

(b) Development of the 2010 Budget

MUNICIPALITY OF CHATHAM-KENT

CORPORATE SERVICES

BUDGET & PERFORMANCE SERVICES

TO: Mayor and Members of Council
FROM: Mary Lou McLeod, CGA
Director Budget and Performance Services
DATE: June 12, 2009
SUBJECT: Development of the 2010 Budget

RECOMMENDATIONS

It is recommended that:

1. Departments, Boards and Requisitioning Bodies develop draft 2010 operating budgets that give Council options to attain a net tax impact within the range of 1.5% to 2.5% for existing services (excluding capital & lifecycle budgets).
2. Council write to the various Boards and Requisitioning Bodies to advise them of the pending budget targets and formally request their co-operation in the development of their 2010 operating budgets.

BACKGROUND

At the June 8, 2009 Council meeting, Council approved the Budget Review Committee recommendations regarding the budget process. These changes will be incorporated in

the development of the 2010 budget and have not been repeated in this report.

This report will address the following items for Council's consideration:

- A) Budget targets
- B) Council's strategic directions 2007 – 2010
- C) Future funding issues
- D) Recent senior government stimulus grants

COMMENTS

A) Budget targets:

Budget targets are being presented for discussion and approval for 2010 based on the state of the economy and the need to continue with infrastructure renewal.

The proposed budget target does not include:

- Implementation phases of master plans, studies and projects;
- Delivery of new services;
- Significant changes in the economy or senior government policies, etc.

Council has been engaged in reviewing multi-year financial projections for existing services. The following table outlines the projected tax effects of maintaining status quo.

For 2010, a municipal tax increase of 1% would raise approximately \$1,149,000.

Multi Year Budget Projections (Tax Impact)			
Projected CPI%	1.5%	1.5%	1.5%
Projected Construction Index %	4.5%	4.5%	4.5%
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital/Lifecycle/Debt strategy (including CPI)	6.7%	2.1%	2.6%
Council Policy re investment of Provincial ODSP uploading to infrastructure	-5.4%	-0.6%	0.0%
	1.3%	1.5%	2.6%
Emergency services	1.4%	1.3%	1.3%
All other municipal services	2.0%	1.7%	1.7%
Real assessment growth based on 09activity	-1.1%	-1.2%	-1.3%
Existing municipal services	3.6%	3.3%	4.3%
Impact re Provincial funding change - unknown	0.0%	0.0%	0.0%
TOTAL	3.6%	3.3%	4.3%
Average annual household impact (based on 2009 property taxes of \$2306)	\$81	\$76	\$99
data rounded to nearest \$ or %			

Some issues that affect or could affect budget targets:

- 1) Inflation - The first quarter indexes as reported by Stats Canada are 0.4% CPI and 4.5% for construction. There are forecasts to the end of the year for CPI of 1% to 1.6%.

The construction index for 2008 was published at an average of 9.6%. For the 2009 budget, a provision of 6.8% was used for the infrastructure categories.

The municipality currently has contracted service obligations whose contracts are tied to the published CPI, usually determined at the first of the year. A provision substantially below the forecasted rate will require changes to services.

- 2) Labour contracts – A complete analysis of the municipal labour environment has been provided to Council in closed session.
- 3) Provincial policy and infrastructure renewal - The Province has announced and begun to implement a phase-in of uploading costs. In the last two years, the Provincial government has taken on full funding responsibility for Ontario Drug Benefits and a portion of the Ontario Disability Support Program with more to be uploaded in 2010 and 2011.

Also announced was:

- a) the upload of the Ontario Works program beginning in 2010 and each year thereafter until 2018
- b) the upload of court security costs currently in the Police Services budget beginning in 2012.

The full details and impact to Chatham-Kent has not yet been determined.

As part of the 2008 budget, Council approved a policy of having lifecycle phase-in requirements funded by savings due to uploading including the provision that cumulative shortages, if any, be given budget consideration. For 2009, \$1.1M of costs were uploaded, with \$0.7M invested by Council in the infrastructure renewal policy.

The phase-in of the lifecycle or infrastructure requirements has been a gradual process by Council. There are currently 31 categories tracked with an annual requirement of \$52M of which \$32M is funded; leaving a funding shortfall of \$20M. Council's policy of investing the uploaded capacity to address the infrastructure backlog will be included in the recommendations of the 2010 draft budget.

