



**Windsor & District Chamber of Commerce**

# **2006 CITY OF WINDSOR BUDGET SUBMISSION**

**Submitted to:**

**The City of Windsor  
Mayor Eddie Francis  
City of Windsor Council**

**Presentation:**

**Tim Fuerth, Chair, Finance & Taxation Committee  
Gina Leslie, Chair of the Board of Directors**

**February 20, 2006**

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## **Introduction**

The Windsor & District Chamber of Commerce has reviewed the recommendations of the Administration and supporting documentation pertaining to the 2006 City of Windsor Operating and Capital Budgets.

We appreciate the opportunity to provide our comments and to bring forward suggestions that we believe will enhance the transparency and effectiveness of the budget process going forward. As the voice of business, we focused our analysis and comments on matters that will have an economic impact on our members.

First, we would like to applaud this Council's and City Administration's efforts to improve and streamline the budget process. Tremendous progress has been made in improving the timeliness for budget approval as well as providing increased transparency and accountability. We also compliment and support the renewed focus on fiscal prudence and future orientation of financial planning. After many years of providing this submission, we have found this new direction tremendously refreshing. In this context, we are providing our comments by way of this submission.

It is clear that the modified zero-based budget process has already contributed significantly to the effectiveness of the budget process. The benefits of this approach will become more evident as this approach is implemented throughout those departments not presently part of the process. We are confident that the use of this approach can be refined and enhanced in the preparation of future budgets as more experience is gained and the practice becomes fully ingrained and supported in the budget process.

The overall quality of the budget process, the manner in which information is provided and the financial direction of the City of Windsor continue to show improvement and leadership.

## **Need for Additional Financial Information**

While there have been discernable improvements made in the presentation of the budget documents, we suggest that inclusion of at least some additional information could have improved the relevance and transparency of the budget. These include:

### ***Budget vs. Actual Data***

More current information on the actual departmental performance compared to budgeted amounts is needed in addition to the 2005 budget amounts for comparative purposes. The inclusion of the actual unaudited revenues and expenditures for the 2005 calendar year would have been useful and more relevant than 2005 budgeted amounts. This would have enabled the comparison of the 2006 proposed budget to both the 2005 budget and the more current 2005 actual amounts. The inclusion of this

additional information would also serve to highlight major variances between 2005 budget and actual amounts as well as the 2006 budget that may necessitate further review and comment.

### ***Property Assessment Information***

Information summarizing the projected aggregate assessed values by class assumed in the preparation of the 2006 budget together with the comparable 2005 assessed values would enhance the ability to estimate the impact that changes in assessed values might have on tax rates.

### ***Budgetary Forecasting***

The Budget should more clearly identify and discuss factors and other events that could have a significant impact on the budget as presented, together with sensitivity analysis where appropriate to illustrate the potential quantitative impact. It would also be useful to provide a financial outlook for at least an additional two years highlighting the risks and opportunities and significant assumptions used.

We believe that the inclusion of this additional information in a format that is easily interpreted would further support the transparency and completeness of the budget document.

## **Comments on the 2006 Budget**

We have summarized below comments in several areas related to the 2006 Budget that are significant and relevant to the business community.

### ***1. Calculation of 2006 Budget Impact on Existing Taxpayers***

The calculations contained on page 2 of the Executive Summary summarizing the impact on existing taxpayers of the budgeted municipal levy increase of 0.96% could be misleading as a result of the following:

- a) The 2005 Hospital Levy is included in the base year amount for calculation purposes even though it was essentially a pass through the City. This inclusion serves to understate in percentage terms the impact on taxpayers related to the City's operating and capital budgets;
- b) The 2005 base amount also includes the provincial education levy. Since this tax revenue is also a pass through the City and the actual amount of such revenue is both beyond the control of the City and does not directly impact the City's finances or operations, inclusion of this amount in the base also serves to understate the percentage increase;
- c) The calculation implies that the additional tax revenue from new properties would be equally offset by incremental expenditures. This

does not depict the true nature of these expenses. Substantial portions of the City's costs are actually fixed in nature. Accordingly, only the variable cost of servicing these new properties should be included in the illustration of the impact of the recommended budget on existing taxpayers.

