

3. 1998 DRAFT ESTIMATES- RESPONSES TO INCREASED TAXATION REQUIREMENTS

COMMITTEE RECOMMENDATIONS, AS AMENDED

1. That Regional Council request the Police Services Board to submit to Regional Council a budget which requires no tax increases.
2. That the Regional Chair explore with the Chair of the Police Services Board that the Police Budget review be conducted through a joint meeting of the Police Services Board and Corporate Services and Economic Development Committee.
3. That the Police Services Board be requested to critically review and reduce the capital program to minimize the requirement to issue new debt.
4. That Council direct
 - a) That the Budget Review Board of Management Committee identify alternatives to reduce expenditures totaling \$4.5 million as stated in the report.
 - b) That the Budget Review Board identify a menu of alternatives for additional expenditure reductions to offset the impact of Provincial downloading. This menu of alternative expenditure reductions to include service level decreases and/or program eliminations due to the non revenue-neutral scenario inherited from the Province as a result of new program responsibilities.
 - c) That the Chair and the C.A.O. continue to communicate to the Provincial Government the magnitude and urgency of this situation on behalf of all Ottawa-Carleton taxpayers.

- d) **That the C.A.O. review with the City of Ottawa, possibilities for savings by sharing or other re-arrangement of services similar to the current contract arrangements with the City of Ottawa for Regional Road maintenance, provision by the Region of supply, short-term investments and survey services to the City of Ottawa.**

DOCUMENTATION:

1. Chief Administrative Officer and Finance Commissioner's joint report dated 11 Feb 98 is immediately attached.
2. Extract of Draft Minute, Corporate Services and Economic Development Committee meeting of 3 Mar 98 will be circulated prior to the Council meeting.

REGIONAL MUNICIPALITY OF OTTAWA CARLETON
 MUNICIPALITÉ RÉGIONALE D'OTTAWA CARLETON

REPORT
RAPPORT

Our File/N/Réf.
 Your File/V/Réf.

DATE 11 February 1998

TO/DEST. Chair
 Members of Council

FROM/EXP. Chief Administrative Officer
 Finance Commissioner

SUBJECT/OBJET **1998 DRAFT ESTIMATES**
- RESPONSES TO INCREASED TAXATION REQUIREMENTS

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee receive this report for consideration.

PURPOSE

The purpose of this report is to present responses to the increased taxation requirements identified in the 1998 Draft Estimates Executive Summary tabled with Council on February 11, 1998. In accordance with the 1998 Budget Development Strategy approved by Council on January 28, 1998, this report is to be forwarded to the Corporate Services and Economic Development Committee for consideration at the meeting of March 3, 1998.

BACKGROUND

The 1998 Draft Estimates identify the expenditure and taxation requirements necessary to provide for existing regional programs at current service levels as well as the new program responsibilities downloaded by the provincial government. These requirements are summarized in the Executive Summary of the 1998 Draft Estimates along with a description of the major variances from the 1997 Budget.

The funding and, in most cases, the management responsibility for a number of programs is being transferred by the provincial government to municipalities in 1998 as a result of the implementation of Bill 152, the *Services Improvement Act, 1997*. Included in these transfers are additional funding responsibilities for numerous social and health programs, land ambulance

services, social housing, public transit and assessment services. In addition, the Province will be eliminating the funding it provided to municipalities under its Ontario Municipal Support Grant Program along with assuming Gross Tax Receipts revenue from municipalities.

These additional costs and loss of revenues are to be accommodated, in part, by each municipality within the tax room generated from the introduction of a uniform provincial residential tax rate for education purposes. This education tax room is expected to equate to \$221.3 million in Ottawa-Carleton of which \$204.6 million has been assigned to the RMOC by the provincial government.

DISCUSSION

In past years, draft estimates were presented with forecasted impacts on average residential property tax bills by area municipality. This is not possible this year, at this time, due to the changes effected in the assessment and property tax system in this province by the provisions of the *Fair Municipal Finance Act* and the *Education Quality Improvement Act*. The provincial government has not yet regulated a number of significant variables that will effect property tax bills, such as residential and commercial education property tax rates, transitional tax ratios which affect tax rates for individual property classes and sharing of payments-in-lieu of taxation. In addition, there are a number of property tax policy decisions to be made by Council later this spring, such as deferral and/or phase-in of assessment related changes, commercial sub-classes and rebates to charitable organizations that will substantially affect property tax bills. Finally, the impacts of re-assessment will not be known until the assessment data and analysis models are released by the provincial government later this month and the necessary modelling work can be completed. As a result of all of this, it would be misleading to attempt to detail the property tax impacts of the tabled Draft Estimates down to the individual property tax bill by area municipality. Rather, the impacts must be measured at a higher level by focusing on the change in the total taxation requirement of the RMOC.

