

Subject: 2025 Budget Strategy

Report to: Budget Review Committee of the Whole

Report date: Thursday, July 25, 2024

Recommendations

1. That this report **BE RECEIVED** for information;
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 2025 budget process with discussion of projected service costs and to propose the strategy for the preparation and presentation of the 2025 General Tax Levy operating budget, Water and Wastewater operating budget, Waste Management and Niagara Transit Commission Special Tax Levy operating budget, and Capital budget.
- The 2025 budget strategy is to sustain core services; maintain base service delivery and continue to invest in capital contributions to close the funding gap reported in the “2021 Asset Management Plan”, and to support Council Strategic Priorities.
- The budgets are prepared in alignment with the Budget Planning By-law’s principles and priorities of sustainability and affordability, the Capital Financing Strategy and to support Council Strategic Priorities.
- The 2025 budget will continue to prioritize communication and education for Council and the public.
- The 2025 budget timetable (Appendix 1) was previously approved by Council and results in the 2025 budget being approved before year-end.

Financial Considerations

By-law 2019-79 “Budget Planning” is used to structure the Niagara Region’s budget strategy each year. The principles in the By-law support the following:

- Sustainability - ensuring we have adequate funding to support base service levels.
- Affordability - gives consideration to the impact on taxpayers.
- Transparency - foundational and important for Council to have fullness of information for decision making.

The four areas of budget development included in the By-law are:

1. Base services: on-going costs and revenues that are influenced by multi-year contracts, collective agreements, and inflationary pressures. In addition, base services include impacts of Bill 23 and the reserve strategy to eliminate the unsustainable 2022 general tax levy budget reliance on reserves.
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 2.50% for the general tax levy and 7.22% for water & wastewater to address the capital backlog over the next 50 years.
3. New programs: new programs that have a strong alignment to Council strategic priorities.
4. Growth Funded Programs: After Tax Increment Grants (TIGs) are funded, the by-law prioritizes the use of assessment growth for the costs of growth, capital, and council strategic priorities.

The Table below estimates for 2025 have been broken down into the four regional operating budgets and into the four areas of budget development (budget categories) as per the Budget Planning by-law. To note, general tax levy, waste management and transit special tax levies will benefit from assessment growth as new residents also benefit from these enhancements.

Table 1: 2025 Operating Budget

Budget Categories	General Tax Levy	Water & Wastewater Rates	Waste Management Special Tax Levy	Niagara Transit Commission Special Tax Levy
Base Pressures	3.38%	4.11%	4.26%	4.44%
ABCs	3.03%	n/a	n/a	n/a
Reserve Strategy	0.83%	n/a	3.24%	n/a
Bill 23/Bill 185	(1.45%)	n/a	n/a	n/a
Capital Financing	2.50%	7.22%	n/a	3.71%
Program Changes	1.93%	1.26%	(0.10%)	TBD
Assessment Growth	(1.50%)	n/a	(1.50%)	(1.50%)
Total	8.72%	12.59%	5.90%	6.65%

The analysis section speaks to each of the 2025 general tax levy, special tax levies and water & wastewater operating budgets and explains how these budgets align with the Budget Planning by-law.

The 2025 Budget Timetable, included in Appendix 1, was approved by Council in CSD 20-2024, 2025 Budget Timetable and recommends the approval of all four budgets by the end of the year.

Analysis

Base Pressures

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. CPIX represents the change in inflation but excludes eight of the most volatile components including fruit, vegetables, gasoline, fuel, oil, natural gas, mortgage interest, inter-city transportation and tobacco products. Per Statistics Canada data at the time of preparing this report, CPIX at May 2024 is 1.8% (3.1% five-year average as noted in Appendix 2). For the purposes of developing the initial estimates for the 2025

operating budgets, the inflation rate has been estimated at 2% however many costs required to deliver core services are increasing above inflation.

Across all four budgets, departments are expecting pressures in excess of inflation for items including insurance, fuel, software licensing, water and wastewater treatment chemicals, utilities and contracted services. In addition, there is anticipated pressure above inflation for labour related costs due to existing contracts and in support the People Strategy which supports the council strategic priority of an effective region.

