
Subject: 2022 Budget Planning and Timetable

Report to: Budget Review Committee of the Whole

Report date: Thursday, June 17, 2021

Recommendations

1. That the 2022 budget timetable per Appendix 1 **BE APPROVED**; and
2. That this report **BE CIRCULATED** to agencies, boards and commissions (ABCs) in accordance with By-Law No. 2017-63 (Budget Control).

Key Facts

- The purpose of this report is to initiate the 2022 budget process, approve the Budget Review Committee of the Whole timetable, and to propose the strategy for the preparation and presentation of the 2022 Tax Levy, Water, Wastewater and Waste Management Operating and Capital Budgets.
- The focus of this budget will be to balance the Budget Planning By-law's priorities of sustainability and affordability and apply the capital financing principles of the Capital Financing Strategy.
- The 2022 budget strategy aims to address base services within 2.0% in alignment with the core CPI target, support capital funding gap, prioritize growth related expenditures and address the budget gap in 2021.
- Sustainability was impacted in the 2021 budget by one-time draws on reserves supporting permanent base services; affordability was prioritized in 2021 due to the economic climate as a result of the COVID-19 pandemic.
- New programs and COVID-19 budget impacts will be targeted for a net zero impact on the Niagara Region taxpayer; new programs will be recommended to Council if they meet the criteria in the Budget Planning By-law to be funded through assessment growth and COVID-19 costs will be funded from reserves until provincial funding is confirmed so not to affect the tax levy for 2022.

Financial Considerations

By-law 2019-79 Budget Planning was approved by Council on October 17, 2019 and has since been used to structure Niagara Region budget planning. To address the COVID-19 pandemic, reserve funding was used until confirmed provincial funding was secured. This same strategy to address COVID-19 in the 2021 budget is proposed to be

used in the 2022 budget. 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. Growth Funded Programs: After Tax Increment Grants (TIGs) are funded, consideration is given to fund both growth operating and capital programs, for a net impact of zero

Using the principles above, the proposed strategy for 2022 is increases not to exceed 4.1% for the tax levy, 5.15% for the combined Water and Wastewater rate requisition, and 9.98% for the Waste Management requisition. Table 1 summarizes the increases by the Budget Planning By-law category.

Table 1: Budget Planning Strategies

Budget Planning Category	Tax Levy Increase	Water & Wastewater Increase	Waste Management Increase
2022 Base Services	2.0%	~2.00%	9.98%
2021 Base Services ¹	1.1%	N/A	N/A
Base Services	3.1%	~2.00%	9.98%
Capital Program	1.0%	~3.15%	0.0%
New Programs	None	None	None
Growth Funded Programs	Net 0%	N/A	N/A
COVID-19	Net 0%	Net 0%	Net 0%
Strategy Total	4.1%	5.15%	9.98%

¹ 2021 Base Services is discussed in further detail within the Analysis section

Analysis

Budget for Base Services

According to the budget planning by-law, budgeting for operating costs of service delivery is generally influenced by inflation and collective agreements that are most often tied to inflation. The typical inflation index used by the Niagara Region in budget setting is the Core Consumer Price Index (CPIX), which the Bank of Canada has targeted at 2.0% for 2022.

To sustain base levy department services staff are recommending a 2022 Budget Strategy for base services of 2.0% for Levy departments and ABCs in alignment with the CPIX target and a separate increase of 1.1% for Levy departments to address the 2021 one-time draws on reserves supporting permanent services approved by BRCOTW. The 1.1 % increase is being proposed separately to not impact the ability to delivery core base services, which was kept below inflation in the 2021 budget to address the economic climate as a result of the COVID-19 pandemic.

The 2021 Levy budget was proposed in CSD 5-2021 with a 2.9% increase, composed of 0.5% for departmental base services, 0.5% for capital financing, and 1.9% for Agencies, Boards, and Commissions. The NRPS increase was \$3.5 million in excess of the budget strategy thus contributing to a 0.9% increase over the 2% strategy. The motion from BRCOTW to address the budget request was to draw \$4.3 million from the Taxpayer Relief Reserve to reduce the 2021 net levy operating budget to 1.8% or \$405.3 million. The 2021 proposed budget had already included \$2 million from the Taxpayer Relief Reserve to fund one-time items, this \$4.3 million draw was to support base services in 2021 and therefore requires sustainable funding in the 2022 budget.