Council's current policies on infrastructure renewal and pre budget approval are included in Appendix A.

- 4) Boards & Requisitioning Bodies – The following bodies requisition operating funds from Council as part of the budget process:

	2009 Net Base Budget (in millions)	% of Net Municipal tax levy
Lower Thames Valley Conservation	\$0.5	0.4%
St Clair Conservation Region	\$0.1	0.1%
Chatham-Kent Public Health Services	\$1.8	1.6%
Chatham-Kent Police Services	\$25.2	21.9%
Chatham-Kent Library Board	\$3.2	2.8%

It is being recommended that the various boards and requisitioning bodies participate in presenting Council with options within the budget target of 1.5% to 2.5%.

- 5) Other municipalities – As of the writing of this report, details regarding the 2010 budget of other municipalities is limited. In the City of London, a report to Board of Control on June 3, 2009 recommended budget targets that could result in a tax levy increase of 1.9% to 2.6% for existing services and before assessment growth.

6) Extraordinary items – Departments have identified some issues that may need to be addressed as part of the 2010 budget:

- Winter control costs
- Increase in caseloads
- Rising fuel costs
- OMERS rate increases
- Decline of interest rates and impact on investment income
- Increased costs of 2009 tenders, eg. Gravel, salt, grass cutting

These items will be considered during the preparation of the draft budget.

The budget target range of 1.5% to 2.5% will challenge each division and department to review their operations and services to capture further budget savings. It is expected that Council will be presented with further cost efficiencies, reengineering of processes, possible service reductions/eliminations, etc. in order to table a budget within the target.

B) Council Strategic Directions 2007 - 2010:

Council has been engaged in strategic planning through a number of avenues. During the 2009 budget, Council approved a total funding provision of \$500,000 towards three master plans, with implementation reports provided by the affected departments; Library Services, Fire Services and Information Technology.

Financial requests for new services or funding of strategic directions/master plans has not been reflected in the budget target range. These requests will be presented to Council outside of the existing services target.

C) Future Challenges/Opportunities:

The preparation and approval of an annual budget formalizes the operational expectations for the upcoming year based on the best information available at the time. As with any business or organization, issues will arise, controllable or uncontrollable, that may require a change from the initial plan.

As indicated in previous budget presentations and ongoing reports to Council, the following items, currently unknown, may have an impact on Chatham-Kent:

- Global economy
- Status of OMPF grant funding
- Harmonization of GST/PST
- Provincial uploading
- Arbitrated labour settlements
- Maintaining policy on infrastructure renewal
- Implementation phases of master plans/ studies and various projects
- OMERS rate increase
- Final assessment growth
- Level of senior level government funding, eg. Federal and Provincial gas tax
- Impact of the Public Sector Accounting Board (PSAB) standardized reporting for municipalities

D) Recent Senior Government Stimulus Grants:

The municipality has made application under various grant programs which require matching contributions. During the 2009 budget, Council allocated reserve funds to begin addressing the municipal share. A detailed report as to the status and financial impact of these applications will be on an upcoming Council agenda. There is not expected to be an impact on the 2010 budget.

CORPORATE STRATEGIC DIRECTIONS 2007 – 2010

The recommendations in this report support Strategic Direction #4,

We will be a Municipality of quality services, effective structure and fiscal responsibility.

The principles developed by Council on developing sustainable budgets and strategies required to address challenges faced in mandated services and infrastructure funding requirements provides leadership to the community that benefit current and future ratepayers.

COMMUNITY STRATEGIC PLAN

The recommendations in this report support the following objectives and strategic directions:

B: Economy – A Prosperous Community
B1: Promote and market Chatham-Kent

Desired Outcomes:

- Chatham-Kent to be recognized as a municipal leader in responsible fiscal management through manageable tax rate changes and sustainable fiscal planning.

The recommendations will not adversely impact on the remainder of the Community Strategic Plan.

CONSULTATION

The Executive Management Team was consulted on the development of this report.

Councillor Clarke, the Budget chair, reviewed the process and report.

FINANCIAL IMPLICATIONS

Budget impacts will be determined as the 2010 budget process unfolds.