Budget pressures are also anticipated as a result of subsidies not keeping pace with the rate of inflation or adequately funding service needs required by the community. Additional details are discussed in report CSD 30-2024 Levy Impact of Mandated Services Provided Under Provincial and Federal Agreements.

As a result of the pressures noted above, the estimated increases required to maintain base services are 6.41% for the general tax levy (3.38% for departments and 3.03% for ABCs, excluding the impacts of Bill 23), 4.11% for water & wastewater rates, 4.26% for waste management special tax levy and 4.44% for Niagara Transit Commission special tax levy. To minimize the inflationary impacts included in these estimates, preparation of the operating budgets will focus on maintaining existing service levels. Staff will conduct a line-by-line review of discretionary items and identify efficiencies and revenue opportunities to minimize impact on the taxpayer.

2022 Base General Tax Levy Services Funded with Reserves

The 2022 general tax levy base services budget was approved with funding of \$6.0 million from the taxpayer relief reserve as per a motion from BRCOTW to reduce the net general tax levy operating budget from 4.35% to 2.87%. The 2023 budget reduced the reliance on that funding to \$4 million which was held constant in 2024. The 2025 strategy is to reduce the funding reliance to \$0 which will result in budget pressures of 0.83% to the general tax levy. This will eliminate the Region's reliance on reserves to fund day to day operations as this funding source is not sustainable.

The Region's taxpayer relief reserve acts as the main contingency reserve to address unknown risks that could arise. Per the Region's reserve policy C-F-013, the targeted balance in this reserve should be 10 to 15% of the gross operating expenditures it supports. This reserve is currently underfunded with a projected balance in the reserve at December 31, 2024 of \$27.9 million, representing 3.6% of gross operating levy expenditures excluding ABC's. Continuing to draw on the reserve annually to fund operations would further reduce our ability to respond to risks.

Landfill Liability Reserve Replenishment

The landfill liability reserve provides funding for operating and capital requirements related to closed landfills. In the 2023 operating budget, the landfill liability reserve base contribution of \$2.4 million was removed from the waste management special tax levy budget as a one-time mitigation measure. In 2024, staff recommended an additional contribution to the reserve of \$1.3 million in order to partially repay the missed 2023 contribution, however Council approved 0% budget increase which reduced the partial repayment from \$1.3 million to \$0.5 million.

In addition, the guidelines around the target reserve balance have increased significantly as a result of a new public sector accounting standard adopted in 2023 regarding asset retirement obligations. This standard changed the way the liabilities for landfills are calculated, and now considers the full contaminating lifespan of closed landfills estimated at 212 years as compared to capping the lifespan estimates at 40 years. This increased the landfill liability from \$77.7 million in 2022 to \$140.4 million at the end of 2023. The balance in the reserve is estimated at \$4.4 million at December 31, 2024 which represents 3.1% of the liability. Current minimum reserve targets are set at 40%.

Staff are recommending an increase to the annual contribution to the landfill liability reserve by \$1.4 million (3.24%) in addition to the base contribution of \$2.9 million for a total of \$4.3 million in order to acknowledge the future commitment required. The strategy for the landfill liability reserve is still under review and will be refined for the final waste management budget.

Bill 23/Bill 185

On June 6, 2024, Bill 185, “Cutting Red Tape to Build More Homes Act, 2024” received Royal Assent. This Bill includes amendments to the Development Charges Act, many of which reverse previously introduced changes made through Bill 23.

One of the components of Bill 23 that has been reversed is the mandatory 5 year phase-in period of Development Charge (DC) rates. Prior to the reversal, DCs were made whole through a contribution from the general tax levy as per the funding strategy outlined in CSD 14-2023. The 2024 budget included \$7.6 million with \$7 million funded from the levy and \$0.6 million funded by reserves. As a result of the reversal of the mandatory phase-in, the 2025 budget can be reduced by the same amount (\$7.6 million gross and \$7 million net), or a reduction of 1.45% of the general tax levy.

