
Subject: 2020 Budget Planning

Report to: Budget Review Committee of the Whole

Report date: Thursday, June 20, 2019

Recommendations

1. That the 2020 base budget for existing services **BE PREPARED** with consideration of the Municipal Price Index as calculated in appendix 1 in accordance with recommendations in report CSD 41-2019 Budget Planning Policy Review as follows:
 - a. 2.7% for Regional Departments
 - b. 3.0% for Agencies, Boards, and Commissions
 - c. 2.1% for Waste Management
2. That consideration of a separate levy increase for capital **BE REFERRED** to the Capital Budget - Budget Review Committee of the Whole.
3. That the estimated assessment growth of 1.65% **BE APPORTIONED** to
 - i. tax increment grants estimated at 0.35% and
 - ii. that the remaining net assessment growth of 1.30% support growth related operating and capital costs requested by Regional Departments and ABCs through business cases.
4. That consideration of a separate levy increase for enhancements to or new programs **BE REFERRED** to the Operating Budget - Budget Review Committee of the Whole.
5. That the 2020 budget for Water and Wastewater **BE PREPARED** with an increase of 5.15% in accordance with recommendation in report PW 4-2019 Water and Wastewater Financial Plan for O.Reg. 453/07.
6. That the 2020 budget schedule per appendix 2 **BE APPROVED**.
7. That this report **BE CIRCULATED** to agencies, boards and commissions (ABC's) in accordance with the Budget Control By-law.

Key Facts

- The purpose of this report is to inform Council of the opportunities and pressures impacting service delivery in order to establish consistent expectations for Council and staff in the preparation of the 2020 Tax Levy and Water, Wastewater and Waste Management Operating and Capital Budgets.
- The recommendations in this report and the guidance for preparing the 2020 budget are consistent with the recommendations and guiding principles in CSD 41-2019 Budget Planning Policy Review.
- The Conference Board of Canada created a unique Municipal Price Index in accordance with their methodology.
- Assessment Growth is forecasted at 1.65% reflecting the recent growth pattern in building permit activity as described in the Financial Considerations below. MPAC data will be used to monitor this estimate and update as the budget is developed.
- Recent provincial announcements will have impacts on the 2020 budget. Staff continue to research the implications of these announcements and will communicate to Council as information becomes available.

