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**Subject:** 2023 Budget Planning and Timetable

**Report to:** Budget Review Committee of the Whole

**Report date:** Thursday, July 21, 2022

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## Recommendations

1. That the 2023 budget timetable, as attached as Appendix 1 to Report CSD 22-2022, **BE APPROVED**;
2. That an incremental transfer to the Capital Levy Reserve of \$10.5 million or 2.5% of the levy and an incremental transfer to the Water & Wastewater Capital Reserves of \$6.6 million or 5.0% of the 2023 net Water & Wastewater Operating budget, **BE CONSIDERED** for 2023 Budget Planning; and
3. 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 2023 budget process, approve the Budget Review Committee of the Whole timetable, and to propose the strategy for the preparation and presentation of the 2023 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 include the principles of the Capital Financing Strategy.
- The 2023 budget strategy is to maintain base services delivery in light of considerable inflationary pressures, support the capital funding gap reported in the "2021 Asset Management Plan", and address the operating budget in 2022 funded with reserves.
- A recommendation has been included to address the capital requirements in preparation for the necessity to establish a sustainable financial plan by 2024 that supports the priority of Responsible Growth and Infrastructure Planning.
- The 2023 Budget will introduce a special levy for newly established Niagara Transit Commission, including the upload of transit budgets from the Local Area Municipalities (LAMs) to the Region.
- The 2022 municipal election, will result in the approval of the budget in 2023 by the new Council; the strategy in this report is will be used by staff for general direction as this Council cannot make decisions that bind the next Council.

## **Financial Considerations**

By-law 2019-79 “Budget Planning” is used to structure Niagara Region’s budget strategy each year. The principles in the By-law support sustainability, however staff recognize the importance of balancing service levels with taxpayer affordability, and have proposed options to mitigate the needs in accordance with the By-law. 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 significant inflationary pressures are estimated at this time in appendix x at 4.4% for Levy, 3.2% for Water & Wastewater, and 9.1% for Waste Management.
2. Capital program: requirements of the Asset Management Plan (AMP) should be funded in accordance with the Capital Financing Strategy and with a separate operating budget increase of no less than 2.5% for Levy and 5.0% for Water & Wastewater to address the capital backlog over the next 50 years.
3. New programs: no new programs are being proposed for 2023 in order to focus financial sustainability on base services heavily impacted by inflation.
4. Growth Funded Programs: After Tax Increment Grants (TIGs) are funded, the by-law prioritizes the costs of growth. In the 2023 budget, it is proposed that consideration be given to utilizing assessment growth to partially offset inflationary impacts on the base budget as well.

The analysis section speaks to each of the principles in detail, and explains the strategy to address each and the financial implications are summarized in Appendix 2 to Report CSD 22-2022, “Budget Planning Strategies”.

## **Analysis**

### **Budget for Base Services**

The Budget Planning By-law recommends that the base services be adjusted for inflation and the Core Consumer Price Index (CPIX) may be used as a measure of inflation. The costs to maintain current service levels has been influenced by the increasing rate of inflation, which may put pressure on the level of service. Per Statistics Canada data at the time of preparing this report, CPIX at May 2022 is 6.1% (3.3% 4-year average), compared to the 0.5% decrease in the 2022 budget for base services (0.1% Levy 4-year average). Appendix 3 to Report CSD 22-2022, includes a graph comparing 4 years of inflation against increases for base services.

Analysis of initial estimates was completed to guide the 2023 budget strategy; Appendix 4 to Report CSD 22-2022, includes the detail by object of expenditure with identification of the key drivers. The estimated increases required to maintain base services are 4.4% for Levy departments & ABCs, 3.2% for Water & Wastewater, and 9.1% for Waste Management. To minimize the inflationary impacts included in these estimates, preparation of the operating budgets will focus on maintaining existing service levels while undertaking a line-by-line review of discretionary items.

One-time budgetary pressures will be addressed through use of one-time reserve draws. The multi-year budget strategy adopted for the Waste Management requisition in Report CSD 67-2021 - "2022 Budget", includes significant use of Waste Management Stabilization reserve funding to phase-in the budget increase over three years, resulting in a net 5.5% increase.

