



OAKVILLE

## REPORT

BUDGET COMMITTEE

MEETING DATE: JUNE 21, 2010

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**FROM:** Finance Department

**DATE:** June 8, 2010

**SUBJECT:** 2011 Budget Directions and 2011 - 2013 Budget Forecast

**LOCATION:**

**WARD:**

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**RECOMMENDATION:**

That the following guidelines be provided to staff to enable the development of the 2011 operating and capital budgets for Council's consideration in early 2011:

1. The guideline for staff development of the base budget be set at 3.96% after growth;
2. In accordance with Council policy, the staff-developed 2011 budget include a 1% rate increase for the Capital Levy, to provide funding to address the Town's infrastructure needs and a further 0.2% rate increase for increased hot mix paving funding as recommended by the 2010 Budget Committee;
3. 2% be added to the base budget increase for the operating impacts of completed capital projects;
4. 1% be added to the base budget for the Local Infrastructure Levy;
5. In order for Council to consider and evaluate the implications of a tax rate increase lower than currently forecast, staff prepare three decision packages with progressively negative impacts to reduce the base budget from 8.16% for the town portion or 3.92% overall increase to 5.7% for an overall tax impact of 3%;
6. That in preparing the decision packages staff focus on program reductions considering Council Priorities, the results of the Citizen's Survey and Public Consultation;
7. That the staff recommended budget clearly define the town share as a contribution to the overall tax increase;
8. That staff be requested to prepare tentative decision packages for new requests required to meet increased need in program areas; and,
9. That staff update the long term financial forecast of capital needs to 2020.

**KEY FACTS:**

The following are key points for consideration with respect to this report:

- The 2011 Budget Forecast is being presented to the 2010 Budget Committee for recommendation to Council to establish guidelines for the preparation of the 2011 staff recommended Operating Budget, recognizing that the 2010 Municipal Election will delay the appointment of the 2011 Budget Committee until December, 2010
- The base budget increase is forecast at 8.16% including the 1% capital levy and the local infrastructure levy
- The overall impact on Oakville residents assuming the Region's forecasted increase of 2.4% and no change in education rates is 3.92%
- The base budget does not provide for an service level increases or new services
- It is proposed in the report that the 2011 Budget Discussion Document be released in December 2010 after the 2011 Budget Committee is struck and the budget review take place in January 2011 with target approval of late January/early February
- The forecast assumes the reduction in revenue from Oakville Hydro will be replaced with a new revenue stream from the sale of Blink Communications

**BACKGROUND:**

This report sets out the updated forecast for the Town's Operating Budget for the years 2011 through 2013. The 2010 Budget provided a forecast for 2011 and 2012. This report presents revised forecasts for 2011 and 2012 as well as the forecasted 2013 increase based on the assumptions outlined. The report also outlines the proposed timelines for the 2011 Budget.

The forecast is being presented for the information of the 2010 Budget Committee to allow the committee to provide their recommendations to Council to assist in Council's direction to staff in the preparation of the 2011 budget. The staff recommended 2011 Budget will be presented to the 2011 Budget Committee for their consideration in December 2010.

**COMMENT/OPTIONS:****General Economic Outlook**

Recovery in the Canadian market continued to make strong gains through May despite the uncertainty surrounding the European debt crisis. This supported the Bank of Canada's action mid-April to remove the commitment of a 0.25% policy rate until the end of the second quarter and the subsequent 25 bps hike in the overnight rate in June. Further 25 bps hikes are forecasted for each meeting through October cooling the economic growth as stimulus is withdrawn. In contrast, the U.S. Federal reserve is expected to keep rate increases on hold until late 2010 when their labour markets are forecast to improve.

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Worries in European sovereign markets, particularly Portugal, Ireland, Greece and Spain have led to a flight to U.S. dollars taking some of the heat out of the Canadian dollar and its movement towards parity. However, with support from natural resources commodity prices and more stable financial markets the dollar is anticipated to remain historically high at an average 93 U.S. cents through 2011. Against this backdrop, Canada's core inflation rate which excludes the more volatile components such as gas and indirect taxes is expected to remain around 2% with the headline or total inflation rate tracking slightly above this as the temporary effects of gas and vehicle prices and the implementation of HST in two provinces are felt.