Bill 23 also includes exemptions to DCs for Affordable and Attainable housing. On June 1, 2024, the exemption of DCs for Affordable Housing went into effect. Staff do not expect a significant financial impact as a result of this exemption; further details have been outlined in CSD 31-2024. The exemption for Attainable Housing is pending further regulations by the Minister of Municipal Affairs and Housing, thus cannot yet be quantified, and is not included in the initial 2025 budget estimates.

Program Changes

The Budget Planning By-law requires that new programs or services be funded with separate increases to ensure base services are not eroded. In the By-law, new programs are also intended to refer to new full-time equivalent (FTE) positions or investments required to support existing service levels which are more commonly referred to as program changes.

Following the pandemic, staff recommended prioritizing affordability, which resulted in deferrals of new FTE's required to deliver base service levels. As a result, there is a current gap in staffing levels required to support the current service levels which in many areas have increased in complexity. Continuing to operate on lower than required staffing levels creates operational risks. The 2025 proposed budget will prioritize program changes that address operational risks to sustain current service delivery including recommending FTE's where required. Staff will also connect program changes requested to Council's strategic priorities.

Staff have compiled preliminary program change estimates of 1.93% for the general tax levy, 1.26% for water & wastewater rates, and -0.10% for waste management special tax levy. The Niagara Transit Commission is currently developing program change business cases for consideration at their board. Estimated impacts of these program changes will be presented with the budget.

As always, staff will continue to refine these programs change requests while striving for continuous improvement and looking for efficiencies to minimize budget pressure. Detailed business cases on all the new program and program changes will be made available through the budget process.

Capital Program

The 2021 Asset Management Plan (AMP) was approved in 2022 and recommended increases to the annual general tax levy of 3.82% (including ABCs), and to the annual Water & Wastewater combined rate requisition of 7.22% over a ten-year period for

sustainability. Based on data known and included at the time of this AMP, the increased capital contributions strategy was expected to remove the backlog within ten years.

While the AMP recommendation maximizes asset sustainability, staff are proposing a capital financing strategy for 2025 that balances risk and sustainability while acknowledging our other pressures and affordability.

For levy programs, staff are recommending a strategy consistent with the last two years which eliminates the backlog over 50 years (as opposed to 10 years) and requires an increase in funding of 2.5% on the general tax levy.

This strategy recognizes constraints with accelerating project timelines such as available project management resources, development charges collected and co-ordination of timing with external parties. It also acknowledges the current pressure created from reducing our reliance on reserves to fund operations discussed above.

As noted earlier in the report, staff are recommending the removal of the reliance on reserves that was approved in the 2022 budget from the 2025 budget. The impact of removing this reliance from the 2025 budget increases the general tax levy by 0.83%. Staff are recommending that removing the reliance on reserves from the operating budget is important for 2025 and look to further opportunities in the future to increase our capital contributions to the required 3.8% level.

For water and wastewater, staff are recommending a strategy which eliminates the backlog over 10 years and requires an increase of 7.22% on the water and wastewater combined rate requisition. The operational risk and impacts of not maintaining these asset types in a state of good repair are significant. Staff have begun working on the 2025 AMP revisions and early indications show a continued decline in the state of these assets along with increased renewal costs since the previous 2021 plan. The requirement to continue to increase investment to adequately sustain the water and wastewater system are real and present.

A summary of the increases on the general tax levy and water & wastewater combined rate requisition is illustrated in Appendix 3.

For the waste management budget, no separate increases are required as the current capital contributions adequately fund the current capital forecast for open landfills. However, commitment to the multi-year budget and reserve strategy adopted in 2021 continues to be required to achieve sustainability in alignment with the landfill liability reserve needs outlined above.

The Niagara Transit Commission (NTC) will continue with the sustainability strategy for capital as approved in the triple majority agreement which recommended three years of incremental capital contributions of \$2.2 million to achieve an annual reserve contribution of \$6.5 million. This strategy along with Provincial Gas Tax is intended to support renewal of the infrastructure up-loaded to the NTC. This strategy aligns with the continued investments required in the 2024 NTC AMP approved in CSD 22-2024, which indicated a 10-year AARI (average annual renewal investment) funding gap of \$3.3 million.

The incremental capital contribution to NTC capital reserves was paused in 2024. Staff are recommending that the incremental transfer of \$2.2M be reinstated in 2025 in order to progress towards the total \$6.5 million required by 2026. Price escalations in capital renewal requirements will continue to be evaluated and reflected in budget recommendations.

