

SPECIAL CITY COUNCIL AGENDA



Council Chambers, Guelph City Hall, 1 Carden Street

DATE December 5, 2012 – 6:00 p.m.

Please turn off or place on non-audible all cell phones, PDAs, Blackberrys and pagers during the meeting.

Disclosure of Pecuniary Interest and General Nature Thereof

2013 Tax Supported Operating and Capital Budgets

THAT the 2013 Tax Supported Operating Budget net tax levy of \$185,677,614 be approved as including further adjustments outlined in Table A of this report;

AND THAT the 2013 Tax Supported Capital Budget in the gross amount of \$51,470,300 be approved;

AND THAT the 2014 – 2022 Tax Supported Capital Forecast in the gross amount of \$419,899,000 be received for information;

AND THAT the proposed increases to user fees (Tab 28) incorporated in the 2013 budget be approved;

AND THAT the proposed transfers to/from reserves and reserve funds (**Appendix 1**) incorporated in the 2013 budget be approved;

AND THAT Council approve the allocation of the 2012 one time Hydro dividend to the Corporate Strategic Initiatives Reserve (#179);

AND THAT the 2013 Downtown Guelph Business Association budget with gross expenditures of \$480,000 be approved.

ADJOURNMENT

COUNCIL REPORT



TO **Guelph City Council**

SERVICE AREA Finance & Enterprise Services
DATE December 5, 2012

SUBJECT 2013 Tax Supported Operating and Capital Budgets

REPORT NUMBER FIN-12-54

SUMMARY

Purpose of Report: To present for Council deliberation and approval the 2013 Tax Supported Operating and Capital budgets.

Council Action: Council approve the 2013 Tax Supported Operating and Capital budgets, including budgets for local boards, shared services and the Downtown Guelph Business Association.

RECOMMENDATION

THAT the 2013 Tax Supported Operating Budget net tax levy of \$185,677,614 be approved as including further adjustments outlined in Table A of this report;

AND THAT the 2013 Tax Supported Capital Budget in the gross amount of \$51,470,300 be approved;

AND THAT the 2014 – 2022 Tax Supported Capital Forecast in the gross amount of \$419,899,000 be received for information;

AND THAT the proposed increases to user fees (Tab 28) incorporated in the 2013 budget be approved;

AND THAT the proposed transfers to/from reserves and reserve funds (**Appendix 1**) incorporated in the 2013 budget be approved;

AND THAT Council approve the allocation of the 2012 one time Hydro dividend to the Corporate Strategic Initiatives Reserve (#179);

AND THAT the 2013 Downtown Guelph Business Association budget with gross expenditures of \$480,000 be approved.

BACKGROUND

The 2013 budget process marked the continuation of a transitional and highly collaborative approach to the way in which the City prepares and presents its operating and capital budgets.

The process began with Council adopting the following resolution:

“THAT Council direct staff to develop a draft 2013 tax supported operating budget using a tax rate guideline of up to a 3% increase.”

Following this resolution, cross-departmental budget teams were created and tasked with the responsibility of bringing forward a staff recommended operating and capital budget that reflected the guiding principles established by the Executive Team. The Executive Team then made further reductions in order to achieve Council's 3% guideline for the base budget increase as well as make strategic decisions related to recommended growth, new service and CSP requests for 2013 operation. During budget development, staff scheduled additional opportunities for input from members of Council through three separate budget workshops designed to keep Council up-to-date on the development of the City's budget and considerations that were being made with respect to resolutions passed on July 23rd, 2012.

In subsequent budget meetings, staff presented the 2013 Tax Supported Operating, Capital, and Local Boards and Shared Services budgets on separate nights as well as provided an opportunity for the public to address Council at Public Delegation night. This format facilitated greater distinction between operating and capital costs and controllable and uncontrollable costs and provided the opportunity for a greater degree of input from staff, Council and the public.

The December 5, 2012 Council meeting marks the final stage of the 2013 budget process. At this meeting, Council will deliberate and may increase or reduce the budgets presented within their legislative authority. At this meeting final approval of the 2013 Tax Supported Operating and Capital budgets is sought.

REPORT

2013 Tax Supported Operating Budget

On November 22, 2012 City staff presented the 2013 Tax Supported Operating budget. At this time, staff brought forward a budget reflecting a net tax levy increase equal to 3.74% for Council's consideration which included assessment growth equal to \$3,352,796.

