

**THE CORPORATION OF THE CITY OF WINDSOR**  
**Office of the City Treasurer - Finance**



**MISSION STATEMENT:**

*“Our City is built on relationships – between citizens and their government, businesses and public institutions, city and region – all interconnected, mutually supportive, and focused on the brightest future we can create together.”*

<b>LiveLink REPORT #: 18077</b>	<b>Report Date: November 24, 2015</b>
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**To: Mayor and Members of City Council**

**Subject: Approval of the 2016 Operating Budget**

**1. RECOMMENDATION: City Wide: X Ward(s):**

- A. THAT** City Council **RECEIVE** the 2016 submitted budget documents that are reflective of no increase to the levy requirements related to City departments and a \$2,665,529 increase to the request from City funded Agencies, Boards, and Commissions (ABCs); and
- B. THAT** City Council **FURTHER RECEIVE** the supplementary information that became available after the finalization of the submitted budget documents relative to the additional funding requirements related to the EWSWA and Health Unit requests (\$371,187), as well as the additional funding requirements related to the caretaker outsourcing initiative (\$250,000 part-year savings) that was not approved by Council; and
- C. THAT** Council **PROVIDE DIRECTION** to the Agencies Boards and Commissions/or Administration relative to any further desired reductions; and
- D. THAT** Council **APPROVE** the recommendation of Administration to add back the priority issues (\$1,539,230 as detailed in Appendix B) that were cut or excluded from the submitted 2016 budget solely in an effort to achieve a 2016 budget for City Departments that does not require a property tax levy increase; and
- E. THAT** City Council **APPROVE** an additional 0.5% tax levy (\$1,930,205) to be used exclusively for an enhanced roads rehabilitation program, along with the foundational asset management principles previously presented to City Council; and

- F. **THAT** Council **APPROVE** an operating budget based on the submitted budget documents as amended by recommendations A through E above that is based on a property tax levy for municipal purposes of \$325,811,089 which is reflective of a levy increase of \$6,756,151 (or 1.75%) compared to the 2015 overall tax levy; and
- G. **THAT** City Council **DIRECT** administration to provide a report to city council not later than August 31, 2016, describing the forecasted inflationary and service enhancement pressures for 2017 and future years so that City Council may establish budget targets in recognition of these factors; and
- H. **THAT** the necessary by-laws **BE PRESENTED** for Council's approval in support of the adoption of the 2016 Operating Budget; and
- E. **THAT** Council **APPROVE** the required transfers to and from the various funds in accordance with the 2016 Adopted Budget; and
- F. **THAT** one-time funding estimated at \$3,399,940 **BE APPROVED** from the specific Reserve Funds as detailed in Appendix A of this report; and
- G. **THAT** the updated Long Term Debt Forecast (Section G of the Introduction) of the report **BE RECEIVED** for information; and
- H. **THAT** the CFO & City Treasurer **BE AUTHORIZED** to process budget transfers during the fiscal year, which do not change the overall approved Total Net City Budget amount; and
- I. **THAT** the 2016 Schedule of Fees detailed in Section 15 of the budget document, Appendix E: 2016 User Fee Schedule, **BE APPROVED** and, **THAT** the Fee & Charges Bylaw of record **BE AMENDED** to reflect the 2016 Schedule of Fees.

### **EXECUTIVE SUMMARY:**

The 2016 budget documents submitted, inclusive of the recommendation to consider outsourcing caretaking, achieved Council's directive of holding the line on taxes for City Departments within the CAO's direct control.

The request from the ABCs reflected in the submitted budget documents reflects a requested increase of \$2,665,529 (which has an impact of 0.69% to the overall property tax levy) compared to the 2015 budget.

Following the finalization of the submitted budget documents, information was received from the EWSWA and the Health Unit, who could not or did not adhere to the message to return their budgets without an increase, which has created a further increase of \$371,187 to the ABCs budget requests. It was always intended that unknown agency increases be taken from contingency once finalized. In the 2016 budget this presents a risk as is discussed within this report. It is noted that the ERCA Budget request has not been received to date. Additionally, following the finalization of the submitted budget documents, Council deliberated but did not approve the recommendation to explore the outsourcing of the caretaking service. Therefore, the

projected 2016 part-year savings of \$250,000 need to be added back to the submitted budget for the City departments under the direct control of the CAO.

Including all of the above challenges, should City Council wish to achieve an overall zero tax increase, an additional \$3,036,716 in reductions will need to be identified to offset the increases submitted by the ABCs plus another \$250,000 to offset the placeholder for alternative service delivery for caretakers. In the “Not accepted” book, options for council consideration have been provided but these cuts to city department’s budgets are not recommended.

In the previous 7 years (2009-2015), the annual budget was approved without a total property tax levy increase notwithstanding increased funding requests from some ABCs. Given the efficiencies already reflected in the departmental budgets and the increased requests from the ABCs, this was not achievable for 2016 without additional, and not recommended, cuts to City departments. These potential cuts are detailed in the Not Accepted Booklet and would have a significant negative impact on City services.

It is noted that in order to meet Council’s directive of a 0% tax increase, Administration included certain cuts in the submitted budget documents (and excluded certain budget increase requests) that it does not recommend, but which were nonetheless required to reach the noted 0% increase goal. Therefore, administration recommends to Council that certain priority issues be added back to the submitted budget. These issues total \$1,539,230 and can be found in Appendix B.

As previously reported to Council, capital spending overall as well as on the roads rehabilitation component, has increased substantially in recent years. However, analysis indicates that even at these higher funding levels, road ratings will continue to deteriorate without a significant additional and sustainable funding infusion. Therefore, in order to augment the current funds available for roads rehabilitation, and to provide the levels of services for roads reported to the Executive Committee of Council at its meeting of November 23<sup>rd</sup>, 2015, Administration is also recommending a special annual incremental capital levy of 0.5%.

