

Staying the Course

2016 Budget

December 8, 2015.

Check against delivery.



Ville de
Gatineau

I AM QUITE PLEASED WITH THE MUCH TIGHTER APPROACH CURRENTLY BEING APPLIED TO THE BUDGET PROCESS.

I am very pleased to present Gatineau's 2016 budget to its residents.

With three budgets already under its belt, I am very proud of the key changes our Municipal Council has brought to our approach since the 2013 election. Last year's budget was the logical extension of the adoption of the Council Program, a first in Gatineau's history. After putting all of our electoral programs on the table and agreeing on the top priorities for our mandate, we were able to make the appropriate budgetary choices last year. We then took a stab at streamlining our priorities, and cut back the list of projects underway, made some tough choices, and adopted a specific implementation plan that would enable us to report on results, which is something we are starting to do this year. We also narrowed our priorities in regard to infrastructure maintenance, which gave our crews a chance to focus on strategic sectors.

This approach enabled us to set in place the mechanisms called for in the January 2013 report by Raymond Chabot Grant Thornton concerning the lack of clear orientations, which was costing Gatineau a rather hefty \$4 to \$5 million.

That being said, I am quite pleased with the much tighter approach currently being applied to the budget process. This year, and until the end of our mandate, we intend to stay the course on the priorities we have set for ourselves, to implement the projects underway, and to report to residents on our progress.

I would like to take a moment to acknowledge the excellent contributions made by all those in the municipal administration who were directly and indirectly involved in this long process. There were numerous discussions, and throughout this budget exercise, everyone from senior management to staff on the front lines performed professionally and efficiently. We also innovated this year by launching an interactive section on the municipal Web site dedicated to the budget as a way to give residents the opportunity to familiarize themselves with the budget issues. This is a first step for us, and we are already getting positive feedback from other cities that are interested in imitating the initiative.

I would also like to thank all of the elected officials who dedicated a great deal of time to preparing the 2016 budget, particularly those worked on the Executive Committee, the Comité des immobilisations et du budget and the Commission de révision des dépenses et des services.

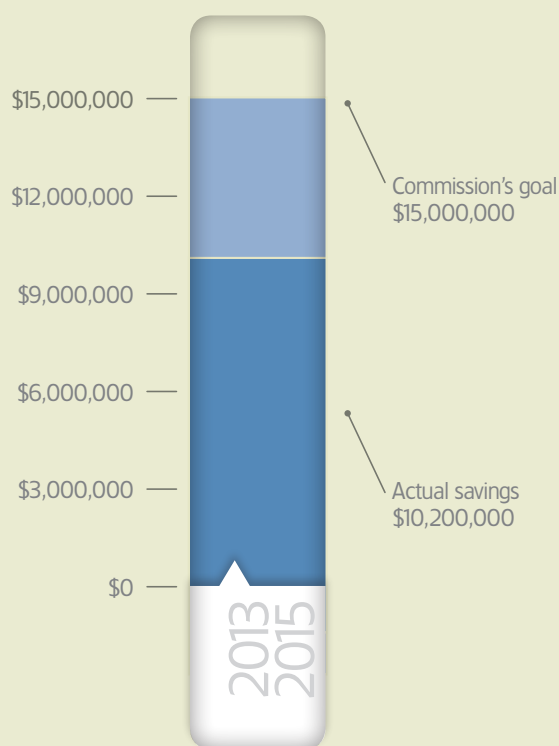
It is thanks to this invaluable cooperation that we are now able to present to Gatineau residents a budget that so clearly incarnates all of the changes introduced since 2013.



Maxime Pedneaud-Jobin, mayor

The Commission de révision des dépenses et des services

For a second consecutive year, we headed into the budget revision week by studying a report by the Commission de révision des dépenses et des services on its review of Gatineau's costs, organizational performance and offer of services. Its objective is to identify recurrent savings of \$15 million annually until 2018. Since 2013, the work has already freed up \$10.2 million, which tells us that we're doing quite well.



I am firmly convinced that we picked the right approach to achieve our goals. Instead of heading into the process slashing blindly across the board, we are moving forward, department by department, figuring out ways to be more efficient and to work smarter. Not only will this result in more sustainable savings, but it positions our employees at the centre of the whole process. I gratefully recognize their openness, discipline and commitment.

This year once again, we focused on a number of areas. I'll mention the following examples to give you an idea of the procedures we scrutinized:

- New ways of using and spreading abrasives according to the temperature (recurrent savings of \$300,000).
- Shift to the Web for our *Culture and Recreation* program (recurrent savings of \$93,960).
- In terms of horticulture, our employees' commitment was instrumental in identifying certain key factors throughout the city and changes in the types of plants used to minimize maintenance (recurrent savings of \$102,550).

In several cases, the efficiency savings achieved enabled us to repatriate some of the tasks that had previously been farmed out. I believe that these examples attest to the fact that we are proceeding systematically and seriously in this regard. Gatineau residents can rest assured that public funds are being spent sparingly and meticulously.

Revenues

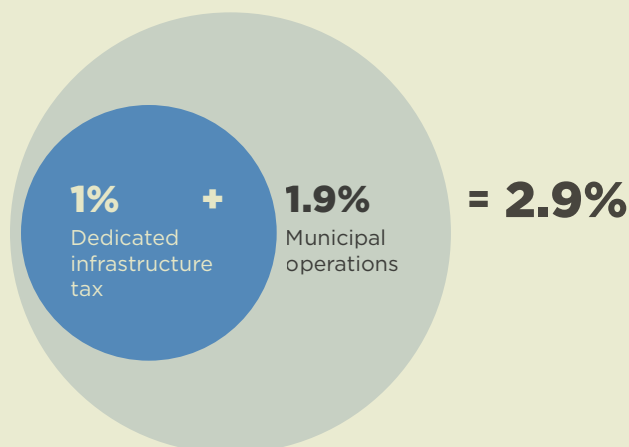
This year once again, tax increases fall into two categories. The first 1.9% corresponds to the principle of the long-term financial plan that Gatineau adopted. In order to avoid any overly large year-over-year tax adjustments, Gatineau pegs its annual basic tax increase to the Bank of Canada target consumer price index (CPI), that is to say 2%. I want to be clear that we do not tax according to the CPI for the current year, but according to the Bank of Canada's target increase, which enables us to avoid overly sharp increases.

The second component of the tax increase, the additional 1%, is entirely dedicated to our infrastructure, and has now been in place for five years. It has enabled us to do some catch up in this area, as and when called for. Thanks to the establishment of the 1% dedicated infrastructure tax in 2012, to date we have been able to invest \$36 million, to which another \$20 million will be added in 2016.

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In summary, the tax increase would be 1.9% if we had not had any catching up to do in our infrastructure maintenance. This situation is a result of 30 years of neglect due to the decision not to maintain our infrastructure in order to keep taxes artificially low. This year, the tax will be 2.9%, which comes to \$73 for a median residential tax account (on a property assessed at \$237,700).

In 2016, property taxes will represent just over 86% of Gatineau's revenues.



Revenue diversification plan

In order to reduce our dependence on property taxes and limit as much as possible the use of the general tax, I proposed a revenue diversification plan, the first in Gatineau's history. This plan includes specific timeframes for the different approaches considered, and forces us to report on progress by next year. This is an ambitious plan, and several major issues are being addressed in collaboration with the Union des municipalités du Québec and other cities.

In a number of cases –I am thinking for instance of certain environmental taxes such as taxes on parking in certain areas, or increases in licence fees–, we are seeking authority to access these levers. Every one of these measures is based on the Polluter Pays Principle, which aims to discourage behaviour that is harmful to the environment, and to encourage the use of public transportation. Any revenue generated by such measures can be used to invest even more in the development of our public transportation system so as to improve the service and make it even more attractive.

In other cases, such as the introduction of a gas tax or the assessment of the pertinence of tax exemptions for religious organizations, further analysis is called for before the Municipal Council decides whether to pursue these options, and if so, how far they should go. In terms of transportation, we also want to coordinate our actions with the Société de transport de l'Outaouais (STO) in order to ensure that we achieve our common objectives.

We understand that these ideas raise a number of issues, and we intend to address them cautiously and openly, but they will be addressed because we must relieve the pressure on property taxes.

The debt is under control

All indications lead us to believe that our debt is sound. For 2015, it is estimated at \$570.5 million, and is expected to decrease for a second consecutive year, by \$4.2 million in 2016. Debt servicing charges only amount to 12% of our expenditures in 2016, compared to 23% at the time of the municipal merger.

Gatineau is continuing to manage its debt prudently. We essentially use it as a financial lever that enables us to maintain our massive infrastructure investments. You could think of it in terms of Gatineau managing its debt like a mortgage on infrastructure that will serve us for many years to come, not like a credit card used to pay current expenses.

Moreover, Gatineau is paying cash for more than 60% of its infrastructure. None of the other major cities in Quebec have done as well. Here again you are seeing the results of our rigorous processes and administration.

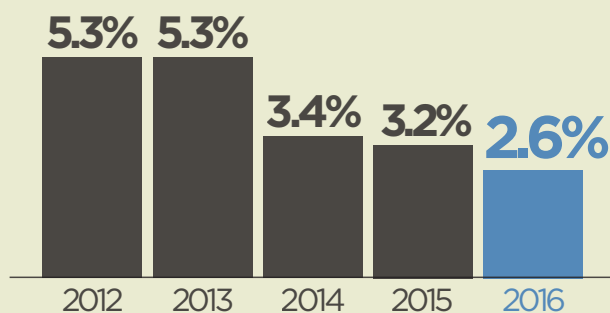
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Expenditures

In 2016, we will spend 2.6% more than in 2015. This is the smallest increase since the merger, and a clear reflection of the prudence and discipline with which Gatineau is being managed, and our efforts to review our expenditures. We are on the right track, and we are going to stay the course.

History of expenditure increases

Without the dedicated tax



Fiscal pact

Last year at this time, we found ourselves facing last-minute cutbacks as a result of Quebec's imposition of the "transitional fiscal pact".

The new 2016–2019 agreement contains some key improvements:

- The "Gatineau clause" expresses the government's willingness to acknowledge that municipalities are entitled to set development charges to finance their growth in a sustainable manner. This issue should be wrapped up in 2016, and provides one more tool with which we can relieve the pressure on property taxes.
- The new fiscal pact also promises simplified administrative reporting between municipalities and the province. The care and discipline with which we handle our affairs helped convince Quebec that the extremely onerous reporting mechanisms were not warranted. Gatineau has had to spend some 74,000 hours, the equivalent of 41 full-time employees, annually on reporting. That is enormous.
- The fiscal pact also contains some key clauses that will enable us to avoid having responsibilities transferred to municipalities without the appropriate financial resources. It also contains a clear desire to help municipalities restore their ability to negotiate with their staff on even footing. All of these measures will strengthen the position of municipalities as local governments and help us limit our expenditures.

The structural deficit

I would like to remind residents that every budget exercise begins with a shortfall of \$4 to \$5 million despite the 1.9% tax increase. This is what we call the structural deficit. This is a reality that every year leads us to cut back or streamline expenditures in order to balance the budget. The structural deficit can be attributed to a number of factors, in particular:

- whereas a 1.9% increase would be enough to maintain our operations, on top of that we still have to absorb the cost of municipal growth, which produces a shortfall; and
- the weak economy in the last few years, our over-dependence on property taxes, the transfer of new responsibilities by Quebec without the financial means to carry them out, the financial burden of our infrastructure requirements, and the labour relations situation have all brought additional pressure to bear on our finances.

Several measures have been set in place to absorb this structural deficit:

- tight controls over expenditure increases: from over 5% in 2013, we decided to limit increases to 4% through the Council Program, and to bring them down to 2.6% this year;
- the steps taken by the Commission de révision des dépenses et des services have been instrumental in this regard, and have enabled us to review all of our services from the point of view of increased performance and efficiency; and
- the increase in the assessed contribution to the STO has been limited to \$3 million, with several significant changes around the corner.

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Continuing to catch up on infrastructure

This year we are continuing to invest massive amounts in our infrastructure to stem the bleeding caused by 30 years of neglect. Gatineau is one of the municipalities in Quebec and Canada that is doing the most to close this enormous gap:

- since 2012, we have had a special 1% dedicated infrastructure tax;
- since 2005, 100% of our new revenues have been dedicated to our infrastructure;
- to avoid a relapse into a dynamic that is so toxic for public finances, we introduced a life cycle reserve for our new infrastructures so that we can start planning for their future maintenance from the moment they are built: this fund will help stop the degradation of our properties and will, ultimately, limit our expenses;
- we adopted a policy that supports a temporary debt increase so that we can take advantage of all of the subsidy programs that can help us catch up: since the municipal merger, half of the debt increase has been used for this purpose; and
- the Service des travaux publics is the only municipal department whose budget is automatically adjusted to help it adapt to increased infrastructure investments. Every other municipal department has to absorb the costs.

These measures, all of which focus on our infrastructures, represent the bulk of our fiscal flexibility.

Report on the investment plan

Another first in Gatineau's history: this year, while reviewing the budget instead of merely presenting our projected investments, we prepared an update on all of the work done over the year. Because of this, we will now be able to more accurately assess our performance. In 2015, more than 230 infrastructure maintenance projects were completed, for a total of \$145 million in investments. Our rate of completion on projected work is 83.9%, which is quite respectable for projects of this magnitude.

The investment plan will enable us to completely rebuild two key commercial arteries by 2020:

- rue Notre-Dame in Vieux-Gatineau will receive an injection of close to \$20 million; and
- over the next five years, close to \$44 million will be invested in boulevard Saint-Joseph in the Hull sector.

In terms of active transportation, we would like to point out that we have doubled our investments to close to \$2 million annually for the bicycle path, and more than \$4 million in work is projected or underway.

All of these efforts will not only enable us to balance the budget, but also to target a few strategic investments in the following areas, based on need:

- given the tremendous popularity of the ruisseau de la Brasserie skating rink last winter, we will repeat the project for a second year: close to 15,000 people indulged in the thrill of skating right in the downtown core; and
- we are signing three agreements with two major university institutions in Gatineau: Université du Québec en Outaouais (UQO) and École nationale d'administration publique (ÉNAP).
 - With UQO, we will be taking part in setting up an observatory for the Outaouais, an opportunity for Gatineau to develop and take advantage of local expertise. We will also take part in developing new programs, something that is not financed by Quebec but remains one of the main challenges for UQO. The plan involves health care study programs, which have been desperately needed in the Outaouais for a long time, and the entire community will be asked to join in the effort. In both cases, we will invest \$100,000 annually over five years.
 - Finally, in collaboration with ÉNAP, Gatineau will take part in an action research project on transparency and data management. This work will enable us to remain at the forefront of the latest developments in the area of transparency, and to better understand the pros and cons of our approaches. This is a three-year project with an annual budget of \$50,000.

These investments are fully consistent with the orientations we set for ourselves in the Council Program at the start of our mandate to guide our actions.

We also prepared an update on our development projects for infrastructure related to services to people: municipal library points of service, projects in the old downtown cores, sports and recreation, etc. It is worth noting that this \$67 million plan, with clear priorities and timeframes, was adopted in July 2015, and that we gave ourselves until 2018 to complete it. That kind of long-term, coherent plan for all of Gatineau was also a first: previously, projects had been managed piecemeal. We will be ready to prepare another update next year.

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Conclusion

There are no surprises in the budget that is being presented to you tonight. We are staying the course on the orientations we set for ourselves at the start of our mandate, both in terms of how to do things and how to make our choices.

Since the start of our mandate, we have been revising our three-year capital plan (PTI). We introduced an ongoing process for reviewing our expenditures. We stopped allocating spending by sector. We stopped scattering our efforts in order to focus instead on specific objectives. Our challenge was to stay the course and pursue the work in a disciplined way, and that is exactly what we are doing.

In addition, Gatineau is using a common formal program and a common vision to guide its actions. Our priorities are clear and better defined than ever before. We are preparing the future with an eye to creating wealth by investing in our municipal library points of service, in our neighbourhoods, and in our downtown. Our rigorous principles and our investments in forward-looking projects are part of an overall vision for our city, a vision that we are sharing with other levels of government, and that is placing Gatineau in a position of strength from which it can play its part as the fourth largest city in Quebec.

Thank you, and enjoy the rest of the evening!

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A COMMON FORMAL
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