Subject: 2021 Budget Planning

Report to: Budget Review Committee of the Whole

Report date: Thursday, June 25, 2020

Recommendations

1. That the 2021 budget timetable (option A) per appendix 1 **BE APPROVED**.
2. That this report **BE CIRCULATED** to agencies, boards and commissions (ABC's) in accordance with By-Law 2017-63 Budget Control.

Key Facts

- The purpose of this report is to initiate the 2021 budget process, approve the Budget Review Committee of the Whole timetable, inform Council of the preliminary assessment of pressures and opportunities impacting service delivery, and to propose the strategy for the preparation and presentation of the 2021 Tax Levy, Water, Wastewater and Waste Management Operating and Capital Budgets.
- This planning report is a departure from previous reports as it is not seeking to approve direction on percentage increases for the components of the Budget Planning By-law but rather providing a framework for the process whereby Council will be able to make budget decisions when budget information is presented to Council throughout the fall.
- Recognizing the reality of the impact of COVID-19, staff are proposing a strategy for the 2021 budget that acknowledges the difficulties of job losses, need for economic recovery balanced with the needs of critical and essential services.
- Not withstanding the budget pressures forecast, the proposed budget strategy will be to present a budget increase not to exceed Core Consumer Price Index target of 2%, before addressing impacts of COVID-19, in a transparent manner that will allow Council to understand the mitigation options proposed.
- The budget impact of COVID-19 will be identified explicitly throughout the budget process. There is a reasonable expectation of mitigation from upper levels of government that will also be identified in the monthly Financial Impact Update report. Should this funding be insufficient or not realized the net budget impact will be fully disclosed.

Financial Considerations

The Budget Planning By-law approved on October 17, 2019, provides the framework for preparing and presenting the budgets of the Niagara Region. The four areas of budget development included in the by-law are:

1. Base services: Ongoing costs and revenues that are influenced by multi-year contracts, collective agreements and inflationary pressures and funded through sustainable budget increases.
2. Capital program: requirements of the Asset Management Plan should be funded in accordance with the Capital Financing Strategy and with a separate operating budget increase
3. New programs: should be funded through separate increases so not to erode ability to delivery base services.
4. Assessment Growth: After Tax Increment Grants (TIGs) are funded, consideration is given to fund both growth operating and capital programs, for a net impact of zero

Following the by-law methodology, the following was the forecast for 2021 operations as prepared during the 2020 budget process.

Table 1: Multiyear Financial Plan Increase

	Levy Increase	Water & Wastewater Increase	Waste Management Increase
Base Services	3.0%	2.0%	9.9%
Capital Program	1.1%	3.2%	0.0%
New Programs	0.2%	0.0%	0.0%
Assessment Growth	Net 0%	N/A	N/A
Total	**4.3%**	**5.2%**	**9.9%**

Given the COVID-19 pandemic impact on the community, staff recognize the importance of proposing a budget with a more moderate impact on the taxpayer to allow for economic recovery. However, it must incorporate the new incremental costs associated with the ‘new normal’ and still be guided by the by-law principles of sustainability and transparency.

To that end the strategy for 2021 is to propose a budget with an all in cost of 2% in line with forecast inflation plus the increased cost of delivering services based on the new

COVID-19 protocols, which will be quantified over the coming months. Given the increasing demands of capital and the significant Asset Management Plan backlog that is described more fully in the Analysis section of this report, the strategy is that the 2% be shared equally with 1% to operating costs and 1% to support capital renewal costs. The final decisions, as always, will be made by Council through the budget deliberations and with receipt of full disclosure of pressures, mitigation strategies and associated risks. This treatment would apply to Levy and Rates, and be suggested as a consistent strategy to the ABCs.

Council will be informed of incremental COVID-19 pressures in the monthly COVID-19 financial updates and these will be incrementally identified with the budget.

Analysis

Proposed Budget Strategy

The Budget Planning By-law formalized best practices and principles for use in the preparation of the Region's annual budgets. The by-law has four main budget development areas that were to guide budget planning in a transparent and sustainable manner. While staff would typically follow the Budget Planning by-law in the development of the proposed annual budget strategy, it is recognized that the impacts of COVID-19 have driven the need to propose a different strategy for 2021. The strategy proposed in this report takes into consideration the negative impacts on the community resulting from the pandemic, as well the need to continue to focus on delivering municipal services in a safe and responsible manner. The strategy proposed is not to exceed the Core Consumer Price Index target of 2%, before addressing impacts of COVID-19.

