

2012 Operating Budget Guideline

June 22, 2011



the city of
Edmonton

Agenda

- Budget Process
- Target for Proposed Budget
- Challenges
- Strategies
- Next steps

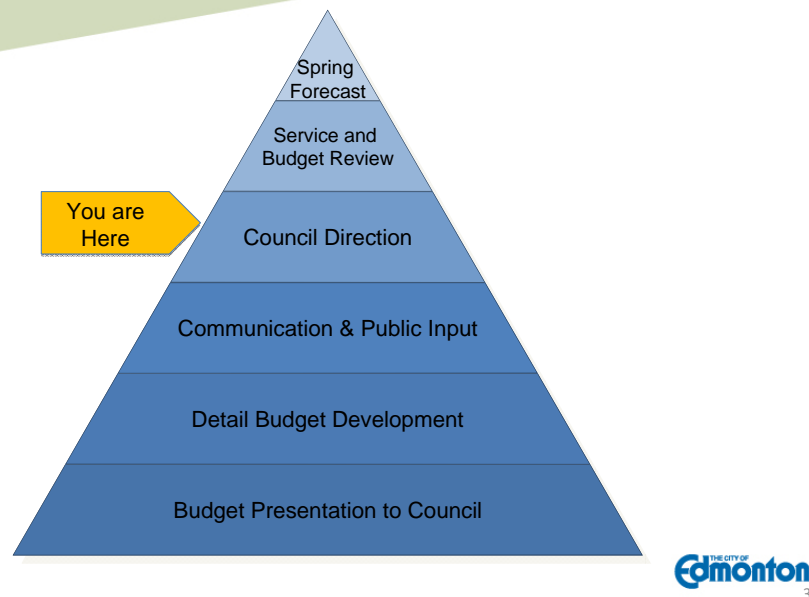


Good morning

Our plan for today is to review and discuss:

- Where we are at in the process for the 2012 Operating Budget
- What are seeking from you today – the guideline Administration will use to prepare the 2012 PROPOSED budget
- Briefly the challenges we are facing as we prepare the budget
- Some of the strategies we are examining to create the PROPOSED budget and the alternatives for revenue and expenditures to BALANCE our budget
- And the next steps in this process

2012 Operating Budget Process



- A Forecast of 2012 revenues and expenditures was completed by the departments in March and a Service and Budget review process was undertaken in April and May.
- Today administration is seeking direction from Council on the guideline for preparing the 2012 PROPOSED operating budget and on two of the strategies proposed by Administration to reduce the net operating budget impact of identified increases in 2012. Communications about City services & programs and revenues & costs and a public input process will commence next month. As well, the departments will begin preparing the detail budget that will be presented to Council in November.

2012 Tax Increase Target

- 3% for all civic services and programs
- 1.5% to continue Neighbourhood Renewal Program



- Today we are seeking Council direction in setting a target for the tax increase for the 2012 operating budget. Administration is recommending a
 - 3% tax rate increase for all civic programs and services, including boards and commissions, and
 - 1.5% tax rate increase to continue the Neighbourhood Renewal Program started in 2009
- However, keeping the tax increase to this target will be a significant challenge

All Civic Services and Neighbourhood Renewal continue – for 21¢ more

- Police
- Transit
- Fire rescue
- Parks
- Road maintenance
- Libraries
- Recreation programs
- Civic events



A 3% tax increase for operations and a 1.5% increase for the Neighbourhood renewal program in 2012 would mean an extra 21 cents a day over 2011 property taxes for the typical Edmonton homeowner. Services that Edmontonians receive every day include:

- Police patrols to pet-licensing,
- Transit service and fire rescue,
- Road maintenance and snow removal,
- Recreation programming, parks maintenance and community development...

While the full range of City services and programs will be maintained, we may see a reduction of some service levels in order to achieve the 3% operations target.

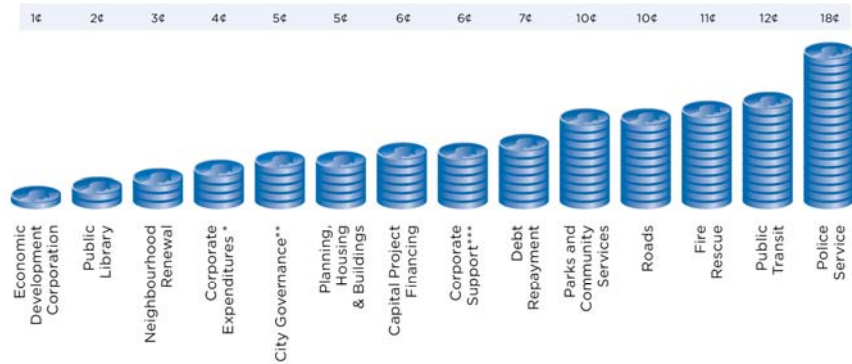
The 1.5% for Neighbourhood Renewal provides the funding necessary to continue to reinvest in roads and sewer infrastructure in Edmonton's established communities through City Council's Neighbourhood Renewal Program.

- This investment in our Neighbourhood Renewal amounts to 7 cents a day, of the 21 cents in tax increase.

Serving Edmontonians

Where your taxes are distributed

Every \$1 of municipal taxes is shared between these civic services



Notes:

This graph is based on net operating requirement, which is a combination of taxes and corporate revenues (excludes use fees)

* Corporate Expenditures includes Tax Appeals and Adjustments, Traffic Safety, Local Improvements, etc.

** City Governance includes Mayor and Councillor Offices, Offices of the City Manager, Deputy City Manager and Auditor, Finance & Treasury, and Assessment and Taxation

*** Corporate Support includes Corporate Services

-This chart shows the distribution of every tax dollar over our major service categories.

-For example, 18 cents goes to Police, 10 cents to roads, and 2 cents goes to libraries.

-All combined, this proposed budget would deliver services and programs for a total of **\$4.89** per day for the typical Edmonton homeowner.

2012 Budget Challenges

- Inflation and increased expenditure commitments: 7.4%
 - 5.5% personnel costs, including inflation, LAPP increase (1%), and graduated increases to a market rate of pay for those employees recruited at a below market rate
 - 1.9% non-personnel inflation, includes fuel (1.2%)
- Impact of previous Council decisions: 3.3%
 - Edmontonians benefit from enhanced recreation and culture facilities, road safety, and parks and river valley development programs.

- Without the identification of strategies to reduce the net increase to the budget in 2012, our tax increase would be much greater than the 3% target we are recommending.
- Inflation and increased expenditure commitments would require a 7.4% increase in taxes:
 - 5.5% tax rate increase results from personnel costs inflation, Local Authorities Pension Plan contributions 1% - last year of the 3-year staged increase, and graduated increases to a market rate of pay for those employees recruited at a below market rate
 - 1.9% tax rate increase is driven by non-personnel inflation, of which fuel accounts for 1.2%.
- The impact of previous Council decisions amounts to an increase in 3.3%. This includes the impact of operating costs of capital, debt servicing costs for Council approved capital projects, improved snow removal standards, and annualization of transit service additions.
- As a result of those decisions, Edmontonians benefit from enhanced recreation and culture facilities, road safety, and parks and river valley development programs.

Revenue in 2012



- Increase in revenue is not equivalent to the increase in expenditures
 - 3.4% revenue increase
 - 10.6% cost increase

- Offsetting expenditures are revenue increases that are not increasing at the same rate as expenditures
- Projected moderate revenue growth from assessment and all other revenue increases would offset the tax rate increase by 3.4%.
- Without strategies to reduce the gap between current static revenue levels and expenditure increases, the forecasted tax increase would be 7.3%.

2012 Budget Challenges

(in \$ millions)

	Incremental Change	Tax Rate
Increase in Revenue		
Growth in Assessment Revenue	\$ 13.0	
Franchise Fees Increase	4.0	
Revenue Increase	12.3	
Revisions to March Forecast	2.6	
Total Revenue Increase	31.9	-3.4%
Increase in Expenditure		
Maintain Existing Services		
Personnel Costs	52.4	5.5%
Non-personnel Costs	20.0	2.1%
Revisions to March Forecast	(2.4)	-0.3%
	70.0	7.4%
Impact of Previous Council Decisions		
Impact of Capital Projects	13.0	1.4%
Debt Servicing Costs	8.4	0.9%
New Service Standards - Snow Removal	5.0	0.5%
Indy	1.8	0.2%
Census	1.9	0.2%
Annualization of 2011 Transit Service Additions	1.0	0.1%
	31.1	3.3%
Total Expenditure Increase	101.1	10.6%
Tax-supported Operations	\$ 69.2	7.3%



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- This is a summary of the drivers of 7.3% tax rate increase without considering any efficiencies, revenue alternatives or cost reductions through service level adjustments...

Service & Budget Review - Process

- Target of 3%
 - Expenditure & revenue adjustments \$40.7M
 - Council's strategic priorities \$10.0M
 - SBR Target \$50.7M
- Multi-disciplinary team undertook a Service and Budget Review process for 2012
- A combination of revenue and expenditure changes, innovation and efficiency in service delivery and reduction and elimination of some services has been analyzed.

- Achieving a 3% tax increase target requires a combined reduction in expenditure and or increase in non-tax revenue of \$40.7 million from forecast.
- However, Administration has identified an additional \$10.0 million in current budget that Council could redirect towards programs and services that support the achievement of Council's strategic priorities for a total target of \$50.7 million.
- CLT appointed a multi-disciplinary team to undertake a Service and Budget Review process for 2012 to review department proposals for opportunities and strategies to achieve a 3% tax increase target.
- A combination of revenue and expenditure changes, innovation and efficiency in service delivery and reduction and elimination of some services has been analyzed.

