



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: April 27, 2021

Report Number: SRCFS.21.012

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.21.012 – 2022 Capital & Operating Budget Strategy**

Purpose:

To highlight the anticipated budget pressures that the City of Richmond Hill will face in 2022 and provide a timetable and guidelines for the development of the 2022 Capital Budget, Operating Budget and the Water, Wastewater and Stormwater Budgets.

Recommendation(s):

- a) That report SRCFS.21.012 be received;
- b) That staff present a 2022 Draft Capital Budget & Forecast 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;
 - iii. Incorporates Capital Sustainability Committee Outcomes;
 - iv. That the Tax Supported Capital Program be capped at \$16 million dollars;
 - v. Leverages the Enterprise Asset Management/Asset Management Plan to prioritize asset needs.
- c) That staff present a 2022 Draft Operating Budget that:
 - a. Supports Council priorities;
 - b. The tax rate increase be no more than 0%;
 - c. The operating budget considerations outlined in report SRCFS.21.012 be used as a guideline in the development of the 2022 Operating Budget.
- d) That staff present a 2022 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

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- e) That staff be directed to proceed with the 2022 Budget process in accordance with the timetable outlined in Appendix “A” and guidelines described in SRCFS.21.012.

Contact Person:

Andrew Li, Financial Management Advisor, Extension 3646

Michael Lam, Financial Management Advisor, Extension 6493

Report Approval:

Submitted by: Sherry Adams, 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 in early February. The Covid-19 pandemic affected operations in 2020 & 2021 and will likely continue to have an impact on the City's 2022 budget considerations.

Budget Process

The 2022 budget process will be undertaken based on the below timelines:

Task #	Task Description	Timeframe
1.	2022 Budget Strategy Direction	April 2021
2.	2021 Forecast / COVID Impact Update	April/June/Oct 2021
3.	2020 Financial Results versus Budget	June 2021
4.	2022 User Fees Review (Tariff of Fees Update)	June 2021
5.	2022 Capital Budget & Forecast	October 2021
6.	2022 Operating Budget and Financial Outlook	November 2021

Tariff of Fees Update

As part of the City's annual budgeting process, staff will consider potential increases for all existing user fees and propose the introduction of new fees, where applicable and appropriate. The City's goal throughout the annual review of fees is to ensure services continue to be of value to the community while maintaining fiscal responsibility. User fees are often set at rates to allow for the recovery of the costs required to provide the relevant services/programs while factoring in the annual projected inflation. From the RBC Economics Forecast (2021), the projected 2022 CPI for Ontario is 1.9%. The practice of benchmarking fees with neighbouring municipalities is also employed to ensure fees are at competitive, reasonable and justifiable levels.

The effects of Covid-19 have been substantial and has impacted the community for over a year now. There continues to be financial hardships on both residents and businesses, and the affordability of fees will play a large role in the City's fees review process. For 2022, most notably under the Recreation and Culture Division, Covid-19 guidelines and government regulations will influence class sizes and participation levels. Due to these challenges, opportunities for fee increases will be considered parallel with anticipated demand for specific recreation programs. All other non-Recreation program fees will be reviewed and increased accordingly, while striking a balance between affordability versus cost recovery.

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Budget Process Timetable

Staff propose that the 2022 budget process follow the timetable outlined in Appendix “A”, which proposes that the draft 2022 Capital Budget be presented to the Budget Committee of the Whole in October and the draft 2022 Operating Budget in November for Council deliberations.

Financial/Staffing/Other Implications:

Capital Budget Pressures and Strategy

The City’s 2022 Capital Budget process will be different than prior year as the City incorporates recommendations made by the Capital Sustainability Steering Committee (CSSC) and information from the City’s new Enterprise Asset Management (EAM) system to assist in better prioritization of infrastructure needs.