Should the percentage impact on existing taxpayers be recalculated by eliminating the dilutive impact of only the hospital and education levies from the 2005 base amount, the actual levy increase related to solely the municipal portion of the levy would be 3.04% of the prior years amount. We have not attempted to calculate the percentage increase after consideration of item c) above as the information to do so was not available.

## ***2. Actual changes in assessed values***

The impact on taxpayers could only be estimated if the budget document contained the most recent information related to the change in the assessed values of the properties in the respective classes.

All things being equal, using the reported impact on existing taxpayers of 0.96 %, one could deduce that if the aggregate assessed values increased in 2006 by 1% from 2005, there would not need to be a change to the tax rate to fully fund the municipal levy increase.

We recognize that this is somewhat of an oversimplification of the process to determine tax rates, however, it can be broadly used to gauge the impact of the municipal levy increase on tax rates had the information been available. From this, an overall increase in the assessed values of more than 1% would intuitively result in a decrease in the tax rates.

## ***3. Debt reduction***

The Chamber applauds the Mayor and City Council for it's renewed focus on debt reduction and supports this critical direction. However, in this regard we also wish to note the following:

### ***Post-Retirement Benefits Liability***

According to the 2004 financial statements, the liability related to post-retirement benefits was \$160.939 million at December 31, 2004, increasing from \$152.771 million at December 31, 2003 or 5.3%. The liability amount at December 31, 2005 was not available at the time of preparing this submission.

To put into perspective the concern regarding the amount of this liability, it represents approximately 85% of the entire 2005 municipal levy (after excluding the Hospital Levy and the education portion of the municipal levy). Further, the reported unfunded liability actually represents the actuarial net present value of these obligations; the

absolute amount of the unfunded liability that will actually have to be paid at a future date is dramatically higher. We are concerned that this long term “debt” has fallen under the radar.

As highlighted by the bond raters in their most recent review, this “debt” poses serious negative financial risk to the City as the workforce ages and the retirement rate increases, particularly given that the amount of this unfunded liability in relation to municipal taxes collected is at the extreme high end of the range in relation to comparable municipalities. We argue that the City of Windsor’s debt reduction policy is only partially effective if it does not also incorporate the management of this, as well as other unfunded long-term liabilities, under it’s mandate.

### ***City of Windsor Funding for Capital Projects***

In considering potential projects that will be funded by additional debt, the City needs to be mindful that it’s activities should never result in incurring debt to fund projects and deliver services that can be more efficiently provided by the private sector. The City should avoid situations where it uses taxpayer funds and debt financing to deliver services that the private sector has both the capacity and capability of delivering. The City of Windsor should not be competing with the private sector in such situations as a matter of principle.

### ***4. Reserve Funds***

The budget document highlights several transfers from reserve funds that effectively reduce the impact on taxpayers from overall increases in operating expenses. Examples include the transfer of money received related to the Tecumseh water/wastewater treatment agreements and the transfer of a portion of the MFP settlement from the reserve funds to the operating account.

Further, there was a reduction in the total reported reserves and reserve funds from \$100.844 million at the end of 2003 to \$92,272 million at the end of 2004. The reserve amount of reserves and reserve funds at December 31, 2005 were not available at the time of preparation of this submission. The 2006 budget also does not provide information related to the anticipated reserves and reserve funds projected at the end of 2006.

It is imperative that the future financial health of the Corporation is not compromised by the use of reserve funds to minimize the impact of increases in operating costs on taxpayers. In their most recent review, Standard and Poors noted the relatively low balance of the reserve funds relative to other comparable municipalities as a risk to the City of Windsor.

## **5. Budget Stabilization/ Corporate Stability Reserves**

At December 31, 2004, the combined amount of these reserves was \$17.072 million. The budget documents do not provide updated information related to the balance of these reserves at December 31, 2005 or the projected balances at the end of 2006.

We recommend that in the future the budget document include commentary related to these reserves and to adequacy as well as information related to the actual and projected change in these reserves during the year just completed as well as the forthcoming fiscal year.

