Subject: 2024 General Levy Operating Budget

Report to: Budget Review Committee of the Whole

Report date: Thursday, December 7, 2023

Recommendations

1. That the 2024 net levy relating to the Niagara Regional Departments budget of $265,505,691 for an increase of $9,430,836 or 3.68% over the 2023 departmental operating budget **BE APPROVED** to support operations;
2. That the 2024 net levy increase of $8,000,000 or 1.8% relating to Bill 23 **BE APPROVED** to support the mandatory phase in of Development Charges and the discount for purpose built rentals;
3. That 2024 net levy include additional capital financing of $6,667,000 or 1.50% over the 2023 general levy **BE APPROVED** to be used as per Appendix 4;
4. That New Programs of $1,350,500 **BE APPROVED** to support
   - 4.1. $1,018,000 for subsidies to housing providers in lieu of mortgage funding from upper levels of governments expiring,
   - 4.2. $232,500 for People Plan program delivery, and
   - 4.3. $100,000 for psychiatric consultation to be incorporated into Mental Health Case Management services;
5. That an additional 1.66% or $7,369,145 of assessment growth revenue **BE APPROVED** to fund $532,388 of Tax Increment Grants, $506,000 of operating costs of capital and $6,330,757 for council and capital priorities;
6. That the following items totalling $10,506,015 gross, $0 net **BE APPROVED** with funding from the Taxpayer Relief Reserve
   - 6.1. One time items as detailed in Appendix 3 in the amount of $721,099,
   - 6.2. Funding for the extra working day of $1,052,853,
   - 6.3. Bill 23 mandatory phase in of Development Charges of $600,000,
   - 6.4. Homelessness services funding of $2,432,063,
   - 6.5. Additional pressures associated with homelessness service contracts not included in the budget detail up to $1,700,000 (gross $2,800,000),
   - 6.6. Funding for the 2022 tax deferral of $4,000,000;

7. That the 2024 general levy of $484,637,965 **BE APPROVED** to include:
   7.1. Regional Departments of $282,561,579,
   7.2. Agencies, Boards, and Commissions of $202,076,386;
8. That the necessary by-law **BE PREPARED** and **PRESENTED** to Council for consideration.

Key Facts

- The primary purpose of this report is to approve the Regional departments net operating budget for 2024 of $265.5 million. It does not include the budget of Agencies, Boards and Commissions, however their budgets are consolidated into the Regional General Levy of $484.6 million.
- The Regional Departments budget increase is 3.7% which is net of mitigation against the 5.9% required to sustain current service levels amidst higher than expected inflation.
- Corporate items of $16.1 million are being requested to support the cost of Bill 23 mandatory DC incentives, capital financing and new programs as described in the Financial Analysis.
- The assessment growth for 2024 of $7.4 million (1.7%) of additional tax revenue of which $0.5 million is used to fund tax increment grants and $0.5 million new capital operating expenses. The balance of growth revenue of $6.3 million is being recommended to offset the cost of council priorities and capital financing.
- In the absence of other budget pressures, staff would have recommended incremental staff which are identified in Appendix 8 but not included in the recommended budget for 2024.
- The total General Levy increase for departments and ABCs is $40.2 million (7.4%) which includes 2.1% increase for departments, 3.2% increase attributed to the ABCs, and 2.1% for corporate items net of assessment growth.

Financial Considerations

The recommendations in this report are made in accordance with By-law 2019-79 “Budget Planning”. The Region’s Departmental budget year over year increase is 3.7% which accounts for 2.1% of the total General Levy as shown in Table 1. The proposed consolidated 2024 General Levy inclusive of ABCs, Capital Financing and New

Programs of $484.6 million represents a $40.2 million increase or 7.4% after assessment growth.

Table 1 - Consolidated Levy Budget (in millions)

Description	2023	2024	Year over Year $ Change	Year Over Year % Change	% of Consolidated General Levy
Departmental Budget	$256.1	$265.5	$9.4	3.7%	2.1%
NRPS	$177.9	$190.5	$12.6	7.1%	2.9%
NPCA	$7.1	$7.3	$0.2	2.4%	0.1%
Courts	($0.1)	($0.1)	$0.0	-22.0%	0.0%
NRH	$3.6	$4.4	$0.9	24.0%	0.2%
ABC Sub-total	$188.4	$202.1	$13.7	7.3%	3.2%
Bill 23		$8.0	$8.0		1.8%
New Programs		$1.4	$1.4		0.3%
Capital Financing		$6.7	$6.7		1.5%
Growth Expenses		$1.0	$1.0		0.2%
Assessment Growth					-1.7%
Consolidated Levy Budget	**$444.4**	**$484.6**	**$40.2**		**7.4%**

Household Impact

Based on the 2024 cost for General Levy programs, the average household assessed at $298,000 is estimated to increase from $1,859 to $1,997 in 2024, an increase of $138. The average household assessment for 2024 has been updated to reflect the current average value from MPAC rather than the previous value of $278,764, which was based on the end of the previous re-assessment cycle.