### **Operating Budget Pressures**

In developing the forecasts for 2011, 2012 and 2013, staff considered the impact of general economic conditions as outlined above. The 2010 budget reflected the impact of the downturn in the economy on Planning, Building and Development Services revenues. Revenues for 2011 and onward have been adjusted to reflect a gradual return to previous levels. Each month staff prepares economic indicators for Council highlighting revenues in key programs within the town. Based on results to date for 2010 revenue in Planning and Building are exceeding 2009 levels. Areas of concern continue to be transit revenue and recreation revenue which in both cases are lower than 2009.

Several new facilities will become operational in 2011. The operating impacts of these facilities were identified in the 2011 forecast presented to Council during the 2010 budget process. The Sixteen Mile Creek Recreation Complex will be operational for the full year in 2011; as well QE Park Community Centre and the Transit Facility are scheduled to open during 2011. The impact on the 2011 operating budget for these facilities is \$2.5 million resulting in a 2% increase to the tax levy.

The 2010 budget included temporary reductions to offset the impact of reduced development related revenue. Included in the reductions was gapping of vacant positions. In 2010 a total of 31.6 positions were gapped resulting in personnel savings of \$2.9 million. Of the 31.6 FTE's gapped 24.3 were from the Planning and Development Commission with the remaining 7.3 coming from various departments. Many of these positions were vacant due to temporary leaves such as maternity leave and will be refilled during 2011. The remaining positions were not required due to the downturn in development related activity. Development activity is expected to begin to return to normal levels in 2011. As a result some of the positions gapped in 2010 will be required to meet program needs. In total the 2011 base budget includes 15.2 gapped FTE's. All are within the Planning and

Development Commission. The reduction in gapped positions results in a 1.07% increase on the tax levy.

The 2010 budget included a dividend from Oakville Hydro of \$3.1 million as well as property rental and interest on promissory notes of approximately \$6.2 million. The 2011 forecast presented last year assumed those revenues would remain in the base. Several things have happened since last year's forecast was prepared. A new lease was signed with Oakville Hydro resulting in a reduction in property rental revenue of \$85,600. The OEB has reduced the interest rate allowed on Oakville Hydro long term debt. This has reduced interest on their promissory notes by \$99,600. The final change is the sale of Blink Communications. The town's dividend from Oakville Hydro is based on 55% of their prior year's net income. A significant portion of the dividend resulted from profit on Blink Communications. The sale of Blink has reduced Oakville Hydro's projected net income. As a result the 2011 dividend is expected to be \$1.6 million. In total the loss of revenue from Oakville Hydro has a 1.34% impact on the tax levy. In order to keep the operating budget whole an interest stream is required from the sale of Blink. The 2011 forecast assumes the town will receive an interest stream of \$1.7 million. If this new revenue is not received the total projected base budget increase will rise from 8.16% to 9.5%.

### **2011 Base Budget Projection**

The 2011 base budget provides for the cost of providing services and programs at existing service levels. The base budget also includes the operating impacts of completed capital projects as noted above. The budget does not allow for any increased service demands.

The chart on the following page identifies the drivers of the 2011 base budget and is based on anticipated cost increases identified earlier. The projected increase before capital impacts and the capital levy is 3.96% assuming assessment growth of 1%. In addition the capital levy and increased funding for hot mix paving as recommended by Council during the 2010 budget add 1.2%. The town has a policy of adding 1% to the annual tax rate for the capital levy which provides for an increasing ability to address the costs of infrastructure renewal to maintain the town's infrastructure in a "state of good repair". This brings the total projected budget increase to 5.16% excluding capital impacts and the Local Infrastructure Levy. As noted in a previous section there is a significant operating impact from completed capital projects in 2011. This adds an additional 2% bringing the total increase before the infrastructure levy to 7.16%. The infrastructure levy brings the total forecasted base budget increase to 8.16% assuming a new revenue source to replace the loss of revenue from Oakville Hydro.

