



SUBJECT: 2017 Operating Budget Overview

TO: Community and Corporate Services Committee - Budget

FROM: Finance Department

Report Number: F-45-16

Wards Affected: All

File Numbers: 435-01

Date to Committee: December 8, 2016

Date to Council: December 19, 2016

Recommendation:

Receive the Proposed 2017 Operating Budget Book; and

Direct staff to present the following recommendation to the Committee of the Whole – Budget meeting on January 19, 2017 for review and final approval, taking into consideration committee amendments:

Approve the 2017 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 \$152,514,527.

Purpose:

An Engaging City

- Good Governance

This report provides an overview of the 2017 proposed operating budget.

Background and Discussion:

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

Strategic Plan

The city's new 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. This year the new Strategic Plan became the driving force in the 2017 budget process.

In order to ensure that resources and funding are aligned with the Strategic Plan a new approach to business planning and budgeting has been implemented. Establishing priorities for new City investment was a key step in developing the budget this year. Linking the strategic plan to the budget provides accountability between what is achieved and the cost to the tax payer. This process provides a clear link between the strategy and the cost of implementing the initiatives.

The budget is one mechanism that brings the Plan to life through specific initiatives as noted later in this report. In addition, the 2017 operating budget submission continues to adhere to the guiding principles and directions of the reports below:

- F-14-16; 2017 Budget Framework Report
- F-01-16; 20 Year Simulation
- F-15-15; BMA Financial Condition Assessment
- F-22-12; City of Burlington's 2012 Long Term Financial Plan

The 2017 proposed operating budget is once again 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. It should be noted that service based budgeting is not intended to be a detailed activity based costing exercise. As we move forward, the service based structure and presentation may be refined over time. Business plans have not been included in the budget book this year. The plans are available to the public and Council on the city website for review.

2017 Proposed Operating Budget

BUDGET PROCESS

The 2017 budget development process followed similar timelines to last year with Council approval scheduled for January 23, 2017.

The budget process included:

- A line-by-line review of the base budget by the Director of Finance and Service Owners (budget reductions of \$1.17 million realized)
- Operating Budget Leadership Team replaced Executive Committee. This team is comprised of the City Manager, Director of Finance, Director of Human Resources, Director of Transportation (rotating member) and the Director of Legal (rotating member)
- Alignment to strategic objectives and review of business cases
- Enhanced communication with city staff and local boards

Financial Summary

The 2017 net tax levy is \$152,514,527. The 2017 proposed budget focuses on maintaining service levels, ensuring our assets are maintained and renewed and continuing to provide strategic investments while ensuring competitive property taxes.

- The city's base budget is presented with a 2.09% increase, as compared to the three year rolling average of the Toronto Consumer Price Index (2.19%)
- Including prior policy decision to increase the dedicated infrastructure levy and additional tax supported debt charges, the tax increase is 3.66% (+1.58%)
- City business cases bring the increase to 4.23% (+0.57%)
- Combined with the Region of Halton increase and the Boards of Education, the overall increase is projected at 2.48%.

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

Table A: 2017 Proposed City Tax Impact

	2017 Budget	Tax Impact
City Services	\$3,043	1.95%
Local Boards and Other Agencies	\$302	0.20%
Corporate Revenues and Expenditures	\$137	0.09%
Assessment Growth Stabilization	\$(220)	(0.15)%
Cumulative Impact (\$ / %)	\$3,261	2.09%
Capital Infrastructure, VDRF, Debt Charges	\$2,300	1.58%
Cumulative Impact (\$ / %)	\$5,561	3.66%
BUSINESS CASES		
Expanded/New Business – City	\$834	0.57%
Cumulative Impact (\$ / %)	\$6,395	4.23%
Overall Tax Impact (City, Region, Education)	2.48%	

- Numbers may not add due to rounding

As per the 2017 Budget Framework report (F-14-16), presented to Committee in July, staff indicated that the 2017 proposed operating budget will be in keeping with the objectives identified in the long term financial plan.

The projections of the 20 year simulation identified the key budget drivers to maintain service levels and minimize associated tax rate increases. The simulation projected a city tax increase of 3.89% for 2017. This simulation assumed assessment growth at 0.9%. Staff have brought forward a 2017 proposed budget with a total city tax increase of 4.23%. The 2017 budget includes assessment growth at 0.15%.

	Tax Increase	Assessment Growth
2017 Simulation	3.89%	0.90%
2017 Proposed Budget	4.23%	0.15%
Change	0.34%	(0.75%)

Partially mitigating the impact of the reduced assessment growth was achieved with the following:

- a thorough review (deep dive) of the base budget resulting in savings of \$1.17 million,

- a one-time revenue of \$220,000 for assessment growth stabilization equivalent to 0.15%.
- while ensuring that the proposed 5 business cases were strongly aligned to strategic objectives and priorities.