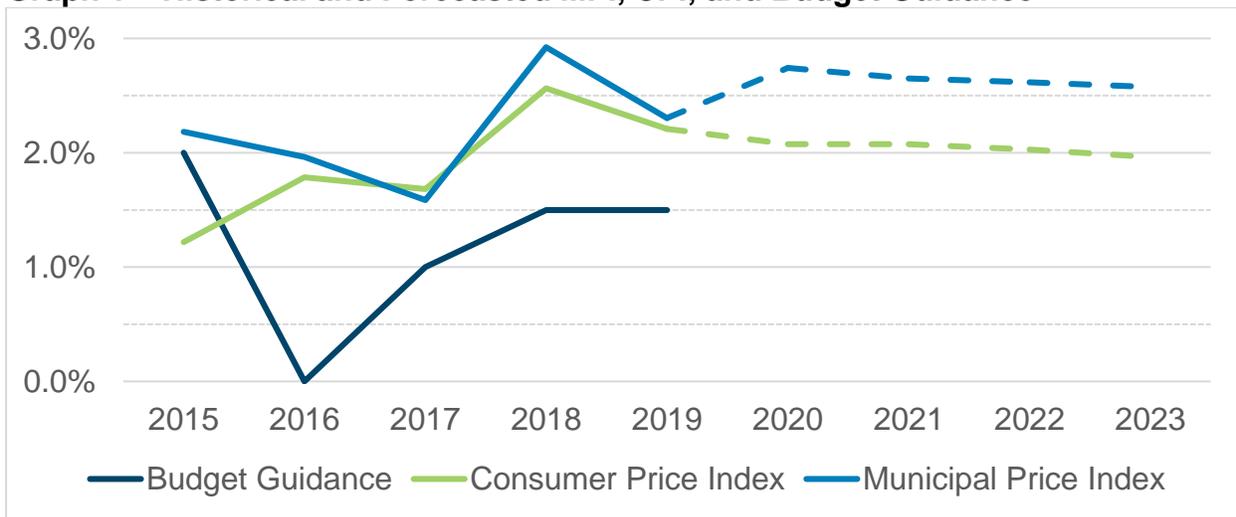
Financial Considerations

Base Services Budget

Recommendations presented in report CSD 41-2019 Budget Planning Policy Review suggest the use of a Municipal Price Index (MPI) as a method for budget development, moving away from the traditional core Consumer Price Index (CPI) target. The MPI is not a prescriptive instrument that mandates operating budget expenditures to increase by a designated amount annually; the index helps better inform staff and Council of external economic conditions that will require appropriate fiscal consideration. Sources, factors, and MPI calculations can be found in Appendix 1. Use of an MPI gives consideration to pressures of fuel, utilities and compensation; however some factors are not included such as revenue assumptions, capital financing, impacts from population growth, and new service initiatives. Staff will be able to report to Council on line items increasing in excess of the MPI factors.

Graph 1 demonstrates the alignment between CPI, MPI, and historical guidance for base services, as well as a forecast of CPI and MPI to 2023.

Graph 1 – Historical and Forecasted MPI, CPI, and Budget Guidance



Levy Budget

Appendices 3 and 4 are a summary of pressures and mitigations that have been quantified for the 2020 levy budget. Staff will undertake mitigation measures to accommodate these items within the calculated MPI. If not all pressures can be accommodated within this index, business cases for additional increases may be considered by Council in particular for revenue pressures which are not factored into the MPI methodology.

Waste Management Budget

The pressures impacting the 2020 Waste Management budget are primarily related to net recycling sales revenue decrease of \$2.17 million. Revenues are not considered in the development of the MPI and will be supported by business cases for Council consideration. Further, the collection contract is an extraordinary expense with an estimated pressure of \$0.50 million. As such, the MPI may not be able to address the pressures facing the budget development. Staff will work to mitigate the budget pressures and be prepared to respond with business cases in the event increases are required in excess of the MPI.

Water and Wastewater Budget

The Water and Wastewater capital financing tied to the 2016 AMP was considered through the preparation of the Safe Drinking Water Act pro-forma financial statements presented to Public Works Committee in February 2019. The pro-forma statements were prepared for a ten year period and identified a 5.15% increase annually for the years 2019-2028, covering base service costs and capital financing requirements. Council approved a 2019 budget increase of 5.15% in alignment with the recommendations in PW 4-2019 Water and Wastewater Financial Plan for O.Reg. 453/07. The financial plan was approved for use in the development of the 2020 and future budgets.

Capital Financing

As identified through the 2016 Asset Management Plan (AMP), the target average annual renewal investment (AARI) for the Region to sustain current infrastructure and clear the infrastructure gap within fifty years is \$185.9 million. Current sustainment funding has averaged \$169.1 million over five years. Some investments to infrastructure have been made through the 1% infrastructure deficit reduction reserve approved in 2017, and the Safe Drinking Water Act financial plan recommendations, but further funding is necessary.

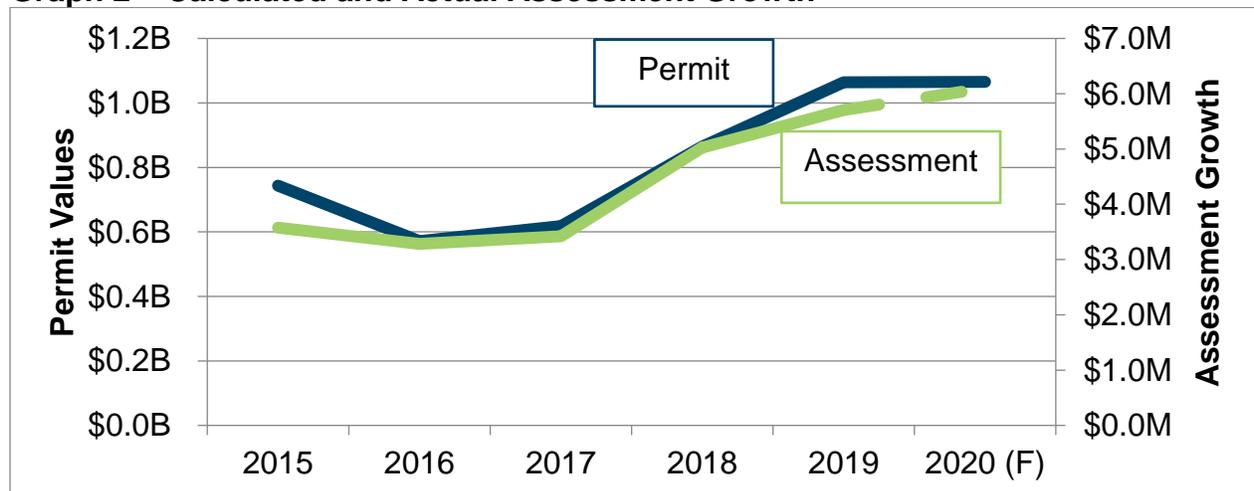
The preliminary estimate for 2020 indicates a levy capital financing increase of 2.0% annually for the next ten (10) years to reduce the funding gap. Staff reported that the annual levy requirement each year for ten years to close the forecasted capital gap was 1% (2012), 1.3% (2015), 1.3% (2016) 1% (2017) in contrast to the 1% one-time addition to the base in 2017 that still continues. Therefore the gap has continued to increase and projects have continued to be deferred.