Post November 22 Review

On-going review in the later part of November provided staff the opportunity to further analyze and make assumptions regarding assessment growth and incorporate an additional \$426,476 into the budget to bring total assessment growth to \$3,779,272. This reduced the tax levy increase to 3.49%. In addition, staff continued to review the budget for expenditure reductions and additional

revenue opportunities and were able to further reduce the tax levy increase to 3.25%. A summary of these adjustments is provided in **Table A**.

Table A: Summary of Adjustments Post November 22

	\$	Tax Impact
2012 Approved Budget	176,060,944	
Add: Prior Year Assessment Growth	3,352,796	
Add: Additional Assessment Growth (Post Budget Distribution)	426,476	
Base Budget, Growth, CSP and New Service Adjustments	6,283,598	
Total Budget Presented November 22, 2012	186,123,814	3.49%
Additional Amendments (after budget distribution)		
Remove interest for HCBP Loan	(296,000)	-0.16%
Fund Public Affairs work through Strategic Initiatives Reserve	(120,000)	-0.07%
Reduce Library Budget (adjustment for benefit markup reduction)	(30,200)	-0.02%
Total Budget Post Additional Amendments	185,677,614	3.25%

Base Budget Changes:

The City’s base budget is comprised of three components:

- Funding needed to continue to provide existing services
- Annualization of costs
- Impact from Capital

The 2013 budget reflects a 1.83% or \$3,290,698 increase to continue to provide existing services. This reflects the reductions or additional revenues that were outlined on pages 1-13 to 1-15 of the Council information circulated for the November 22, 2012 presentation plus the additional amendments outlined in Table A above.

In addition, the impact from annualization on the City’s operating budget is \$504,600 or 0.28%. These costs reflect the addition cost of:

- operating the Intermodal Transit Hub (\$232,900) for a full year compared to the 8 months that were approved in 2012
- a full year of funding for the Affordable Bus Pass Pilot Program. This was approved for 6 months in 2012.

Finally, the impact from capital cost reflects an additional \$232,500 or 0.13% impact on the City’s 2013 budget. Impact from capital costs reflect the additional operating costs incurred by the City as a result of the completion of an approved capital project. Details on these items can be found on Tab 2, page 3 of the Council binder.

Overall, the City’s base budget increase, including annualization and impact from capital, is \$4,027,798 or 2.24%.

Growth Requests

The 2013 tax supported operating budget reflects growth requests amounting to a \$476,200 or 0.26% impact on the net tax levy. If approved, these requests would result in an additional 10.70 FTEs, of which 4 FTEs will be funded from the Enterprise budget that was approved on October 24, 2012. Details on the City’s growth requests can be found on Tab 2, pages 4-5 of the Council Binder.

CSP Requests

The 2013 tax supported operating budget reflects funding for a number of CSP initiatives that will supported the Council approved Corporate Strategic Plan. These requests amount to a \$1,073,400 or 0.60% impact on the City's net tax levy requirement. Staff have proposed that 2013 CSP requests that require funding that is one-time in nature be funded from the Strategic Initiatives Reserve (#179). Details on the City's CSP Requests can be found on Tab 2, pages 6-7 of the Council binder.

New Service Requests

The Urban Forest Management Plan and hiring of the Risk Management Official (funding was approved as part of the Enterprise Budgets) are the recommended new services included in the City's 2013 tax supported operating budget. These requests amounts to a \$260,000 or 0.14% impact on the City's net tax levy requirement. Details on the City's new service request can be found on Tab 2, page 8 of the Council binder.

2013 Tax Supported Capital Budget & 2014 – 2022 Capital Forecast

Prior to presenting the 2013 Tax Supported Operating budget, the City's 10-year capital budget was provided to Council and the public. Similar to the operating budget, the capital budget focuses on affordability and commits to maintaining the City's existing assets while incorporating initiatives identified within the newly approved Corporate Strategic Plan.

In developing the 10-year Capital Budget and Forecast, a set of guiding principles centering on community sustainability and affordability were developed while ensuring that core elements of the newly approved corporate strategic plan are included. These principles are:

- Balance
- Building Fiscal Capacity
- Accountability and Transparency

The result was the development of a fully funded 10-year capital budget within the Council approved guideline of 20% of the previous year's net tax levy. Following additional review of the City's operating budget and through an extensive year end close process, staff reduced the capital financing guideline from 20% of the prior year's net tax levy to approximately 18%.