The 2022 strategy for the combined Water and Wastewater budget is approximately 2% of the total 5.15% Council approved financial strategy from 2020. This represents a return to the financial plan presented in PW 4-2019 "Safe Drinking Water Act Financial Plan of O.Reg. 453/07" which identified the need for 10 years of 5.15% increases to address sustainable operations and capital funding needs, which was then reaffirmed in PW 39-2020 "South Niagara Falls Update" for 2022 through 2028. The Financial Plan was supported in the 2019 and 2020 budgets, with 5.15% increases in those years. Collective bargaining agreements, fluctuating energy costs, and the Council proposed mitigation strategy of funding half the combined sewer overflow program from capital reserve funds will be addressed through the budget for base services.

The 2022 strategy for Waste Management base services is to maintain the 9.98% strategy that was presented in 2020 to incorporate the additional costs of the collection contract. This strategy included significant use of Waste Management Stabilization reserve funding to phase-in the budget increase over three years; 2022 continues to use reserves as a part of this strategy.

Capital Program

According to 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.

A priority and area of focus identified during Budget engagement was infrastructure. Balancing the needs of a growing population while managing the Region's fiscal sustainability during a pandemic requires long term planning and a fiscal strategy. As a result, the capital financing strategies for Levy and Water/Wastewater were deferred for one year due to the pandemic. In order for the Region to continue to manage the existing assets to provide reliable service, invest in growth and save for the future, the return back to the previous capital financing strategies as approved is critical for long-term sustainability.

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 2021 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 \$600 million over 10 years. Some progress has been made on the pay-as-you-go/reserves to fund capital with the 1% infrastructure levy in 2017 and 1% of the Regional departmental levy dedicated to infrastructure funding in 2021. The backlog as per the Asset Management Plan however remains as projects continue to be deferred. In addition, the strategy requires additional financing to support \$222 million of debt over 10 years for strategic investments to fund priority projects and Region's share of growth capital.

Table 2: 2021 Consolidated 10 Year Capital Forecast vs Current Funding (\$millions)

Source	AMP Expenditure	Growth Expenditure	Strategic Investment Expenditure	Total Expenditure	Current Funding available	Funding Strategy requirement
Reserve	1,413			1,413	809	604
Debt			794	794	572	222
DCs		493		493	493	
Other			181	181	181	
Gas Tax			148	148	148	
Total	1,413	493	1,123	3,029	2,203	826

The annual current contributions to capital reserves (levy and rate) is \$61 million (\$610 million over 10 years). This is not sufficient when compared to either the annual amortization (annual consumption of assets based on useful life and historical cost) of \$92 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) or an average of \$2.2 billion exclusive of deferred capital gap. Thus, the capital program must continue to be supported by debt until the funding sources can be aligned in accordance with the capital financing strategy.

The following capital strategies have been developed to address the gap and achieve financial sustainability.

For the Levy capital program excluding ABCs, a modification to the capital financing strategy of 1% increase in 2022 is recommended in consideration of the economic climate in contrast to the required annual incremental capital levy contribution of 1.89%. A strategy of 1.89% increase, provides \$73 million per year at the end of 2029, which provides for an annual contribution for Levy to \$94 million for asset sustainment in accordance with our Capital Financing Strategy. The previous strategy of 2.16% annually has improved due to recent levy budget strategies however recent adjustments set out a target to the optimal funding in 11 years.

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 (approximately 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 \$140 million indexed to 2029 using the Non-Residential Building Construction Index, the AARI required to sustain existing infrastructure is \$214 million. Until annual capital reserve contributions 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. A 3.15% increase for water and wastewater as identified above is also required to return back to the requirements of the Safe Drinking Water Act and to support the significant required investments.

On March 25, 2021, the Federal government tabled bill C-25 that will provide a one-time doubling of Federal Gas Tax (Gas Tax) and renaming it as the Canada Community Building Fund. Currently the Region receives \$13.5 million and will double to \$27 million for the 2022 Capital Budget, which will assist with the funding gap. Current efforts are underway to lobby for permanence of the doubling. If this additional funding becomes permanent, the capital financing strategy will be revised to reflect the incremental funding source.

Last year, the Asset Management Office developed a capital asset management resource allocation model (CAMRA) to facilitate the prioritization of capital projects . This model was developed to assess projects based on level of risk and corporate priority to aid in transparent, objective and good decision-making. Projects that provided a greater risk based return on investment and had direct alignment to corporate priorities were ranked higher for inclusion in the Capital Budget. All capital projects will again be run through this model and those that are not included in the 2022 Budget due to low CAMRA ranking and funding constraints will be deferred into the 10-year forecast but will not reduce the 10-year funding gap.

In addition, a new pilot process to incorporate Health Equity Informed Planning is being implemented for the 2022 Capital Budget. More information on this project can be found in report CSD 32-2021 Health Equity-Informed Planning Update.

New Programs & Use of Assessment Growth Funding

Acknowledging the continued impacts of COVID-19 on a recovering economy, staff is proposing that no new programs be recommended for 2022. This will allow for continued focus on core service delivery during on-going management and recovery from the pandemic. Programs deferred in the 2021 budget will remain deferred in 2022 unless they support growth and can be funded through assessment growth.

The by-law prioritized growth revenue first to tax increment grants (TIGs), then operating growth costs and the Regional share of growth capital projects. Should there be any remaining assessment growth it would be used to help fund the capital financing gap. At this time priority programs identified to date are as follows, in no particular order:

- Hospital financing (CSD 36-2021 Hospital Funding Strategy)
- Hospice Niagara (CSD 24-2021 Hospice Niagara Request for Funding)
- Homelessness capital project operating costs (BRC-C 3-2021 Homelessness Capital Project - Provincial Social Services Relief Funding)
- Niagara Regional Transit governance transition (LNTC-C 2-2021 Niagara Governance Steering Committee Update)

The construction restrictions imposed during lockdowns in 2020 and the assessment valuation continuing at 2016 market values is expected to have a negative impact on assessment growth used in the 2022 budget, potentially reducing funding available to address the priority growth programs. The 2022 assessment growth estimate is 1.3% and is subject to change as information becomes available. The 2021 assessment growth included in the 2021 budget was 1.44% with the average assessment growth over the prior 5 years being 1.4%. The 2021 assessment growth is generally tied to 2019 construction activity. As 2020 construction activity did decline over 2019, we are forecasting a modest decline in the 2022 assessment growth reflecting the 2020 pandemic related construction restrictions. Staff will continue to monitor and report assessment growth estimates throughout the year.

Considerations for COVID-19

COVID-19 required a departure from the strategy proposed in by-law 2019-79 Budget Planning for the 2021 budget. The budgeting for the impacts of the pandemic was difficult, as new information was released and changing quickly. Services were also added to address the COVID-19 pandemic and some revenues were restricted for both regional departments and ABC's; these pressures amounted to \$20.3 million (net of already confirmed funding) and were funded initially through reserves and substituted in year with provincial Safe Restart and other funding.

For 2022, the recommended strategy is again to address COVID-19 pressures via funding from other levels of government to maintain taxpayer affordability, as most of these programs and expenses are not expected to remain permanent. The Pandemic Response Division was approved for 2021 and 2022. The second year of this program was estimated at \$13.5 million before business continuity savings. Since the pandemic

is still ongoing incremental costs are anticipated for the 2022 budget. Provincial funding is not yet confirmed for 2022; while the province has reacted to increased municipal pressures with additional funding, the Region should ensure there are sufficient reserve funds to manage risk.

Staff continue to assess financial impacts of the recovery phase which is defined as other impacts of the COVID-19 pandemic not necessarily related to health impacts. Public Health programs put on hold due to restrictions or to facilitate Pandemic Response have set some programs back with adverse community health impacts. Other areas of concerns include long-term care minimum service levels, community mental health programs, and economic development programs. Any permanent programs will require sustainable funding to operate.

Budget Timetable

The proposed timetable is provided in appendix 1, resulting in the 2022 Budget being approved before the end of the year, aligning with section 4.2. of the Budget Planning By-law. The order of meetings aligns to section 4.3. of the by-law, whereas the presentation order is Capital, Rate programs, ABCs, and the consolidated Tax Levy.

Alternatives Reviewed

The purpose of this report is to inform Council of the 2022 proposed strategy to support the development of the operating and capital budget for 2022. 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 2022 budget, Council will have the opportunity to consider all options throughout the budget process.

Relationship to Council Strategic Priorities

The 2022 Budget will provide the financial framework to achieve Council's Strategic Priorities.

Other Pertinent Reports

CSD 32-2021	Health Equity-Informed Planning Update
CSD 36-2021	Hospital Funding Strategy
CSD 24-2021	CSD 24-2021 Hospice Niagara Request for Funding

PW 39-2020 South Niagara Falls Update
PW 4-2019 Safe Drinking Water Act Financial Plan of O.Reg. 453/07

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Appendices

Appendix 1 2022 Budget Timetable