## **6. Overall Municipal Tax Burden**

The recommended budget document includes a comparison of the 2005 Total Municipal Tax Burden of Windsor to other municipalities with a population in excess of 100,000 residents. The analysis concludes that the Windsor burden lies in the mid-range when compared to other municipalities for residential properties. While this is clearly preferable to being on the high end of the range, we recommend that the City of Windsor adopt a leadership position in this regard and formally target the improvement of this performance indicator within a prescribed period of time (i.e. to be in the bottom quartile by 2010). This would assimilate in the budget and future planning process an express goal in relation to other municipalities. If these types of goals are not set, it would be safe to say that it would not likely be achieved.

Information contained in the budget document could be enhanced if additional data and analysis was included that benchmarks Windsor's performance in relation to its peers as well. This benchmarking should include both costs of service delivery as well as comparison of reserve fund balances and debt (both funded and unfunded) per capital, liquidity and financial capacity.

We also highlight the affirmation in the budget document that the tax burden for industrial classes in Windsor falls in the high end of the range when compared to other municipalities (see Appendix A). We look forward to the opportunity to address Council in the near future to further highlight this inequity in Windsor's tax rates and to press for the adoption of the tools available to eliminate it.

## **7. Windsor Public Library**

We note that the amount budgeted in 2006 for the Windsor Public Library is the same as in 2005. We assume that this budget is currently under review and the final budget, once determined, will not be materially different than the amount budgeted in 2005.

## **8. Quarterly Financial Reporting**

We wish to again applaud the efforts of the Mayor Francis, Councillors and the Administration to improve the openness and transparency of the budget process.

Although quarterly financial updates related to the actual operating results in relation to budgets are submitted to Council, it is probable that very few taxpayers actually take the time to review these reports and or/have a sufficient, detailed knowledge to be able to adequately interpret the reports.

We recommend that the dissemination of quarterly information in a more transparent and open manner could be achieved if a quarterly update of the financial performance was prepared and posted on the City's web site within 45 days of each quarter end. This would provide a low cost means of making this information available.

This financial information could be in abbreviated form but should contain relevant comparators such as prior years' amounts, benchmarks, etc. and also include an Executive Commentary section assisting readers in interpreting the information.

## **Conclusion**

Through the 2006 Budget, the City of Windsor should strive to enunciate its vision and goals and the action plans designed to achieve that vision. It has to show it is serious about becoming more attractive for business investment to stem the tide of new investments being located in other municipalities. Windsor has many inherent strengths and advantages. However, it must be competitive in attracting investment and the jobs that come with it.

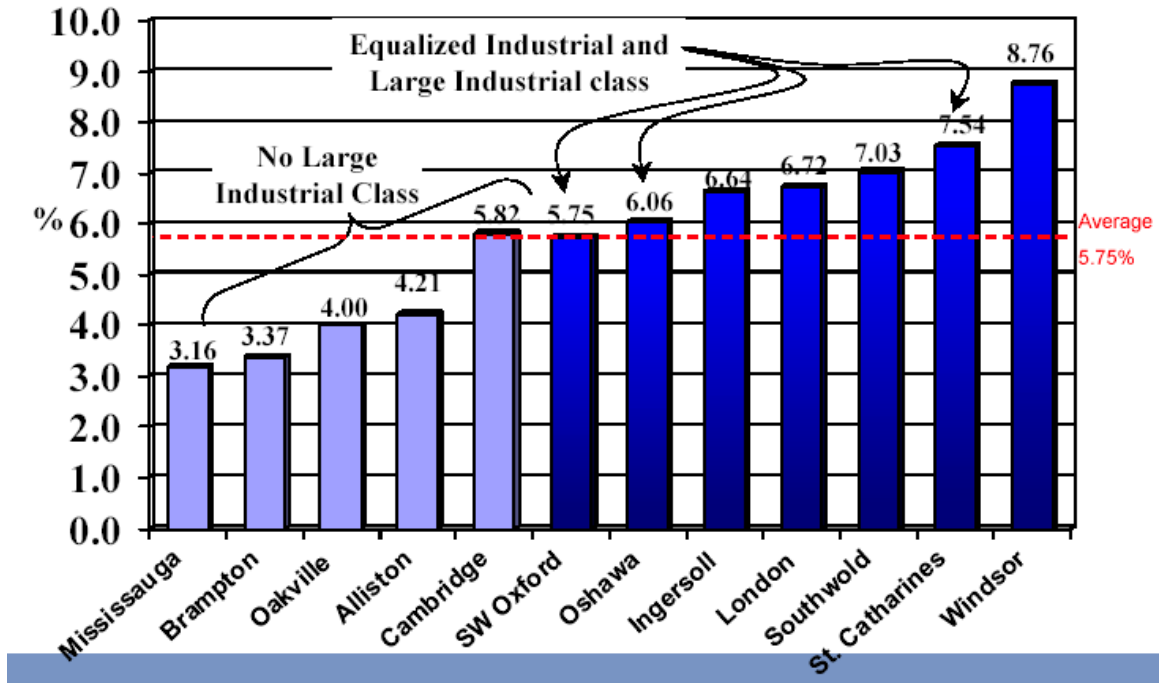
We recommend that the City of Windsor continue to be prudent with its financial affairs. The City should also table a multi-year financial outlook, in which stakeholders can anticipate budgetary pressures well in advance.