A Capital Financing policy is being drafted for Council consideration in the fall to establish a strategy for financing capital sustainably. The policy will employ decision criteria to determine the funding mix of pay-as-you-go, reserves, and debt financing. Separate levy and requisition requirements will be presented to Council at the Capital BRCOTW meeting, proposed for October 10th.

Assessment Growth Predictions

Niagara has seen a correlation between permit issuance and assessment growth, typically with a two year lag. Permit issuance remained stable between 2017 and 2018, reaffirming trending forecasts calculating a 1.65% growth factor for 2020. Graph 2 provides a comparison of estimated assessment growth to permit values.

Graph 2 – Calculated and Actual Assessment Growth



Timing of assessment growth is largely dependent on MPAC resources and process, as such staff will continue to monitor the trend throughout the year.

Some of the growth realized each year is tied to development for which Council has committed tax increment grants (TIGs). It is important that growth dollars be allocated to honour these commitments before allocating to other priorities. The estimate of TIGs is open to variability, and will be reviewed to determine impact on the 2020 budget, or other timing as added to the tax roll. The projected net growth after funding tax increment grants would be 1.3% or \$4.8 million.

The net assessment growth funding will be available to fund capital and operating costs of growth supported by business cases as submitted by Regional Departments and ABCs.

Analysis

New Programs

Staff have identified several strategic initiatives for Council's approval which are currently estimated and will be built into the 2020 budget pending approval of separate levy increases. New requests will be considered at committees and be referred for consideration to the 2020 budget approval process. Table 1 includes details of currently known initiatives.

Table 1 – Strategic Initiatives

Initiative	Description	2020 Estimate
Niagara Regional Transit	To complete the enhancements to the Niagara Regional Transit routes an additional \$3.2 million is required annually. \$3.0 million of the annual costs to operate the Niagara Regional Transit was deferred through transfer from reserve.	\$6.2M
Airports	Governance and funding changes with respect to the Niagara District Airport and Niagara Central Dorothy Rungeling Airport requires annual funding to support operations and capital requirements	\$2.2M
Suicide Preventative Initiative	Increasing Capacity for Suicide Prevention Efforts in Niagara, the Region will have two additional resources for suicide prevention.	\$0.2M
Waterfront Investment Program	The Waterfront Investment Program was deferred for a period of one (1) year through approval of the 2019 budget. This was previously funded through capital levy reserve funding.	\$1.0M

Initiative	Description	2020 Estimate
Smarter Niagara Incentive Program	Base funding for the Smarter Niagara Incentive Program was deferred for a period of one (1) year through approval of the 2019 budget. Regional Council approved a transfer from 2018 surplus to continue offering the grant program in 2019.	\$0.6M
Long-term Care Home Redevelopment	Debt servicing costs for long-term care home redevelopment.	\$3.6M
EMS Central Hub Accommodations	Debt servicing costs for land purchase at the site of the EMS Central Hub.	\$0.4M
NRPS 2019 Position hiring deferral	The Niagara Region Police Service Board approved the deferral of funding for new position hires in 2019, which will require funding in 2020.	\$0.7M
Brock LINC Partnership	A request from Brock University was received for a partnership in the Learn, Innovate, Network, and Commercialize (LINC) program to support post-secondary education and economic development.	\$1.5M
GO Station Infrastructure	When the \$40 million Regional investment in GO train infrastructure is allocated, there may be operating costs associated with the stations.	TBD
Canada Summer Games	The Canada Summer Games Board is finalizing its business plan. The funding request will be determined with the finalization of the legacy capital projects.	TBD
Total		\$16.5M

The above new and enhanced programs equate to 4.51% of the tax levy and are not included in the Municipal Price Index as they are not a part of current base services.