A summary of the current capital contributions and the average annual renewal investment (AARI) from the AMP is illustrated in Table 2.

Table 2: Capital Contributions and Financing Strategy (in millions)

Operating Budgets	2024 Capital Contributions	2025 Proposed Capital Contributions	10-year AARI + Backlog Strategy	50-year AARI Strategy
General Tax Levy	\$42.9	\$55.0	\$269	\$158
Water/ Wastewater Rates	\$53.6	\$64.7	\$164	\$122
Waste Management Special Tax Levy	\$1.8	\$1.8	\$5	\$10
Transit Special Tax Levy	\$2.2	\$4.4	\$6	n/a
Total	\$100.5	\$125.9	\$444	\$290

The AMP will be updated in 2025, and revised estimates will be reflected in future budgets, in tandem with Councils approval of the new proposed levels of service and financing strategies by July 1, 2025 (per legislation).

Continuing to increase contributions to capital reserves as outlined above is critical to successfully managing our debt levels going forward as the Region and LAM's forecasted debt burden is expected to double over the next 5 years. Staff are actively working on strategies to manage the debt burden and minimize possible impacts to our credit rating. As a result, no new Regional debt is being recommended in 2025. Additional details are provided in CSD 37-2024 Debt Strategy Update and further information on the debt strategy for 2025 will be included in the Capital Budget in September.

In further support of investing in the critical infrastructure required per our AMPs while balancing growth and our debt burden, staff have looked to maximize all external funding opportunities available for the immediate 2025 capital program. This includes recommending reallocating external provincial funding earmarked for future consideration to help address current needs. Additional details are provided in report CSD 38-2024 Investing in Ontario Fund Update.

The process to incorporate Health Equity Informed Planning developed in 2022 continues to be implemented for the 2025 Capital budget. Additional details are provided in report CSD 34-2024 Health Equity Informed Planning Update.

Assessment Growth

Assessment growth for 2025 is forecasted at 1.50% which is consistent with the prior 5-year average as shown in Appendix 4. The Budget Planning By-law prioritizes revenue growth first to tax increment grants (TIGs), operating costs of growth, capital funding and council strategic priorities which are all included in the above By-law categories.

Budget Engagement

Niagara Region is committed to ensuring services provided are aligned with the needs of residents and delivered in an effective, efficient, and financially sustainable manner.

The overall communications goal is to educate residents on how the Region Budget operates and emphasize the need for meaningful capital budget investment. The 2025 Budget engagement approach recognizes that municipal budgets are complex and that difficult decisions continue to be made that effect our community. The 2025 engagement theme focuses on general education to the public, with an emphasis on the significance of continued investment to maintain existing assets in a state of good repair. A public engagement exercise will gauge resident knowledge and appetite on

capital investments to help facilitate staff recommendations and guide Councils' decisions on the 2025 Budget.

Niagara Region will collect Niagara resident feedback regarding the budget through an online feedback mechanism. Results will be shared with Regional staff, Council and presented to the Budget Review Committee of the Whole. The strategy is to present a specific focused topic of the budget, the feedback provided will help support decision-makers. This compared to previous budget engagement activities that were too broad and all encompassing which brought little value to support decision-makers.

Budget Timetable

For reference, the timetable previously approved by Council via CSD 20-2024 is provided in Appendix 1. The timetable results in the 2025 Budget being approved by Council in December of 2024, aligning with the Budget Planning By-law.

Included on the timetable are budget education and workshop sessions to aid Council in making critical budget decisions.

Alternatives Reviewed

The purpose of this report is to inform Council of the 2025 proposed strategy to support the development of the operating and capital budget for 2025. 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 2025 Budget will provide the financial framework to achieve Council's Strategic Priorities.