The 2022 Levy base services includes \$6.0 million unsustainable reserve funding as per a motion from BRCOTW to reduce the net levy operating budget from 4.35% to 2.87%. In support of taxpayer affordability, staff are proposing that 2023 use of reserves be reduced from \$6.0 million to \$3.0 million to mitigate the impact on the 2023 budget. This will result in budget pressures of 0.7% in 2023 and 2024 instead of a 1.4% pressure in 2023.

### Assessment Growth

Assessment growth for 2023, is forecasted at 1.5% or \$6.3 million estimated based on actual MPAC assessment growth data to May 31<sup>st</sup>. This is consistent with the prior 5-year average of 1.47%. The Budget Planning By-law prioritizes growth revenue first to tax increment grants (TIGs), then operating costs of growth as well as costs to fund new and growth capital assets. Due to the significant inflationary pressure expected in 2023, staff is recommending that up to 1.0% of assessment growth be used to help offset increases required to maintain base service levels. This will still provide for \$2.1 million to address costs of growth.

### New Programs

The Budget Planning By-law requires that new programs be funded with separate increases to ensure base services are not eroded. Over the last number of years, separate levy increases of 1.4% in 2019, 0.5% in 2020, and 0.5% in 2022 have been approved to support new programs; these average 0.6% per year. Details of the separate increases are available in Appendix 5 to Report CSD 22-2022. In contrast to

these increases, the 2023 budget strategy proposes no new programs in order to focus on the high cost of inflation affecting the delivery of current services.

### Capital Program

In alignment with Council's priority of responsible growth and infrastructure planning and legislative requirements for asset management planning, Council approved Report CSD 7-2022 - "2021 Asset Management Plan". The AMP is a systematic and tactical plan to improve asset utilization, manage asset life cycle risk, adhere to compliance and legislative requirements and improve accuracy of inventory. This plan has updated the replacement value of all Region's assets to \$9.8 billion (2016 - \$7.4 billion) and the backlog of projects to \$2.4 billion (2016 - \$0.5 billion). The AMP also provides funding targets known as the Annual Average Renewal Investment (AARI), which is the basis for developing a capital financing strategy. The AARI is calculated as the average annual capital expenditures required to achieve sustainability over a specified time horizon. The 2021 AMP provides a 10, 50, and 100-year AARI.

While the capital program has been progressing towards sustainability, given the increased backlog and replacement values, the previous recommended strategy of 2.16% for Levy and 3.15% for Water & Wastewater combined rate and requisition has increased. Per Report CSD 7-2022, to achieve sustainability now requires increases to the annual levy of 3.82% (including ABCs), and to the annual Water & Wastewater combined rate and requisition of 7.22% over a ten-year period. For the Waste Management budget, no increases are required. While the annual Waste Management contributions will need to increase to \$10 million in 50 years, this is expected to be achieved within the annual budget strategy. The capital contributions given this capital financing strategy would be \$437 million at the end of ten years. This strategy increases the contributions to remove the backlog over 10 years.

While the AMP recommendation maximizes asset sustainability, staff are proposing a capital financing strategy to eliminate the backlog over 50 years with a target of \$290 million. This revised strategy recognizes constraints with accelerating project timelines such as available project management resources, development charge collected and co-ordination of timing with external parties. This requires an increase in funding of 2.5% on the levy and 5% on the water and wastewater combined rate and requisition. A summary of the Capital Financing Strategy contributions at the end of 10 years is illustrated in table 1. A summary of the increases on the levy and Water & Wastewater combined rate and requisition is illustrated in Appendix 6 to Report CSD 22-2022.

Table 1: Capital Financing Strategy Contributions (in millions)

Program	Current State (2022 Budget)	(10-year AARI + Backlog) Sustainability	(50-year AARI) Affordability
<b>Levy</b>	\$32	\$269	\$158
<b>Water/ Wastewater</b>	\$40*	\$164	\$122
<b>Waste Management</b>	\$4	\$5	\$10
<b>Total</b>	<b>\$76</b>	<b>\$437</b>	<b>\$290</b>

\*For Wastewater, \$3 million is dedicated for South Niagara Falls operating impacts when the plant is in service.