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<b>TOWN OF OAKVILLE 2011 BUDGET FORECAST</b>		
	<u>\$ Impact</u>	<u>% Increase on Tax Levy</u>
<b><u>PERSONNEL EXPENSES</u></b>		
Total Economic/Step Increase on Salaries and Benefits	3,139,700	2.50%
Decrease in Budgeted Gapping	1,349,200	1.07%
<b>Total Increase in Salaries and Benefits</b>	<b>4,488,900</b>	<b>3.57%</b>
Total Inflationary Increase on Fuel and Utilities	978,500	0.78%
Total Adjustments on Materials & Supplies	153,400	0.12%
Total Inflationary Increase on Purchased Services	355,500	0.28%
Hydro Dividend Reduction	1,500,000	1.19%
Hydro Property Rental Revenue Reduction	85,600	0.07%
Hydro Interest on Promissory Notes Reduction	99,600	0.08%
Activity Revenue	(1,745,100)	-1.39%
<b>Interest Stream Required from Sale of Blink</b>	<b>(1,685,200)</b>	<b>-1.34%</b>
Net Change in Transfers to/from Reserves	2,009,600	1.60%
<b>Total Increase Before Growth, Capital Impacts and Capital Levy</b>	<b>6,240,800</b>	<b>4.96%</b>
Assessment Growth		-1.00%
<b>Total Increase Before Capital Impacts and Capital Levy</b>	<b>6,240,800</b>	<b>3.96%</b>
1% Levy Increase for Capital	1,257,800	1.00%
Increased Funding for Hot Mix Paving	250,000	0.20%
<b>Total Projected Budget Increase Before Capital Impacts and Infrastructure Levy</b>	<b>7,748,600</b>	<b>5.16%</b>
Net Operating Impact of 2010 Capital	2,509,900	2.00%
Local Infrastructure Levy*	1,255,400	1.00%
<b>Total Projected Budget Increase</b>	<b>11,513,900</b>	<b>8.16%</b>

*\*No impact on Taxpayer as their will be corresponding reduction in the Region's Budget*

The 2010 Budget Discussion Document included a budget forecast for 2011 and 2012. The forecasts did not include any new requests due to the uncertainty of economic conditions at the time and the impact it would have on growth and service needs. The forecast included in the budget document projected a 7.68% increase in the tax levy for 2011 and a 5.13% increase for 2012. Based on the approved 2010 budget the 2011 forecast was revised to 7.7% including an additional \$250,000 for increased hot mix paving and a 5.28% increase for 2012. The projected tax levy increases include the impact of the Local Infrastructure Funding which has no

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overall impact on the taxpayer as there will be a corresponding reduction in the Region's budget.

The revised budget forecast included in this report results in a tax levy increase of 8.16%. This increase assumes the loss of hydro revenue will be replaced with a new revenue stream from the sale of Blink. If the Region of Halton's tax levy increase remains as forecasted at 2.4% for 2011 and assuming the education rate remains unchanged, the overall tax impact to Oakville residents will be 3.92%. If new requests for service enhancements are approved as part of the 2011 budget this amount would change.

This represents a slight increase in the base projection of 0.46% or \$579,000. This increase is split between personnel costs, material and supplies and purchases services as is due to higher than projected inflationary increases. The forecast assumed inflation on materials and supplies of 1.5% and 5% for insurance. Based current information these projections have increased to 2% and 12% respectively. Personnel costs are slightly higher than originally forecast last year based on market pressures.

The chart on the previous page shows the drivers of the 2011 base budget increase. The chart on the following page shows the impact of these drivers on town programs.