Table 2 – Household Tax Impact

Description	2024 impact to household	Cost to household
2023 Cost per Average Household		**1,859**
Departmental Budget	38.9	
NRPS	52.1	
NPCA	0.9	
Courts	0.1	
NRH	3.5	
Bill 23	33.0	
New Programs	5.6	
Capital Financing	27.5	
Growth Expenses	4.3	
Assessment Growth	(28.0)	
2023 Est. Cost per Average Household	**$138**	**1,997**

The actual cost per household may change depending on tax policy decisions that are made in 2024.

Analysis

The focus of this report is to summarize the consolidated request of the Region's departments that are funded from the General Levy. The themes affecting the departments are impacts of inflation, labour related costs, subsidy not keeping pace with inflation and affordability concerns that required staff to incorporate difficult mitigation options that reduce service delivery.

Base Budget

The departmental base budget of $256.1 million is increasing by $15.1 million (5.9%), before mitigations. Wherever possible, departments maintained costs at 2023 levels in order to mitigate inflationary pressures on the cost of inputs to service delivery. The departmental budget increases can be attributed primarily to the following items, many of which are already impacting our 2023 results as per the Q3 report:

- Labour Related Costs: $13.2 million (4.4%) cost pressures net of funding from provincial subsidy for new positions, reflect current collective agreements, two extra working days, OMERS eligibility changes, and health, dental and other benefits rate increases.

- Inflation: $5.6 million inflationary pressures ($1.2M mandatory housing provider subsidy, $0.9M operational costs for long term care homes, $0.8M software licensing, $0.8M in utility price increases, $0.7M operational costs for homelessness shelters, $0.5M insurance premiums, $0.4M contracted building maintenance and grounds, $0.3M contracted hired equipment).
- Other Costs: $4.3 million other pressures ($2.2M mandatory development charge exemption for ancillary dwelling units, $1.8M discretionary development charge grant programs for industrial, agriculture and smart growth, $0.3M in repair and maintenance costs due to aging fleet).
- Debt Charges: $3.5 million in maturing debt charges used to offset pressures related to lost per diem subsidy for long term care debt and increased interest rates assumptions for approved but unissued debt charges net impact of $0.
- Provincial subsidy: $4.7 million in incremental funding for Seniors and Public Health. Included in the budget are many pressures that relate to programs either 100% (for example, Mental Health, Ambulance Dispatch) or partially funded (for example Public Health Mandatory Programs, Housing Services) where provincial subsidy increases have not kept pace with inflation. This has led to an increased reliance on Regional taxes to maintain service levels in particular $0.1 million for Mental Health and $0.9 million for other Public Health programs relying on the General Levy in 2024.
- Offsets: $3.2 million ($1.0M reduction in transfers to reserves for the housing capital loan and grant program due to the program being under review, $1.1M taxpayer relief reserve funding for one extra working day, $0.7M in operating cost efficiencies for Seniors homes due to one less facility and $0.4M in increased supplemental and payment-in-lieu tax revenue).

In order to prioritize affordability, Departments provided options to mitigate the budget totalling $5.7 million and additional options totalling $2.0 million not recommended.

- Departmental mitigations recommended in Appendix 2 totaling $4.1 million have been incorporated into the recommended Departmental budget increase of 3.7% and include staff compliment reductions of $0.3 million in confidential memo BRC-C 29-2023.
- Corporate mitigations being the inclusion of increased gapping assumptions from 1% of salary budgets to 40% of historical gapping trends for a budget reduction

of $0.9 million and changes to general compensation assumptions for a budget reduction of $0.7 million.
- Mitigations not recommended totaling $2.0 million in Appendix 2 have not been incorporated into the budget and include staff compliment reduction of $0.6 million in confidential memo BRC-C 29-2023.

As a result of both departmental and corporate mitigations, departmental pressures are reduced from $15.1 million (5.7%) to $9.4 million (3.7%).

Taxpayer Relief Reserve

Operating programs that are one time in nature may be funded by reserves as per the Budget Planning by-law. Included in the 2024 budget are the following uses of the Taxpayer Relief Reserve as forecast in Table 1 of Appendix 3 for a balance remaining in the Reserve of $15.2 million. The target reserve balance is between $70.7 and $106.1 million.