To understand the limitation on operating and capital budgets of proposing only a 2% in light of the forecast noted above, staff analyzed the historical demands of both operating and capital budgets. As more asset management information became available the capital budget continued to grow with very limited funding in the operating budget to support those capital costs. Of the total tax levy only 13% goes to fund the capital program and on the water and wastewater program 42% goes to fund the capital program. The capital budget (net of growth projects) as a proportion of the total annual budgets has grown to over 40%, whereas the average share of the budget increase dedicated to funding capital is approximately 28%. As a result, we need to continue to defer capital and without the investments to sustain the Region's capital assets the risk of asset failure or reduced level of service will increase.

Based on the above trend it is proposed that the 2% strategy for 2021 budget increase be apportioned 1% to support operating programs and 1% to funding that supports the capital program. This direction is proposed as well for the rate programs and ABCs. Considerations for this approach are further explained below:

Base Services

Per the by-law, budgeting for operating costs of service delivery is generally influenced by inflation and collective agreements that are often tied to inflation. While these are generally not the same as CPI, it is recognized that CPI is more easily understood, the strategy for budgeting for these costs is to align to CPI and the impacts of this constraint on service levels is disclosed throughout the budget process.

The multiyear forecast prepared in the 2020 Budget identified a 2021 pressure to base services in the amount of 3% for levy programs, 2% for water and wastewater and 9.9% for waste management. Main factors driving the multi-year budget are:

- Levy: Labour related costs of $10 million, development charge exemptions of $2.4 million
- Water & Wastewater: Labour related costs of $0.9 million, repairs and maintenance of $0.6 million,
- Waste Management: Recently awarded curbside collection contract increase of $8.1 million approved with 2020 budget

Achieving a 1% increase in operating budgets will be challenging as a result of a number of operating considerations including:

- KPMG Sustainability Review identified the Region's operating budget is lean therefore cost reductions will likely impact service levels. Additionally KPMG did identify a number of opportunities for service delivery changes that could be further investigated to provide budget mitigation options.
- Operating programs are not as easily deferred as capital (both result in reduced level of service)
- Inflationary pressures (union contracts, multiyear contractual obligations etc.) will continue to impact operating
- New normal of COVID-19, expense and revenue pressures (these will be discussed separately below)
- Water flows for 2020 are forecast to be down by 3% due to COVID-19 related business closures. Should this trend continue into 2021, this would put pressure

on the wholesale variable rate for water which would be based on the reduced consumption.

Capital Program

Per the by-law, financing to address the capital funding gap in the Asset Management Plan (AMP), Safe Drinking Water Act Financial Plan and capital budget reports is presented separately from the base budget. By doing so it allows for the transparent disclosure and separate request for sustainable funding of the infrastructure gap. Council approved a Capital Financing Policy in October 2019 that established additional guiding principles for the basis of the capital financing request in the operating budget.

In alignment with Council's priority of responsible growth and infrastructure planning a 10 year financing plan was created to support the Asset Management Plan and the elimination of the $546 million capital backlog identified in 2016. Table 2 compares the 2020 10-year capital forecast of $3 billion to the principles of the Capital Financing Policy. The principles apply funding based on project type i.e. pay-as-you-go/reserves for AMP, development charges (DCs) for growth and debt for strategic investment. The result is a gap in reserves to fund renewal projects of approximately $1.2 billion over 10 years. Due to a lack of incremental operating budget for pay-as-you-go/reserves to fund capital, the backlog has grown as projects continue to be deferred. In addition the strategy requires additional financing to support $37M of debt over 10 years for strategic investments.

Table 2: 2020 Consolidated 10 Year Capital Forecast vs Current Funding ($millions)

Funding Source	AMP Expenditure	Growth Expenditure	Strategic Investment Expenditure	Total Expenditure	Current Funding available	Funding Strategy realignment
Reserves	1,870			1,870	722	1,148
Debt			362	362	325	37
DCs		564		564	564	
Other			52	52	52	
Gas Tax			147	147	147	
Total	**1,870**	**564**	**561**	**2,995**	**1,810**	**1,185**

The annual current contributions to Capital reserves is $67 million. This is not sufficient when compared to either the annual amortization (annual consumption of assets based on useful life and historical cost) of $87 million or the 10-year Average Annual Renewal Investment ("AARI") (annual investment needed to sustain existing assets based on replacement value) of $225 million (Levy $78M, ABCs $9M, Waste Management $3M, Water and Wastewater $135M).

