



## REPORT

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**TO:** Mayor Bonnette and Members of Council

**FROM:** Jinsun Kim, Manager of Financial Planning and Budgets  
Amy Prueter, Budgets and Financial Reporting Supervisor

**DATE:** August 30, 2021

**REPORT NO.:** CORPSERV-2021-0030

**SUBJECT:** 2022 Budget Directions Report

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### RECOMMENDATION:

THAT Report No. CORPSERV-2021-0030 dated August 30, 2021 regarding the 2022 Budget Directions Report be received;

AND FURTHER THAT staff be directed to prepare the proposed Town 2022 operating budget with no greater levy increase in the Town portion than 3.9%, consisting of a base budget increase not exceeding 3.3%, plus 0.6% dedicated to the Infrastructure Gap Levy;

AND FURTHER THAT staff explore options to fund or mitigate projected increases of between \$748,200 and \$883,300 related to insurance premiums and WSIB reserve contributions;

AND FURTHER THAT the guidelines and assumptions contained in this report be used by staff as the basis to prepare the 2022 preliminary operating and capital budgets and the 2022-2031 capital forecast for Council's consideration.

## KEY POINTS:

The following are key points for consideration with respect to this report:

- The 2022 operating budget will be prepared with a tax levy increase of 3.9%, net of assessment growth. The recommended levy will include inflation and non-discretionary increases required to maintain existing service levels, as well as a 0.6% dedicated tax levy to close the infrastructure gap.
- Assessment growth is estimated to remain low in 2022 and is currently forecast at \$300,000 (0.5%).
- The key challenge for 2022 is the unprecedented rise in liability insurance premiums and the need to create a WSIB insurance reserve to offset the loss of excess indemnity insurance coverage.
- The 2022 budget will also include enhanced levels of services or new services (e.g. Transit, Equity, Diversity and Inclusion (EDI) strategy, the Truth and Reconciliation (TR) strategy etc.)
- A 10-year capital budget and forecast will be reviewed to ensure that the capital needs from the approved plans and studies are included, to align timing of growth-related capital projects with the anticipated timing of growth, and to ensure capital impacts on operating budget are sustainable.
- Halton Hills Community Energy Corporation will continue to provide dividends and interest payments in 2022, as well as the third installment of a 6-year promissory note re-payment, which will be used to support capital funding requirements.
- The Town is anticipating a minimum of \$6.6M in grants and transfers from upper levels of government in 2022 in support of sustaining core service delivery.
- The Town will continue to advance efficiencies that will help mitigate non-discretionary increases in 2022.
- The Region of Halton is proposing a target of 2.0% tax rate increase for 2022 and the school boards are expected to have a 0.0% tax rate increase.
- The Town uses a long range financial planning tool as part of the budget process to ensure reserve targets, debt levels and expenditure levels are managed and maintained.

## **BACKGROUND AND DISCUSSION:**

The purpose of this report is to seek approval from Budget Committee for the guidelines to be considered in the preparation of the 2022 operating and capital budgets. This report outlines the necessary resources to continue with existing levels of service and address Council's key priorities, while also recognizing the challenges and budget pressures currently affecting the Town. This information will be used as direction for staff in the preparation of the final 2022 operating and capital budgets which will be presented to Budget Committee for consideration.

### **Budget Schedule**

The 2022 Budget and Business Plan will be issued to Council as one consolidated document on November 8, 2021, in advance of the Council ward meetings and Budget Committee review dates.

The Budget and Business Plan document will be organized by department, including a business plan, operating and capital budget and 9-year capital forecast for each section.

Ward meetings are scheduled during the week of November 22, 2021. These meetings provide members of Budget Committee with an opportunity to discuss the proposed operating and capital budgets in detail, and raise any ward specific questions.

Budget Committee will review the budget on December 6, 2021, with Council approval scheduled for December 13, 2021.

### **Budget Principles**

The 2022 Budget and Business Plan will be prepared in accordance with the following principles:

- The annual budget reflects and supports the priorities of the Town's Strategic Plan.
- The annual budget is closely aligned with the targets and mitigation measures set out in the Long Range Financial Plan (MEMO-CORPSERV-2021-007) and the financial policies approved by Council.
- The annual budget includes the investment required to maintain infrastructure in a state of good repair in accordance with the Corporate Asset Management Plan.
- Ongoing expenses are funded from sustainable revenue sources to ensure continuity of services.
- The total debt servicing cost (principal and interest payments) should not exceed Council's approved debt limit of 10% of the Town's tax levy.