- $1.1 million for one extra working day
- One time initiatives in the amount of $0.7 million listed in Table 2 in Appendix 3
- $2.4 million from the reserve has been included in the budget detail to fund the pressures of the RFP for homelessness operations. This is considered a one-time request from the reserve because the HPP funding increase of $9.3M dedicated in 2024 to capital investments will be repurposed to these contracts in 2025. As the RFP negotiations are on-going, staff are requesting flexibility to finalize these contracts by way of approval for up to an additional $2.8 million gross with $1.7 million funded from reserve and $1.1 million from other departmental mitigations. Staff will report back in the quarterly report with the actual amount of the budget adjustment required.
- $4.0 million for the 2022 Tax Deferral. The 2024 budget strategy proposed phasing out the use of reserves by reducing this transfer to $2.0 million in 2024 and $0 in 2025. Due to other pressures, the budget has been revised to phase out the use of reserves to $2.0 million in 2025 and $0 in 2026.
- Estimated costs of Bill 23 Development Charge (DC) mandatory phase and purpose built rental discount in the amount of $8.6 million gross (1.8%) have been included with $0.6 million being funded from reserves in alignment with the strategy outlined in CSD 14-2023.

Bill 23

Report CSD-14 2023 outlined a multi-year strategy for financing the anticipated costs of Bill 23, *More Homes Built Faster Act, 2022.* In alignment with the multi-year budget strategy, the total financial impact of $14.5M in 2023 was funded by reserves. Beyond 2023, the financing strategy recommended to fund the average annual amount for the phase-in of $7M from the levy and the average annual amount for rental discount of $4.5 million (total $11.5 million from General Levy) with any annual difference from the average to be funded by Taxpayer Relief Reserve. In 2024, phase in of the DC's is estimated at $7.6M and is recommended to be funded $7M on the levy and $.6M from reserves and discount for purpose built rentals is estimated at $1M and is recommended to be funded on the levy. The total impact is $8M funded from the levy and $0.6M funded from reserves. Staff are tracking these exemptions to be able to attract any future funding. To date there has not been any commitment related to incremental funding from the province to handle these costs.

Staff Complement

The recommended 2024 Regional Department Operating Budget includes a staff complement of 2,803.7 permanent full-time equivalents (FTE) and 145.7 temporary FTEs. A list of the staffing changes including position title is available in Appendix 6

Table 3 - FTE Summary

Description	Perm FTE	Temp FTE
2023 Adjusted Budget	2,722.7	310.3
New FTE (net cost of zero)	80.1	34.8
Temp to Perm (net cost to zero)	5.0	(5.0)
Temps Expiring	0.0	(15.5)
COVID-19 Temps Expiring	0.0	(178.9)
Mitigations	(4.1)	0.0
2024 Budget	2,803.7	145.7

Other Budget By-law Components

New Programs

New Programs are approved as a separate increase. Further details are provided in the business cases found in the 2024 Operating Budget Detail and summarized below:

- $1.0 million to maintain subsidies to housing providers in lieu of mortgage funding from upper levels of government expiring
- $0.2 million for People Plan for consulting and training
- $0.1 million for psychiatric consultation to be incorporated into Mental Health Case Management services

Capital Financing

The 2024 Budget Strategy proposed an additional 2.5% increase on the 2023 levy budget for enhanced capital funding as an alternative to the 3.8% increase as recommended by the 2021 Asset Management Plan (CSD 7-2022). Due to the need to balance affordability with sustainability in the current economic environment, the increase was further reduced to 1.5% for 2024. This results in the following:

- Reduction of $4.4M (1.0%) of capital financing in 2024 and the deferral of 2024 Capital Budget projects listed in Appendix 4.
- The 2024 contributions to Capital Levy Reserve will be $43 million versus the $158 million target based on the 2021 Asset Management Plan (see Appendix 5).
- The cumulative 10-year loss from 2.5% to 1.5% is $39.8 million (see Appendix 5).

As noted in the Region's recent review by Standards and Poors, the amount of the debt issued for the Region as well as on behalf of the Local Area Municipalities is increasing at a higher pace than the Region's revenue source which could have a negative impact on the ratios used to set our bond rating. The Region has $370 million in Regional debt outstanding as of September 30, 2023. As displayed in Appendix 5, total debt outstanding is forecasted to almost double in size to $635 million as projects near completion and require the issuance of prior approved debt. The region is also approaching our sector limit with Infrastructure Ontario (IO) (used for longer term borrowing) which means that we will be limited in how much debt we can issue through IO. Both of these factors further highlight the need to continue to invest in funding our Capital Levy Reserve and limit the amount of debt that we are issuing.

Assessment Growth

Assessment Growth is estimated at 1.7% ($7.4 million); this is the additional revenue from new properties constructed (growth) in the Region. It is allocated in alignment with the Budget Planning By-law as follows:

- Operating costs of $0.5 million related to new and growth capital assets such as fuel costs for new vehicles and new IT license costs. Costs related to debt can be accommodated within the existing base budget based on debt maturing and with consideration of current interest rates.

- Tax Increment Grants (TIGs) which reimburse property owners for up to 100% of the municipal property tax increase created by property improvement for up to 10 years. This is $0.5 million for 2024.

- It is recommended that the assessment growth remaining after these priorities of $6.3 million be used to support council and capital priorities.

Multi-year Outlook

Most of the corporate items that were reduced in 2024 are simply being deferred to future years such as the tax deferral and capital financing. The departmental mitigations are deemed permanent until council directs staff to reconsider them.

Generally, the future years are being impacted by similar pressures. Some of the items affecting 2025 in addition to infrastructure funding are continued pressures related to insurance premiums, hired equipment and building maintenance costs as well as the continued decline of upper-level government funding for housing providers. Therefore, prior to using any reserves to defer tax increases into future years Council should consider the details in Appendix 7 which are forecasting an increase of 6.5% for 2025.

Risks and Opportunities

The Niagara Region budget is prepared based on information available at a point in time. Services and/or the actual operational costs can be impacted by the following:

- Gapping is dependant upon staff turnover, therefore there is a risk if the labor force stabilizes that the budgeted salary gapping will not be realized.
- Continued volatility in the inflation rate could put further pressure on cost estimates.

- Estimates for Bill 23 Development Charge exemption are based on the pace of development and outstanding proclamation related to affordable and attainable housing exemptions will have further levy impacts.
- Collective agreements are outstanding for three out of six unions.
- Capital infrastructure and backlog and impacts on repairs, maintenance and project escalations which are funded from the levy.
- Limited ability to manage development incentive costs tied to policy and commitments.

Sinking Fund

As per the Municipal Act, Section 289, Niagara Region is required to prepare and adopt a budget including amounts to be raised for sinking funds. Additionally, as per Section 424, the Treasurer must prepare for Council, an annual statement of the amount to be raised for a sinking fund. This report will also serve to carry out Niagara Region's responsibilities as prescribed in the Municipal Act.

Niagara Region's sinking fund is a separate fund maintained for the purpose of providing the repayment of all sinking fund debt when it becomes due and payable. Proportionally, 88.05% of the fund relates to Niagara Region and the remaining 11.95% relates to the City of St. Catharines. The debt issued on June 30, 2010 subject to repayment through the sinking fund is $78,079,000. This amount is repayable in full on June 30, 2040. The annual budget for Niagara Region's portion of the debt charges associated with the sinking fund is $4,906,470 ($1,331,695 principal, $3,574,775 interest). This amount has been included in the 2024 budget, and subject to Niagara Region achieving the annual required rate of return of 3.50%, will remain in effect until the sinking fund matures on June 30, 2040. To date the Niagara Region has been able to invest in bonds yielding on average greater than the required rate of return.

Alternatives Reviewed

As described in the report, departmental budget pressures would require a 5.9% increase and Council may consider not moving forward with the recommended mitigations identified in Appendix 2 and confidential memo BRC-C 29-2023 that achieve a 3.7% increase. The additional mitigations not recommended are identified in Appendix 2 and confidential memo BRC-C 29-2023 and may be considered by Council.

Were it not for the significant budget increase, staff would have requested the staffing enhancements included in Appendix 8 requiring a 1.8% increase. Given the current circumstances the requests are being deferred to future years.

Relationship to Council Strategic Priorities

The 2024 levy budget supports all facets of the organization in their support of Council's priorities.

Other Pertinent Reports

CSD 38-2023	2024 Budget Planning and Timetable
CSD 43-2023	2024 Capital Budget
CSD 53-2023	Q3 2023 Financial Update
CSD 14-2023	Bill 23 Financial Impacts on Regional Development Charges
BRC-C 29-2023	General Levy Confidential Budget Mitigation Options

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Appendices

Appendix 1	Niagara Region Departments Base Budget After Mitigations
Appendix 2	Departmental Mitigations Recommended and Not Recommended
Appendix 3	Taxpayer Relief Reserve Forecast and One Time Items
Appendix 4	Deferred Capital Projects
Appendix 5	Capital Financing
Appendix 6	FTE Summary (Permanent and Temporary)
Appendix 7	Multi-year Levy Forecast
Appendix 8	Additional FTEs Deferred to Future Years