Other Pertinent Reports

[CSD 7-2022](#) [2021 Asset Management Plan](#)

<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=26dba92f-aa45-4497-b245-07dde32d7a94&Agenda=Merged&lang=English&Item=23&Tab=attachments>

[CSD 14-2023](#) [Bill 23 Financial Impacts on Regional Development Charges](#)

<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=b851aa1e-b553-4231-b509-5b6436064f00&Agenda=Merged&lang=English&Item=11&Tab=attachments>

[CAO 10-2023](#) [2023-2026 Council Strategic Priorities](#)

<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=dd83ae03-139a-45f0-a705-67f3df7c7b61&Agenda=Agenda&lang=English&Item=12&Tab=attachments>

[CSD 18-2024](#) [2025 Budget Update](#)

<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=c6b8345c-543c-4f65-b278-f1fd4e2a5b3e&Agenda=Merged&lang=English&Item=37&Tab=attachments>

[CSD 20-2024](#) [2025 Budget Timetable](#)

<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=89ee2b82-74d9-4eb3-a613-46ad91e959cf&Agenda=Merged&lang=English&Item=33&Tab=attachments>

[CSD 22-2024](#) [2024 Niagara Transit Commission Asset Management Plan Addendum](#)

<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=144d4ba1-cde7-4071-b153-6b94161cdbce&Agenda=Agenda&lang=English&Item=15&Tab=attachments>

CSD 30-2024 Levy Impact of Mandated Services Provided Under Provincial and Federal Agreements - Will be included in the July 25, 2024 BRCOTW meeting agenda.

[CSD 31-2024](#) [Development Charges Act - Exemption for Affordable and Attainable Residential Units](#)

<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=14edeaeb-448c-43b0-ade1-9c40f80c15d1&Agenda=Agenda&lang=English&Item=14&Tab=attachments>

CSD 34-2024 Health Equity Informed Planning Update - will be included in the July 25, 2024 BRCOTW meeting agenda.

CSD 37-2024 Debt Strategy Update -Will be included in the July 25, 2024 BRCOTW meeting agenda.

CSD 38-2024 Investing in Ontario Fund Update - Will be included in the July 25, 2024 BRCOTW meeting agenda.

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Appendices

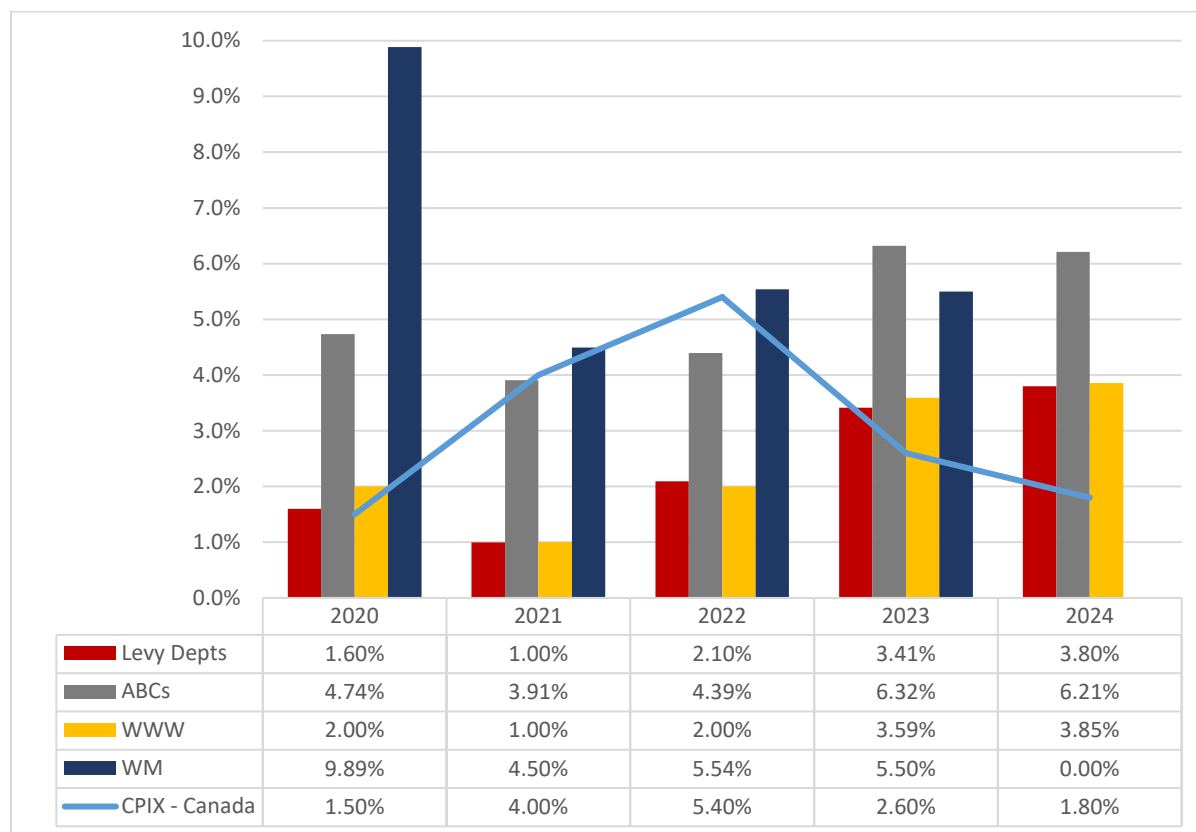
Appendix 1	2025 Budget Timetable
Appendix 2	Historical CPIX and Base Budget Increases
Appendix 3	General Tax Levy and Water & Wastewater Capital Financing Strategy
Appendix 4	Historical Assessment Growth

2025 Budget Timetable*

Meeting Type	Topic	Date
Budget Education	Introduction	Thursday, August 15, 2024, 9:00 a.m. to 4:00 p.m.
Budget Workshop	Capital	Thursday, September 5, 2024, 1:00 p.m. – 4:30 p.m.
BRCOTW	Capital	Thursday, September 12, 2024, 6:30 p.m.
Budget Workshop	ABCs, Water & Wastewater Rates, Waste Management & Niagara Transit Commission Special Tax Levies	Thursday, October 10, 2024, 9:00 a.m. – 4:00 p.m.
BRCOTW	Waste Management & Niagara Transit Commission Special Tax Levies	Thursday, October 17, 2024, 6:30 p.m.
BRCOTW	Water & Wastewater Rates	Thursday, November 7, 2024, 6:30 p.m.
BRCOTW	ABCs	Thursday, November 14, 2024, 6:30 p.m.
Council	Water & Wastewater Rate and Special Levy By-laws	Thursday, November 21, 2024, 6:30 p.m.
Budget Workshop	General Tax Levy	Thursday, November 28, 2024, 9:00 a.m. to 4:00 p.m.
BRCOTW	General Tax Levy	Thursday, December 5, 2024, 6:30 p.m.
Council	General Tax Levy, Capital & User Fee By-laws	Thursday, December 12, 2024, 6:30 p.m.

*Approved by Council - CSD 20-2024 2025 Budget Timetable

Historical Core Consumer Price Index (CPIX) and Base Budget Increases



Notes -

- The five-year average increase in Core Consumer Price Index (CPIX) is 3.10%; following the peak of 5.4% in 2022
- Base Budget percentage increases shown (Levy Depts, ABC's Water and Wastewater and Waste Management) are base budget net expenditure increases year over year

General Tax Levy and Water & Wastewater Capital Financing Strategy

General Tax Levy

Table 1. Transfers to Capital Levy Reserve: 2.60% for Year 1, 1.50% for :Year 2, 2.50% for Years 3 to 10:

(Millions)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Target*
Capital Transfer	36.3	43.0	55.0	67.6	80.8	94.5	108.7	123.6	139.1	155.2	158.0
Annual % Increase	2.60%	1.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

*General Tax Levy Targets based on 50-year Average Annual Renewal Investment (AARI) strategy