Since Levy, Water and Wastewater make up the majority of the backlog funding gap, two capital strategies have been developed to address the gap and achieve financial sustainability.

For the Levy capital program excluding ABCs, using a strategy of an annual incremental capital levy contribution of 2.16%, provides $85 million at the end of 10 years, which increases the annual contribution for Levy from $17 million to $102 million for asset sustainment. When compared to the 2016 Asset Management Plan 10-year Levy AARI of $78 million indexed to 2028 using the Non-Residential Building Construction Index, the AARI required to sustain existing infrastructure is $106 million; this aligns to the capital reserve contribution at the end of the 10-year plan.

For the Water and Wastewater capital program, a strategy was developed in accordance with O.Reg. 453/07 Water and Wastewater financial plan. Due to the need for increased sustainable funding, the plan identified a need for an annual increase of 5.15% for 10 years to support operating and capital budgets (2% for operating and 3.15% for capital). At the end of the 10 years the annual contribution to capital would be $80 million for asset sustainment. When compared to the 2016 Asset Management Plan 10-year Water and Wastewater AARI of $135 million indexed to 2028 using the Non-Residential Building Construction Index, the AARI required to sustain existing infrastructure is $214 million. Until annual contributions to capital are sufficient to support the AARI, the strategic use of debt will be needed to transition the Water and Wastewater capital program to financial sustainability.

In order to continue to make progress towards a sustainable capital plan staff have proposed as part of the 2021 budget a 1% increase in operating contributions to support capital. Due to the 2.16% required for the levy and 3.15% increase needed for water and wastewater as identified above, a 1% increase dedicated to capital will still require project deferrals. The Asset Management Office has developed a capital asset management resource allocation model (CAMRA) to facilitate the prioritization of capital spending. All capital projects will be run through this model and those that are not included in the 2021 Budget due to funding constraints will be deferred into the 10 year forecast but will not reduce the 10 year funding gap.

New Programs

As per the by-law, new programs and services should be identified separately from the existing service pressures. Some examples of these types of initiatives include Council priorities, programs reflecting the changing needs of the taxpayer or changes in provincial funding methodologies. It is important that in offering these new programs the funding source should not erode funding of existing programs and the use of unsustainable funding should only be considered for time limited or transitional periods.

Acknowledging the impact of COVID-19 no new programs will be recommended for 2021. Programs that were deferred from the 2020 operating budget had been included in the multi-year budget as program changes for consideration in 2021. These program changes totaled $646 thousand (0.2% of the levy) and included items such as sports tourism and external mass notification system. These may be reconsidered in the 2022 budget or beyond.

Assessment Growth

As per the by-law, use of assessment growth funding is prioritized first to tax increment grants (TIGs), operating growth costs and the development charge residual on growth capital projects (i.e. growth capital costs that are not eligible for development charge funding if necessary). Should there be any remaining assessment growth it would be used to help fund the capital financing gap and new programs, with any residual aimed at driving new growth or other Council priorities, however given the current environment of capital shortfalls this is unlikely.

Assessment growth has been forecasted for 2021 at 1.2% ($4.5 million). The economic slow-down as a result of COVID-19 is not expected to have a significant impact to 2021 assessment growth as the growth experienced for 2021 is primarily representative of the development that occurred in 2019. In order to manage the risks involved with the estimate of assessment growth and needs of the Niagara Region, staff do not recommend allocating assessment growth to any costs other than those committed to TIGs and growth related capital costs at this time as we continue to monitor estimates and requirements.

COVID-19 Incremental Costs

Staff have been monitoring and assessing the financial impacts to the Region since the onset of the COVID-19 pandemic. Staff will continue to provide monthly updates to

Council for the remainder of the year and will begin to identify incremental COVID-19 costs that will form part of the new normal in the 2021 budget. As a result of the uncertainty surrounding these incremental costs and any potential new funding sources, staff will present these to Council separately from the 1% operating and 1% capital increases. It is recognized that there may be base budget and one-time costs in the budget to reflect the way the Region delivers particular services due to COVID-19 which may include costs such as personal protective equipment, extra cleaning disinfecting costs and supplies, modifications to work spaces to allow for physical distancing and executing a vaccination program.

The above impact will be presented net of any funding from upper levels of government which we expect to realize on an on-going basis for some of our services. Additionally, with the recovery plan (Open Niagara) may identify opportunities to realize savings from items such as reductions in required office space due to staff working remotely. The impact presented will be net of any savings related to costs that will not be incurred or savings that may be realized as a result of business changes brought on by COVID-19.