Should Council accept the ABCs funding requests as well as administration recommended priority add backs, the operating budget for 2016 would reflect a 1.25% increase to the required tax levy. Adding the recommended dedicated roads levy would result in an overall increase of 1.75% which approximates the level of inflation.

In consideration of the fact that 0.79% of the increase is based on the increased requests from the ABCs which are outside the direct control of City Administration, 0.5% of this amount relates to a new dedicated roads levy aimed at improved service levels for this priority asset, and that other service level improvements are reflected in the budget (e.g. new eastside pool, new museum, etc.), Administration believes that the proposed budget achieves a reasonable balance between fiscal restraint and the desire to maintain or improve the levels and quality of services.

It is noted that after 7 years without a levy increase, service levels will start to deteriorate due to inflationary pressures without at least modest increases to the tax levy in the near term for both operating and capital needs. Going forward, it is projected that, should City Council wish to avoid property tax increases, it will face increasingly more difficult reduction decisions with significant impacts to services.

Notwithstanding these challenges in 2016 and due to the City's successful cost containment measures, as well as the province's decrease to the education portion of the tax levy, the 2016 estimated overall property tax levy of **\$392.8** million reflected in the budget being presented (inclusive of the noted post-submission adjustments) would actually be **LESS** than the 2006 Overall tax levy of **\$393.8 million**.

## **2. BACKGROUND:**

At its meeting of July 27, 2015, City Council received the report from the CFO & City Treasurer as it relates to the 2016 City of Windsor Budget Process and Timelines and general targets. Following this, the CAO provided the following direction to City Departments and ABC's:

### **City Departments (including Transit Windsor & Windsor Public Library)**

*"Last night, on Monday, July 27<sup>th</sup>, the Executive Committee of Council received an Administrative report on the 2016 Budget Process and Timelines.*

*As communicated in that report, we will now begin the process of developing Operating and Capital budgets for 2016, following the same process as in recent years. We expect to have a recommended budget before City Council by late November of this year.*

*As discussed at our Department Heads' meeting in June, please continue thinking about and soliciting ideas from your teams in order to prepare your department's 10% reduction scenarios for operating expenses. I appreciate very much that this has gotten increasingly difficult over time and I acknowledge, with gratitude, the creative and professional output that you have consistently provided. I remain confident that you will continue to do your best to meet this target.*

*Staff in Finance will be sending out a separate communication shortly outlining the detailed timeline for this year's budget process and requirements."*

### **City Funded Agencies, Boards & Committees (ABC's)**

*"On July 27<sup>th</sup>, the City of Windsor's Executive Committee of Council received an Administrative Report on the 2016 Budget Process and Timelines which expressed a commitment to continuing Council's direction of holding the line on taxes in 2016.*

*Administration is asking that your 2016 budget request from the City of Windsor for the next fiscal year be at the same level or less than your approved 2015 amount. Unlike the direction being given to City Departments, we are not asking for a percentage reduction or the impacts that would result on your organization as in past years. However, given Council's commitment to fiscal restraint, and since any increase must be offset by a reduction elsewhere in the city funded departments, ABCs or corporate accounts, Administration is not prepared to recommend funding to agencies, boards, committees and commissions which is over and above your prior year's approved level."*

As pertains to the City Departments, with the support of the Executive Directors and Managers who again strived to find reductions, each Corporate Leader submitted options to achieve 10%

reductions in their service areas in compliance with the directive. In the case of City Funded ABC's, all complied with the request to hold the line on their budget request except for:

- Land Ambulance: increase of \$54,530 (as per their preliminary estimate)
- Windsor Police Services: increase of \$1,973,569
- Windsor Essex Community Housing Corporation: Increase of \$637,430
- Essex Windsor Solid Waste Authority: Incremental budget impact of \$317,068
- Windsor Essex County Health Unit: Increase of \$54,119

The total increases from the ABC's above is \$3,036,716. **It is noted that the increases for the last two entities in the last above was received after the printing of the budget documents and therefore the related increases are not shown in those documents.** It should further be noted that as of the time of writing the report, we have not received a formal or estimated budget request from the Essex Region Conservation Authority (ERCA). The recommended budget assumes a status quo budget for this agency. Should we receive their budget request prior to Council's budget deliberations, administration will provide an update for Council.

#### Supplementary Budget Reports on the 2016 Budget Agenda

As in previous years, the 2016 Budget Agenda will contain Council reports that have been referred to the 2016 Budget Agenda by either City Council or a Standing Committee. In addition, the agenda will also include other reports that supplement the budget documents.

Of particular note, a report on the business case for Fairbairn Cemetery, including recommendations for related fees was originally planned for the 2016 Budget process. This report will be brought forward to City Council at a later date.

### **3. DISCUSSION:**

The 2016 Operating Budget will be made available to the public through the various City of Windsor public library branches & the internet and will include the following:

Section 1: 2016 Operating Budget Report

Section 2: Introduction

- a) City of Windsor Organizational Overview (2015 Approved Budgeted FTE)
- b) 2016 Net Property Tax Levy by Department
- c) 2016 Net Property Tax Levy by Major Function
- d) 2016 Summary of Major Tax Levy Drivers
- e) 2016 Gross Budget Summary by Major Revenues / Expense Accounts
- f) 2016 - 2019 Budget Projections (Prior to Mitigations)
- g) Long Term Debt Summary

## Sections 3 - 10: Departmental Detail

- a) Departmental Organizational Overview
- b) Budgeted Full Time Equivalent Positions (FTE's)
- c) Budget Summary by Division
- d) Budget Summary by Major Revenues / Expenditures
- e) Budget Issue Summary

Section 11: Appendix A - 2016 Operating Budget Summary of Accepted Issues

Section 12: Appendix B - 2016 Operating Budget Summary of Not Accepted Issues

Section 13: Appendix C – 2016 Agencies, Boards & Committees Summary

Section 14: Appendix D – 2015 Program & Service Based Budget

Section 15: Appendix E - 2016 City of Windsor User Fee Schedule

Additional documents outlining the details of the administratively accepted changes (i.e., increases / reductions to the base budget) as well as options not accepted have been detailed for City Council in two separate documents: Budget Issue Detail Accepted book, and Budget Issue Detail Not Accepted book. The budget details relative to Agencies Boards and Committees are contained in the Agencies Boards and Committees book. Additionally, the Capital Budget and information regarding the city's Sewer Surcharge rate are reported in separate but concurrent reports.