CORPORATE STRATEGIC PLAN

1.2 Develop collaborative work teams and apply whole systems thinking to deliver creative solutions

2.3 Ensure accountability, transparency and engagement

3.2 Be economically viable, resilient, diverse and attractive for business

FINANCIAL IMPLICATIONS

The net operating requirements identified in the budget document are funded through the municipal tax levy, various user fees and subsidies. If approved as recommended, the 2013 Tax Supported Operating Budget would increase the tax levy by \$5,837,398 to \$185,677,614 including \$4,027,798 for base requirements (or 2.24%) and an additional \$1,809,600 for growth and new strategic initiatives (or 1.01%). Capital requirements would include \$51,470,300 for approval in 2013 and \$419,899,000 for receipt related to the 2014 – 2022 Capital Plan.

DEPARTMENTAL, COUNCIL & PUBLIC CONSULTATION

Budget development was a coordinated effort by City Departments, Boards and Shared Services. In addition, the below calendar was developed to provide opportunity for input from members of Council and the public:

2013 Budget Schedule

Date	Event
May 14, 2012	Budget Schedule Report to CAFES Committee
June 5, 2012	Council Input Session
July 17, 2012	Council Workshop #1
July 23, 2012	Budget Management Report to Council
September 17, 2012	Council Workshop #2
October 3, 2012	Presentation of the Tax Supported Capital Budget
October 24, 2012	Presentation & Council Approval of the Enterprise Funded Budgets
November 6, 2012	Council Budget Workshop #3
November 22, 2012	Presentation of the Tax Supported Operating Budget
November 27, 2012	Presentation of the Local Boards and Shared Services Budgets
November 29, 2012	Public Delegation Night
December 5 & 6, 2012	Council Deliberation & Approval of Tax Supported Operating & Capital Budgets
January/February 2013	Council Debrief Session

COMMUNICATIONS

Public meeting notification was placed on the City's web page. Draft versions of the City budgets are also available at all City Library branches and are posted on the City's website

ATTACHMENTS

Appendix A Transfers to/from Reserves

Appendix B Financing Options Utilized in the Development of the 2013 Tax Supported Operating & Capital Budgets

Appendix C Questions and Answers (to follow under a separate cover)

Prepared By:

Sarah Purton
Supervisor, Financial Planning
519-822-1260 ext. 2325
sarah.purton@guelph.ca



Recommended By:

Al Horsman
Executive Director, Finance & Enterprise/CFO
519-822-1260 ext. 5606
al.horsman@guelph.ca

Prepared By:

Brad Coutts
Chair, DRLT Budget Committee
519-822-1260 ext. 2909
brad.coutts@guelph.ca

Appendix 1: Summary of Transfers to Reserves & Reserve Funds

Description	2013 Contribution	Purpose
Department Reserve Funds	4,627,655	Fund non-vehicle and equipment related capital projects in either the current or future years.
Vehicle & Equipment Reserve Funds	10,996,710	Fund the replacement of vehicles and equipment within the City's existing inventory.
Capital Tax Reserve Fund	121,677	Provide a contingency for projects that have unanticipated cost overruns or emergency situations that occur during the year
DC Exemption Reserve Fund	596,880	Fund growth related costs that are not eligible under the Development Charges Act and to fund exemptions that have been made by Council in the prior budget year.
Road Infrastructure Reserve Funds	1,295,000	Fund on-going road rehabilitation capital projects
Building Lifecycle & Accessibility Reserve Fund	2,160,000	Fund on-going capital works at City facilities, including regular capital upgrades and replacements and accessibility projects
Information Technology Reserve	144,000	Fund the purchase of IT software that was previously licensed
Tax Supported Capital Reserve Funds	19,941,922	
Tax Increment Based Grant (TIBG) Financing	460,000	Annual contribution to provide funding for the Council approved TIBG program
Building Maintenance (non-capital) Reserve	100,000	Annual contribution to provide funding for emergency, non-capital, repairs that need to be undertaken at City facilities
Election Reserve	109,000	Annual contribution to help offset the cost of the municipal election
HR Reserves	60,200	Annual contribution to Human Resources reserves for contingency and job evaluations
Tax Supported Operating Reserves	729,200	
Total Transfers to Reserves & Reserve Funds	\$ 20,671,122	