The 1998 Draft Estimates propose that the major 1997 user fees including the water rate, sewer surcharge rate, fire supply rate and tipping fee rate remain unchanged. The 1998 Draft Estimates identify a total taxation requirement of \$659.8 million, representing an increase of \$60.9 million, or 10.2% (net of assessment growth) over the sum of 1997 taxation of \$390.4 million and the education property tax room of \$204.6 million assigned to the RMOC by the provincial government for 1998 taxation purposes.

Table 1 assesses the change in total taxation requirement, net of estimated assessment growth, by four major program groups; all existing programs directly controlled by Council, existing programs provided by the Ottawa-Carleton Regional Transit Commission, existing programs provided by the Regional Police Services Board and finally, the property tax requirement increase being downloaded in 1998 by the provincial government. The total net increase in tax requirement of \$60.9 million is the amount that would have to be accommodated through expenditure reductions and provincial assistance, if the RMOC is to freeze its taxation requirement on regional property taxpayers including the costs of provincial downloading.

Table 1 (\$000's)	1997 Tax Requirement	1998 Tax Requirement	Assessment Growth	Net Increase In Tax Requirement
Existing Regional Programs	246,720	253,632	2,467	4,445
Existing OC Transpo	54,488	58,248	545	3,215
Existing Police Services Board	89,200	102,400	892	12,308
Provincial Download	*204,587	245,519	-	40,932
Total	594,995	659,799	3,904	60,900

* the 1997 tax requirement for this program group represents the amount of the education property tax room assigned to the RMOC on December 12, 1997 by the provincial government.

This report identifies responses to the net increase in tax requirement of each of the program groups highlighted above and discussed individually in the following sections.

EXISTING REGIONAL PROGRAMS

The net increase in tax requirement for existing regional programs of \$4.4 million, as shown in Table 1, includes a reduction of \$1.5 million in the sewer capital levy. This reduction was planned and follows a policy approved by Council in the 1997 Budget deliberations that precommits the budget base to increased depreciation provisions for OC Transpo. This issue is more fully described in the section entitled *Existing OC Transpo Programs*. As a result, the actual net increase in taxation to be accommodated in Existing Regional Programs is **\$5.9 million** and can be offset with the following changes to the tabled Draft Estimates.

Reduce Vested Benefits Reserve Fund Contribution - \$1.4 million

In 1997, the Ontario Municipal Employee Retirement System (OMERS) Board announced a 2% reduction in the contribution rate for both employers and employees for a five year period beginning in 1998. These changes result in annual savings of approximately \$2.8 million for the Region and \$1.0 million for the Regional Police Services. On July 9, 1997, Council approved recommendations contained in the report entitled "OMERS Surplus - Management Plans", including a budget direction that \$1.8 million of the \$2.8 million in savings be contributed to the Vested Benefits Reserve Fund with the remaining \$1.0 million to be provided for the funding of an Information Technology human resource strategy. These directions have been reflected in the 1998 Draft Estimates.

The Vested Benefits Reserve Fund exists to mitigate the impact on annual operating budgets of payouts of unused and vested sick leave credits to employees upon their departure from employment. While these benefits accrue only to those employees hired prior to the introduction of the Income Protection Plan in 1979, the estimated liability for the RMOC is approximately \$17 million (excluding police services) while the reserve fund balance at the end of 1997 is only \$3.8 million. The 1997 Budget for the Region Wide Fund provided for \$1.5 million of these costs with

\$1.1 million of this amount funded from the reserve fund. While staff had recommended that contributions to this reserve fund be increased, it is now felt that this cannot be afforded from the tax supported funds. The consequence of this action is that future operating budgets in the tax supported funds will be more exposed to increased requirements for this purpose.