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	2010	Inflation	2011		2011	%
	Approved Budget	and Contractual	Capital Budget	Dept.	Base Budget	Change
		Increases	Impact	Adjustments		
<b>Programs</b>						
Political Governance	2,466,500	49,500	0	78,300	2,594,300	5.18%
Administrative Executive Management	1,702,100	44,900	0	(4,900)	1,742,100	2.35%
Internal Audit	149,700	4,700	0	800	155,200	3.67%
Service Oakville	579,400	15,300	0	3,200	597,900	3.19%
Strategy, Policy & Communications	868,100	23,500	0	0	891,600	2.71%
Human Resources	2,114,600	35,200	0	51,900	2,201,700	4.12%
Regulatory Services	1,423,100	67,800	0	(5,700)	1,485,200	4.36%
Financial Services	4,651,900	145,700	0	64,500	4,862,100	4.52%
Environmental Policy	666,300	14,700	0	0	681,000	2.21%
Legal Services	1,628,100	20,800	0	157,300	1,806,200	10.94%
Information Systems + Solutions	5,469,300	154,200	136,900	135,600	5,896,000	7.80%
Capital Assets	1,995,100	57,100	190,800	55,100	2,298,100	15.19%
Emergency Services	26,122,500	642,700	3,600	439,700	27,208,500	4.16%
Recreation Services	7,796,500	383,800	952,800	15,100	9,148,200	17.34%
Culture	1,926,000	75,200	0	900	2,002,100	3.95%
Library	8,287,300	233,500	0	133,700	8,654,500	4.43%
Parks & Open Space	12,029,900	359,600	221,700	7,800	12,619,000	4.90%
Infrastructure Maintenance	16,173,700	519,000	193,600	400,800	17,287,100	6.88%
Infrastructure Planning & Improvements	2,303,900	100,600	0	51,800	2,456,300	6.61%
Parking	0	55,800	0	(48,000)	7,800	
Oakville Transit	13,421,800	478,800	810,500	(61,000)	14,650,100	9.15%
Economic Development	577,100	17,800	0	(21,800)	573,100	(0.69%)
Building Services	1,119,500	90,400	0	(7,900)	1,202,000	7.37%
Planning Services	2,491,500	85,800	0	595,700	3,173,000	27.35%
Development Services	303,200	47,700	0	457,200	808,100	166.52%
Corporate Revenue & Expenses	(116,267,100)	76,200	0	2,703,600	(113,487,300)	(2.39%)
<b>Total Programs</b>	<b>0</b>	<b>3,800,300</b>	<b>2,509,900</b>	<b>5,203,700</b>	<b>11,513,900</b>	

It is important to note that this is a forecast and it is anticipated that these increases will be reviewed as staff develop decision packages for Council.

The following chart provides and explanation for program increases greater than 7%.

<b>Program</b>	<b>Explanation of Increase</b>
Legal Services	Elimination of budgeted gapping
Town Hall	Operating impacts of capital
Recreation Services	Operating impact of QE Park and 16 Mile Creek Recreation Complex
Oakville Transit	Operating impact of the new transit facility
Building Services	Reduction of Tax Stabilization Reserve Funding
Planning Services	Reduction of Tax Stabilization Reserve Funding
Development Services	Reduction of Tax Stabilization Reserve Funding

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## 2012 and 2013 Forecast

The 2012 and 2013 operating budget forecast has been prepared in accordance with the forecast included in the 2010 Budget Discussion Document and amended to reflect changes required due inflationary pressures.

<b>TOWN OF OAKVILLE</b>					
<b>2012 and 2013 BUDGET FORECAST</b>					
		2012 Budget		2013 Budget	
	Assumptions	\$ Impact	% Increase on Tax Levy	\$ Impact	% Increase on Tax Levy
<b>PERSONNEL EXPENSES</b>					
Estimated Benefit Increase	4.0%	892,600	0.65%	572,900	0.39%
Reduction in gapping		-	0.00%		0.00%
Total Economic/Step Increase on Salaries	3.0%	2,909,500	2.12%	2,799,700	1.91%
<b>Total Economic/Step Increase on Salaries and Benefits</b>	<b>3.0%</b>	<b>3,802,100</b>	<b>2.77%</b>	<b>3,372,600</b>	<b>2.30%</b>
<b>MATERIAL, SUPPLIES, UTILITIES:</b>					
<b>Utilities</b>					
Total Inflationary Increase on Materials, Supplies and Utilities	1.5%	757,000	0.55%	486,100	0.33%
Total Inflationary Increase on Purchased Services		664,500	0.48%	565,300	0.39%
Municipal Grants and Rebates		252,900	0.18%	100	0.00%
<b>REVENUE INCREASES</b>	<b>3.0%</b>	<b>(3,938,200)</b>	<b>-2.87%</b>	<b>1,287,400</b>	<b>0.88%</b>
Change in Transfers from Reserves		2,256,300	1.64%	0	0.00%
<b>Total Before Capital Impacts and Capital Levy</b>		<b>3,794,600</b>	<b>2.76%</b>	<b>5,711,500</b>	<b>3.89%</b>
1% Levy Increase for Capital		1,373,000	1.00%	1,467,300	1.00%
Increased Funding for Hot Mix Paving		250,000	0.18%	250,000	0.17%
<b>Total Before Assessment Growth</b>		<b>5,167,600</b>	<b>3.95%</b>	<b>7,428,800</b>	<b>5.06%</b>
Assessment Growth			-1.50%		-2.00%
<b>Total Projected Increase Before Capital Impacts and Local Infrastructure Levy</b>		<b>5,167,600</b>	<b>2.45%</b>	<b>7,428,800</b>	<b>3.06%</b>
Net Operating Impact of Capital		2,924,400	2.13%	2,132,700	1.45%
Local Infrastructure Levy		1,255,400	0.91%	1,255,400	0.86%
<b>Total Projected Tax Levy Increase</b>		<b>9,347,400</b>	<b>5.49%</b>	<b>10,816,900</b>	<b>5.37%</b>