In 2019 and 2020, a comprehensive review of the City’s various capital related Master Plans through the CSSC was performed. The goal was to evaluate the financial sustainability of the City’s long-term capital investments needs for various City plans/programs and their alignment with the Community’s expectations. The process recognized that the City’s funding sources are finite and that debt may be an effective financial tool to be utilized, in combination with the City’s other available funding resources. Staff have implemented some of the committee outcomes in 2021 and intend to continue to incorporate these outcomes as part of this 2022 Capital Budget and Forecast to align with community needs such as:

- i. Target of \$3 million annual tax supported capital funding for the revitalization and repair/replacement of parks assets;
- ii. Rural to urban conversion program be paused
- iii. Extend the timeframe for the implementation of the Richmond Hill David Dunlop Observatory early priorities;
- iv. Civic Precinct to be used as passive parkland until such time as the Official Plan Review is conducted.

In order to strategically align the Capital Budget process with the City’s Asset Management Plan (AMP), the 2022 Capital Budget process will be the first year of leveraging the City’s newly internal developed EAM system to better prioritize the City’s Capital investments. The EAM system, which was developed cross functionally by the Asset Management Team and Information Technology Team organizes and consolidates the City’s varied infrastructure asset data into a single data source. The EAM system leverages the City’s asset management strategies and risk framework to forecast investment needs and the resultant impacts on the state of the assets. The resulting outputs deliver critical asset lifecycle information to assist staff in better prioritizing infrastructure projects and supports the development of asset management and financial strategies that make the most efficient use of available funding. The

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process of utilizing EAM information builds on a stronger alignment between the City's capital investments through the 2022 Capital Budget and the City's AMP.

The City's AMP is currently on track to be completed approximately one year in advance of O. Reg.588/17 requirements. In the current phase, the EAM system and AMP incorporate Core+ assets, which encompasses the definition of "core municipal infrastructure assets" including road, bridge, culvert, water, wastewater, stormwater assets. Recreation facilities assets, although not required at this stage of the regulation have also been advanced and incorporated in the AMP and EAM system. These assets are valued to be over \$7.2 billion. Further details regarding the City's AMP will be presented to Council in June by the Corporate Asset Management team, however early indications from AMP based on Core+ assets, suggest there may be more asset investment needs than originally anticipated in order to maintain Council desired levels of services in the long term.

This 2022 Capital Budget recognizes various City Master Plans are contingent on the completion of the City's Official Plan (OP), including the Transportation Master Plan, Urban Municipal Environment Servicing Plan and Parks/Recreation Plan which will cascade and build on the OP's growth projections and further inform the longer term capital investment needs. The prudent approach in this budget is to develop an abbreviated 5-year forecast (current + 4 years) to capture near term critical projects to apprise Council of the required investments. The forecast is dynamic in that it will adapt and change as priorities change, as projects are developed and implemented and new ones are added. A 10-year forecast will be required in the future when all the Plans are in place. As such, due to the incomplete picture of the cost requirements, an update to the Financial Sustainability Strategy will be deferred until all plans are undertaken and a complete picture can be obtained.

For the 2022 Capital Budget, it is recommended to limit the Tax Supported Capital Budget at \$16 million, to maintain a base level for tax supported reserve funds and to avoid major commitments until the Financial Sustainability Strategy can be fully implemented. With the progress made through the AMP and Capital Sustainability decisions, staff recognize the impending wave of infrastructure needs in the longer term, however in the short term, the funding limit will allow the City to focus on some of the higher risk priorities and address the back log of projects accumulated over the past few years as part of the Financial Sustainability Strategy.

Capital Budget Strategy

The overall objectives for the 2022 Draft Capital Budget and Forecast are to:

- 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;
- iii. Incorporates Capital Sustainability Committee Outcomes;
- iv. That the Tax Supported Capital Program be capped at \$16 million dollars;
- v. Leverages the Enterprise Asset Management/Asset Management Plan to prioritize asset needs.