Table 2 summarizes all budgetary factors as identified in this report. It does not include the current estimate of \$17.95 million of base budget pressures in appendix 3 which staff will undertake to accommodate within the MPI. The rigorous budget process over the next few months will update and refine the current estimates and pursue all mitigation options in order to present Council with budget decisions for a sustainable and transparent budget that delivers program and services expected by the public and in alignment with Council's strategic priorities.

Table 2 – 2020 Budget Impacts (in millions)

Budgetary Item	Levy	Waste Management	Water and Wastewater
Municipal Price Index for base expenses (Appendix 1)	\$5.0	\$0.7	\$-
MPI for base expenses (ABCs)	5.4	-	-
As per Water Wastewater financial strategy	-	-	6.0
Revenue pressures (Appendix 4)	4.4	2.2	-
Capital Financing	7.3	-	Included in PW 4-2019
New/Enhanced Programs (Table 1)	16.5	-	-
Total Budget Pressure	\$38.6	\$2.9	\$6.0
Total Budget Pressure %	10.55%	8.26%	5.15%

Budget Timetable

The budget timetable as detailed in appendix 2, was developed with the objective of approving the 2020 budget before the turn of the year. To accommodate this, Budget Review Committee of the Whole meetings have been recommended on Thursdays throughout the last quarter of 2019. Care has been exercised in aligning meeting dates with Council and Committee meeting dates as best possible.

Alternatives Reviewed

The purpose of this report is to inform Council of the 2020 initiatives and service delivery environment to support operating budget development for 2020. Staff has provided Council with information known at this time which will continue to be developed, analyzed, and prioritized, to be delivered to Budget Review Committee to facilitate decision making in accordance with the proposed budget timetable.

Relationship to Council Strategic Priorities

The 2020 Budget will provide the financial framework to achieve Council’s Strategic Priorities.

Other Pertinent Reports

PW 4-2019	Water and Wastewater Financial Plan for O.Reg. 453/07
CSD 41-2019	Budget Planning Policy Review

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Appendices

Appendix 1	Municipal Price Index
Appendix 2	2020 Budget Schedule
Appendix 3	2020 Levy Budget Pressures - Expenses
Appendix 4	2020 Levy Budget Pressures - Revenues

Appendix 1 – Municipal Price Index

2020 Niagara Municipal Price Index

Expenditure Category	Category Increase	Levy Department Weighting	Agencies, Boards, and Commissions Weighting	Water and Wastewater Weighting	Waste Management Weighting
Compensation	3.3%	47.5%	72.1%	29.6%	7.3%
Professional and Contractual Services	2.0%	8.2%	2.1%	13.4%	81.4%
Telecommunications	2.4%	0.3%	0.5%	0.7%	0.1%
Materials and Commodities	2.1%	2.1%	1.0%	5.2%	1.2%
Asset Maintenance and Rental	2.1%	1.3%	4.5%	7.7%	1.7%
Fuel, Oil, and Natural Gas	1.8%	0.6%	1.3%	0.8%	0.5%
Electricity and Water	1.9%	1.0%	1.7%	13.7%	1.3%
Equipment, Vehicle, and Technology	2.0%	1.3%	0.2%	8.4%	1.8%
Housing, Childcare, Other Benefits	2.0%	32.9%	14.2%	0.0%	0.0%
Rebates and Grants	2.1%	4.5%	2.5%	20.4%	0.7%
Other	2.1%	0.2%	0.0%	0.1%	4.2%
Total		100.0%	100.0%	100.0%	100.0%
Municipal Price Index		2.7%	3.0%	2.4%	2.1%
Core Consumer Price Index Target*		2.0%	2.0%	2.0%	2.0%
Difference (percentage points)		0.7%	1.0%	0.4%	0.1%

*in use in the current guidance policy

Municipal Price Index Inflation Factor Sources

Expenditure Category	Inflation Factor	Geographical Area	Source/Publisher
Compensation	Average Weekly Wages, Public Administration	Canada	Conference Board of Canada (CBOC)
Professional and Contractual Services	Consumption Deflator, Services, Insurance, financial and legal services	Canada	CBOC
Telecommunications	Consumption Deflator, Services, Communication, Recreation and culture services	Canada	CBOC
Materials and Commodities	Consumer Price Index	St. Catharines-Niagara	CBOC
Asset Maintenance and Rental	Consumer Price Index	St. Catharines-Niagara	CBOC
Fuel, Oil, and Natural Gas	Consumption Expenditures, Non-durable goods, Motor fuels and lubricants	Canada	CBOC
Electricity and Water	Electricity Power Price Index	Canada	CBOC
Equipment, Vehicle, and Technology	Consumption Deflator, Durable Goods, Vehicles and parts	Canada	CBOC
Housing, Childcare, Other Benefits	Consumption Expenditures, Services, Education, health and other personal services	Canada	CBOC
Rebates and Grants	Consumer Price Index	St. Catharines-Niagara	CBOC
Other	Consumer Price Index	St. Catharines-Niagara	CBOC

Appendix 2 – 2020 Budget Schedule

Date	Meeting Type	Subject/Topic
Thurs Oct 3, 4 p.m.	Workshop	Capital for information and education
Thurs Oct 10, 6:30 p.m.	BRCOTW	Capital
Thurs Oct 31, 4 p.m.	Workshop	Rates for information and education
Thurs Nov 7, 6:30 p.m.	BRCOTW	Rates
Thurs Nov 14, 4 p.m.	Workshop	Council Authority over ABCs
Thurs Nov 14, 6:30 p.m.	Council	Rate By-laws
Thurs Nov 21, 9 a.m.*	Workshop	Levy for information and education
Thurs Nov 21, 6:30 p.m.*	BRCOTW	ABCs
Thurs Nov 28, 9 a.m.	Workshop	Levy for information and education (if required)
Thurs Dec 5, 6:30 p.m.	BRCOTW	Levy
Thurs Dec 12, 6:30 p.m.	Council	Levy, Capital, User Fee By-laws

*all dates align with Council and Committee meeting weeks but for November 21st.

Appendix 3 – 2020 Levy Budget Pressures - Expenses

Expense related pressures – considered in the MPI

Budget Pressures	2020 (\$ million)	Tax Impact %
Development charge grants	5.00	1.37%
Healthcare spending	0.22	0.06%
Long-term Care summer staffing	0.36	0.10%
EMS WSIB presumptive legislation	0.50	0.14%
EMS overtime increase	0.20	0.05%
Other items less than \$100 thousand	0.11	0.03%
Total of 2019 Expense Pressures affecting 2020	6.39	1.75%
Base compensation increases (includes ABCs)	8.42	2.30%
Additional working day (includes ABCs)	1.06	0.29%
Homelessness shelter contracts	0.80	0.22%
Employee Engagement Survey	0.15	0.04%
Road crack sealing	0.25	0.07%
Emerald ash borer tree removal	0.50	0.14%
Impacts of Bill 108	TBD	TBD
Other items less than \$100 thousand	0.38	0.10%
Total of 2020 Expense Pressures	11.56	3.16%
Total Expense Pressures	17.95	4.91%

Appendix 4 – 2020 Levy Budget Pressures - Revenues

Revenue related pressures – not considered in the MPI

Budget Pressures	2020 (\$ million)	Tax Impact %
Provincial funding cap for Ontario Works cost of administration*	\$0.60	0.16%
Long-term Care Case Mix Index results	0.26	0.07%
Long-term Care Structural Compliance Program funding*	0.16	0.04%
Long-term Care Resident Co-payment increase*	(0.14)	-0.04%
External signal maintenance revenue pressure	0.50	0.14%
Total of 2019 Revenue Pressures affecting 2020	1.38	0.38%
Long-term Care Case Mix Index results	0.36	0.10%
Long-term Care Structural Compliance Program funding*	0.23	0.06%
Long-term Care Resident Co-payment increase*	(0.14)	-0.04%
Changes to the Public Health Provincial/Municipal cost-sharing formula*	0.94	0.26%
EMS Land Ambulance Provincial funding freeze*	1.68	0.46%
Niagara Regional Housing funding reductions	TBD	TBD
SAEO Employment Contract changes	TBD	TBD
SAEO Reductions to direct client benefits	TBD	TBD
Total of 2020 Revenue Pressures	3.05	0.83%
Total Revenue Pressures	\$4.43	1.21%

*pressures related to provincial funding announcements total \$3.3 million, and are provided further detail in appendix 1 of CSD 49-2019