



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: June 26, 2019

Report Number: SRCFS.19.019

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.19.019 – 2020 Capital & Operating Budget Strategy**

Purpose:

To highlight the anticipated budget pressures that the City of Richmond Hill will face in 2020 and provide a timetable and guidelines for the development of the 2020 Capital Budget & Forecast, the Operating Budget and the Water, Wastewater and Stormwater Budget.

Recommendation(s):

- a) That report SRCFS.19.019 be received;
- b) That the 2020 Tax Supported Capital Budget be capped at \$14 million; and
- c) That staff develop an Operating Budget that supports Council priorities.

Contact Person:

Andrew Li, Financial Management Advisor, Extension 3646

David Dexter, Director of Financial Services/Treasurer, Extension 3656

Report Approval:

Submitted by: Mary-Anne Dempster, Commissioner of Corporate and Financial Services

Approved by: Neil Garbe, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner and City Manager. Details of the reports approval are attached.

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Background:

The City of Richmond Hill's annual budget process is a continuous, year round undertaking. Staff begin to work on the following year's budget submission soon after the current year's budget is approved.

Budget Process

The 2020 budget process will be undertaken based on the below timetable:

- | | |
|---|--------------|
| 1. Present prior year financial results versus budget | June |
| 2. User Fees Review (Tariff of Fees Update) | May - Sept. |
| 3. Budget strategy adoption | June |
| 4. Capital Budget and Forecast process | July - Nov. |
| 5. Operating Budget and Financial Outlook process | Sept. - Feb. |

Operating Budget & Financial Outlook

The 2020 Operating Budget will reflect all base, legislative, growth and new staffing pressures, as well as the continued phase out of unsustainable revenue sources. In addition, the budget will distinguish between pressures from City Services, Fire Master Plan and Richmond Hill Public Library Board.

Water, Wastewater & Stormwater and Ten-Year Financial Plan

As a lower tier municipality, the City of Richmond Hill purchases water and wastewater services at a wholesale rate from the Region of York. For 2020, the Region is forecasting a combined 9% increase in wholesale rates to local municipalities. These costs represent over 70% of the city's budget. For the 2020 Draft Water & Wastewater budget, staff will present a budget that reflects an increase to account for all Region of York charges and City of Richmond Hill operating costs.

The Stormwater Rate structure is currently under review and a new rate structure for commercial, industrial and multi-residential properties is being considered. These new rates will be more equitable and comparable to other surrounding municipalities, while moving the City closer to sustainability for this infrastructure. The goal is to present the proposed rate structure as part of the 2020 budget process.

Budget Process Timetable

Staff propose that the 2020 budget process follow the timetable outlined in Appendix "A", which proposes that the draft 2020 Capital Budget be presented to the Budget Committee of the Whole in November and the draft 2020 Operating Budget in January 2020 to commence deliberations.

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Financial/Staffing/Other Implications:

Capital Budget Pressures and Strategy

The 2020 Capital Budget request will highlight current projects that are most in need of the City's resources. These capital projects may include programs that are currently underway, projects recognized in previous capital forecasts or possibly new capital requests.

In light of the continued pressures on the City's capital related reserve funds, projects need to be prioritized in terms of risk, timing and financial commitments. Staff have identified the Tax Supported Capital reserve funds as facing the most immediate pressure. Therefore in 2019, Council has approved the formation of a Capital Sustainability Steering Committee that will eventually approve a Financial Sustainability Strategy to provide guidance on future Tax Supported capital programs.

This Committee's mandate is to review the capital standards for all City capital programs, over the course of 2019 and 2020. The approved outcomes of this Committee's review will be factored into future capital budgets and forecasts. In order to allow time for the Committee to complete its work, and still maintain the City's current financial position, the 2020 Tax Supported Capital Budget will be capped at \$14 million which is consistent with current amounts levied and contributed to these reserves.

Financial grants are another source of funding that may become available. From 2008 to 2017, the City received close to \$34 million in grant funding to aid in construction of infrastructure. This grant funding has advanced projects worth more than the grant money received, contributing to over \$70 million in total project value. Typically a key condition of Federal/Provincial grant funding is that the projects must be incremental in nature. Similar to prior years and going forward, staff will update the list of contingent incremental projects in an effort to prioritize those programs that are most likely to attract grant funding and serve the community's growing needs.

Currently, Development Charges represent the largest funding source for growth related projects. However, timing differences between the collection of monies and the start of asset construction can place a burden on reserve funds until growth revenues are realized. As a result, debt financing may be necessary as a supplementary funding source for significant growth related projects until development charge revenues are recognized.

Staff will also present a summary of the operating budget impacts from 2020 Capital Budget requests.

Capital Budget Strategy

The overall objectives for the 2020 Draft Capital Budget and Forecast are to:

1. Continue to manage the City's capital program reflective of corporate priorities;
2. Maximize all funding from external sources, development charges and reserve funds; and
3. The 2020 Tax Supported Capital Budget be capped at \$14 million.

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Operating Budget Pressures and Strategy

In developing the City's 2020 Operating Budget, staff will need to consider the anticipated economic pressures facing the average Richmond Hill household, balanced with the economic pressures facing the municipality.