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2022-2024 Financial Outlook

Appendix 'C' presents the 2022-2024 Financial Outlook, including the potential financial impacts from Covid-19. The Outlook outlines the financial pressures, growth factors and the estimated impacts from Covid-19 in order to provide for a tax rate impact projection.

The tax rate impact is projected to be 4.58% in 2022. The increase provides for base budget pressures, the continued phase-in of an investment income reduction, the public works enhancement program and more notably, the anticipated impact of Covid-19 on the City's Recreation program in 2022.

From the Safe Restart Agreement, federal and provincial assistance amounting to \$7,328,890 was provided for 2021 and \$4,131,900 in 2020 to assist with Covid-19 related losses. Approximately \$1.5 million of the 2020 funding was used to offset the 2020 deficit, leaving \$2.6 million of 2020 funding going forward, along with funds received in 2021. In order to negate the impact of Covid-19 the City will look to incorporate Safe Restart funding, where applicable.

Operating Budget Pressures and Strategy

In developing the City's 2022 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. The long lasting effects of Covid-19 may very well extend into its third year in 2022 and as such, the operating budget will need to reflect ever-changing priorities and support the City's continuing response and recovery efforts.

Based on the 2022-2024 Financial Outlook, the City forecasts a 1.63% tax rate equivalent pressures for business as usual services, before consideration of the Covid-19 impact to Recreation programs, for the 2022 Operating Budget. The 2022 projected budget increase reflects the anticipated challenges on City's resources through base, legislative or growth/service enhancement pressures. From discussions with the Chair and Deputy Chair of the Budget Committee, staff are being directed to bring forward a 0% tax rate increase budget. Staff will endeavor with best efforts to limit expense spending through continuous improvement and efficiencies.

Covid-19 Economic Impact

The Covid-19 pandemic is expected to result in uncertain economic conditions amidst a continuing low investment rate environment that will significantly impact businesses and taxpayers. The duration of social restrictions are presently unknown as a 4-week Stay-at-Home order has recently been mandated for April 2021. As well, once lockdown orders are lifted, it is uncertain how long it will take to recover to previous levels of economic activity and what the path to recovery will entail. The eventual return to a "new normal" will have significant implications on Richmond Hill processes and services.

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Predicting economic growth in 2022 with any accuracy is difficult, especially given the uncertainty of the current situation. Some forecasts project a rebound of the economy towards the latter half of 2021 but much is dependent on the efficiency of the vaccine rollout, the effectiveness of the vaccine and containment of any subsequent Covid-19 variant. RBC Economics (March 2021 Forecast) has projected GDP growth at 6.3% for 2021 and 4.1% growth in 2022, after experiencing a negative GDP in 2020. Ontario CPI projections are currently at 1.1% for 2021 and 1.9% for 2022. Appendix “B” provides a list of select historical price indices and key interest rates for 2021 and 2022, along with other Richmond Hill statistics.

MPAC Assessment

In March 2020, the Ontario government had deferred the 2021-2024 Property Assessment update to provide relief to residents. As of the time of writing, there has not been any formal announcement that the update will take place in 2021. The Province has been in the midst of consultations on the timing and valuation date for the next reassessment update while new properties continue to be added to the base. Should the Province decide to defer the update by another year, property assessments for the 2022 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 2022 does not affect the total amount of taxes received by municipalities. Consistent with 2021, the 2022 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 has historically been estimated at 1.5%, however MPAC has been unable to provide completed development information, resulting in a potentially lower assessment growth. Any decline in assessment growth is expected to be offset by an increase in supplementary revenues, maintaining the assessment growth at an equivalent 1.5% for 2022.

Recreation User Fees

As Richmond Hill households attempt to manage expenses during these financially challenging times, discretionary spending on recreation may be limited as a result. Also, with the social distancing restrictions that are still in place and general health and safety concerns, it will likely take some time for program participants to restore their comfort levels in participating in public activities. While it is unknown how long it will take to return to previous participation levels, it is likely that there will be a lasting impact on the 2022 recreation participation rates and in turn, how programs will be offered. The 2022 Operating Budget will consider rate increases alongside potential decreases in participation levels.

