



## **Staff Report for Budget Committee of the Whole Meeting**

**Date of Meeting:** June 23, 2020

**Report Number:** SRCFS.20.015

**Department:** Corporate and Financial Services

**Division:** Financial Services

**Subject:** **SRCFS.20.015 – 2021 Capital & Operating Budget Strategy**

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### **Purpose:**

To highlight the anticipated budget pressures that the City of Richmond Hill will face in 2021 and provide a timetable and guidelines for the development of the 2021 Capital Budget, the Operating Budget and the Water, Wastewater and Stormwater Budget.

### **Recommendation(s):**

1. That report SRCFS.20.015 be received;
2. That staff present a 2021 Draft Capital Budget that:
  - i. Continues to manage the City's capital program reflective of corporate priorities;
  - ii. Maximizes all funding from external sources, development charges and reserve funding and consider the prudent issuance of debt as an alternate use of available funding resources;
  - iii. Considers recommendations from the Capital Sustainability Steering Committee and align with outcomes of the Draft Financial Sustainability Strategy.
3. That staff present a 2021 Draft Operating Budget that:
  - i. Supports Council priorities;
  - ii. The tax rate increase be no more than 0.5%;
  - iii. The operating budget considerations outlined in report SRCFS.20.015 be used as a guideline in the development of the 2021 Operating Budget.
4. That staff present a 2021 Draft Water, Wastewater & Stormwater Budget that reflects the wholesale rate increase from Region of York and reflects approved factors from the Water/Wastewater Financial Plan and the Stormwater Financial Plan; and
5. That staff be directed to proceed with the 2021 Budget process in accordance with the timetable outlined in Appendix "A" and guidelines described in SRCFS.20.015.

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### **Contact Person:**

Gigi Li, Manager of Fiscal Planning & Strategy, Extension 6435

Haley Leung, Financial Management Advisor, Extension 5484

### **Report Approval:**

**Submitted by:** Sherry Adams, Interim Commissioner of Corporate and Financial Services

**Approved by:** Mary-Anne Dempster, 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. With the current Covid-19 situation and the necessary adjustments that will face the different business units, considerations will be made during the 2021 budget process to account for the undefined “new normal”.

### Budget Process

The 2021 budget process will be undertaken based on the below timetable:

1. Present 2019 financial results versus budget	June 2020
2. Budget Strategy Direction	June 2020
3. Ten Year Capital Forecast	June 2020
4. Financial Sustainability Strategy	September 2020
5. User Fees Review (Tariff of Fees Update)	October 2020
6. Capital Budget	November 2020
7. Operating Budget and Financial Outlook	September 2020 – February 2021

### Ten Year Capital Forecast & Financial Sustainability Strategy

Staff will be presenting the draft ten year capital forecast and draft financial sustainability strategy to the Capital Sustainability Steering Committee on June 22, 2020. Discussions and feedback from the Committee will inform the Financial Sustainability Strategy Report that will be presented to Council in September 2020

### Tariff of Fees Update

As part of the City's annual budgeting process, staff review all existing user fees for potential increases and consider the introduction of new fees, where applicable and appropriate to increase the user fees revenue to offset respective costs. The City's objective through the annual review of fees is to ensure services continue to be of good value to the community while maintaining fiscal responsibility. User fees are often set at rates to recover the costs required to provide the relevant services/programs and factor in the projected inflation for the year while benchmarking with neighboring municipalities and similar offerings to ensure fees are competitive, reasonable and justifiable levels. The pandemic in 2020 has created uncertainty to the inflation for 2021 and affordability of some programs to Richmond Hill residents and businesses. The lockdown has also made it challenging for the City to assess response from residents and businesses on the 2020 user fees. For the 2021 tariff fees update, the fees charged to residents for City programs, mainly in the Recreation section, will largely be maintained as both residents and the City adapt to COVID-19 related restrictions, and potential challenges with participation levels. All other non-program fees will be reviewed and increased where appropriate so the fees continue to be comparable to neighboring municipalities and provide necessary cost recovery.