Reduction Target for Budget Review Board - \$4.5 million

The Budget Review Board of Management Committee has reviewed, at a summary level, the draft estimates tabled with Council and concurs that they represent the expenditure and taxation requirements necessary to provide for existing regional programs at current service levels. In order that the net tax requirement does not increase for these groups of programs, however, expenditure reductions totalling \$4.5 million must be made. To accomplish this, it will be necessary for the policy committees to reduce the taxation requirements of these programs during their consideration of the Draft Estimates including any other amendments they approve for Council consideration. To facilitate this, it is proposed that alternatives be developed by the Budget Review Board in conjunction with individual departments for presentation during the policy committee reviews. The Budget Review Board will endeavour to identify alternatives that do not require front-line service level reductions.

EXISTING OC TRANSPRO PROGRAMS

On December 11, 1996, Council approved a report from the Finance Commissioner that proposed a financing strategy for OC Transpo's capital replacement program. The report recommended the following:

1. The introduction of depreciation accounting by OC Transpo to provide for all capital replacement including replacement bus purchases after the year 2000;
2. The reduction in the Sewer Capital mill rate resulting from the phase-out policy is to be offset by a corresponding increase in the Transit mill rate to support OC Transpo capital requirements.

These recommendations were approved by Council in the context of the 1997 Budget deliberations. This strategy was predicated on the stipulation that OC Transpo would not increase its net tax requirement for all other purposes, i.e. increased operating costs would be covered by increased ridership revenues and assessment growth. OC Transpo's 1998 Draft Estimates will propose, however, a net increase in tax requirement of \$3.2 million, \$1.7 million more than the planned transfer of Sewer Capital Levy base of \$1.5 million for 1998. **It is proposed that the Transit Commission be requested to identify reductions in the 1998 Draft Estimates sufficient to reduce the net increase in tax requirement to the planned amount of \$1.5 million.**

EXISTING POLICE SERVICES BOARD PROGRAMS

The 1998 Draft Estimates for Police Services have not yet been formally tabled with the Ottawa-Carleton Police Services Board (the Board) for consideration. The majority of the net increase in tax requirement, other than the planned phase-in of costs for the OPP serviced areas (\$1.7 million), relates to compensation cost increases, driven by collective bargaining and step increments, as well as revenue losses.

The section of the *Police Services Act* (the Act) dealing with the relationship and roles of police services boards and municipal councils concerning budgetary matters was amended in 1997. The new section of the Act is attached as Annex A to this report. The Act requires Council to provide the Board with a funding envelope. The Board then attempts to structure a budget that provides for, as a minimum, the services standards set out in the Act as well as other local policing priorities. If the Board is of the opinion that this cannot be accomplished within the envelope set out by Council, and if Council does not agree to enlarge the envelope, the Board can request a review and decision by the Ontario Civilian Commission on Police Services, an independent commission established by the Ministry of the Solicitor General.

The Board will require direction from Council regarding the net tax requirement that Council is willing to accept, prior to substantially completing its budget review. In setting this amount, Council will need to have regard for how much of any increase in the tax requirement for police services they are willing to tax for and how much they are willing to attempt to accommodate by reducing the net tax requirement of other programs. *The Budget Review Board is of the opinion that capacity to reduce the net tax requirement of other existing regional programs does not exist in this magnitude, without significantly reducing frontline service delivery.*

To facilitate this process it is recommended that the Police Services Board be requested to present its 1998 Draft Estimates to the Corporate Services and Economic Development Committee at the March 3, 1998 meeting. (The 1998 Draft Estimates will be formally tabled with the Board and available for public review on February 23, 1998).

PROVINCIAL DOWNLOAD

When first introduced, the provincial government stated that these transfers in program funding were to be cost-neutral in spite of the fact that municipalities had calculated a significant additional cost that would be borne by local property taxpayers. The provincial government has finally acknowledged that these transfers will not be cost-neutral as originally stated, however, the province's contention is that any remaining shortfall can be addressed by each municipality from within its own expenditures through *program savings and administrative efficiencies.*

Table 2 identifies the impact of total provincial downloading on the net tax requirement of the 1998 Draft Estimates. The first thirteen line items identify the downloaded savings requirement announced for the RMO by the provincial government on December 12, 1997. Lines 14, 15, 16 and 17 add other items that have been downloaded by the provincial government and which

impact on the 1998 Draft Estimates, but are not recognized by the province in its December announcement.