Public Works Enhancement Program

In March 2019, Council adopted the Public Works Enhancement program which included windrow clearing services. The anticipated financial impact was to be phased-

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in over the course of 8 years with funding from the Community Enhancement & Economic Vitality Reserve Fund and an annual tax rate impact of \$500,000.

Additional budget pressures

- Staffing costs: Approved 2022 Fire & SEA service agreements. CUPE agreement expired on March 30, 2020
- Lower short term investment returns
- Year three of a three year phased reduction of investment income, equal to \$850K in 2022

Operating Budget Strategy

Staff propose to present a 2022 Draft Operating Budget that:

- a. Supports Council priorities;
- b. The tax rate increase be no more than 0%;
- c. The operating budget considerations outlined in report SRCFS.21.012 be used as a guideline in the development of the 2022 Operating Budget.

2022-2024 Financial Outlook

Appendix 'C' presents the 2022-2024 Financial Outlook, including the potential financial impacts from Covid-19. The Outlook outlines the financial pressures, growth factors and the estimated impacts from Covid-19 in order to provide for a tax rate impact projection.

The financial outlook projects a tax rate increase of 4.58% in 2022. The increase provides for base budget pressures, the continued phase-in of an investment income reduction and the public works enhancement program and more notably, the anticipated impact of Covid-19 on the City's Recreation program in 2022.

Capital Asset 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 Capital Asset Sustainability (CAS) 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).

Water, Wastewater & Stormwater Budgets

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 2.9% wholesale rate increase in 2021 in response to the ongoing impact of Covid-19, followed by the City's deferral of the 2021 water and wastewater retail rate increase to provide relief to residents and businesses. For the 2022 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.

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Council has also deferred the Stormwater Management rate increase in 2021, as part of the Covid-19 relief strategy to assist residents and businesses. In January 2020, Council approved a new stormwater management rate structure and funding approach to provide for a more equitable stormwater management rate structure, along with moving the City towards long-term financial sustainability for funding of stormwater management infrastructure. Modifications to the City's current billing system are currently underway, where staff are working with the vendor to develop, test and implement the new rate structure to be completed for billings starting in April 2022. The timing of work will allow for adequate notice, communication and feedback from residents and property owners regarding the changes.

Relationship to Council's Strategic Priorities 2020-2022:

The budget process for the City of Richmond Hill reflects the overall use and wise management of resources but also touches on other goals within the Strategic Priorities:

- a) Fiscal Responsibility in Richmond Hill to serve as a role model for municipal management. Through the operating and capital budget strategy, staff incorporate these guidelines into building budgets that reflect the efficient and effective use of resources, while providing quality levels of service;
- b) Stronger Sense of Belonging in Richmond Hill provided through the efficient provision of services to all residents and from the processes in which public input is sourced. Suggestions and feedback from residents and businesses are an important part of the City's budget process.

Climate Change Considerations:

Climate change considerations are not applicable to this staff report.

Conclusion:

Staff will prepare the 2022 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 to be addressed.

Attachments:

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

- Appendix A – 2022 Budget Process Timetable
- Appendix B – Financial Indicators and Outlook
- Appendix C – 2022-2024 Financial Outlook

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Report Approval Details

Document Title:	SRCFS.21.012 2022 Capital Operating Budget Strategy.docx
Attachments:	<ul style="list-style-type: none">- SRCFS.21.012 Appendix A - 2022 Budget Process Timetable.pdf- SRCFS.21.012 Appendix B - Financial Indicators.pdf- SRCFS.21.012 Appendix C - 2022-2024 Financial Outlook.pdf
Final Approval Date:	Apr 15, 2021

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

David Dexter - Apr 15, 2021 - 10:22 AM

Sherry Adams - Apr 15, 2021 - 10:55 AM

MaryAnne Dempster - Apr 15, 2021 - 11:23 AM