



REPORT

TO: Mayor Bonnette and Members of Council

FROM: Moya Leighton, Treasurer and Director of Finance

DATE: September 6, 2022

REPORT NO.: CORPSERV-2022-0026

SUBJECT: 2023 Budget Directions Report

RECOMMENDATION:

THAT Report No. CORPSERV-2022-0026 dated September 6, 2022 regarding the 2023 Budget Directions Report be received;

AND FURTHER THAT the guiding principles and assumptions contained in this report be used by staff as the basis to prepare the 2023 preliminary operating and capital budgets and the 2024-2032 capital forecast for Council's consideration;

AND FURTHER THAT the target tax rate levy increase for the Town portion of 3.9% be assessed against increasing non-discretionary pressures such as insurance premiums and mounting legal costs for ongoing sustainability and affordability.

KEY POINTS:

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

- Net of assessment growth, staff recommends a review of the tax levy increase target of 3.9% (including an increase of 0.6% for the Infrastructure Gap levy) to determine feasibility within the confines of the current economic climate.
- The 2023 budget will be developed based on the four (4) guiding principles recognizing significant non-discretionary increases outlined in this report along with uncertain inflation rates.
- In 2023, assessment growth is estimated to be \$394,000 (0.7%), consistent with the low rates of growth experienced over the past 3 years.
- Given the uncertainties in budgeting for supplementary taxes, the budget will remain unchanged at the current 2022 level of \$325,000.

- The key drivers of the 2023 budget include significant non-discretionary increases affecting the ability to maintain existing levels of service (e.g. inflation, insurance and projected legal) as well as additional funding required to fully implement Transit servicing on Steeles Ave.
- A 10-year capital budget and forecast will be reviewed and adjusted 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 revenue from growth, and to ensure capital impacts on operating budget are sustainable.
- The Town will continue to review efficiencies to help mitigate non-discretionary increases in 2023.
- The Region of Halton is proposing a maximum target tax rate increase of 3.0% for 2023 (excluding the Halton Regional Police Service)
- Any tax rate increases related to the School Boards are historically announced by the Province after the Town's budget process, and for the purposes of this document are assumed to be 0.0%.
- 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 written in an advisory capacity only, due to the upcoming municipal election and the lame duck status of the current Council. The report is intended to advise Budget Committee of the key assumptions to be considered in the preparation of the 2023 operating and capital budgets. It also outlines the resources necessary to continue with existing levels of service and address Council's key priorities, whilst recognizing the challenges and budget pressures currently affecting the Town.

This information will be used by staff to prepare the 2023 operating and capital budgets which will be presented to Budget Committee for consideration in January 2023, following the ward briefings with Councillors.

Guiding Principles

In developing the budget for the upcoming year and beyond, staff recognize current fiscal pressures, associated impacts and the overarching goal of upholding the quality of life for residents and businesses owners through continued service excellence.

The following guiding principles, while not new, will provide a foundation for determining fiscal priorities. It is on this basis, that staff develop work plans and budgets which are realized through the 2023 budget and business plans.

1. Restore appropriate funding for reserves to support long-term financial stability

2. Maintain current service levels for program and staffing, leverage technology solutions to support efficiencies and productivity
3. Align capital programs with available resources while ensuring compliance with legislation and health and safety standards
4. Defer the growth-related capital program until development charges are received

Based on the above, the 2023 budget and business plan will continue to focus on supporting the priorities of the Town's Strategic Plan within the targets and mitigation measures set out in the Town's Long Range Financial Plan (LRFP) and the financial policies approved by Council.

Short-term Budget Challenges & Opportunities

Over the past five years (2018-2022), the Town has been able to advance key priorities and works to enhance services, whilst maintaining an average 5-year tax levy increase of 3.89% that includes the 4.65% increase in the 2022 budget. Sustaining the same average level of increase has become extremely challenging in recent years in the face of limited assessment growth, non-discretionary pressures in the base budget and uncertain inflation rates. The following highlights the challenges and opportunities that will impact the preparation of the annual budget and business plans over the next term of Council (2023-2026).