Administration's recommended budget for City Departments is based on the paramount objective of continued fiscal restraint while, avoiding or minimizing negative impacts on services. In a few situations considered to be of urgent priority, the budget contains some relatively minor enhancement of the service delivery. The recommended budget for City Departments is balanced to the projected available funds and highlights where appropriate the risks that are inevitable in a budget of this complexity and magnitude.

### Public Consultation Process

The 2016 Budget process provided the opportunity for public input sessions at the beginning of the process on July 27, 2015. The process will also allow for the public to provide input on December 21, 2015 during Council's 2016 budget deliberations. To facilitate the review of the documents prior to the budget deliberations, the budget will be publically tabled on November 30, 2015. This is similar to recent prior years' processes but it is noted that there is an extra week of review time from the time the budget is made public to the budget deliberations by Council.

The 2016 Budget documents will be available for viewing in every branch of the Windsor Public Library and at City Hall (Office of the City Clerk & Office of the Chief Financial Officer), and on the City's web site.

In addition, Ward Meetings, public consultation sessions and surveys were completed in October and beginning of November to gather feedback from residents and key stakeholders on specific ward issues and the 20 Year Vision Plan. This provided an opportunity for direct feedback to City Councillors, the Mayor and Department Heads in regard to budget priorities.

Finally, City Council was advised through e-mail from the CAO, of certain specific budget consultation opportunities provided to interest groups in respect to the following key issues:

- Atkinson Park Pool Conversion (focused meetings)
- Building Permit Fee increase (focused meetings and budget meeting as a public meeting)
- Transit Windsor Budget and Fare Increase (via the standing committee)
- Licensing fee increases (via the licensing commission meetings)

A specific budget issue related to consultation is contained within the budget documents (issue 2016-0372 page 27). This new initiative has the potential to enhance budget consultation in future years should council choose to fund that service enhancement initiative. At this time it is not included within the accepted issues in the presented budget.

### Administrative Review

Each city department, following the direction of the CAO and in conjunction with their Corporate Leader, prepared preliminary budget options based on the direction to maintain a status quo tax levy. The Executive Directors & Senior Managers then met with the members of the Corporate Leadership Team, the financial planning team and CFO, in late September, in what is now an annual week-long meeting, chaired by the CAO, to fully discuss the impacts of the options provided. After in-depth analyses and discussions, Administration arrived at a draft budget that could be presented to Council.

The 2016 operating budget being submitted (inclusive of the late ABC submissions, the caretakers issue not accepted, and the priority add backs recommended by administration in Appendix B) reflects a municipal property tax levy requirement of \$325,811,089 or \$6,756,151 (inclusive of the ABC's increases and the roads capital levy) **more** than the 2015 approved levy. A summary of the Recommended 2016 Budget Levy is outlined in the following table.

	2015 Budget (Approved)	2016 Budget (Submitted)	\$ Budget Change	% Impact (To Overall Levy)
<b>City of Windsor Departments (Per Budget Documents)</b>	<b>\$214,320,405</b>	<b>\$214,320,405</b>	<b>\$0</b>	<b>0.00%</b>
Add Back: Caretaker Outsourcing Savings Not Approved	\$0	\$250,000	\$250,000	0.06%
Sub-Total: City Departments	\$214,320,405	\$214,570,405	\$250,000	0.06%
Recommended Priority Add Backs (Per Appendix B)	\$0	\$1,539,230	\$1,539,230	0.40%
<b>Sub-Total: City Departments As Amended</b>	<b>\$214,320,405</b>	<b>\$216,109,635</b>	<b>\$1,789,230</b>	<b>0.46%</b>
<b>City Funded ABC's (Per Budget Documents)</b>	<b>\$104,734,533</b>	<b>\$107,400,062</b>	<b>\$2,665,529</b>	<b>0.69%</b>
Plus: Late Submissions For EWSWA and Health Unit		\$371,187	\$371,187	0.10%
<b>Agencies, Boards and Commissions As Amended</b>	<b>\$104,734,533</b>	<b>\$107,771,249</b>	<b>\$3,036,716</b>	<b>0.79%</b>
<b>Tax Levy (Prior to Roads Levy and Education Levy)</b>	<b>\$319,054,938</b>	<b>\$323,880,884</b>	<b>\$4,825,946</b>	<b>1.25%</b>
Recommended 0.5% Roads Rehabilitation Levy		\$1,930,205	\$1,930,205	0.50%
Total Estimated Education Tax Levy (Note 1)	\$66,986,087	\$66,986,087	\$0	0.00%
<b>Total Property tax Levy</b>	<b>\$386,041,025</b>	<b>\$392,797,176</b>	<b>\$6,756,151</b>	<b>1.75%</b>

*Note 1- Assumed to be equal to 2015 as the Province has not yet set the rates for 2016*

**It should be emphasized that the percentage changes in the table above are reflective of the average for all taxpayers and all assessment classes. The actual change for each taxpayer and each class will depend on the individual assessment valuation changes and the tax policies and**

**tax ratios that are eventually adopted by City Council. Additionally, the taxes paid by taxpayers include the Education Taxes mandated by the province of Ontario. The 2016 education tax requirements have not yet been announced by the province. A 1.75% increase would translate to a \$48 increase for the average taxpayer under a status quo scenario for assessment values, the education levy, and tax policies.**

Subsequent to the approval of the 2016 Budget and receipt of the education tax levy rates from the province, City Council will be deliberating on the 2016 Tax Policies (expected in March/April). Detailed information, analysis, and a variety of scenarios will be provided to Council when tax policies (that will determine the basis of apportioning the total net levy across the various assessment classes) are discussed.