Overall this approach resulted in the mitigation of 0.41% tax increase (0.34% - 0.75%).

2017 PROPOSED BASE BUDGET

Investment in the Capital Program

The city is making 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% or \$1.83 million levy as recommended in the city's Asset Management Financing Plan.

Also included in the proposed budget is a 0.12% or \$175,000 increase to debt charges to fund the \$5.6M of debt proposed for the LED Street Light Conversion Program.

Budget Pressures

During the development of the 2017 budget staff identified key areas where additional investment was required. Some of these areas include:

- increase in hydro cost of \$306,600 and water costs of \$160,200 as a result of a 5% rate increase and minor adjustments to volume.
- increase in equipment parts and supplies of \$227,000 primarily in Transit as a result of older model buses which require additional repair. In 2017, 4 of these buses are scheduled for replacement however a number remain in the fleet.
- increase in vendor hosted solutions costs of \$246,000 as a result of the trend towards more hosted software solutions within the city.

Budget Savings and Increased Revenues

Some highlights of expenditure savings or revenue increases in the 2017 proposed budget include:

- reduction in diesel fuel costs of \$204,000 to reflect a decline in the cost per litre (in addition to a reduction of \$610,000 in 2016),
- reduction in cellular telephone costs of \$68,000 as a result of favourable rates by the vendor and shift towards BYOD (bring your own device),

- reduction in natural gas costs of \$30,500 based on recent trends,
- increase in registration revenues of \$137,600 to reflect increased volume of participants as well as increases to program fees,
- increase in Official Plan and Rezoning fees of \$50,000 to reflect an increase in volume and a 2% increase in fee effective January 1, 2017,
- increase in parking fines of \$381,000 to better align with historical revenue trends,
- Increase in Supplementary taxes, PILs and Penalties and Interest on Taxes of \$284,300 based on trends.

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 45.3% proposed for 2017.

The year-over-year base increase for human resource costs is approximately \$2.8 million or 2.7%.

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 2017 a base budget increase of 2.0% was provided for local boards, equating to \$290,108.

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.

Supplementary Tax Revenue

Supplementary tax revenue is generated from additional in year assessment. This revenue is difficult to predict as it is dependent on the number of properties assessed by the Municipal Property Assessment Corporation (MPAC) and the level of growth in the city. The budget has been increased to \$1 million (\$100,000 increase) in 2017.

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 2016 significantly higher write-offs were realized totaling \$3.6 million due to significant processing of outstanding appeals by the ARB before the new 4 year reassessment period. 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 to \$1.125 million (\$50,000 increase).

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 2017 proposed base budget, growth-related impacts of approximately \$295,000 are reflected resulting from technical and maintenance costs from the expansion of business applications and technology across the organization.

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:

- 2012 1.01%
- 2013 0.87%
- 2014 0.58%
- 2015 0.97%
- 2016 1.16%

The weighted assessment growth for the 2017 budget is **0.15%** which provides approximately \$220,000 of additional revenue to offset inflation and growth related costs in the base budget. As stated above, significant assessment reductions and class changes have contributed to the low assessment growth. Staff believe a portion of this is one-time in nature and have included an additional \$220,000 (0.15%) in one-time revenue in the budget to provide assessment growth stabilization.

Investment Income

The 2017 budget continues to include \$5.3 million of investment income as a source of revenue. It has been increasingly challenging to achieve the budget for investment earnings from interest revenues alone due to a continued low interest rate environment.

Historical budgets have been achieved through capital gains that have materialized as a result of the city's active investment portfolio management. While the city benefits from capital gains from the investment portfolio, these revenues are one-time in nature and do not form part of the annual operating budget. Staff will continue to monitor investment earnings to determine whether any adjustment is required in future years.

BUDGET ALIGNMENT TO THE STRATEGIC PLAN

The following items have been included in the 2017 operating budget which help to support the initiatives of the city's new Strategic Plan.

A CITY THAT GROWS

Service	Alignment	Base or Business Case
Corporate Management Service	Ongoing Project Management resources to handle corporate strategic projects.	Business Case

A HEALTHY AND GREENER CITY

Item	Alignment	Base or Business Case
Parks and Open Space Design and Development	Additional resources have been provided to support the expansion of the community garden program.	Base Budget
Tree Management	Additional resources required to meet current levels of service for inspections, work order management, pruning, removals, stumping, planting, watering and fertilizing of trees. This will ensure the healthy of the city's urban forest.	Business Case

AN ENGAGING CITY

Service	Alignment	Base or Business Case
Base Budget	The 2017 base budget increase of 2.09% is aligned with inflation (Toronto 3 year rolling average CPI 2.19%)	Base Budget
Corporate Expenditures	1.25% levy increase (\$1.83M) dedicated to the renewal of the city's infrastructure as recommended in the city's Asset Management Plan as well as a further 0.33% (\$0.47M) for increased debt charges.	Base Budget
Arts and Culture	Additional resources have been provided to support the maintenance and conservation of the city's public art.	Base Budget
Arts and Culture	A \$50,000 provision from the Cultural Initiatives Reserve Fund will be used to provide grant funding to cultural organizations.	Base Budget
Communications	Additional resource to support intergovernmental relations.	Base Budget
Communications	Additional funding has been provided to support community engagement initiatives and related technology.	Base Budget
Organized Sport Support	Funding to provide on-going support for community event organizers to support the development and delivery of events that engage the public to strengthen, celebrate and build community identity in Burlington.	Business Case

2017 PROPOSED BUSINESS CASES

There are a total of 5 business cases presented with the 2017 proposed operating budget. These city business cases total \$1,469,985 of which \$635,825 has been funded from one-time revenues (tax rate stabilization reserve funds) resulting in a net ongoing tax supported amount of \$834,160. Three business cases are aligned to initiatives in the Strategic Plan as noted above; one business case is aligned to the city manager's workplan and one to the Corporate IT Strategy.

Service	Alignment
Community Design and Development Review	One-time funding request to retain Land Economics consulting services for development proposals. This supports an objective in the City Manager's Workplan.
Information Technology	Temporary project resources to upgrade the city's AMANDA system and improve internal business process. This supports the city's Corporate IT Strategy.

One time funding

In accordance with the city's approved one-time funding policy, some of the budgeted expenditures in the 2017 Proposed Operating Budget were identified as one-time in nature and funded from a one-time source of revenue (net zero impact). The total amount of one-time funding being proposed as per recommended city business cases is \$635,825.

COUNCIL INFORMATION SESSIONS

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 15, 2016, in room 247, from 9:00 a.m. – 12:00 p.m. A detailed agenda is included in Appendix A.

December 15, 2016	Service Category
9:00 a.m. – 9:50 a.m.	<ul style="list-style-type: none"> • Internal Support & Administration • Customer Relations & Citizen Representation • Local Boards and Other Agencies
9:50 a.m. – 11:10 a.m.	<ul style="list-style-type: none"> • Public Safety • Leisure • Design & Build
11:10 a.m. – 12:00 p.m.	<ul style="list-style-type: none"> • Roads & Transportation • Maintenance

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 Committee of the Whole - Budget meeting which will be held on January 19, 2017. 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 **December 21, 2016**.

Financial Matters:

Approval of the 2017 Operating Budget will establish the authority for preparing the 2017 Tax Levy By-law. The proposed city increase of 4.23% (including business cases); which, when combined with the Region of Halton and educational taxes, provides an overall property tax increase of 2.48% for urban residential taxpayers. For each \$100,000 of residential assessment*, this translates into an overall increase of \$21.62.

*2016 residential urban CVA

Public Engagement Matters:

To provide the opportunity to inform the public on the 2017 proposed budget, a public meeting was held December 7, 2016 at the Haber Recreation Centre from 7:00 – 9:00 pm. The event was advertised on the city's website, Burlington Post, Facebook, Twitter and media releases.

During the summer two online surveys were conducted using the city's engagement software (Insight Burlington and Mindmixer). Combined over 700 residents responded. The results of this budget engagement are outlined in the Preliminary Budget Engagement Results report (F-43-16) also on this same agenda. As in the past, staff will continue to extensively use the city's website as a communication medium through videos, webcast and online surveys.

To complement our open data offerings, we will once again be using the open data application known as "Open Budget". This will allow residents to view the city's budget in an intuitive and illustrative form.

Budget Timelines:

December 7, 2016	Public Budget Information Meeting Haber Recreation Centre (7:00 – 9:00 pm)
December 8, 2016	Proposed Operating Budget overview at Community & Corporate Services Committee (C&CS)
December 15, 2016	Operating Budget Council Information Session
December 21, 2016	Operating budget review forms due
January 19, 2017	Operating budget review and approval at Committee of the Whole – Budget (COW-B)
January 23, 2017	Council approval of the operating budget

Conclusion:

The proposed 2017 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

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.