- **Commitments from the 2022 Budget** - As part of the 2022 budget, Council approved budgetary commitments that need to be included in the 2023 budget. These commitments include transit servicing on Steeles Avenue, continued catch up on insurance premium increases and contract resources, which total \$2.6 million. Of this total, it is expected that a portion of the commitment (\$1.3 million) will continue to be interim financed from the reserves. The remaining commitments of \$1.3 million will be funded by an increase in property taxes, which represents a 2.2% tax impact in 2023.
- **Inflationary concerns** – As of June 2022, the year over year increase in the Consumer Price Index has risen to 8.1%, largely driven by gasoline, transportation and food prices. This inflationary pressure is expected to continue in the short term and have a significant impact on the cost of delivering existing service levels.
- **Insurance premium** – The 2022 budget included a 63% increase in insurance premiums, which still resulted in a \$113,000 budget shortfall to be addressed in the 2023 budget. It is expected that insurance premiums will continue to rise in the range of 20% in 2023, in the face of inflationary pressures and rising construction costs, combined with increasing number and scale of claims filed against municipalities. Staff have reviewed a number of mitigation measures, including expanded investigation into small claims and a review of coverage levels. Despite the mitigation measures put in place, the anticipated premium increase in 2023 combined with the 2022 budget shortfall is expected to result in an estimated budget increase of \$986,000 in 2023.

- **Low assessment growth** – the trend in low assessment growth over the past two years (0.7% in 2021 and 0.5% in 2022) is expected to continue over the next few years until assessment growth from the Vision Georgetown and Premier Gateway areas materialize beginning in the coming years. In addition, pending decisions on property tax appeals, combined with the current labour and supply chain issues in the construction market, continue to pose immediate challenges for assessment growth.
- **Cybersecurity** – in the face of increasingly sophisticated cybersecurity threats, additional funding is required to keep up with this fast-changing digital environment to protect the Town’s assets and operations.
- **Minimum wage increase** – an additional budget provision will also be required to facilitate a minimum wage increase required by the *Employment Standards Act*. Commencing October 1, 2022, the general minimum wage in Ontario will be raised by 3.33% from \$15 per hour to \$15.50 per hour, in an effort to help workers with rising costs and inflation. This places upward pressure on the remaining part time wage rates to alleviate compression within the wage grid and maintain internal equity.
- **User fees & Service Charges** – Many of the Town’s fees do not increase at the same rate as inflation. Following a 2020 review of the Recreation and Parks fees, market corrections were made placing increased pressure to cover rising costs of programs and services from the tax base. In the face of growing inflationary concerns and global economic uncertainties, if these related costs are not recovered through user fees this will place additional pressure on property tax payers to fund the shortfall.
- **Capital funding needs & Capital budget challenges** – As the Town’s existing capital assets continue to age and expand, the associated rehabilitation and replacement (i.e. State-Of-Good-Repair) programs have grown substantially over the past years. Further, the State-Of-Good-Repair programs have evolved to incorporate green initiatives to address the Town’s climate change mitigation and adaptation strategies. Green initiatives have longer term savings, but higher up-front costs. The expanding State-Of-Good-Repair programs require continuous funding from the provincial/federal governments as well as sustainable funding through annual budget provisions.

These upfront capital funding pressures compared to the limited reserve capacity will require a deferral of capital projects that were previously identified in the 2022 forecast into future years based on the affordability within the LRFP.

There are however a few opportunities to help offset budgetary pressures:

- **Updated Development Charges (DC) By-law** – the Town’s DC by-law has been updated and the revised DC rates (effective September 1, 2022) will help address the cost increases in the growth-related capital programs.
- **Grants from other levels of government** - In 2022, the Town secured \$6.9M of alternate sources of funding from upper levels of government, which represents an increase of \$0.5M or 7%.
- **Retirement of Debt** – Due to the planned expiry of a term loan that was funded from the base operating budget, an extra \$224K can be re-purposed.

The following key budget drivers and assumptions, driven by these overarching challenges and opportunities have been identified for the 2023 budget:

2023 Budget Drivers & Assumptions

- Insurance premium – an additional \$986K is required in order to catch up to the actual premium in 2022 (\$113K), replace one time funding from the Pavement Management program (\$421K), incorporates a 20% increase for 2023 (\$351K) and provides an increase to the Insurance Adjuster fee (\$101K).
- Transit servicing on Steeles Ave - \$399K of additional funding is required to fully implement the servicing.
- IT security – A \$100K increase in the base operating budget is required to address rising cybersecurity needs.
- Transfers to Capital reserves - An increase of \$356K is required to fund the continued annual increase of 0.6% for the Infrastructure Gap Special Levy.
- New legislation reflected in Bill 93 requires the Town to conduct in person utility locates at an annual estimated cost of \$125K.