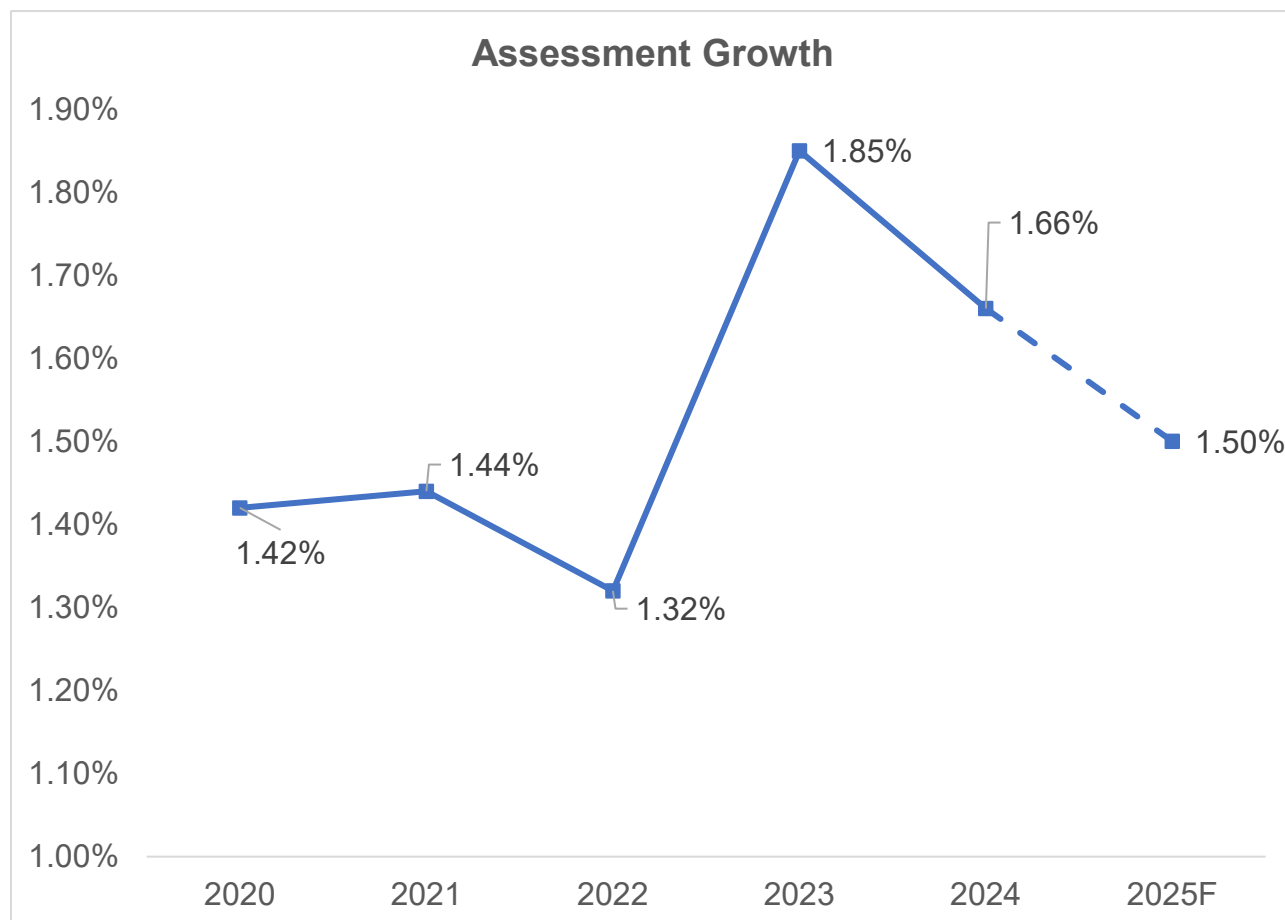
Water & Wastewater

Table 2. Transfers to Capital Rate Reserves: 5.00% for Year 1, 4.10% for :Year 2, 7.22% for Years 3 to 10:

(Millions)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Target**
Capital Transfer	47.7	53.5	64.7	76.8	89.9	104.2	119.6	136.3	154.4	173.9	164.0
Annual % Increase	5.00%	4.10%	7.22%	7.22%	7.22%	7.22%	7.22%	7.22%	7.22%	7.22%	7.22%

**Water & Wastewater Targets based on 10-year Average Annual Renewal Investment (AARI strategy)

Historical Assessment Growth



Notes –

- Budget Planning by-law states that assessment growth is prioritized for Capital Financing, Council Strategic Priorities, Operating Costs of Capital
- No initial projection available from MPAC
- The five-year average increase in assessment growth is 1.54%
- 2025 assessment growth is forecasted at 1.50%