## Budget Guidelines

Staff is seeking guidance from Council in preparing the 2011 Budget and 2012 and 2013 Forecast. The guidelines are not intended to be the recommended change in the budget but rather, to provide a framework for staff to develop options for Council to consider in its deliberations of the 2011 Budget. Defining parameters within which departments are to prepare their budgets enables staff to prioritize their budget changes to within the guidelines. Given the significant pressures on the 2011 Operating Budget it is helpful to staff to have clear guidelines in making these difficult decisions. It will also assist the budget review process which will be undertaken by the 2011 Budget Committee and Council.

Staff is proposing the following guidelines:

1. That the 2011 Budget Directions and 2012 and 2013 Budget Forecast report from the Finance Department be received;

2. That the guideline for staff development of the Base Budget be set at 3.96% after growth;
3. That the staff-developed 2011 Budget, in accordance with Council policy, include a 1% rate increase for the Capital Levy, to provide funding to address the Town's infrastructure needs and 0.2% for increased hot mix paving funding as recommended by the 2010 Budget Committee;
4. That 2% be added to the base budget increase for the operating impacts of completed capital projects;
5. That 1% be added to the base budget for the Local Infrastructure Levy;
6. That in order for Council to consider and evaluate the implications of a tax rate increase lower than currently forecast, staff prepare three decision packages with progressively negative impacts to reduce the base budget from 8.16% for the town portion or 3.92% overall increase to 5.7% for an overall tax impact of 3%;
7. That in preparing the decision packages staff focus on program reductions considering Council Priorities, the results of the Citizen's Survey and Public Consultation;
8. That the staff recommended budget clearly define the town share as a contribution to the overall tax increase;
9. That staff be requested to prepare tentative decision packages for new requests required to meet increased need in program areas; and,
10. That staff update the long term financial forecast of capital needs to 2020.

### **Budget Timelines**

As this is an election year, the 2011 Budget Committee will not be struck until December 2010. The Budget Discussion Document will be released in December after the committee is struck. The review process will take place through January with a target approval date in late January/early February. During January separate meetings will be held for review of each commission's program budgets including a review of services, service levels and requested budget. At least three meetings will be scheduled for public delegations and Budget Committee deliberations, with Council approval targeted for late January/early February.

### **CONSIDERATIONS:**

#### **(A) PUBLIC**

The town's budget process and budget approval results in the annual tax rate payable by town residents. Meetings are open to the public and can be viewed on Town TV.

#### **(B) FINANCIAL**

This report set out guidance to staff for the preparation of the staff recommended budget. The guidelines are not the recommended change in

the 2011 budget but provide a framework for staff to develop options for Council to consider in its deliberations of the 2011 budget.

**(C) IMPACT ON OTHER DEPARTMENTS & USERS**

All departments participate in the budget process.

**(D) CORPORATE AND/OR DEPARTMENT STRATEGIC GOALS**

This report addresses the corporate strategic goal to:

- be accountable
- be fiscally sustainable

**(E) COMMUNITY SUSTAINABILITY**

This report addresses the pillar of economic sustainability.

Prepared by:  
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Submitted by:  
Gord Lalonde  
Commissioner of Corporate Services  
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