The Water & Wastewater financial plan is legislatively required to be updated in 2024 and the updated 2022 asset management requirements will be reflected in that plan. However, annual budget updates until then should consider the incremental requirement.

In continuing to align to council strategic priorities, the process to incorporate Health Equity Informed Planning developed last year continues to be implemented for the 2023 Capital Budget.

#### Pandemic and Recovery costs

The 2023 budget planning strategy will focus on the recovery from COVID-19. Short-term services will continue to be funded from reserves and provincial contributions; at this time, there has been no indication of continued relief funding.

#### Niagara Transit Commission

A Niagara Transit Commission (NTC) special levy will be introduced for the 2023 budget. The estimated 2023 NTC budget as outlined in Report PW 55-2021, was \$48.6 million. This represents the consolidated budget of local and regional transit services adjusted for inflation and capital funding. The share of the budget relating to the upload of local municipal service budget, inflation, and capital funding was previously estimated with the triple majority process to be \$32.2 million, which represents 7.6% of the 2022 levy.

## Budget Timetable

The proposed timetable is provided in Appendix 1 to Report CSD 22-2022, resulting in the 2023 Budget being approved by the new Council in February of 2023, aligning with the Budget Planning By-law. The Transit Commission is recommended to be presented separately to address the new structure of the 2023 budget.

## Alternatives Reviewed

The purpose of this report is to inform Council of the 2023 proposed strategy to support the development of the operating and capital budget for 2023. Information will continue to be developed, analyzed and summarized for the Budget Review Committee to facilitate decision-making. Council will have the opportunity to consider all options throughout the budget process.

## Relationship to Council Strategic Priorities

The 2023 Budget will provide the financial framework to achieve Council's Strategic Priorities.

## Other Pertinent Reports

CSD 7-2022	2021 Asset Management Plan
CSD 67-2021	2022 Budget-Waste Management Services Operating Budget and Rate Requisition

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This report was prepared in consultation with Tyler Potts, Senior Budget Analyst, and Ricci Cheung, Senior Budget Analyst, and reviewed by Pamela Hamilton, Supervisor Corporate Budgets, and Margaret Murphy, Associate Director Budget Planning and Strategy.

## **Appendices**

Appendix 1	2023 Budget Timetable
Appendix 2	2023 Budget Planning Strategies
Appendix 3	Historical CPI and Base Budget Increases
Appendix 4	Estimated 2023 Budget Increases
Appendix 5	Historical Separate increases for new programs
Appendix 6	Levy and Water & Wastewater combined rate requisition increases