Service & Budget Review – Impact Analysis

Includes: Civic Programs, Police and Library	Total Value, \$million	Categories, \$ million	
Level One Impact	\$49.3	Revenue	\$21.6
		Innovation/Efficiency	\$6.3
		Change in Service Level	\$0.2
		Expenditure Change	\$21.2
Level Two Impact	\$8.5	Revenue	\$1.2
		Change in Service Level	\$6.3
		Expenditure Change	\$1.0
Level Three Impact	\$8.1	Revenue	\$0.4
		Change in Service Level	\$5.1
		Expenditure Change	\$2.6
Total	\$65.9	Revenue	\$23.2
		Innovation/Efficiency	\$6.3
		Change in Service Level	\$11.6
		Expenditure Change	\$24.8

Note: Waste Management and Drainage not included – they are not tax supported operations and are conducting similar reviews

The opportunities identified by the SBR team were also banded in three broad categories:

Level One Impact – Will have a less significant impact than Level two or three.

Level Two Impact – Greater impact than those identified in Level One with more significant impact of service levels.

Level Three Impact – Greatest impact compared to Level One and Two with the most significant impact on service levels.

There is no prioritization within these broad categories.

Within these categories opportunities were further identified by the following sub-categories:

- Revenue change
- Innovation and efficiency
- Change in service level
- Expenditure change

In total the SBR team identified \$65.9 million that could be considered towards achieving 3.0% tax rate target in order to allow for some flexibility in decision making. However, there are two pivotal strategies included in level one that are described on the next slide that form a significant portion of the Level one opportunities.

Strategies

- \$16.6 M from Education tax room and additional growth in assessment revenue – identified during 2011 Budget Update Report
- \$7.8 M in fire hydrant maintenance cost reallocated from property tax to the water utility rates to more closely align the cost with the service

There were two pivotal strategies identified in the Service and Budget review:

Utilization of the \$16.6 M from Education tax room and additional growth in assessment revenue – identified during 2011 Budget Update Report in April to cover the new debt servicing associated with Council approved capital projects as well as a portion of the operating impacts of previous capital decisions; Administration acknowledges that the motion made in April directed any funds not needed to cover the increase to Provincial Motor Vehicle Search fees to capital.

The second major strategy is the reallocation of \$7.8 M in fire hydrant maintenance cost from property taxes to the water utility rates to more closely align the cost with the service. Recent information also suggests that EPCOR would be seeking a significant increase in the current charges to fire hydrant maintenance to \$9.8 million.

With these strategies in place the impact on services would be minimal.

If these strategies are not acceptable to Council, it removes flexibility for consideration of the other strategies in the Service and Budget Review and would require identifying additional service reductions to meet the 3% target.

Without these pivotal strategies, we would have to go into the identified level 2 and level 3 strategies and identify additional opportunities, which will have a greater impact on services or a more significant tax increase.

In Summary

- Administration recommends a guideline for preparing the 2012 budget with a tax increase of 3% for civic services, boards and commissions
- Maintain Neighbourhood Renewal program with 1.5% dedicated tax increase
- Detailed 2012 Proposed Operating Budget will be provided in November

In summary,

- We recommend a guideline for preparing the 2012 budget with a tax increase of 3% for civic services, boards and commissions
- Maintain Neighbourhood Renewal program with 1.5% dedicated tax increase
- Detailed 2012 Proposed Operating Budget will be provided in November

Communications and Public Input

- Increase public awareness about civic services and relationship to budget and taxes
- Engage Edmontonians to prioritize corporate outcomes of City goals, and prioritize major civic service offerings
- Community conversation about value for taxes and transparent budget process



- Over the next few months we will ramp up communications and start public engagement on the 2012 budget.
- The communications goal is to increase awareness about all the services Edmontonians see and use every day, for relatively low cost, as compared to taxes to other orders of government.
- This communications will include videos, advertising and online engagement in discussions about the range of services Edmontonians get for their property tax dollars and fees, and a two-way conversation about the budget process.
- We will also initiate a new public involvement exercise that will help increase awareness about our services, while building on the work of the Citizen Panel and the many public consultations to build the City vision and the Ways, such as the TMP and the MDP.
- We aim to work with Edmontonians in several public meetings and through online tools that will allow them to prioritize the City Goals, and specifically the Corporate Outcomes. By validating these goals and outcomes, we can better measure how effective we are at delivering the services Edmontonians expect.
- We will also seek prioritization of major service offerings.
- We intend to use this input to gauge the public perception about our range of services. The public input will NOT identify specific expenditure decisions for you to consider, rather it will identify weightings of the Corporate Outcomes for Council consider in your deliberations about services in November and December.