Table 2	Increased Tax Requirement (\$000's)
1. Social Services	71,909
2. Child Care	2,954
3. Public Health	14,139
4. Ambulances	7,644
5. Social Housing	61,993
6. Transit Subsidies - Operating & Capital	62,111
7. Managed Forests & Conservation Lands Rebate	76
8. Farm Tax Rebate	909
9. Septic Inspections	54
10. Provincial Offence Notices Net Revenue	(2,523)
11. Children's Aid Society	(7,313)
12. Ontario Municipal Support Program	19,954
13. Less: Education Tax Room	(204,587)
Provincial Savings Target	27,320
14. Highway Transfers - Transportation - Operating	2,927
15. Highway Transfers - Transportation - Capital PAYG	3,700
16. Highway Transfers - Policing	1,500
17. Gross Receipt Tax Revenues	5,485
Provincial Download to Property Taxation	40,932

The province incorrectly attributed the RMOC's share of the loss of the Gross Tax Receipts revenues (\$5.5 million) to the area municipalities. In addition, the funding transfer of the assessment function has been allocated to each area municipality. This is contrary to the provincial legislation which transfers this responsibility to the upper tier. The province has been advised of this error. It is anticipated that the RMOC's and each lower tier municipality's education tax room and savings target will be adjusted accordingly.

The provincial government maintains that the downloaded savings requirement of \$27.3 million should be easily managed by the RMOC as it translates into only 2.8% of total annual spending.

Table 3 presents a different view. The table shows how the actual % savings requirement climbs with the removal from the RMOC's base annual spending of those programs which are unlikely to contribute significant expenditure reductions.

Table 3	Expenditures (\$000's)		% Cut Represented By	
	1997 Budget	Base	\$27.3M	\$40.9M
		966,073		
Provincial Statement			2.8	
Total Provincial Download				4.2
Mandatory Programs				
General Welfare Assistance	206,174			
Debt Charges	63,508			
Child Care	48,735			
Children's Aid Society	6,800			
Financial Charges	3,951			
Tax Remissions	4,744			
Conservation Authorities	1,950			
		630,211	4.3	6.5
Boards and Commissions				
Police Services	99,335			
OC Transpo	151,571			
Para Transpo	15,214			
		364,091	7.5	11.2
Social Programs				
Social Services	74,154			
Homes for the Aged	30,610			
Health	19,622			
		239,705	11.4	17.1

Given that there is no significant capacity in mandatory programs, police and public transit, and given that it will be difficult for Council to significantly reduce spending in social programs, the actual base to which expenditure reductions will be applied is something closer to \$240 million rather than \$966 million. On this revised base, which includes spending on programs such as transportation, emergency services, water system, sewer system, solid waste management, external agencies and administration, the provincial savings target of \$27.3 million represents an 11.4% cut and the total provincial download of \$40.9 million represents a 17.1% cut.

The reality is that ongoing base budget savings of this magnitude are not achievable without significantly reducing services provided to residents or seriously impairing the fiscal integrity of the Regional Corporation. The only other alternative to achieving these savings is through effecting structural change to local government in Ottawa-Carleton.

With regard to restructuring, all three governance studies, including the One-Tier Government: Options for Ottawa-Carleton (City of Ottawa, June, 1996), Greater Ottawa: Partnership for the Future (Area Municipalities Except City of Ottawa, February, 1997) and Analysis of Municipal

Sector Expenditures in Ottawa-Carleton (RMOC, June, 1997), forecasted base budget savings opportunities significantly in excess of the \$42.7 million savings requirement downloaded by the provincial government (\$27.3 million for the RMOC and \$15.4 million for the area municipalities).

Regardless, of what form restructuring takes, savings would not be available for several years as the organizational restructuring unfolds. **In order to avoid significant tax increases or service reductions during this period, it is recommended that Regional Council obtain interim financial assistance from the provincial government.**

OTHER BUDGETARY ISSUES NOT INCLUDED IN THE DRAFT ESTIMATES

A number of issues that will affect the 1998 Budget are not included in the Draft Estimates as tabled because they are in a state of flux and the extent of the impact is uncertain at this time. It is expected that these issues, described in the following sections, will have fully developed and consequently been quantified prior to the March 11, 1998 meeting of Council. Their impacts will be reported to Council at that time.

Payments-In-Lieu of Taxation (PILs)

There are two issues developing with respect to PILs. The first deals with the total amount of PILs that will be available as revenue to Ottawa-Carleton municipalities in 1998.