#### Summary of Financial Impacts on the 2016 Operating Budget

The Introduction Section (Tab #2, page 5) contains the Summary of Major Budget Drivers that will assist the reader in understanding the impacts that affected the 2016 Operating Budget. A more detailed listing for each department's increases & decreases from the prior year's budget can also be found in each department's budget submission (Section E of each Departmental Submission) or in total in Tab #11.

Although, as noted above, Tab #11 details the full list of budget drivers, the primary drivers for this year's budget are the following:

- On the expense side, the major factors include: increased personnel costs related to collective bargaining agreements, interest arbitration awards, and higher costs for fringe benefits; insurance & utility costs; the operating budget for the new museum; and various other inflationary pressures. These cost increases are partially offset by reductions in the corporate contingency account, the reduction in the operating budget funding requirements for the waste collection & recycling contracting out, and other line by line expense budget decreases.
- On the revenue side, there is an increase in the Ontario Municipal Partnership Fund (OMPF) revenues; increased provincial funding by way of the continued upload of social services costs by the Province and additional provincial funding for Huron Lodge; increased revenue from Ontario Lottery & Gaming Corporation (OLGC) & Transit Windsor, and other miscellaneous revenue increases. These increases are partially offset by lower interest & penalties revenues on outstanding taxes due to the continuing decline in the outstanding taxes balance; interest on capital projects due to major projects receiving their permanent funding; and various other miscellaneous revenue decreases.

#### Taxation Comparisons with Other Municipalities

The table that follows, taken from the independent 2015 BMA Management Inc. Municipal Study, compares Windsor's taxes to similar cities across the province for 12 types of properties in the various assessment classes.

This table shows that Windsor's property taxes rank below the comparative provincial average in 9 of the 12 assessment classes reported:

- Residential property taxes are below average for typical average residential properties, but above average for high value (2,000 sq. ft. two storey & 3,000 sq. ft. senior executive) homes. This is attributable to Windsor's comparatively very low average residential property assessment values (approximately \$150,000) that require comparatively higher tax rates. The higher tax rates combined with the higher assessment values at the top end of the market result in relatively higher taxes on those properties. In other words, the upper end homes in Windsor, which as an established older municipality has a large stock of smaller homes, are outliers in terms of assessment value to a greater extent than in newer municipalities which have a greater percentage of newer, larger homes.
- Multi residential property taxes rank well below to slightly below average depending on the type of property.
- Commercial properties generally rank well below average, except for Commercial Motels which are only very slightly above the average.
- Property taxes on industrial properties now rank well below average.

As a direct result of the fiscally responsible budgets of the last decade, very significant progress has been made in recent years with regards to Windsor's relative rankings.

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Tax Class Comparisons - Typical properties	Provincial Range			Windsor
	Low	High	Average	
<b>Residential - Detached Bungalow</b> Based on a detached 3 bedroom, single story home with 1.5 bathrooms and 1 car garage.	\$2,667	\$5,101	\$3,583	\$3,057
<b>Residential - Two Storey Home</b> Based on 2 storey, 3 bedroom home with 2.5 bathrooms, two car garage. Total area of the house is approximately 2,000 sq. ft. of living space.	\$3,352	\$6,834	\$4,652	\$5,213
<b>Residential - Senior Executive</b> Based on a detached 2 story, 4-5 bedroom, 3 bath, 2 car garage with approximately 3,000 sq. ft of living space.	\$4,423	\$12,475	\$6,340	\$6,447
<b>Multi-Residential - Walk-up Apartments</b> Multi-residential apartments containing more than 6 self contained units, 2-4 stories high	\$762	\$2,100	\$1,636	\$1,218
<b>Multi-residential - Mid/High-Rise Apartment</b> Based on a multi-residential property of more than 6 self contained units and over 4 stories high. Comparison of taxes is based on a per unit basis.	\$921	\$2,321	\$1,746	\$1,696
<b>Commercial - Neighbourhood Shopping</b> Typically the smallest type of centre comprised of retail tenants that cater to everyday needs such as drug stores, variety stores and hardware stores. Can vary in size from 4,000 to 10,000 sq.ft. Comparison of taxes based on a per square foot of floor area.	\$3.40	\$5.72	\$4.16	\$3.40
<b>Commercial - Office Building</b> Per square foot of gross leasible area	\$2.34	\$5.33	\$3.37	\$2.34
<b>Commercial - Hotels</b> Taxes per suite	\$914.00	\$2,732.00	\$1,620.00	\$1,294.00
<b>Commercial - Motels</b> Taxes per suite	\$877.00	\$2,800.00	\$1,398.00	\$1,407.00
<b>Standard Industrial</b> Under 125,000 sq. ft. in size. Comparison of taxes based on a per square foot of floor area.	\$1.21	\$2.87	\$2.05	\$1.47
<b>Large Industrial</b> Greater than 125,000 sq. ft. Comparison of taxes based on a per square foot of floor area.	\$0.73	\$2.66	\$1.46	\$0.99
<b>Industrial Vacant Land</b> Based on taxes per acre	\$ 1,058	\$ 13,735	\$ 6,422	\$ 2,885
<b>Source: 2015 BMA Management Consulting Inc. (Ontario municipalities with populations &gt; 100,000)</b>				

## Service Levels

Noteworthy service enhancements and related costs include:

- The new Chimczuk Museum at an operating cost of approximately \$376,000
- The East End Pool at the WFCU Centre is expected to open next summer and the partial year costs related to that new facility is projected at \$277,000 (funded from the budget stabilization reserve for the part-year only). The balance of the increased operating cost will form part of the 2017 budget.

In order to bring in a budget without a property tax levy increase for City Departments, administration had to make many difficult choices. It sought, however, to make recommendations that would not generally have significant negative impacts on services and risks. This objective resulted in a number of potential reductions not being accepted (see Budget Issue Detail Not Accepted book).

Therefore, the service levels inherent in the 2016 budget remain generally unchanged from those approved in the 2015 budget. Where service levels are recommended to change, details are provided in the individual issue descriptions. One significant item in the alternative service delivery category is the potential outsourcing of caretakers. Council deliberated the matter at the November 16, 2015 council meeting and did not approve proceeding further with the initiative.

It should be noted however, that many years of reductions have resulted in a much “leaner” organization. This reduces administration’s flexibility to respond quickly to unexpected issues without seeking additional City Council funding relative to each identified need.

## 2016 City of Windsor User Fee Schedule

Traditionally, user fees have been monitored and adjusted for price changes through the annual budget process. The budget process prompts an assessment of existing fees that are subject to change or where new fees are introduced, and provides the public with the opportunity to provide feedback or appear as delegations during Council’s deliberation of the operating budget.

The User Fee Schedule, included in the annual budget document, has been reviewed by the Financial Planning area as part of the annual budget process to ensure all user fee changes have been included and explained in the departmental budget documents.

It is being recommended that the Fee & Charges Bylaw of record be amended to reflect the 2016 Schedule of Fees detailed in Tab #15 – Appendix E of the 2016 Budget Binder.

## One Time Funding

There are many departmental budget issues that are more appropriately funded from one time funds rather than included as an annual base budget. There are also various budget reductions that take some time to implement and therefore, will not produce savings until later in 2016. As well, certain one-time expenditures are required in order to facilitate ongoing operating budget savings.

The estimated one time funding required from the Budget Stabilization Reserve (BSR) from the various issues in the budget documents is expected to be \$2 million. In addition to the one-time

funding requirements from the BSR there is a recommendation to fund the Transit Windsor Pension deficit totalling \$1,420,000 from the Fringe Rate Stabilization Reserve.

The total of these required one-time funding requirements is estimated to be \$3.4 million and is detailed in Appendix A attached to this report.

Recommendation E asks council to approve the required transfers from the Reserve Funds.

### Debt Management Update

This recommended budget is consistent with the debt reduction initiatives previously approved by Council. It is important to note that significant progress that has been made on reducing the City's long-term debt. It should be noted that without the Pay-As-You-Go and Debt Reduction Policies, and assuming all the same projects had been undertaken, the current debt level would be approximately \$500 million compared to the actual \$98.2 million (projected to decline to \$70.5 million by 2019). A detailed schedule of the City's long term debt can be found as Schedule G of the Budget Introduction Section.

### 2016 - A Difficult Budget Year

As noted, with the exception of the relatively small budget gap related to council's decision on the outsourcing of caretaking services, Administration has been able to once again achieve a zero budget levy increase the City Departments directly under the administrative control of the CAO.

In past years, the city was also able to recommend the additional savings from the services directly controlled by the City that were required to offset the increases those ABC's that did not or were not able to adhere to the general direction to deliver their budget without an increase to the tax levy. This year, the city department reductions required to continue this practice, are not recommended by administration given their implications relative to risks and service levels. Nonetheless, further reduction options are presented in the book labelled "not accepted" should city council wish to further reduce the city department budgets to offset the ABC increases.

Unfortunately, with continued annual inflationary pressures and after an unprecedented seven years of finding budgetary savings, the savings in the City controlled budgets that would be required to offset increases in the ABC budgets in order to achieve an overall zero levy increase budget are not feasible if council wishes to maintain the existing services at the existing levels.

It could be argued that the OMPF, the upload, and even the increase in OLG funding, and other benefits reflected in the budget of the City departments should be allocated to the ABC increases as well as utilized to offset city department inflationary pressures. It is difficult for administration to present the budget in that context since it is unknown if these ABC's have the ability to reduce their recommended expenditures and if they have taken all possible measures to do so. As well, at least certain of the agencies are eligible to obtain grants and government funding or charge fees and so they too have the ability to a degree to develop strategies to offset their increasing costs.

While only some of the budget reductions are truly recommended, they have been accepted by the corporate leadership team to reduce the city budget. Appendix B contains a schedule of accepted budget adjustments or changes from the 2015 budget that the CAO and CFO recommend be given further consideration by City Council for the reasons noted on the schedule. Also shown are some service enhancements, recommended by administration but not possible if city departments are to hold the line on taxes in total, as in prior years. Again the CAO and CFO recommend City Council consider these further. They were only included in the submitted budget in order to achieve a 0% increase for City departmental budgets.

**It is the recommendation of the CAO and CFO that the reductions shown in Appendix B and included in the presented budget, in order to hold the line on taxes, not be accepted by City Council.**

**It is the further recommendation of the CAO and the CFO that the service enhancements shown in Appendix B, be approved by City Council.**

### Budgets – Looking at the Future

Looking back, the budgetary successes are clear. Thanks to the City's successful cost containment measures, as well as the province's increased grants and the decrease to the education portion of the tax levy, **the 2016 estimated overall property tax levy of \$392.8 million will actually be LESS than the 2006 Overall tax levy of \$393.8 million.**

However, when one looks forward it is extremely difficult to project future year budget requirements with a high level of certainty. This is due to the fact that the significant cost drivers that will impact those future years are unknown or difficult to estimate more than one year into the future. Examples of these constraints include the impact of the future state of the local economy, legislated changes impacting municipal costs, changes to Council priorities or residents service expectations, interest rates, provincial grant levels, utilities rate changes, fuel prices, and many other significant uncertainties.

However, if considered together with the limitations noted above, multi-year projections can help Council approach current year budgeting with a more strategic and realistic long-term view. They can also highlight the difficulties that will face Council if it wishes to continue to hold the line on taxes. To facilitate these important discussions, administration has developed a preliminary estimate of the drivers that may impact the budgets over the next three years. These estimates are detailed on page 8 in tab #2 of the main budget book.

Generally, and certainly not unexpectedly, the projections indicate that significant challenges will continue to be faced in future years' budgets. Current projections indicate potential increased levy requirement of approximately 2.2% per year over the next few years prior to any consideration of increased funding for capital expenditures on aging infrastructure and well as other major capital projects that may require funding (e.g., the City's portion of the required new hospital contribution, as well as the municipal costs for related infrastructure). Therefore, generally speaking, over the next several years, Council can expect very difficult decisions in balancing fiscal restraint goals with desired service levels goals.

The fiscal restraint of the last few years is largely unprecedented. As a result, Windsor's property taxes are now lower than those of its peer municipalities in most assessment categories. Holding

the line on taxes was the logical response to a very deep and prolonged recession which hit manufacturing cities such as Windsor especially hard. The severe economic downturn was the result of global economic forces that were almost completely outside the control of municipalities. Holding the line on taxes over the last seven years has resulted in much needed cumulative savings for taxpayers (both residents and businesses) amounting to tens of millions of dollars. As well, those savings will continue indefinitely in future years though the carry forward of a much lower base budget than would have otherwise been the case.

However, it is noted that should City Council wish to continue with the mandate to hold the line on taxes, Council will likely need to choose between a rationalization of services and a general degradation of all services (especially those outside of the emergency services umbrella).

The constraints also apply to the operating budget contribution levels towards the capital projects that build and maintain our infrastructure which is valued in the billions of dollars. Funding for capital projects has actually increased over the last seven years. But, as noted, this funding source will also face a decrease in purchasing power without continual regular increases to combat the impacts of inflation. Administration has been advised that “upper level of government” funding programs will require strong asset planning methodologies and will require a local financial commitment. Therefore, in order to keep existing infrastructure at higher condition ratings, property tax levy increases will no doubt be required.

Administration will of course always continue to look for ways of minimizing any required levy increase in the future. It is also possible that as each budget year is tackled, options that are currently not apparent will be found to hold the line on taxes in that year. However, as a general rule, it is clear based on the foregoing analysis and administration’s experience of the past 7 years wherein it is becoming increasingly difficult to identify savings targets that council will face increasingly more difficult decisions if it is to continue to hold the line on taxes.

Based on the 2016 budget being presented, administration believes that that we have reached that situation and in order to avoid significant impacts on services, future budgets will need to reflect, at minimum, the inflation pressure, and, should council wish to add services or enhance existing services, it is recommended that appropriate funding be provided.

A major reason for this point of view is the fact that the emergency services (Police Fire and Ambulance) which account for some 40% of the municipal property tax levy are subject to costly arbitrated wages settlements. As well, the significant percentage (approximately 70%) of mandated or partially mandated services severely curtails the ability to spread cuts across the full municipal budget. Finally, the budget requests of statutory ABCs may not, based on recent history, comply with the no increase directives of Council.

#### **4. RISK ANALYSIS:**

At its core, a municipal budget is a projection of inflows and outflows for the coming year. Due to the timing of the budget preparation and approval, many of these projections need to be made with less than complete information. Additionally, these projections need to take into account future events and circumstances which are often out of the control of the municipality. Therefore, as with any budget, there are risk factors associated with the recommended 2016 City of Windsor operating budget. The following is a list of some of the most important of those risks along with related mitigating measures.

1. The corporate contingency account has been reduced from \$2.5 million to \$1.5 million in the 2016 budget as an option to achieve a zero tax increase for City Departments. This corporate contingency is used to mitigate unexpected budget pressures that arise during the year and significantly increases the risk of budget variances in 2016. It should be noted that many other risks identified in this section all refer to the corporate contingency as a mitigating measure. Therefore this is a new risk to the 2016 budget whose mitigation will require the city's reserves to offset any budget variances that cannot be covered with the remaining contingency.
2. Tax Appeals is a difficult account to budget accurately as it is impossible to predict which taxpayers will appeal assessments and the eventual outcome of those appeals. Multimillion dollar swings are not unusual in these matters. The likelihood of this risk materializing is likely or almost certain; the likely impact of the consequences is moderate. Therefore this should be considered a significant risk. To mitigate this risk, the City has set up a dedicated reserve fund (current balance of \$8.3 million) which is currently replenished each year by inflows of approximately \$4 million. Additional mitigation could come from the \$1.5 million contingency provision within the annual operating budget or the Budget Stabilization Reserve (BSR). Administration is also awaiting receipt of the returned tax roll for 2016 taxes. Preliminary indications are that there may be some assessment growth revenues that could help offset the risk related to appeals. The returned roll should be received prior to the Council deliberations on December 21<sup>st</sup> and Administration expects to be able to update council at that time.
3. Fuel related costs have been extremely volatile over the last several years. While fuel prices have fallen dramatically in 2015 from their all time high, there remains the risk that prices could spike again in 2016. The current lower fuel prices have been reflected in the 2016 budget. Furthermore, there is always the risk that global crisis may increase fuel costs in the future. The likelihood of this risk materializing is rated as possible; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation for this risk comes from the BSR and the \$1.5 million contingency provision in the operating budget.
4. Pension funding is another high risk area. Over the last several years, the global market collapse has negatively impacted the value of assets contained in the pension funds. Delay in the market recovery may put additional pressure on the value of these pension funds, causing an increased contribution requirement from the corporation or special funding contributions. The likelihood of this risk materializing is rated as possible; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation for this risk comes by way of the \$2.5 million budget contingency, the Fringe Rates Stabilization reserve and the BSR.
5. Winter control costs have been generally escalating in recent years. The last winter season had record snowfall amounts and a major storm. The potential does exist for significant negative variances if a particularly severe winter season is experienced. The likelihood of this risk materializing is rated as possible; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation could come from the \$1.5 million contingency and the BSR.

6. Negotiations leading to new wage settlements across various collective bargaining groups with wage settlements well above the rate of inflation being awarded by arbitrators to the public safety groups (Police, Fire & Ambulance). This is especially important as public safety services account for the largest share of the property tax levy and given that all contracts with our emergency services are open for bargaining at this time. The likelihood of this risk materializing is rated as likely to almost certain; the likely impact of the consequences is rated as high. Therefore this should be considered a significant risk. Mitigation for this risk can come from successful collective bargain. Additional mitigation is provided by reasonable provisions included in the recommended budget for this line item as well as the BSR. Continued advocacy for an improvement to the arbitration process is also an additional longer term mitigation strategy.
7. Increasing utility costs, especially for the provincial portion of the hydro bill. All utility costs are estimated at the start of the year. The likelihood of this risk materializing is rated as likely to almost certain; the likely impact of the consequences is rated as moderate. Therefore this should be considered a significant risk. This risk is mitigated by a reasonable increase recommended for these accounts in the 2015 budget. As well further mitigation can come from the \$1.5 million contingency and the BSR.
8. General inflationary pressures which may increase as the economy continues to improve. The likelihood of this risk materializing is rated as possible; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation comes from increased allocations in many budget line items relative to known increased costs, as well as the \$1.5 million contingency and the BSR.
9. Budgets that are approved early in the budget year carry additional risks because there are more unknowns as the budget is printed based on information that was available in the fall of the previous year; this has the potential to generate greater budget variances that might otherwise be experienced. Mitigation comes from the fact that the projections are made using informed professional judgements, as well as the \$1.5 million contingency and the BSR.
10. Over the last several years, the program funding for Employment Services has allowed the City the ability to recover corporate overhead charges applicable to these programs. Should these provincial funding envelopes change, we would need to absorb the significant revenue reductions elsewhere by cutting services or by raising fees or taxes. The likelihood of this risk materializing in the coming year is rated as rare to unlikely; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation comes from continued advocacy for the program and the \$1.5 million contingency as well as the BSR.

## **5. FINANCIAL MATTERS:**

Financial matters are discussed in detail throughout this report.

If City Council wishes to achieve an overall zero tax increase including Agencies, Boards & Commissions, then \$3,036,716 in additional savings will need to be identified to offset the increase submitted by the noted entities. Additional budget reductions will need to be identified to offset the \$250,000 part-year savings relating to the outsourcing of caretakers which was not approved by Council.

Administration also recommends adding back some cuts and some priority service enhancements not accepted totalling \$1,539,230 and detailed in Appendix B. Finally, Administration also recommends a 0.5% capital levy to be used only for rehabilitation of roads.

Should Council accept the recommendation to add back the priority cuts and service enhancements of \$1,539,230 as noted above and accept the ABCs requested increases, the total property tax levy increase for operating budget services would be \$4,825,946 or 1.25%.

Should council also approve the noted 0.5 % roads rehabilitation levy, the total budget increase would be approximately \$6.7 million or 1.75% or \$48 for the average homeowner whose home is valued at \$150,000.

At this time, it is not known if a decrease in education taxes will serve to offset the inflationary budget increase. Administration is also awaiting the receipt of the returned assessment roll for 2016 property taxes (expected in early December) and it is possible that some incremental assessment growth revenues could materialize; administration expects to be able to update Council on this issue at the December 21<sup>st</sup> budget meeting.

## **6. CONSULTATIONS:**

The 2016 Recommended Operating Budget was developed in consultation with City Departments and City Funded Agencies, Boards & Committees. Further public consultation and input will take place during the budget deliberations on December 21, 2015

## **7. CONCLUSION:**

Administration is presenting a 2016 gross operating budget of \$767.8 million, inclusive of \$66,986,087 million in estimated (based on the 2015 amount) education taxes that will need to be transferred to the School Boards, resulting in a property tax levy for municipal purposes of \$325,811,089.

It is noted that this budget represents an increase to the total tax levy of 1.75%, which approximates the rate of inflation.

In consideration of the fact that 0.79% of the increase is based on the increased requests from the ABCs which are outside the direct control of City Administration, 0.5% of this amount relates to a new dedicated roads levy aimed at improved service levels for this priority asset, and

that other service level improvements are reflected in the budget (e.g. new eastside pool, new museum, etc.), Administration believes that the proposed budget achieves a responsible and reasonable balance between fiscal restraint and the desire to maintain or improve the levels and quality of services.

As with any budget, there are significant risks relative to the projections that underlie this budget. The major ones have been outlined in this report with further detailed risks contained within the budget documents. The budget is presented for council consideration.