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### **Operating Budget & Financial Outlook**

The 2021 Operating Budget will reflect all base, legislative, growth and the financial impact as a result of COVID-19. The continued phasing out of unsustainable revenue sources will be considered with all of the other pressures. The Financial Outlook for 2021-2023 outlines the financial pressures, growth factors and the estimated impact from COVID-19 based on today's knowledge to provide for a projection on the tax rate impact for those three years.

### **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. The Region has deferred the combined 9% wholesale rate increase from April 1, 2020. The City also deferred the 2020 WWW retail rate increase to provide relief to residents and businesses. For the 2021 Draft Water & Wastewater budget, staff will present a budget that reflects the rate charged by the Region of York and the City's operating costs.

Council has also deferred the Stormwater Management rate increase of 7.5% from April 2020 as part of the COVID-19 relief strategy to residents and businesses in Richmond Hill. The 2021 Draft Stormwater management budget will likely mirror the anticipated WWW retail rate increase. A new Stormwater Management Structure by site area was adopted by Council in January 2020 and will be implemented in 2022.

### **Budget Process Timetable**

Staff propose that the 2021 budget process follow the timetable outlined in Appendix "A", which proposes that the draft 2021 Capital Budget be presented to the Budget Committee of the Whole in November and the draft 2021 Operating Budget in January/February 2021 for deliberations.

### **Financial/Staffing/Other Implications:**

#### **Capital Budget Pressures and Strategy**

The 2021 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. The proposed Capital Budget will closely align to the updated Capital Forecast presented to the Capital Sustainability Steering Committee.

The general funding sources for the City's Capital Budget are: tax supported reserve funds, rate supported reserve funds, development charges, cash in lieu of parkland, federal gas tax, other internal funding sources and external funding sources.

The Capital Sustainability Steering Committee was established to evaluate opportunities to deliver long-term capital investments that are in line with community expectations and fiscal sustainability, recognizing the City's funding sources are finite and that debt may be an effective tool and an alternate use of available funding resources. Prudent use of debt will be considered as part of the long term financial sustainability strategy.

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Staff will also present a summary of the operating budget impacts from 2021 Capital Budget requests.

As revenue sources may be affected by the COVID-19 pandemic, the capital plan may need to be adjusted to respond to the impacts.

### **Capital Budget Strategy**

The overall objectives for the 2021 Draft Capital Budget and Forecast are to:

- i. Continue to manage the City's capital program reflective of corporate priorities;
- ii. Maximize all funding from external sources, development charges and reserve funding and consider the prudent issuance of debt as an alternate use of available funding resources;
- iii. Consider recommendations from the Capital sustainability Steering Committee and align with outcomes of the Draft Financial Sustainability Strategy.

### **Operating Budget Pressures and Strategy**

In developing the City's 2021 Operating Budget, staff will need to consider the expenditures required to reflect changing priorities, and supports the City's response and recovery efforts related to COVID-19. The economic pressures faced by the City will need to be balanced with the potential financial impact for many residents and businesses in the City given the current challenging times.

### **COVID-19 Economic Impact**

The COVID-19 pandemic is expected to result in lower-than-forecast economic growth, an unfavorable investment environment that significantly impact businesses and taxpayers. The length of the pandemic and duration of social restrictions are presently unknown. As well, it is uncertain how long it will take to recover to previous levels of economic activity and what the path to recovery will look like. The eventual return to a "new normal" may have significant implications for Richmond Hill services.

Predicting the economic growth for 2021 with accuracy is difficult, especially with the current situation. Various economic forecast ranging from recession starting in the latter half of 2020 and extends towards 2021 to a rebound of economic condition in 2021. RBC Economist have projected that the GDP growth will be negative for 2020 and 4.2% growth in 2021.

Inflation rate had been fluctuating in Ontario for the past few month, 0.9% inflation in Mar 2020 and negative inflation in Apr 2020. Projections are for a 0.4% inflation rate for the balance of 2020 and 1.1% for 2021 in Ontario. Appendix "B" provides a list of select historical price indices and key interest rate and Richmond Hill statistics, along with various economic forecast for 2020 and 2021.