The 2023 Budget also includes the following assumptions and related risks:

- Salary increases – The non-union salary increase is planned at 1.5% and union salary increases will be budgeted based on agreements. A significantly lower salary increase compared to the current historic inflationary pressures may compromise the Town’s competitive position in the employment market.
- Annual inflation – For select items that are subject to inflation, an average 3.0% increase has been budgeted. Actual cost increases during the budget year (2023) may be higher than this, resulting in significant unfavourable operating variances.

- Assessment growth – is currently estimated at 0.7% (or \$394K of additional tax revenues). The outcome of the pending tax appeals may net this estimated growth to \$0 and potentially result in a negative growth position if the ruling has an impact greater than the forecasted growth.

To summarize, the early estimates of cost increases and budgetary requirements for the 2023 budget year listed above, total \$3.6M and equate to a tax increase of 6.1%:

2023 Budget Drivers & Assumptions*		
	\$	Budget Increase %
Insurance Costs	985,700	1.7%
Transit Servicing (Steeles Ave)	399,000	0.7%
IT Security	100,000	0.2%
Reserve Contributions (Infrastructure Gap)	356,000	0.6%
Salary Increases	1,479,800	2.5%
Inflationary increases (not included above)	303,200	0.5%
Assessment Growth	(394,000)	-0.7%
Debt Retirement	(224,100)	-0.4%
Misc Operating Impacts	174,100	0.3%
Bill 93 - Compliance	125,000	0.2%
Enhanced/new services	305,600	0.5%
	<u>3,610,300</u>	<u>6.1%</u>
* all costs above are estimates and are subject to change (August 2022)		

Potential Interim Measures

Given the underlying challenges discussed above, the following measures will be considered during the budget process:

1. Continue to fund contract resources hired in 2022 and other commitments (\$1.3M) from reserves on an interim basis, to maintain continuous service delivery at existing service levels.
2. Implement a hiring freeze for new staff in 2023, except for instances where a sustainable funding source can be found, resulting in a net \$0 budget impact, or is related to health and safety or legislative requirements.

3. Place a pause on the provision of new services and base budget increases without sustainable funding sources (e.g. user fee increases to cover program increases, base budget savings to offset new or expanded services) resulting in a net \$0 impact.
4. Phase in capital programs to smooth out the corresponding operating budget impacts resulting from those capital programs.

In addition, staff will continue to search for operating savings and efficiencies to offset these budget pressures.

However, staff will be reviewing other measures that may be necessary for Budget Committee's consideration, such as:

- Tax increases beyond the historic 3.9%
- Decreased program and service levels
- Increased user fees
- Funding from reserves (not considered to be feasible for the Town's longer term financial stability)

Budget Schedule

The Budget and Business Plan will be issued to Council as one consolidated document on November 21, 2022 in advance of the ward briefings and Budget Committee review dates. The Budget and Business Plan will be organized by department, with each departmental section represented by their respective business plan, operating and capital budgets and 9-year capital forecast.

Ward briefings will be scheduled for the week of December 5, 2022. The intent is to provide members of the Budget Committee with an opportunity to hear from the CAO, the Town Treasurer and members of the Senior Management Team and to provide a forum for any budget-related questions. The Budget Committee will review the budget in January 2023, with Council approval scheduled for the week after Budget Committee.

Budget Directions

Staff are proceeding to develop the 2023 budget based on the guiding principles outlined in this report.

It is expected that the Town will continue to face various internal and external challenges in 2023 and maintaining existing levels of service while strengthening fiscal health for future uncertainties will remain exceptionally challenging.

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 2023 budget direction, there will be a number of challenges including unprecedented base budget pressures from 2022 budget commitments, inflation, insurance, and the maintenance of infrastructure. The priority in developing the 2023 budget is to maintain existing service levels while continuing to advance Council's strategic priorities. The final tax rates will be calculated once the 2023 operating budgets have been considered and approved by Budget Committee and Council.

Reviewed and approved by,

Laura Lancaster, Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer