
Subject: 2020 Levy Operating Budget

Report to: Budget Review Committee of the Whole

Report date: Thursday, December 5, 2019

Recommendations

1. That an increase of 2.0% or \$3,726,858 over the 2019 departmental levy, for a total departmental levy of \$190,069,763, in accordance with the Budget Planning By-law for base services, as outlined in appendix 1, **BE APPROVED**;
2. That an increase of 0.6% or \$2,146,506 over the 2019 consolidated levy operating budget, in accordance with the Budget Planning By-law for revenue pressures, as outlined in appendix 2, **BE APPROVED**;
3. That an increase of 1.54% or \$5,620,497 over the 2019 consolidated levy operating budget, in accordance with the Budget Planning By-law to support capital net debt charges for the Long-term Care Home Redevelopment, **BE APPROVED**;
4. That an increase of 0.1% or \$478,995 over the 2019 consolidated levy operating budget, in accordance with the Budget Planning By-law for new and enhanced programs, as outlined in appendix 3, **BE APPROVED**;
5. That an increase of 1.83% or \$6,690,323 over the 2019 consolidated levy operating budget, funded by 1.42% of assessment growth and a 0.41% separate increase, in accordance with the Budget Planning By-law that assessment growth be utilized for costs of growth and Council Priorities as identified in appendix 4, **BE APPROVED**;
6. That the 2020 levy operating budget including the Niagara Regional Departments of \$205,006,084 and ABCs of \$187,877,851 for a total of \$392,883,935 **BE APPROVED**; and
7. That the necessary by-law **BE PREPARED** and **PRESENTED** to Council for consideration.

Key Facts

- The purpose of this report is to seek approval for the consolidated \$392,883,935 2020 levy operating budget, including a departmental request of \$205,006,084 and ABC requests totalling \$187,877,851 as presented to BRCOTW on November 21, 2019.
- Base departmental budgets are increasing by 2% before program changes, capital financing, and revenue reductions, however with significant mitigation efforts.

- Pressures that have increased the budget beyond 2% relate to revenue/provincial decisions/downloads, capital financing, new programs, and ABC increases. Significant mitigation efforts have been utilized to mitigate base budget pressures, therefore these items could not be accommodated without additional increases in excess of 2.0%.
- Impacts of the sustainability review have not been included in the financial impacts or analysis of this report. If any opportunities are actioned in 2020, it is recommended that those be directed towards capital financing.
- Assessment growth was estimated at 1.65% in June for budget planning purposes; since that time growth for 2020 has been finalized at 1.42%, allowing less funding for growth costs or new programs.

Financial Considerations

The recommendations of this report are made in accordance with By-law 2019-79 “Budget Planning”. The Budget Planning By-law was put into effect in 2019 to clarify guiding principles of the budget preparation, as well to make the process more transparent. Recommendations for the 2020 Budget are listed below in Table 1.

The resulting net tax levy increase after assessment growth is 6.0%, inclusive of increases for provincial decisions/downloads, Long-term Care Homes Redevelopment, new and enhanced programs, costs of growth that are not funded by assessment growth, and ABC increases.

Table 1 – 2020 Levy Budget Recommendations (in millions)

Recommendation #	2019	2020	\$ Change	% Change	% Levy Increase
1 – Departmental Base Budget	186.3	190.0	3.7	2.0%	1.02%
2 – Revenue/Provincial Decisions/Downloads		2.1	2.1		0.59%
3 – Capital Financing		5.6	5.6		1.54%
4 – New and Enhanced Services		0.5	0.5		0.13%
5 – Costs of Growth (net)		6.7	6.7		0.41%
ABCs (BRCOTW November 21)	179.4	187.9	8.5	4.7%	2.32%
Consolidated Levy Budget	365.7	392.9	27.2	7.4%*	6.01%

*increase before assessment growth

Analysis

The following information aligns with the order of the recommendations, which also aligns to the new Budget Planning By-law approved in October.

Recommendation 1 – Departmental Base Budget

The departmental base budget was able to meet Council’s budget direction of 2.0%.

Table 2 – Departmental Base Budget (in millions)

Item	2019	2020	\$ Change	% Change
Base Budget Pressures	132.7	140.2	7.5	5.6%
General Government	53.6	53.1	(0.5)	(0.9%)
Mitigation and Service Cuts	-	(3.3)	(3.3)	-
Net Regional Department Budget	186.3	190.0	3.7	2.0%

The increase in Base Budget Pressures can be attributed to the following items:

- \$6.8 million in net compensation and benefits increases, including:
 - \$1.01 million in WSIB cost increases, primarily driven by EMS presumptive legislation
 - \$0.65 million in costs related to an extra salary day (offset below with reserve financing)
- \$0.82 million pressure due to \$7.9 million or 2.3% of the levy for transit service enhancements implemented in 2019 funded with a 1.4% increase in the levy and \$3 million in unsustainable use of reserves which is offset by a reduction in the use of levy to fund pay-as-you-go capital of \$2.2 million. The balance of capital, as planned in 2019, was funded with debt. This base budget pressure is in addition to another incremental 1% required in 2020 budget to fund the annualized cost of these service enhancements which is included as a program change recommended for use of assessment growth dollars.
- \$0.82 million in Homelessness Services contract cost pressure
- \$0.55 million to right-size insured and uninsured claims which have been underfunded
- \$0.39 million in software licensing and support cost inflation
- \$0.39 million in repairs and maintenance to include costs for new assets and increase costs for aging assets
- These are offset by inflationary increases in provincial revenues, separate from the changes in provincial decisions/downloads identified in recommendation 2.

Staff efforts to offset these cost pressures are the following:

- Increases in user fees identified in CSD 72-2019 “2020 Fees and Charges Update”
- General Government increase of \$1.46 million in supplementary taxation revenues, net of tax write-offs, to closer align to actual revenues realized in prior years, \$0.73 million increase in investment income due to increase in the investment portfolio, net of increase of \$1.58 million in development charge grants which have been underfunded since the approval of By-law 2017-98 “Development Charges”. Estimated grants for 2020 are \$10 million (consistent with 2019 forecast); base budget available is \$6.87 million, for an estimated

shortfall of \$3.13 million to be funded with Development Charge Reserve Payback if required.

- \$0.57 million in fuel and utilities savings
- \$0.66 million in other various savings including closed facilities, specialized transit costs, etc.

To meet Council direction of 2.0% other mitigation and service cuts were required as follows:

- \$0.88 million from estimated savings from position vacancies primarily in Public Health and Community Services resulting from staff turnover as well as managing reductions which may impact service levels.
- \$0.25 million in reduction to the Niagara Prosperity Initiative
- \$0.25 million through the removal of the Pro Kids program
- \$0.65 million in transfers from reserve to fund the impacts of the extra salary day

Recommendation 2 – Revenue/Provincial Decisions/Download

Staff have identified \$2.1 million (0.6%) in pressures related to recent provincial announcements inclusive of changes to funding formulas for existing services (downloading) related to Public Health and SAEO. These impacts have been reported to Council through the quarterly updates and committee reports. Appendix 2 lists the programs affected as well as noting the direct service impacts of not proceeding with the budget increase.

Recommendation 3 – Capital Financing

Staff have recommended an increase of \$5.6 million (1.54%) for capital financing in the 2020 budget. Previously staff reported the need for a 2.0% annual increase to the tax levy over the next ten (10) years dedicated to pay-as-you-go capital financing to fund the asset replacement backlog in accordance with the Capital Financing Policy. The budget does not include this amount but instead recommends an increase required to support Long-term Care debt servicing costs as identified in COM 32-2019, “Long Term Care Home Redevelopment Project Update” and CSD 53-2019, “2020 Capital Budget”. The funding of the debt charges provides for one-time funding of \$5.6 million in 2020 due to the timing of the debenture issuance which has been utilized in the approved Capital Budget. If the separate levy is not approved, an additional \$5.6 million of levy capital projects will have to be deferred or reduced.

Recommendation 4 – New and Enhanced Programs

Staff have recommended new or enhancements to programs for a net request of \$0.5 million. The programs included in appendix 3 have been recommended as they have been requested by Council, avoid incremental costs, or improve service delivery. Also included in appendix 3 are \$1.6 million of one-time reserve funded initiatives that focus on improving service delivery.

Recommendation 5 – Growth Related Costs

Staff are recommending growth related initiatives of \$5.3 million. These are offset by net assessment growth of \$3.8M. The net assessment growth is derived from the assessment growth of 1.42% less the budget increase for tax increment grants of \$1.4M. This is less than was estimated during the budget planning process of 1.65%.

The growth related initiatives include Niagara Regional Transit (NRT) and GO Transit implementation costs. The recommendation for NRT is \$3.5 million (or 1%) required to implement annualized cost of service enhancements initiated in 2019. The plan proposed in 2019 was a 2.3% and 0.7% increase (3% in total) in 2019 and 2020 respectively. The 2020 plan, due to one time use of reserves in 2019, resulted in a 1.4% increase in 2019 and 0.2% in base for 2020 and 1% growth for 2020 for a total increase of 2.6%. The reduction in the overall cumulative ask is a result of additional student pass revenue negotiated to closer align with cost recover of student related services.

GO Transit implementation costs were the subject of confidential report CSD 17-2019 and due to their phase in offer a one-time opportunity in 2020 to fund other one-time growth related costs of \$615 thousand, as per appendix 4.

Staffing Complement

The proposed 2020 Regional Department Operating Budget includes a full-time equivalent (FTE) staff complement, inclusive of program changes, of 2,375.8 permanent FTEs and 53.1 temporary FTEs. This represents a net increase of 11.2 permanent FTEs and 8.8 temporary, as detailed in appendix 5. These FTEs are funded as follows:

- Base – 3.2 perm, 4.0 temp
- Revenue/Provincial Decision/Download – 1.0 perm
- New and Enhanced – 5.0 perm, 3.8 temp
- Growth – 2.0 perm, 1.0 temp

Household Impact

Based on the 2020 cost for levy programs, the average household assessed at \$277,044 is estimated to increase from \$1,516 to \$1,603 in 2020, an increase of \$87 of which \$34 represents the increase related to ABCs.

Table 3 - Household Tax Impact

	2020 impact to household	Cost to Household
2019 cost per household		1,516
Departmental base budget	15	
Net provincial policy change	8	
Capital financing	22	
New and enhanced programs	2	
Costs of growth	26	
Assessment growth revenue	(20)	
ABC budget increase	34	
2020 cost per household	87	1,603

The actual cost per household may change depending on tax policy decisions that are made in 2020. The impact on individual property owners will depend on the increase in assessment that they experience; those with an increase greater than the average property would experience a larger tax impact, while those with an increase less than the average property would experience a smaller tax impact.

Multi-year

Only the current year budget is approved by Council annually, however a multi-year budget is included to forecast future pressures or initiatives. Included in the multi-year are a number of initiatives (appendix 6) that could not be accommodated in 2020 due to other pressures. Opportunities in the future that may be available to offset some of these initiatives include:

- Canada Summer Games annual operating grant of \$1.0 million lasts only to 2021, and provides opportunity in 2022.
- The Niagara College agri-food research grant of \$0.2 million lasts to 2022, and provides opportunity in 2023.
- The development charge by-law expires in 2022, this allows Council the opportunity to add or remove provisions in the by-law;
 - budget for development charge exemptions that exceeds requirements in the new by-law could be used for other priorities
 - if exemptions increase as the result of by-law changes, budget increases could be required

Risks and Opportunities

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:

- Inflation and economic conditions, such as utility, fuel costs and interest rates
- Potential for further policy changes in provincially funded programs
- Leveraging asset management to reduce repairs and maintenance

- Opportunities identified in the sustainability review
- Potential for sponsorship revenue opportunities through partnership with City of St. Catharines
- Use of the Taxpayer Relief Reserve for one-time initiatives has eroded the balance of the reserve to 4% of gross operating expenditures (target of 10-15%)

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 2020 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 greater than the required rate of return.

Alternatives Reviewed

At the discretion of Council, they can identify to eliminate or add programs from/to the budget. If this action is taken, staff request the opportunity to provide impacts/risks with these decisions.

Relationship to Council Strategic Priorities

The 2020 levy budget supports all facets of the organization in their support of Council's priorities.

Other Pertinent Reports

CSD 65-2019 Budget Planning By-law
CSD 53-2019 2020 Capital Budget

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Appendices

Appendix 1	Niagara Region Departments Budget
Appendix 2	Provincial Download Pressures
Appendix 3	New and Enhanced Programs
Appendix 4	Costs of Growth and Council Priorities
Appendix 5	Full-time Equivalents Summaries
Appendix 6	Multi-year Programs and Enhancements