In 1996, \$153 million in PILs were invoiced by area municipalities, 67% of which were paid by the federal government. In 1998, the Business Occupancy Tax (BOT) is being eliminated. Commercial and industrial property tax rates will increase to recover BOT revenues. Properties that were exempt from property taxation (and BOTs) will pay higher PILs. This will result in incremental revenue for municipalities. The federal and provincial governments have very recently indicated that they will honour their commitments in this regard. The federal government has also indicated that the Municipal Grant Act Program will be reviewed in 1998 for changes effective in 1999. The result is that while incremental PIL revenues may result from the provincial changes to the property tax system, the majority of these revenues will likely be one-time in 1998.

The second issue surrounding PILs is how they will be shared between the RMOC and area municipalities. In the past, each area municipality shared PILs with the region based on the ratio of taxes levied for regional purposes as a percentage of total taxes levied for municipal purposes by the area municipality, with the area municipality keeping the school board share. This resulted in a sharing of total PILs of 35% to the RMOC and 65% to the area municipality, on average. On February 6, 1998, the provincial government indicated that this system would remain in effect for 1998. As a result of the Mega Week shift of property tax responsibilities to the upper-tier, however, the RMOC will now share in approximately 60% of total PIL revenues, with area municipalities receiving 40%. 1997 comparative mill rates will need to be restated to reflect this shift.

Ice Storm Costs

The cost of the Ice Storm is unknown until it can be determined how much assistance the provincial and federal governments will provide. As the amount after any provincial and federal assistance represents a one-time cost, it will be recommended that it be funded from reserve funds and not form part of the 1998 taxation requirements.

Remissions

Remissions represent the cost of the RMOC's share of billed property taxes that ultimately are not collected due primarily to successful assessment appeals by property taxpayers. In 1997, the RMOC budgeted 1.2% of total taxation for remissions. History indicates that following a reassessment, similar to what is occurring for the 1998 taxation year, actual remission costs can be 2 to 3 times higher due to increased numbers of assessment appeals.

Rebates to Charitable Organizations

In the past, charitable organizations were exempt from the BOT. As a result of higher commercial tax rates in 1998, (necessary to recover lost BOT revenues), these organizations will face higher property taxes or rental costs. The *Fair Municipal Finance Act* allows Regional Council to establish a percentage rebate for these organizations that is then shared between the RMOC, area municipalities and the province for education purposes.

This issue is one of a number to be considered by Regional Council this spring regarding the *Fair Municipal Finance Act*. To the extent that Council chooses to provide rebates, the RMOC's share of the cost will need to be provided in the 1998 Draft Estimates.

Results of Operations

The 1997 results of operations have not yet been finalized, and are subject to completion of audit by the Region's external auditors. Staff will be recommending funding alternatives for the disposition of any surplus or deficit arising from 1997 operations.

Provincial Downloading

As stated previously, the 1998 Draft Estimates provide for the impact of Provincial Downloading in accordance with the estimates provided by the provincial government's December 12, 1998 announcement. It is known that the announcement contains errors. A meeting between the Ministry of Finance and the undersigned took place on February 9, 1998 to attempt to reach a final clarification. The provincial government is to respond to the issues raised at this meeting.

Approved by
C.M. Beckstead
Chief Administrative Officer

Approved by
J.C. LeBelle
Finance Commissioner

Annex A

Section 39 of the Police Services Act

39. (1) The board shall submit operating and capital estimates to the municipal council that will show, separately, the amounts that will be required,

- (a) to maintain the police force and provide it with equipment and facilities; and
- (b) to pay the expenses of the board's operation other than the remuneration of board members.

(2) The format of the estimates, the period that they cover and the timetable for their submission shall be as determined by the council.

(3) Upon reviewing the estimates, the council shall establish an overall budget for the board for the purposes described in clauses (1) (a) and (b) and, in doing so, the council is not bound to adopt the estimates submitted by the board.

(4) In establishing an overall budget for the board, the council does not have the authority to approve or disapprove specific items in the estimates.

(5) If the board is not satisfied that the budget established for it by the council is sufficient to maintain an adequate number of police officers or other employees of the police force or to provide the police force with adequate equipment or facilities, the board may request that the Commission determine the question and the Commission, shall, after a hearing do so.