Project Reduction Details *

FB-BD-1915: RPF New Materials Storage	\$ 200,000
VE-EN-1881: Fire Emergency Response Drone	\$ 50,000
VE-EN-1889: New Sweeper for Downtown	\$ 125,000
VE-VN-1909: By-Law Supervisor Support Vehicle	\$ 35,000
RD-RA-1796: Brant St. @ Elgin Right Turn Elimination	\$ 314,000
RD-TC-268: Traffic Calming Projects	\$ 26,000
Subtotal 2019 new capital initiatives	\$ 750,000
RD-SW-1756: Elgin Street Promenade	\$ 680,000
Subtotal 2019 new capital initiatives	\$ 1,430,000

Renewal Capital Project Reduction Details**

RD-RL-1452: Local Road Resurfacing Program	\$ 700,000
FB-CC-1810: Repair & Renewal of Community Centres	\$ 630,000
Subtotal 2019 new and renewal capital initiatives	\$ 2,760,000

*reduction in new/enhanced funding significantly affects ability for these types of projects in future. \$750k reduction in 2019 equates to \$7.5M over 10 years. \$1.43 M equates to \$14.3M over 10 years

**reduction in renewal funding of \$1.33M equates to a reduction of \$13.3 M over 10 years.