Prepared by:

Mary Lou McLeod, CGA
Director, Budget & Performance Services

Reviewed by:

Gerry Wolting, B. Math, CA
General Manager, Corporate Services

Reviewed by:

Stuart Wood, CMA
Director, Financial Services

Reviewed by:

Rob Browning
Chief Administrative Officer

Councillor Herman moved, Councillor Pickard seconded:

“That

- 1. Departments, Boards and Requisitioning Bodies develop draft 2010 operating budgets that give Council options to attain a net tax impact within the range of 0% to 2.5% for existing services (excluding capital & lifecycle budgets).**
- 2. Council write to the various Boards and Requisitioning Bodies to advise them of the pending budget targets and formally request their co-operation in the development of their 2010 operating budgets.”**

Councillor Herman questioned why the range for the net tax impact could not be 0% to 2.5%. The Chief Administrative Officer explained that administration is prepared to bring forward the options to reach a 0% net tax impact; however Council must be prepared to make the difficult decisions that will be necessary to reach this level.

Councillor Pickard noted that 80% of cost to the Municipality for services is labour costs. He further noted that unless Council is prepared to cut a certain percentage of the Municipal labour force, and the services associated with that labour force, then a 0% tax impact is unattainable. Councillor Pickard cautioned that squeezing the budget too tightly leaves no money for infrastructure, construction and renovation projects.

Councillor Clarke noted that Council will have to be prepared to cut between \$2 million and \$3 million from the existing budget to be able to achieve a 0% tax impact. He further noted the hard decisions Council will be faced with in order to achieve this goal.

Councillor Gilbert suggested that a Budget Committee meeting be held in the fall to go over how the Municipality is accomplishing its strategic goals, financial pressures, and how the incoming grant money will affect the budget. The Director of Budget and Performance Services explained that the infrastructure funding from the Provincial and Federal Governments will effect the 2010 budget, as these projects are planned for the 2011 and 2012 budgets. Councillor Gilbert noted that this could be further clarified in a Budget Committee meeting.

Councillor Parsons noted that each budget not only affects the current year, but upcoming years as well. He felt due to the lack of growth in Chatham-Kent, a 0% tax increase cannot be achieved without harming future tax years. Councillor Parsons noted that he would like to amend Councillor Herman's motion back to the original range of 1.5% to 2.5%. Mayor Hope felt that this amendment would be contrary to Councillor Herman's motion. Councillor Parsons encouraged Council to defeat the current motion so that the original motion in the report could be brought forward.

Councillor King felt that a 0% tax increase is unrealistic considering the increasing price of materials such as gravel, oil, salt and fuel.

Councillor Sulman encouraged Council to also take into consideration the effect that a tax increase has on commercial businesses.

Councillor Stirling felt that Councillor Herman's motion encompasses the original motion and that the budget may very well end up between the 1.5% and 2.5% increase.

In response to a question by Councillor Weaver, the General Manager of Corporate Services explained that if taxes increase by 2.5% per year, the total tax increase in four years would be 10.4%. Councillor Weaver asked if the increase is the same for commercial properties. The General Manager of Corporate Services confirmed that the increase would be the same for commercial as this does not account for assessment changes.

In response to a question by Councillor Pinsonneault, the Chief Administrative Officer clarified that the projects put forward for the infrastructure funding from the Provincial

and Federal Government are two years out; therefore that funding will have no effect on the 2010 budget. He explained that administration is very cognizant of the hard economic environment and are striving to attain the lowest possible tax increase.

Councillor Stirling questioned if bringing projects forward in order to apply for the infrastructure funding will allow for some flexibility to defer projects that might have been scheduled for 2010. The General Manager of Corporate Services explained that the agreement the Municipality must sign in order to receive the infrastructure funding states that the Municipality's 2009-2010 original plans, prior to funding, cannot decrease.

The Mayor put the Motion

Councillor	Yes	No
Brown	X	
Clarke	X	
Crew		X
Faas		X
Fluker		X
Gilbert	X	
Herman	X	
King	X	
McGregor	X	
Parsons	X	
Pickard		X
Pinsonneault	X	
Robbins		X
Stirling	X	
Sulman	X	
Vercouteren	Absent	
Weaver	X	
Mayor Hope		X
Total	11	6

Motion Carried