Finally, the City of Windsor must embrace its responsibility for economic development in our region. Inadequate funding for regional economic development as well as a fragmented approach, together with high property taxes on business, are a significant deterrent to both re-investment and new investment.

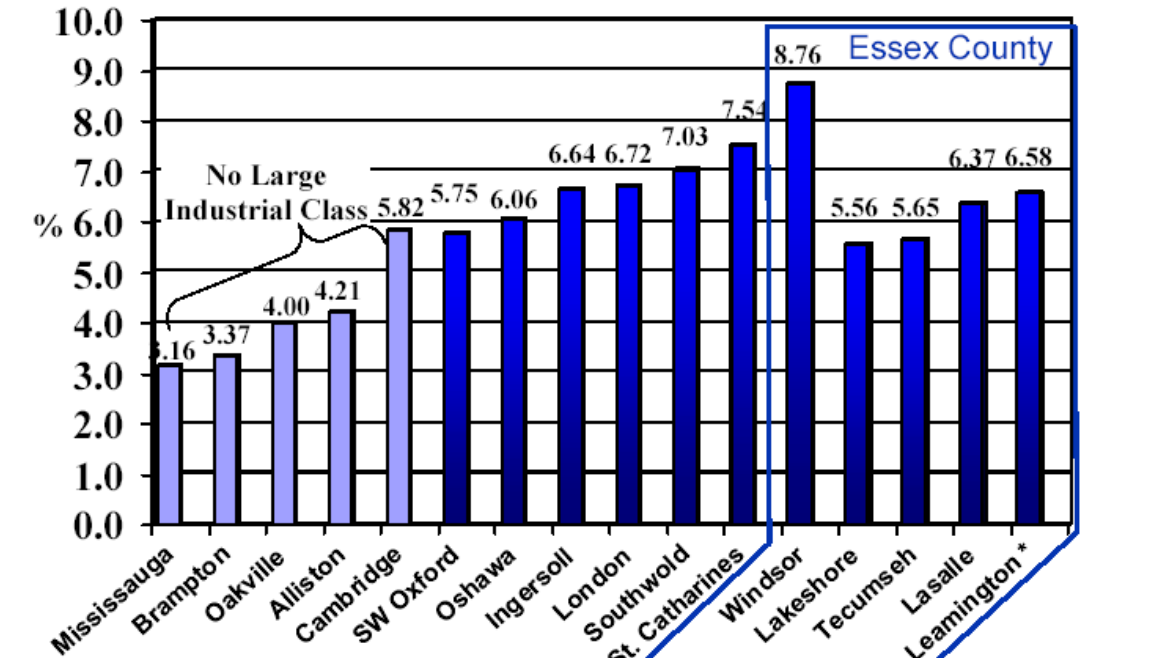
The Windsor & District Chamber of Commerce represents over 1400 business members that employ over 80,000 people. This submission was prepared by our Finance & Taxation Committee, a group of volunteer members with an interest in research and analysis of taxation and finance matters it pertains to the business community. We are available to meet with you and/or the Administration at your convenience.

Appendix A

Large Industrial Rate Comparison (2005 CY)



Large Industrial Rate Comparison (2005 CY)



\* Use urban tax rates for the municipal tax rates