**Tony Ardovini**  
Deputy Treasurer, Financial Planning

**Onorio Colucci**  
Chief Financial Officer/City Treasurer and  
Corporate Leader Finance and Technology

**Helga Reidel**  
Chief Administrative Officer

**TA/OC**

**APPENDICES:**

- Appendix A – 2016 Operating Budget Issues Requiring One-Time Reserve Funding**
- Appendix B - Schedule of Recommended changes to the 2016 budget as presented**

**DEPARTMENTS/OTHERS CONSULTED:**

**Name:**  
**Phone #: 519            ext.**

**NOTIFICATION :**

Name	Address	Email Address	Telephone	FAX

**City of Windsor  
2016 Operating Budget Issues Requiring One-Time Reserve Funding**

Department	Detailed Issue Document Ref. #	Issue Ref. #	Issue Description	BSR Funding Requirement	Other Funding Requirement	Total Funding Requirement
Council Services	62	2016-0069	Reduction of the Integrity Commissioner Budget	7,500		7,500
Human Resources	71	2016-0030	Employee Wellness Initiative	40,000		40,000
Human Resources	74	2016-0077	Reduction of Benefits Consultant Budget	12,500		12,500
Public Works	162	2016-0214	Traffic Operations - Permanent Speed Cushion on Bellagio	8,000		8,000
Public Works	164	2016-0052	Elimination of Transfer to Fund Waste Collection & Recycling Contracting Out	1,477,350		1,477,350
Fire & Rescue	188	2016-0015	Fire Rescue Division Staffing Options	24,250		24,250
Huron Lodge	252	2016-0243	In-Camera Item	67,075		67,075
Huron Lodge	254	2016-0295	In-Camera Item	2,392		2,392
Recreation & Culture	259	2016-0141	Establishment of the East Windsor Pool Operating Budget	277,241		277,241
Recreation & Culture	271	2016-0136	Reduction in Hours at Adventure Bay	63,632		63,632
Transit Windsor	277	2016-0184	Transit Windsor Pension (Note 1)	0	1,420,000	1,420,000
<b>Total Issues Requiring Budget Stabilization Funding &amp; Other Funding</b>				<b>1,979,940</b>	<b>1,420,000</b>	<b>3,399,940</b>

*Note 1: Funding to come from the Fringe Rate Stabilization Reserve*

**APPENDIX B**

**City of Windsor  
Schedule of Recommended Budget Changes**

**Budget reductions accepted to achieve target but not recommended**

<b>Issue #</b>	<b>Name</b>	<b>Dollar Impact</b>	<b>Reason for recommended adjustment</b>
2016-0068 page 62	Cat Voucher Program	\$ 50,000	Reduction taken to achieve target but this is a successful program and reduction is not recommended.
2016-0074 page 64	Employee recognition banquet	\$ 4,714	While not a mandatory service this budget is the last remaining recognition program for our retirees and provides funding to recognise notable employee achievements to encourage excellence in municipal service. Elimination of this budget is not recommended
2016-0075 page 65	Corporate promotional material	\$ 5,000	The only budget for City Pins and other promotional material such as folders etc. Once the inventory is used up, there will be no further such purchases and this is not recommended.
2016-0401 Page 30	Travel Expenses- Corporate wide	\$ 63,670	The budget in most departments has not been fully utilised due to workload and need to use this fund to offset other budget overages. Travel and Training (see below) is a necessary contribution to ensure professional development of staff and excellence in service. While it is recommended that this reduction not be taken, any additional amount (eg. 50% add back would be beneficial)
2016-0404 Page 36	Training Expense- Corporate Wide	\$ 49,632	The budget in most departments has not been fully utilised due to workload and need to use this fund to offset other budget overages. Travel and Training (see above) is a necessary contribution to ensure professional development of staff and excellence in service. While it is recommended that this reduction not be taken, any additional amount (eg. 50% add back would be beneficial)
2016-0428 page42	Corporate Contingency	\$1,000,000	Reduction in contingency creates risk to the corporation and can result in depletion of reserves in an emergency. While it is recommended that the entire amount be added back, any amount of increased contingency would be beneficial. It is noted that any increase to ABC's not yet specifically funded could then be more easily accommodated through this contingency.
<b>TOTAL</b>		\$1,172,716	

**Budget increases not accepted but recommended**

<b>Issue #</b>	<b>Name</b>	<b>Dollar Impact</b>	<b>Reason for recommended adjustment</b>
2016-0276 Page 16	Permanent full time Accounts Payable Vendor Input Clerk	\$56,665	This position was recommended as a result of an audit into an irregularity. The recommendation of our auditor was to centralize vendor input into finance and this is strongly supported by administration. It is possible that following the payroll business process review, a reduction can be taken in departments to offset this additional staff but this is not certain at this time. This is highly recommended
2016-0372 page 27	Public Engagement Initiative- annual budget development process	\$15,000	With the reduced ability to hold the line on taxes and a generally increased interest in public engagement on all fronts including the budget, the method of engagement described in this issue is a very economical means of commencing to enhance our engagement. It is recommended but not included in the budget due to budget constraints and need to prioritise.
2016-0076 page 229	CUP- Community University Partnership	\$148,944	This is fully described in a separate report to the Community Development and Health Standing Committee and City Council and is a proven neighbourhood initiative but was not accepted by administration due to the fact that it is a brand new service and could not be prioritized due to budget restraint.
2016-0137 page 45	Additional technical support analyst for building management systems	\$105,605	It is noted that our city building systems and security systems are now much more technology based and the work has been "squeezed in" by staff that have other job priorities. It is further noted that issue 2016-0270 requests a similar position in the facilities area, to operate building automation systems. The recommendation herein is for one central position in IT however it is possible that a position will be required in facilities management once the new city hall is in place and to operate systems for all of the WIATC, WFCU, 401 Riverside and the Capitol Theatre. Corporate security is becoming a priority and this will be a focus of this position as well. It is recommended that one position be added at this time.
2016-0004 page 199	Inland water rescue initiative	\$40,000	This new service was approved by prior council but the direction was to fund this from existing budgets. At the time that seemed feasible but with the changes in fire budgets, it became not possible to do. This is deemed a priority by the fire chief noting this does not include river water rescue, but rather from in land streams and lakes for ice and water. It is noted that some of this funding will go to payment of specialty pay for firefighters.
<b>TOTAL</b>		\$366,214	

<b>TOTAL RECOMMENDED ADDITIONS</b>		<b>\$1,538,930</b>	This represents an additional 0.4% on the tax levy noting that the majority of this amount- \$1,000,000 or 0.25% - relates to the recommended return of the corporate contingency to reduce budget risks
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