- All growth-related infrastructure costs that can be recovered under the Development Charges Act will be supported from development charge revenue. Growth will be interim financed through reserves, where necessary.
- Reserves are maintained as per policy in order to repair/replace infrastructure, fund identified priorities, and ensure long-term financial sustainability.
- Staff will pursue all available grants to reduce the need to use Town reserves to fund budgeted programs (federal, provincial and other funding opportunities).
- New services, service level enhancements and increases to the full-time equivalent staff complement require an accompanying Budget Inclusion form to be considered by Council as part of the annual budget process.
- The timing of the growth-related capital projects will align with expected growth in the Town.
- 2022 capital projects will require an accompanying Capital Project Information Sheet to be considered by Council as part of the annual budget process.
- The 2022 operating budget will be prepared without any adjustments for COVID-19 related service level changes or restrictions

### **2022 Budget Drivers & Assumptions**

The following are the key budget drivers and assumptions currently identified for the 2022 budget:

1. COVID-19 impacts to operations and Safe Restart Agreement (SRA) funding have not been included in the 2022 operating budget. The operating impacts will be tracked on the basis of actual costs incurred and will be reported as a variance to budget for 2022 if applicable.
2. A projected 0.5% increase in assessment growth for 2022 equates to additional tax revenues of \$300,000. This is primarily related to the addition of new residential building construction.
3. Compensation and benefits are projected to be \$1,480,200 and include previously approved union contract adjustments, performance increments, job evaluation changes, and any benefit costs associated with the Town's benefit provider.
4. There is a cost of \$190,500 related to ActiVan operations and represents the final step in the conversion to an in-house service.
5. The existing 2021 contractual positions will continue to be funded through the Tax Rate Stabilization reserve for 2022 in order to maintain service levels.
6. A \$225,000 increase in contributions to the WSIB reserve will be included as approved through report CORPSERV-2021-0007 (re: the loss of excess indemnity insurance coverage, and the need for sufficient self-insurance reserves)
7. Insurance premiums are projected to increase between \$523,200 (54%) and \$663,300 (68%) in 2022 and are outlined in more detail below.

8. A \$109,300 reduction in utility costs is anticipated due to changes in rates and a return to normal market conditions. These savings will be transferred to the Strategic Planning reserve in order to provide much needed base funding for the projects that support the strategic directions of Council.
9. A \$22,800 cost will be included for the first year of the Senior Services Delivery Review implementation as approved by Council (RP-2020-0027). The implementation will phase in the removal of staffing costs from the seniors' recovery over an 8-year budget plan.
10. A base budget impact of \$164,500 is projected to cover 2% inflationary pressures on existing services, as well as increases in materials and supplies required to maintain service levels.
11. The infrastructure gap special levy will continue at a 0.6% tax levy increase (\$338,000). This special levy will continue to help address the infrastructure funding gap identified in the State of Infrastructure Report.
12. Operating impacts related to previously approved capital projects are anticipated to be \$430,400, and include annual maintenance fees for IT systems (e.g. the Asset Management Information System, Microsoft licensing fees), and costs related to the operating and maintenance of new assets (e.g. the Trafalgar SportsPark washroom and concession building, new sidewalk connections etc.).
13. Gross contributions to reserves in the total amount of \$12.3M are planned as per the targets outlined in the LRFP.

Reserve	2022 Total Annual Contribution
Capital Reserves	10,184,700
Stabilization Reserves	1,364,800
Operating Reserves	775,200
<b>Total</b>	<b>12,324,700</b>

14. A transfer of \$6,000 to the Green Revolving Fund as a result of energy savings realized through the installation of a low E ceiling at Mold-Masters SportsPlex will be included in the operating budget.
15. Increasing levels of service or new services will require additional operating and capital funding as follows:
  - a. Introduction of a conventional transit route along Steeles Ave to support the expansion of transit services and greater regional connectivity for residents and businesses. This budget is projected at \$174,000 for 2022 and will increase to \$522,000 in 2023 for a full year of operations.

- b. The implementation of the Equity, Diversity and Inclusion (EDI) strategy and the Truth and Reconciliation (TR) strategy includes one time costs of \$125,000 and an ongoing budget impact of \$45,000.
  - c. A combined cost of \$44,800 in enhanced service delivery or new service requests is planned to offset the costs of providing Sunday cooling centres at the Library; a new training platform for Fire Services staff; a new operating budget provision for public art; and an additional crossing guard at Barber and Danby Road East.
  - d. Additional capital costs associated with incorporating Low Carbon Design Brief (LCDB) into the Town's arenas is \$1.1M in 2022 and \$5.2M over the next ten years (2022-2031).
16. The estimated capital budget for 2022 will be approximately \$28M with an additional \$426M included in the 9-year forecast. The 10-year capital budget and forecast will be reviewed to ensure that the capital needs from approved plans and studies have been included; to align growth related capital projects with the expected timing of growth, and to ensure capital impacts on operating budget are sustainable.
17. It has been assumed that the Gellert Community Centre construction will be funded using alternative sources, such as funding from upper levels of government. Further, the construction of the Gellert Community Centre Phase 2 will be deferred, in order to manage the additional operating and maintenance costs arising from the expansion of the facility.

## **Budget Challenges**

### **Base Budget Pressures**

A target tax rate increase of 3.9% has been set in the Town's financial plans since 2016 to address pressures in a relatively stable base budget including inflationary increases and savings from operational efficiencies, as well as projected assessment growth based on a higher level of growth assumptions. However, achieving the target increase has become extremely challenging in recent years in the face of limited assessment growth and some unprecedented increases in base budget pressures. The 2022 budget continues to include the following pressures:

#### **Insurance**

Globally, commercial insurance rates have been increasing across all markets, driven by market conditions including growing catastrophic losses resulting from climate change, economic uncertainties, business interruption and COVID-19 related claims. A significant portion of premium costs are built to cover the losses over the entire market, and therefore major losses in a few municipalities are spread across the premium costs of all municipalities. This is coupled with an increasing number of claims filed against municipalities.

Town staff were monitoring the trend and provided a \$311,800 base budget increase in 2021 to address the rapidly increasing premiums. Despite mitigation measures put in place by the Town, premium prices are expected to escalate further in 2022 with rate increases predicted to be between 19% and 30%. This would result in the need to increase the base budget in 2022 between \$523,200 and \$663,300.

### WSIB

As outlined in report CORPSERV-2021-0007, the Town's ability to secure excess indemnity insurance coverage for WSIB claims has changed as a result of the high cost of claims under presumptive legislation within the municipal sector, resulting in the Town's insurance provider eliminating the provision of this coverage. With no other insurance provider willing to offer this insurance, the Town is now required to assume the additional risk of potentially large claims being awarded to injured or ill staff.

In order to prepare for this additional risk, Council approved the increase in WSIB reserve contributions over the next 5 years (2022–2026), with a \$225,000 additional contribution in 2022. The contributions will grow to \$400,000 by 2026.

These non-discretionary increases are beyond the customary factors that have been considered in planning for base budget increases and have been driven by external factors that the Town must address in order to maintain existing levels of service.

The combined increases in insurance premiums (\$523,200 - \$663,300) and the WSIB reserve contributions (\$225,000) represent a 1.3% to 1.6% tax rate impact. It will be very challenging to accommodate these budget increases within the 3.9% target. Staff will be exploring options to fund or mitigate the projected increases.

### **User Fees and Service Charges**

User fees and service charges are a critical source of revenue for the Town. Fees are reviewed annually from the perspective of service delivery, cost recovery, comparability with neighbouring municipalities and market demand. As a result, many of these fees do not increase at the same rate as inflation, and with the market corrections made through the 2020 review of the Recreation and Parks fees, there is an increased pressure to cover costs through the tax base.

### **Finding Efficiencies and Reducing Costs**

Over the past five years, the Town has maintained services and delivered on Council's strategic priorities by introducing more efficient approaches that reduce costs and, in many cases, also enhance services. Savings enable staff to reallocate resources to areas needing greater support.

Significant efficiencies have been generated over the past few budgets cycles and include, but are not limited to, the following:

- Technology infrastructure renewal and the modernization and renewal of various enterprise business systems.
- The implementation of a new tax system that enables significant efficiencies in managing and processing tax payments and the creation of a foundation for future capability that will allow citizen self-service of some tax information such as tax certificates.
- The update and implementation of an in-house LRFPP, which has reduced both contracted service costs and the amount of time needed to develop reliable financial forecasts.
- Various facility improvements have been completed, as outlined in the 2020-2025 Corporate Energy Plan, resulting in energy consumption, cost savings and a decrease in the corporate environmental footprint.
- Energy consumption has been minimized through the harnessing of solar technology to energize flashing beacons, pedestrian crossovers and other traffic infrastructure.
- Through a change in design standards and the methods and materials associated with road infrastructure the Town continues to support climate change adaptation and enhance the life cycle of infrastructure assets.
- Enhanced fleet monitoring capabilities associated with snow plowing and the application of salt and sand have been implemented to improve operational efficiencies.
- Internal staff resources have been used to complete studies and strategies resulting from the Recreation and Parks Strategic Action Plan e.g. Community Development Action Plan, Future of Fitness Review.

### **Other Sources of Funding**

The Town strives to keep the tax levy increase at or below the target established in the Long Range Financial Plan, however enhancements to service levels and the introduction of new services such as transit have placed great pressure on achieving these targets. Staff will always explore other revenue sources when developing the budget in order to minimize the tax impact.

### **Revenues from Halton Hills Community Energy Corporation**

Halton Hills Community Energy Corporation (HHCEC) and its subsidiaries contribute significant streams of revenue to the Town, through dividend and interest re-payments. In 2022 the annual dividends are expected to be \$1,692,000, and \$1.3M of this is utilized to offset operating costs in the Town's operating budget, with the remaining \$378,900 directed to capital reserves to assist with the LRFPP reserve targets.

In addition, in July 2019, Council approved a six year plan for HHCEC to repay a \$16.1M Promissory Note to the Town, which will be used to support capital funding requirements. As HHCEC continues to repay the Promissory Note to the Town, there is an offsetting reduction in interest repayments, which also impacts the base budget. For 2022 the interest payments are anticipated to be \$363K, a reduction of \$115K over 2022.

**Grants from other levels of government**

In 2021, the Town secured \$6.5M of alternate sources of funding from upper levels of government. In 2022, the Town anticipates grants/subsidies to total \$6.6M, with \$5.6M supporting the capital budget and just under \$1M supporting the operating budget. These funds are instrumental in supporting the Town’s public transit and transportation programs, as well as major infrastructure replacement projects.

**Special levies**

Special levies are raised to provide a funding source that directs tax levies to a specific purpose or objective. As recommended in CORPSERV-2020-0042, the following special levies were repurposed to create a Financial Sustainability special levy in 2021/2022:

Special Levy	Amount to be reallocated
Georgetown Hospital	\$335,000
Fair Workplaces, Better Jobs Act	\$32,000
Arena Program	\$1,003,800
<b>Total to be repurposed to Financial Sustainability Levy in 2021</b>	<b>\$1,370,800</b>
Arena Program – remaining levy 2021 only	\$228,900
<b>Financial Sustainability Levy 2022</b>	<b>\$1,599,700</b>

As noted, the Financial Sustainability special levy will increase by \$228,900 to \$1.6M in 2022 following the repurposing of the remaining Arena levy of \$228,900. The Financial Sustainability levy will continue to be transferred to the capital reserves to meet the LRFP target (MEMO-CORPSERV-2021-0007).

**Budget Directions**

Staff will continue to prepare the 2022 operating budget within the tax levy increase target of 3.9%, net of assessment growth, as per the directions in this report. This levy increase consists of a base budget increase of 3.3%, and the continuation of the Infrastructure Gap Levy of 0.6%.

Staff will endeavor to address priority issues and non-discretionary cost increases from both an operating and capital budget perspective within this proposed tax levy increase.

Staff will review options to fund or mitigate the projected budget increases associated with the insurance premiums and WSIB which represent a 1.3% to 1.6% tax rate impact.

### **STRATEGIC PLAN ALIGNMENT:**

This report aligns to the Town's Strategic plan recognizing the value to provide responsive, effective municipal government and strong leadership in the effective and efficient delivery of municipal services.

This report also identifies fiscal and corporate management as one of the Town's Strategic priorities.

### **RELATIONSHIP TO CLIMATE CHANGE:**

This report is administrative in nature and does not directly impact or address climate change and the Town's Net Zero target.

### **PUBLIC ENGAGEMENT:**

Public Engagement was not needed as this report is administrative in nature.

All Budget Committee meetings are open to the public and the notice of all meetings is posted on the Town's website. The budget documents will be available to the public for viewing through the branches of the Halton Hills Public Library or through the Corporate Services department. Once the budgets are approved, summary information is available on the Town's website.

### **INTERNAL CONSULTATION:**

The preparation of this report and budget information was done in consultation with all departments.

### **FINANCIAL IMPLICATIONS:**

This report is administrative in nature and does not have any financial implications.

In achieving the 2022 budget direction, there will be a number of challenges including significant base budget pressures from increased liability insurance premiums, the need for additional WSIB reserves, the maintenance of infrastructure and limited assessment growth.

The priority in developing the 2022 budget is to maintain existing service levels while continuing to advance Council's strategic priorities. The final tax rates will be calculated once 2022 operating budgets have been considered and approved by Budget Committee and Council.

Reviewed and approved by,

A handwritten signature in black ink that reads "M. J. Leighton". The letters are cursive and fluid.

Moya Jane Leighton, Director of Finance & Town Treasurer

A handwritten signature in black ink that reads "Laura Lancaster". The signature is written in a cursive, flowing style.

Laura Lancaster, Acting Commissioner of Corporate Services

A handwritten signature in black ink that reads "Chris Mills". The signature is highly stylized and cursive.

Chris Mills, Acting Chief Administrative Officer