Appendix 1: 2023 Budget Timetable

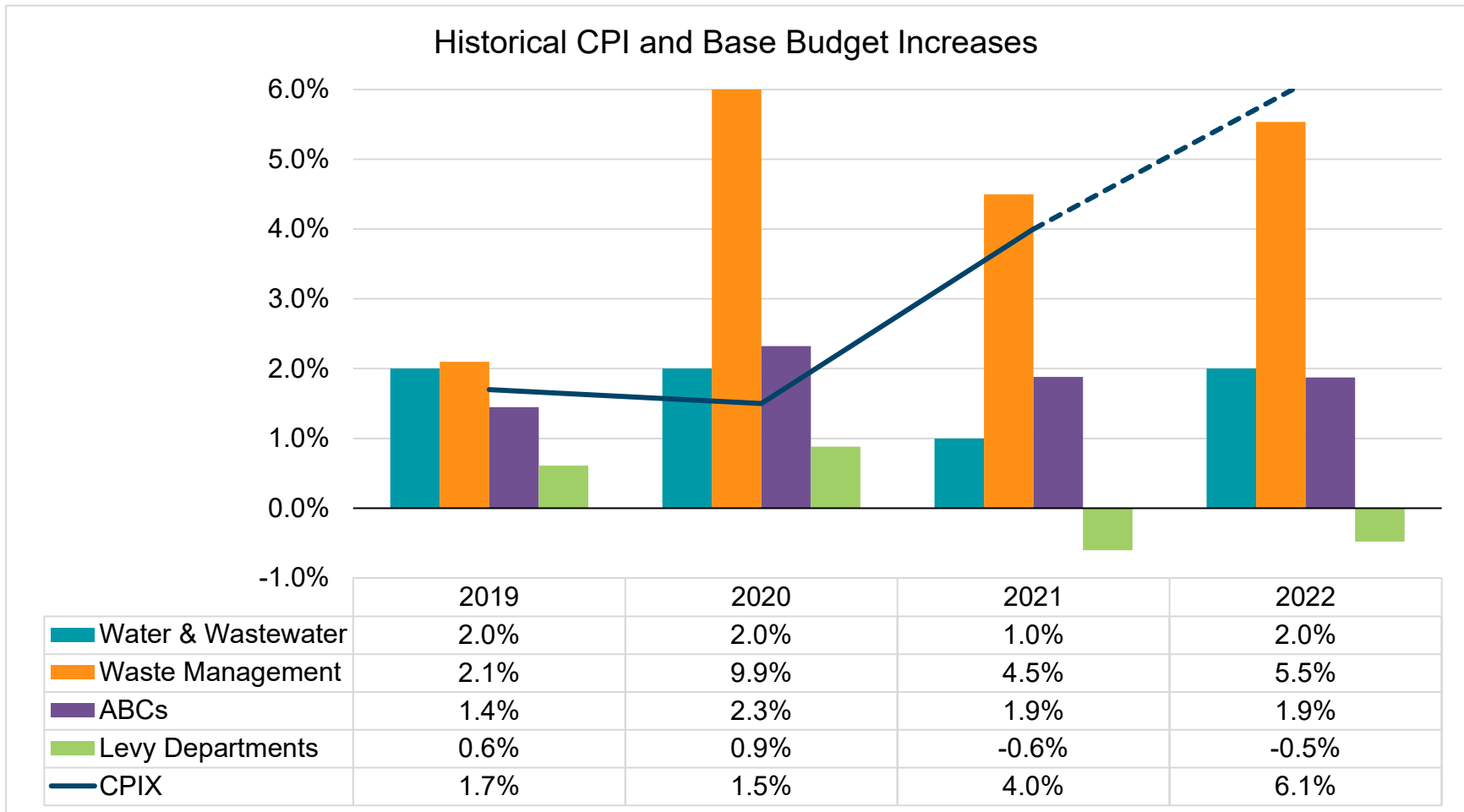
<b>Meeting Type</b>	<b>Subject/Topic</b>	<b>Date</b>
BRCOTW	Budget Planning	July 21, 2022, 4:00 p.m.
Budget Workshop	Budget 101	December 8, 2022, 4:00 p.m.
BRCOTW	Capital	January 5, 2023, 6:30 p.m.
BRCOTW	Rate	January 12, 2023, 6:30 p.m.
Council	Rate By-laws	January 19, 2023, 6:30 p.m.
BRCOTW	Transit Commission	January 19, 2023, 4:00 p.m.
BRCOTW	ABCs	January 26, 2023, 6:30 p.m.
BRCOTW	Levy	February 9, 2023, 6:30 p.m.
Council	Budget Approval	February 23, 2023, 6:30 p.m.



Appendix 2: 2023 Budget Planning Strategies

<b>Budget Planning Category</b>	<b>Tax Levy Increase</b>	<b>Water &amp; Wastewater Increase</b>	<b>Waste Management Increase</b>
<b>2023 Base Services (Appendix 4)</b>	<b>4.4%</b>	<b>3.2%</b>	<b>9.1%</b>
2022 Base Reserve Draw	1.4%	N/A	5.7%
Reserve draw phase out	(0.7%)	N/A	(9.3%)
<b>Sustainable Funding Solution</b>	<b>0.7%</b>	<b>N/A</b>	<b>(3.6%)</b>
<b>New Programs</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Growth funded incentive programs	0.5%	0.0%	0.0%
Estimated Assessment Growth	(1.5%)	N/A	N/A
<b>Net Assessment Growth</b>	<b>(1.0%)</b>	<b>0.0%</b>	<b>0.0%</b>
Asset Management Plan Recommendation	3.8%	7.2%	0.0%
Fund backlog over 50 years (as opposed to 10)	(1.3%)	(2.2%)	0.0%
<b>Capital Program (Recommendation 2)</b>	<b>2.5%</b>	<b>5.0%</b>	<b>0.0%</b>
<b>Strategy Total</b>	<b>6.6%</b>	<b>8.2%</b>	<b>5.5%</b>