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### *MPAC Assessment*

In March 2020, the Ontario government deferred the 2021-2024 Property Assessment update by one year to the 2022 taxation year to provide relief to residents. Property assessments for the 2021 taxation year will continue to be based on the fully phased-in January 1, 2016 current values (i.e. the same valuation date in use for 2020 taxation year). Maintaining the same assessment values in 2020 and 2021 do not affect the total amount of taxes received by municipalities. Consistent with 2020, the 2021 property value assessments for the average single, detached residential property in Richmond Hill is \$1,148,000 and classifications for all Richmond Hill properties will remain unchanged.

Property assessment was previously estimated at 1.5%, however MPAC has been unable to provide completed development information, resulting in a lower assessment growth of 1.2%. Any decline in assessment growth is expected to be offset by increase in supplementary revenues, maintaining the assessment growth at 1.5% for 2021.

### *Recreation User Fee*

While Richmond Hill households are trying to balance the expenses during this financial difficult time, the discretionary spending on recreation may suffer as a result. Also, with the social distancing concerns that are still in place and the health and safety concerns, it will likely take time for the program participants to re-build their confidence in participating in any public activities. While no one will know how long it will take to recover to previous level of participation, it is certain that there will be an impact to the 2021 participation rate for the recreation program.

### Public Works Enhancement Program

In March 2019, Council has adopted the Public Works Enhancement program with the phase-in of the full operating impacts over 8 years from the Community Enhancement & Economic Vitality Reserve Fund with an annual impact of \$500,000.

### Additional budget pressures

- Staffing costs: Approved 2021 Fire and SEA services agreement. CUPE agreement expires in Mar 30, 2020
- Lower short term investment returns
- Year two of a three year phased reduction of investment income, equal to \$820K in 2021

### Operating Budget Strategy

Staff propose to present a 2021 Draft Operating Budget that:

- i. Supports Council priorities;
- ii. The tax rate increase be no more than 0.5;
- iii. The operating budget considerations outlined in report SRCFS.20.015 be used as a guideline in the development of the 2021 Operating Budget.

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### 2021-2023 Financial Outlook

Appendix C shows the revised financial outlook for 2021-2023, including the potential impact that COVID-19 will create in those years.

The revised financial outlook projects a 2.84% tax rate increase in 2021. The increase provides for base budget pressures, the continued phasing in of investment income reduction and the public works enhancement program but more importantly, the anticipated impact of COVID-19 on the City's Recreation program and the gradual recovery lasting into 2021.

In order to achieve a tax rate increase of no more than 0.5% in 2021, consideration may be given to utilize the tax rate stabilization reserve to fund the one-time COVID-19 related impact which will help alleviate some of the budgetary pressures. Further, prolonging the phasing in of the budget impact of the public works enhancement program and reduction of investment income and a review of the City's operations and possible service level changes may be required.

### 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 which is consistent with 2020, as determined by the Municipal Property Assessment Corporation (MPAC).

## **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.

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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 2021 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.

### **Conclusion:**

Staff will prepare the 2021 Draft Operating and Capital Budgets according to the timetable presented, reflecting the economic indicators, assessment growth and financial challenges related to the COVID-19 pandemic that will need to be addressed.

### **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 – 2021 Budget Process Timetable
- Appendix B – Financial Indicators and Outlook
- Appendix C – Revised 2021-2023 Financial Outlook



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### Report Approval Details

Document Title:	SRCFS.20.015 2021 Capital Operating Budget Strategy.docx
Attachments:	<ul style="list-style-type: none"><li>- SRCFS.20.015 Appendix A - 2021 Budget Process Timetable.pdf</li><li>- SRCFS.20.015 Appendix B - Financial Indicators and Outlook.pdf</li><li>- SRCFS.20.015 Appendix C - 3 year outlook.pdf</li></ul>
Final Approval Date:	Jun 15, 2020

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

**David Dexter - Jun 13, 2020 - 2:19 PM**

**Sherry Adams - Jun 14, 2020 - 9:53 AM**

**MaryAnne Dempster - Jun 15, 2020 - 8:17 AM**