Budget Timetable

The proposed budget timetable (option A) is provided in appendix 1, with the objective of approving most of the 2021 budget before the end of the year. The operating budget deliberations have been delayed by one month each with the levy budget to be considered in January to accommodate a shift in recent priority given to dealing with the pandemic.

An alternative timetable (option B) is provided as well in the event that outstanding information regarding revenues and expenses related to COVID-19 create too much uncertainty in the budget process that can’t be resolved with the regular schedule in mind. This alternative delays the rate operating budgets and levy operating into 2021.

Alternatives Reviewed

The purpose of this report is to inform Council of the 2021 proposed strategy to support the development of the operating and capital budget for 2021. Information will continue to be developed, analysed and summarized for the Budget Review Committee to facilitate decision making. As staff are not making any recommendations with respect to increases for the 2021 budget, Council will have the opportunity to consider all options throughout the budget process.

Relationship to Council Strategic Priorities

The 2021 Budget will provide the financial framework to achieve Council's Strategic Priorities.

Other Pertinent Reports

- 2021 budget forecast as presented in the 2020 multi-year budget (appendix 2)
- PW 4-2019 – Financial Plan for O.Reg 453/07 Safe Drinking Water Act financial plan
- CSD 51-2019 – Capital Financing Policy
- COVID-19 Monthly Financial updates to Council

Prepared by:
Helen Chamberlain, CPA, CA
Director Financial Management and Planning, Deputy Treasurer
Corporate Services

Recommended by:
Todd Harrison, CPA, CMA
Commissioner Corporate Services, Treasurer
Corporate Services

Submitted by:
Ron Tripp, P.Eng.
Acting Chief Administrative Officer

This report was prepared in consultation with Tyler Potts, Senior Budget Analyst, and reviewed by Margaret Murphy, Associate Director Budget Planning and Strategy.

Appendices

Appendix 1	2021 Budget Timetable
Appendix 2	2021 Budget Multi-year Forecast

Appendix 1 – 2021 Budget Timetable

Option A

Meeting Type	Subject/Topic	Date
BRCOTW	Budget Planning	June 25, 2020, 4:00 p.m.
Budget Workshop	Capital	October 1, 2020, 4:00 p.m.
BRCOTW	Capital	October 15, 2020, 6:30 p.m.
Budget Workshop	Rate	November 19, 2020, 6:30 p.m.
Budget Workshop	Council Authority over ABCs	*November 26, 2020, 4:00 p.m.
BRCOTW	Rate	*November 26, 2020, 6:30 p.m.
BRCOTW	ABCs	December 10, 2020, 6:30 p.m.
Council	Rate By-laws	December 17, 2020, 6:30 p.m.
Budget Workshop	Levy	*January 7, 2021, 9:00 am
BRCOTW	Consolidated Levy	January 14, 2021, 6:30 p.m.
Council	Levy, Capital, User Fee By-laws	January 21, 2021, 6:30 p.m.

*all dates align with Council and Committee meeting weeks except November 26 and January 7

Option B

Meeting Type	Subject/Topic	Date
BRCOTW	Budget Planning	June 25, 2020, 4:00 p.m.
Budget Workshop	Capital	November 19, 2020, 4:00 p.m.
BRCOTW	Capital	*November 26, 2020, 6:30 p.m.
Budget Workshop	Rate	*January 7, 2021, 6:30 p.m.
BRCOTW	Rate	January 14, 2021, 6:30 p.m.
Budget Workshop	Council Authority over ABCs	January 14, 2021, 4:00 p.m.
Council	Rate By-laws	January 21, 2021, 6:30 p.m.
Budget Workshop	Levy	*January 28, 2021, 9:00 am
BRCOTW	ABCs	*January 28, 2021, 6:30 p.m.
BRCOTW	Consolidated Levy	February 11, 2021, 6:30 p.m.
Council	Levy, Capital, User Fee By-laws	February 18, 2021, 6:30 p.m.

*all dates align with Council and Committee meeting weeks except November 26 and January 7 & 28

Appendix 2 – 2020 Budget Multi-year Forecast for 2021

Levy

	2020 Budget	2021 Forecast	$ Increase	% Increase
Labour Related Costs	408,729	418,748	10,019	2.5%
Administrative	32,415	32,552	136	0.4%
Operational & Supply	47,303	49,171	1,869	4.0%
Occupancy & Infrastructure	29,839	30,996	1,157	3.9%
Equipment, Vehicles, Technology	15,894	16,587	694	4.4%
Community Assistance	196,142	200,243	4,100	2.1%
Partnership, Rebate, Exemption	20,300	22,194	1,894	9.3%
Financial Expenditures	69,373	67,107	(2,266)	-3.3%
Intercompany Charges	(1,907)	(1,947)	(40)	-2.0%
Transfers To Funds	30,204	29,928	(276)	-0.9%
Expense Allocations To Capital	(140)	(143)	(3)	-2.0%
Total Expenses	**848,152**	**865,436**	**17,283**	**2.0%**
Taxation	(17,064)	(17,344)	(280)	-1.6%
Federal & Provincial Grants	(319,544)	(322,752)	(3,208)	-1.0%
By-Law Charges & Sales	(22,085)	(22,302)	(216)	-1.0%
Other Revenue	(72,054)	(73,679)	(1,625)	-2.3%
Transfers From Funds	(6,648)	(3,216)	3,432	51.6%
Total Revenues	**(437,396)**	**(439,293)**	**(1,896)**	**-0.4%**
Net Budget Before Allocations	**410,756**	**426,143**	**15,387**	**3.7%**
Indirect Allocation	(6,321)	(6,754)	(433)	-6.8%
Capital Financing Allocation	(11,865)	(9,859)	2,006	16.9%
Total Allocations	**(18,186)**	**(16,613)**	**1,573**	**8.6%**
Net Budget After Allocation	**392,570**	**409,530**	**16,960**	**4.3%**

Water & Wastewater

	2020 Budget	2021 Forecast	$ Increase	% Increase
Labour Related Costs	24,852	25,762	910	3.7%
Administrative	3,433	2,233	(1,200)	-34.9%
Operational & Supply	13,166	13,508	342	2.6%
Occupancy & Infrastructure	17,700	18,053	353	2.0%
Equipment, Vehicles, Technology	6,588	6,679	91	1.4%
Partnership, Rebate, Exemption	4,010	4,010	0	0.0%
Intercompany Charges	1,777	1,814	37	2.1%
Transfers To Funds	40,749	46,112	5,363	13.2%
Total Expenses	**112,275**	**118,172**	**5,897**	**5.3%**
By-Law Charges & Sales	(1,421)	(1,421)	0	0.%
Other Revenue	(3,162)	(2,442)	720	22.8%
Transfers From Funds	(500)	0	500	100.0%
Total Revenues	**(5,083)**	**(3,863)**	**1,220**	**24.0%**
Net Budget Before Allocations	**107,192**	**114,309**	**7,117**	**6.6%**
Indirect Allocation	4,823	5,222	400	8.3%
Capital Financing Allocation	10,927	9,740	(1,187)	-10.9%
Total Allocations	**15,750**	**14,962**	**(787)**	**-5.0%**
Net Budget After Allocation	**122,942**	**129,271**	**6,330**	**5.2%**

Waste Management

	2020 Budget	2021 Forecast	$ Increase	% Increase
Labour Related Costs	3,923	3,881	(42)	-1.1%
Administrative	1,296	990	(306)	-23.6%
Operational & Supply	42,448	50,912	8,465	19.9%
Occupancy & Infrastructure	1,453	1,490	37	2.5%
Equipment, Vehicles, Technology	1,214	1,233	19	1.6%
Partnership, Rebate, Exemption	189	193	4	2.0%
Intercompany Charges	130	133	3	2.3%
Transfers To Funds	4,136	4,136	0	0.0%
Total Expenses	**54,789**	**62,967**	**8,179**	**14.9%**
By-Law Charges & Sales	(11,609)	(12,150)	(541)	-4.7%
Other Revenue	(5,191)	(5,177)	14	0.3%
Transfers From Funds	(1,604)	(4,514)	(2,910)	-181.5%
Total Revenues	**(18,404)**	**(21,840)**	**(3,437)**	**-18.7%**
Net Budget Before Allocations	**36,385**	**41,127**	**4,742**	**13.0%**
Indirect Allocation	1,499	1,532	33	2.2%
Capital Financing Allocation	938	119	(819)	-87.3%
Total Allocations	**2,437**	**1,651**	**(786)**	**-32.2%**
Net Budget After Allocation	**38,822**	**42,778**	**3,957**	**9.9%**