Predicting the economic pressures for 2020 with accuracy is difficult, but a view into historical financial indicators and economic forecasts can provide some insight.

Appendix "B" provides a list of select historical price indices and key Richmond Hill statistics, along with various economic forecasts for 2019 and 2020.

The Province of Ontario's 2019 Budget projects the annual Consumer Price Index to reach 1.9% at the end of 2019 and remain at 2.0% by the end of 2020, with the economy growing at 1.4% in 2019 and 1.6% in 2020. The Canadian Dollar (versus the US \$) is projected to be about \$0.76 at the end of 2019 and increase slightly to \$0.77 by the end 2020.

Property assessment growth is expected to be consistent with the average rates experienced in previous years (forecasted at 1.50%). Expense pressures will likely exceed property assessment growth, especially as the City assumes greater infrastructure to maintain and operate (e.g. roads and parks). Budget pressures will also include the full-year impact of 2019 staffing additions, the operating impact of a growing asset & infrastructure base and the maintenance of new subdivisions.

Currently, snow windrow clearing on residential driveways is available to eligible residents who are 65 years old or older and for residents with disabilities who are unable to perform the task. At the March 25, 2019 Council Meeting, a motion was passed that the City would provide snow windrow clearing to approximately 55,000 residential driveways, an increase from the roughly 1,600 driveways currently being serviced. In total, the windrow program combined with the Public Works enhancements will cost over \$4 million annually. To ease the burden on the 2020 Operating Budget and future budgets, staff proposes to phase-in the full impact over eight (8) years from the Community Enhancement and Economic Vitality Reserve Fund. This would reflect an annual increase of \$500,000 to the Operating Budget each of the eight years.

Additional budget pressures include:

- Contractual or commodity price increases related to utilities, aggregates and professional services
- Staffing costs: 2020 Fire Services agreement, ADMIN, SEA, CUPE agreement expires in 2019
- Low investment return rates
- Year five of a five-year phased reduction of the Growth Rate Stabilization Strategy, equal to \$244,800 in 2020

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Capital Sustainability Levy

Infrastructure repair and replacement needs continue to increase as the City assumes and builds new infrastructure, while also providing for the maintenance of aging assets. In 2016, the City implemented the Capital Asset Sustainability Strategy that recommended a levy, equivalent to an annual increase of 1% tax rate, to assist in minimizing the infrastructure funding gap.

The CAS fee is applied based on the Current Value Assessment (CVA) of a property, as determined by the Municipal Property Assessment Corporation (MPAC).

Operating Budget Strategy

Staff propose to present a 2020 Draft Operating Budget that:

1. Maintains existing service levels;
2. That provides for:
 - a. Annualizations of prior year's approved resource additions;
 - b. Impacts from development growth;
 - c. Legislated changes; and
 - d. Continued phased reductions of the Growth Rate Stabilization Strategy as well as phased-in Public Works enhancements.
3. Staff develop an Operating Budget that supports Council priorities.

Relationship to the Strategic Plan:

The Budget process for the City of Richmond Hill reflects the overall use and wise management of resources but also embodies the other goals within the Strategic Plan:

1. Stronger Connections in Richmond Hill through the efficient provision of services to all residents and from the methods used to reach out to the public for budget input. Suggestions and feedback from residents and businesses are an important part of the City's budget process.
2. Better Choice in Richmond Hill as reflected in the service options available to the residents from transportation through the City (auto, transit, cycling) to the various recreation programs offered. Better choice also reflects the common services all residents have come to depend on, such as Fire Emergency services or winter maintenance of roads and sidewalks. The annual budget communicates the details of the high-quality services that Richmond Hill residents and businesses are accustomed to.
3. A more vibrant Richmond Hill is achieved through the budget process with many cultural, recreational and creative programs and initiatives included in the annual budget.

The 2020 Operating and Capital Budget should be considered a financial reflection of the City's Strategic Plan. All the Strategic Plan goals are represented in the budget process within the mandate of maintaining services and minimizing the tax rate impact.

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Conclusion:

Staff will prepare the 2020 Draft Operating and Capital Budgets according to the timetable presented, taking into account forecasted financial pressures such as economic indicators, low assessment growth, and previously approved resources.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format please call the contact person listed in this document.

- Appendix A – 2020 Budget Process Timetable
- Appendix B – Financial Indicators and Outlook
- Appendix C – Revised 2020 Financial Outlook

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Report Approval Details

Document Title:	SRCFS.19.019 2020 Capital and Operating Budget Strategy.docx
Attachments:	<ul style="list-style-type: none">- SRCFS.19.019 Appendix A Budget Process Timetable.pdf- SRCFS.19.019 Appendix B Financial Indicators and Outlook.pdf- SRCFS.19.019 Appendix C Revised 2020 Financial Outlook.pdf
Final Approval Date:	Jun 14, 2019

This report and all of its attachments were approved and signed as outlined below:

David Dexter - Jun 13, 2019 - 11:29 AM

MaryAnne Dempster - Jun 14, 2019 - 12:00 PM

Neil Garbe - Jun 14, 2019 - 12:05 PM