Summary of Transfers from Reserves and Reserve Funds

Description	2013 Contribution	Purpose
Dedicated Provincial Gas Tax Reserve Fund	2,754,300	Fund conventional and mobility transit operations
Fire Sick Leave Reserve	180,000	Fund the current year sick leave expense for eligible Fire staff
Police Sick Leave Reserve	335,000	Fund the current year sick leave expense for eligible Police staff
Sleeman Naming Rights Reserve	30,605	Fund expenditures related to suite rental and advertising costs.
Strategic Initiatives Reserve	662,800	To fund one-time strategic initiatives for work to be carried out in 2013.
HR Reserves	405,950	Fund HR activities related to staffing, employee recognition & wellness
Court Services Capital Reserve	397,075	Fund debt charges related to the POA facility. Funds are transferred to the reserve from the Enterprise fund.
Total Transfers from Reserves/Reserve Funds	\$ 4,765,730	

INTERNAL MEMO



DATE December 5, 2012

TO **Guelph City Council**

FROM Al Horsman

DIVISION Finance Administration

DEPARTMENT Finance

SUBJECT Appendix B: Funding Options for the 2013 Tax Supported Operating and Capital Budgets

The below memo will provide a high level overview of funding strategies that were incorporated in the 2013 tax supported operating budget at the November 22, 2012 Council presentation. The memo also explores other strategies for financing the 2013 operating budget that were not reflected in the material released on November 22 and makes a recommendation regarding these options.

Strategies Included in the 2013 Tax Supported Operating & Capital Budgets

1) Use of Reserves, Reserve Funds & Capital Financing Arrangements

Description

The 2013 tax supported operating budget reflects a capital financing guideline of 17.9% of the prior year's net tax levy. This is lower than the 19% funded in 2012 and is within the 20% guideline approved by Council. Staff were able to accommodate this reduction and still maintain the recommended 2013 capital budget of approximately \$51 million by:

- eliminating the budgeted contingency for capital works,
- drawing down on existing balances in City reserves and reserve funds,
- reallocating project funding from City reserves to federal gas tax funds, and
- undergoing and extensive capital closing exercise to ensure that historical projects are wrapped up and funding can be utilized for new projects

In 2013, staff have reduced the contribution to capital reserves by \$3,250,000. This reduction is distributed in the following way:

- \$1.7 million reduction to capital tax contingency
- \$1 million reduction to DC exemption
- \$400,000 reduction to building lifecycle projects. These projects will be funded by federal gas tax
- \$150,000 reduction to various City reserve funds due to capital closures

Staff have also planned a early 2013 debt issue for approved debt- funded projects that will reach substantial completion in 2012 and as such have been able to include only one interest payment for this issue in the 2013 budget.

Risks

This is not a sustainable method of funding our capital projects and reserve funds and the requirement to begin to address our infrastructure gap will put increased pressure on the City's future budgets to ensure contributions to reserve funds are being made. Debt servicing costs will need to be increased to reflect the additional interest and principle payment in 2014.

Immediate risks most notably include the impact this funding decision will have on

the 2014 tax supported operating budget as we accommodate the additional debt servicing cost and move towards a return to a 20% finance guideline. Lower reserve fund contributions may also have an impact on the City's recently upgraded credit rating; although it is difficult to identify the actual exposure given the complex method of evaluating the City's financial and environmental situation for this purpose.

2) **Vacancy Gapping**

Description

The City has maintained the amount budgeted for vacancy gapping at 2012 levels. This is in response to increasing cost pressures and takes into account that the City will meet this target in 2012. While staff do not recommend this as an on-going method of stabilizing the budget, it is an option to offset some significant costs related to employee compensation. The total amount budgeted is \$1.3 million.

Risks

There are minimal risks associated with this option as staff have met or exceeded the target in each of the two years this has been utilized as part of the tax supported budget.

3) **Reduced Transfers to Employee Reserves**

Description

The City's 2013 tax supported operating budget reflects reduced transfers to the WSIB and benefit stabilization reserves in order to offset significant costs related to employee compensation. Total savings from this reduction amount to approximately \$200,000.

Risks

Similar to reductions to the City's capital reserves, this has the potential to impact the City's credit rating. This option may also cause shortfalls within the City's compensation reserves and impact various reserve target ratios. This funding decision will impact the 2014 operating budget as contributions to these reserve will be built back into the benefit mark-up.

4) **Alternative Financing Plans**

Description

In response to the pressures the City was experienced in the development of the 2013 operating and capital budgets, staff identified opportunities to fund projects and costs through other means of funding. The City's capital budget contains two projects in 2013 where staff are requesting the use of the City's Capital Asset Renewal Reserve Fund to fund work for the Facility Management and Joint Wireless (WiFi) Project. Both projects will require Executive Team approval of a business case approving spending against these projects. The Facility Management project also seeks additional funding from community partners in order to move planned work forward.

Risks

This solution carries the risk that funding to be received from external partners may not materialize and the City will either need to find funding themselves or cancel or delay the project or activity. In addition, use of funds from the Capital Asset

Renewal Reserve may be paid back at a slower rate than originally projected should a business case contain assumptions that are not met.

5) Use of User Fees

Description

Staff have reviewed opportunities to introduce new user fees or increase existing fees as a way of offsetting cost pressures. The City’s tax supported operating budget reflects increases to user fees of \$1.9 million and are distributed between the following areas:

Summary

By-Law Fines	67,500
New User Fees for Tax Services	373,460
Parking Revenues	332,550
Parks & Recreation Fees	137,253
Culture & Tourism Fees	98,926
Solid Waste Resources (primarily from Organic Waste Processing)	816,000
Transit Fares	83,100
Increase Planning & Building Fees	55,800
Other	(68,200)
Total	\$ 1,896,389

Risks

The primary risk with this financing option is that revenues do not materialize as projected. User fees are based on price and volume estimates and the City runs the risk of pricing itself out of some markets should fees increase at an unsustainable rate or become unattractive when other options are considered. In addition, estimates for new user fees are being made with no historical baseline. While staff tend to be conservative in their initial estimates, there is a greater risk of experiencing revenue shortfalls when introducing new fees.

Additional Options not Reflected in the Tax Supported Operating Budget

The City’s Budget currently does not include the following options that are available to minimize the impact on the City’s tax levy requirement:

- 1) *Additional Assessment Growth*- based on the current tax roll information, total assessment growth amounts to \$3.78 million. The growth number included in the budget as of November 22, 2012 was \$3.35 million and the new assessment growth would result in a net tax levy increase of 3.49% versus 3.74%.

Recommendation:

This option is recommended.

- 2) *Additional 2012 Dividend Payment from Guelph Hydro*- in 2012, the City received an additional unbudgeted \$1.5 million dividend payment from Guelph Hydro.

Recommendation:

It is recommended that this funding, less the amount required to fund GMHI costs incurred through 2012 be allocated to a City reserve fund to fund future one-time costs. A suggestion allocation is the Strategic Priorities Reserve Fund.

- 3) *Tax Rate Stabilization Reserve*- the City's tax rate stabilization reserve currently has a balance of \$1,894,125. Best practices recommend a target of 5-10% of operating expenditures and based on this guideline an appropriate reserve balance would be \$4,671,655, representing a \$2,777,530 shortfall.

Recommendation:

Given the previously identified reductions to reserve fund contributions and vacancy gapping, this option is not recommended. The tax rate stabilization reserve is already below targeted levels and there is no sustainable funding source available to replace draws on the reserve. However, the identified purpose of this reserve is as follows:

- *To assist in ensuring that the tax rates can be kept relatively stable and not subject to large increases due to changing services, legislative impacts, extraordinary expenditures or revenue losses.*

- 4) Other Cost Reallocations

The 2013 tax supported operating budget includes some costs that could potentially be reallocated to fund other priorities within the budget. These costs include 1) reallocation of budgeted interest expenses for the HCBP bridge loan currently included in the tax supported operating budget. This amounts to \$296,000 and would require that we fund these expenditures from the Industrial Land Reserve Fund via current and future land sales. 2) Recommend a reduction to Library's operating budget amounting to \$30,200. This reflects aligning library's compensation budget to reflect some reductions that have been made to the City's benefit mark-up and ensures consistency.

Recommendation:

This option is recommended.

CSP Reserve & One-time Funding

As part of the 2011 Operating Reserve Review and Reallocation exercise (approved as part of FIN-12-32), \$1.1 million was reallocated to the Strategic Initiatives Reserve (#179) to fund the following CSP initiatives:

- Business Case Tools and Capacity Building \$250,000
- Employee Engagement Survey Results & Implementation \$50,000
- Records and Information Management Program Ph1 \$200,000
- Community Wellbeing Initiatives Ph 2 \$440,000
- Economic Development Summit \$100,000
- Guelph Innovation District/Joint University College Campus \$60,000

In addition, the following initiatives in the 2013 budget are identified as requiring one-time funding and staff are recommending that a reserve or reserve fund be utilized to fund these cost amounting to **\$205,000**:

- Open Government Strategy \$100,000
- Issues Management Training \$50,000
- Civics Development Training \$10,000

- CSP Training \$45,000

It is staff's recommendation that the additional dividend received in 2012 be transferred to the Strategic Initiatives reserve to fund these initiatives.