Appendix 3: Historical CPI and Base Budget Increases



Excludes increases for new programs and capital financing

Appendix 4: Estimated 2023 Budget Increases (in millions)  
 Consolidated Levy including ABCs

Object of Expenditure	2022 Adjusted Budget	2023 Budget Increase for Base Services	2023 Budget Increase %
Labour Related Costs <sup>1</sup>	\$443.5	\$15.3	3.4%
Administrative <sup>2</sup>	29.8	2.0	6.7%
Operational & Supply	30.3	0.8	2.7%
Occupancy & Infrastructure <sup>3</sup>	31.3	1.1	3.6%
Equipment, Vehicles, & Technology <sup>4,5</sup>	19.0	2.4	12.7%
Community Assistance	194.1	3.9	2.0%
Partnership, Rebates, & Exemptions	20.5	0.2	1.1%
Financial Expenditures	73.7	0.0	0.0%
Intercompany Charges	(2.1)	(0.0)	2.1%
Transfers to Funds	43.5	0.0	0.0%
Allocations to Capital	(0.1)	(0.0)	2.0%
<b>Total Expenditures</b>	<b>883.3</b>	<b>25.6</b>	<b>2.9%</b>
Taxation	(17.2)	(0.3)	2.0%
Federal & Provincial Grants	(332.1)	(4.5)	1.4%
By-Law Charges & Sales	(16.0)	(0.2)	1.4%
Other Revenue	(77.4)	(2.1)	2.7%
Transfers from Funds	(8.6)	0.0	0.0%
<b>Total Revenue</b>	<b>(451.2)</b>	<b>(7.1)</b>	<b>1.6%</b>
<b>Net Budget before Allocations</b>	<b>432.1</b>	<b>18.5</b>	<b>4.3%</b>
Allocation Recovery (Rate)	(26.0)	(0.5)	2.0%
<b>Net Levy Budget</b>	<b>\$406.1</b>	<b>\$18.0</b>	<b>4.4%</b>

Distribution of Levy increase between Regional Departments and ABCs

Departmental Grouping	2022 Adjusted Budget	2023 Budget Increase for Base Services	2023 Budget Increase %
Regional Departments	\$228.4	\$9.7	4.2%
Agencies, Boards, and Commissions	177.7	8.3	4.7%
<b>Net Levy Budget</b>	<b>\$406.1</b>	<b>\$18.0</b>	<b>4.4%</b>

Notes:

1. Regional departments labour related costs increase is estimated to at 2.8%
2. Insurance premiums increases are estimated at 30%
3. Utilities increases are estimated between 7% and 10%
4. Fuel prices are estimated to increase at 40%
5. Software support cost increases are estimated at 18%

Water & Wastewater

Object of Expenditure	2022 Adjusted Budget	2023 Budget Increase for Base Services	2023 Budget Increase %
Labour-related costs	\$25.2	\$0.7	2.8%
Administrative	2.3	0.0	2.0%
Operational & Supply <sup>1</sup>	15.0	1.6	10.7%
Occupancy & Infrastructure <sup>2</sup>	18.3	(0.3)	-1.6%
Equipment, Vehicles, & Technology	6.4	0.3	5.3%
Partnership, Rebates, & Exemptions <sup>3</sup>	3.2	0.9	28.6%
Intercompany Charges	2.0	0.2	7.9%
Transfers to Funds	40.6	0.8	2.0%
<b>Total Expenditures</b>	<b>112.9</b>	<b>4.3</b>	<b>3.8%</b>
By-Law Charges & Sales	(1.5)	(0.0)	2.0%
Other Revenue <sup>4</sup>	(1.9)	(0.5)	23.3%
<b>Total Revenue</b>	<b>(3.5)</b>	<b>(0.5)</b>	<b>13.9%</b>
<b>Net Budget before Allocations</b>	<b>109.4</b>	<b>3.8</b>	<b>3.5%</b>
Allocation Recovery (Rate)	22.1	0.4	2.0%
<b>Net Levy Budget</b>	<b>\$131.5</b>	<b>\$4.2</b>	<b>3.2%</b>

Notes:

1. Chemical cost increases are estimated at 20%
2. Electricity rates are estimated to reduce 13% compared to the 2022 budgeted rates
3. Combined Sewer Overflow (CSO) program increased to return to \$4 million
4. Development Charge revenue increased as a result of CSO program increase

Waste Management

Object of Expenditure	2022 Adjusted Budget	2023 Budget Increase for Base Services	2023 Budget Increase %
Labour Related Costs	\$4.0	\$0.1	2.3%
Administrative <sup>1</sup>	1.4	(0.4)	-26.4%
Operational & Supply <sup>1</sup>	54.9	(2.4)	-4.4%
Occupancy & Infrastructure <sup>1</sup>	1.5	(1.0)	-61.9%
Equipment, Vehicles, & Technology <sup>1</sup>	1.2	(0.9)	-74.3%
Partnership, Rebates, & Exemptions	0.2	0.0	2.0%
Intercompany Charges	0.2	0.0	6.2%
Transfers to Funds <sup>2</sup>	4.1	(3.0)	-72.5%
<b>Total Expenditures</b>	<b>67.5</b>	<b>(7.5)</b>	<b>-11.1%</b>
By-Law Charges & Sales <sup>1</sup>	(17.1)	11.7	68.7%
Other Revenue	(6.5)	(0.8)	-11.8%
Transfers from Funds	(2.8)	0.4	13.7%
<b>Total Revenue</b>	<b>(26.4)</b>	<b>11.3</b>	<b>42.9%</b>
<b>Net Budget before Allocations</b>	<b>41.1</b>	<b>3.8</b>	<b>9.3%</b>
Allocation Recovery (Rate)	1.7	0.1	3.3%
<b>Net Levy Budget</b>	<b>\$42.8</b>	<b>\$3.9</b>	<b>9.1%</b>

Notes:

1. Anticipated reduction in operating expenditure and revenue associated with the Material Recovery Facility opportunity review and divestiture.
2. One-year temporary reduction in capital reserve contribution as identified in CSD 67-2021.

Appendix 5: Historical Separate Increases for New Programs

Year	Program Name	Gross Budget	Net Budget	Budget Increase %
2019	Niagara Regional Transit	8,472,918	3,587,215	1.03%
2019	Niagara Investment in Culture	250,000	250,000	0.07%
2019	Council Remuneration	198,000	198,000	0.06%
2019	eLearning	25,000	22,348	0.01%
2019	Asset Management Governance	853,653	408,988	0.12%
2019	Internal Notification System	85,000	85,000	0.02%
2019	Contract Administrators & Inspector	268,041	80,412	0.02%
2019	Extend Engineering Technician	1,459	1,459	0.00%
2019	Permits Technologist	89,550	89,550	0.03%
<b>Total 2019</b>		<b>10,243,621</b>	<b>4,722,972</b>	<b>1.36%</b>
2020	EMS System Transformation	683,168	209,836	0.06%
2020	Coalition of Inclusive Municipalities	142,000	142,000	0.04%
2020	Transportation Integrated Services Manager	127,159	127,159	0.03%
2020	Suicide Prevention Initiative	185,678	185,678	0.05%
2020	Costs of Growth	6,690,323	1,499,354	0.41%
<b>Total 2020</b>		<b>7,828,328</b>	<b>2,164,027</b>	<b>0.59%</b>
2022	South Niagara Hospital Contribution	715,000	715,000	0.18%
2022	Hospice Niagara Contribution	1,000,000	1,000,000	0.25%
2022	McNally House Hospice Contribution	220,000	220,000	0.05%
<b>Total 2022</b>		<b>1,935,000</b>	<b>1,935,000</b>	<b>0.48%</b>

### Appendix 6: Historical Proposed Capital Increases

A summary of 10 year capital financing strategies to align with the Asset Management Plan for Levy, Water & Wastewater and Waste Management is illustrated in the graph below:

