



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: June 28, 2022

Report Number: SRCFS.22.017

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.22.017 – 2023 Capital & Operating
Budget Strategy**

Purpose:

To highlight the anticipated budget pressures that the City of Richmond Hill will face in 2023 and provide a timetable and guidelines for the development of the 2023 Capital Budget, Operating Budget and the Water, Wastewater and Stormwater Budgets.

Recommendation(s):

- a) That report SRCFS.22.017 be received;
- b) That staff present a 2023 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. Continues to leverage the Enterprise Asset Management / Asset Management Plan to help inform the prioritization of core asset investment needs; and
 - v. Incorporates fiscal responsibility in addressing the City's Infrastructure funding gap.
- c) That staff present a 2023 Draft Operating Budget that:
 - i. Supports Council priorities; and
 - ii. The operating budget considerations outlined in report SRCFS.22.017 be used as a guideline in the development of the 2023 Operating Budget.
- d) That staff present a 2023 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 as well as the Stormwater Financial Plan and Rate Update; and

Page 2

- e) That staff be directed to proceed with the 2023 Budget process in accordance with the timetable outlined in Appendix “A” and guidelines described in SRCFS.22.017.

Contact Person:

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Report Approval:

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

Approved by: Darlene Joslin, Interim 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.

Page 3

Background:

The City of Richmond Hill's annual budget process is a continuous, year round undertaking. Staff begin work on the following year's budget submission early in the current year. The Covid-19 pandemic has affected operations since its emergence in 2020 and will likely continue to have an impact on the City's 2023 budget considerations.

Budget Process

The 2023 budget process will be undertaken based on the timelines below:

Task #	Task Description	Timeframe
1.	2023 Budget Strategy Direction	June 2022
2.	2022 Forecast / COVID Impact Update	June 2022
3.	2021 Financial Results versus Budget	June 2022
4.	2023 User Fees Review (Tariff of Fees Update)	June 2022
5.	2023 Capital Budget & Forecast	Jan/Feb 2023
6.	2023 Operating Budget and Financial Outlook	Jan/Feb 2023

Budget Process Timetable

Staff propose that the 2023 budget process follow the timetable outlined in Appendix "A", which proposes that the draft 2023 Capital Budget and Operating Budget be presented to the Budget Committee of the Whole in early 2023.

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 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 that allow for the recovery of the costs required to provide the relevant services/programs, while also factoring in the annual projected inflation. The RBC Economics Provincial Outlook (March 2022) projects the 2023 CPI for Ontario is 2.1%.

The effects of Covid-19 have been substantial and have impacted the community for multiple years now. There continue to be financial hardships on both residents and businesses, whether it be a gradual return to pre-pandemic unemployment rates or a steady return to full operational capacity for businesses. Likewise, the City is also facing challenges through rising inflation rates, see Appendix 'B'. Natural gas, fuel and energy rates have increased by double digit percentages over the past couple of years. These

Page 4

pressures impact the cost of operating City facilities, fleet vehicle usage and streetlight illumination, amongst other operations. Despite the inflationary factors, the affordability of fees will again play a large role in the City's fees review process. All fees will be reviewed and increased accordingly, while striking a balance between affordability versus cost recovery. The practice of benchmarking fees with neighbouring municipalities is also employed to ensure fees are at competitive, reasonable and justifiable levels.

Financial/Staffing/Other Implications:

Capital Budget Pressures and Strategy

The 2023 Capital Budget process will proceed similarly to prior years, as the City continues to incorporate recommendations from the Capital Sustainability Steering Committee (CSSC), information from the Enterprise Asset Management (EAM) system and ongoing Master Plans & Studies to assist in optimal prioritization of infrastructure needs.

In order to ensure the alignment of the Capital Budget process with the Corporate Asset Management Plan (CAM Plan), the 2023 Capital Budget process will continue to leverage the City's EAM system to better inform capital investments for core assets. The EAM system, which was developed cross-functionally, consolidates the City's core infrastructure asset data into a single data source. The EAM system leverages the City's asset management strategies and risk framework to forecast the state of good repair investment needs for core assets and the impacts on those assets. This evidence based approach assists in optimal prioritization of infrastructure projects for core assets and supports the development of financial strategies that efficiently utilize available funding sources. Therefore, the EAM will continue to be an important tool to inform the state of good repair needs for the 2023 Capital Budgeting process.

The CAM Plan was endorsed by Council in June 2021. The Plan achieved compliance one year in advance of the July 1, 2022 requirements set out in O.Reg. 588/17. In the current phase, the EAM system and CAM Plan incorporated Core+ assets (eg. road, bridge, culvert, water, wastewater, stormwater, active transportation within the roadway, and recreation facilities assets). These assets are valued to be over \$7.2 billion. The CAM Plan indicated that there may be more core+ asset investment needs than originally anticipated, depending on Council's desired levels of services in the long term.

As part of the 2022 Capital Budget process, a 2023-2026 Capital Forecast was presented for information purposes. That forecast was compiled based on the information available at the time and continues to be refined as the City prepares the draft 2023 Capital Budget and Forecast. In addition, work on the City Master Plans are ongoing and contingent on the completion of the City's Official Plan (OP). These plans include the Transportation Master Plan, Urban Master Environmental Servicing Plan and Parks, Recreation and Culture Plans which will cascade and build on the OP's growth projections and further inform the longer term capital investment needs. The

Page 5

Parks Plan is scheduled to be presented to Council in June 2022, while the Recreation and Culture Master Plan is tentatively scheduled for Fall 2022. All of these considerations and pressures will have an impact on the overall capital budgeting evaluation process.

In addition to the 2023 Capital Budget, staff will present a 9-year capital forecast for the 2024 to 2032 period. This extended forecast allows Council to see a more complete picture of required investments, while incorporating the cost requirements from the longer range plans. The forecast is dynamic in that it will continue to adapt to changing priorities.

One of the goals of the CSSC 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 will be an effective financial tool to be utilized, in combination with the City's other available funding sources. A Financial Sustainability Strategy was developed in 2020 that reflected this approach. Staff have commenced the implementation of the committee outcomes in 2022 and will continue incorporating these outcomes in the 2023 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 as an updated program based on asset management needs is being developed;
- iii. Extend the timeframe for the implementation of the Richmond Hill David Dunlop Observatory early priorities, from 5 years to 7 years;
- iv. Civic Precinct to be used as passive parkland until such time as the Official Plan Review is conducted.

With the progress made through the CAM Plan, Master Plans and Capital Sustainability decisions, staff recognize the impending infrastructure needs in the longer term, however in the short term, the City will continue 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.

The 2021 CAM Plan also forecasted the preliminary infrastructure funding gap, over a 25 year period, for core assets by comparing the backlog and future core asset investment needs with potential funding requirements. As non-core assets get incorporated into the EAM and updates to the core assets are undertaken, the magnitude of the backlog and future state of good repair needs will be refined and improved. The Financial Sustainability Strategy (SRCFS.20.026) will be updated to identify funding sources to manage the refined infrastructure gap, as well as accommodate growth capital needs from City Master Plans. Through the ongoing Asset

Page 6

Management work, City Master Plans and updating of the Financial Sustainability Strategy, the appropriate levels of funding can be identified and recommended for future capital budgets to ensure the City's assets are maintained to deliver critical services to the community.

Capital Budget Strategy

The overall objectives for the 2023 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;
- iii. Incorporate Capital Sustainability Committee Outcomes;
- iv. Continue to leverage the Enterprise Asset Management / Asset Management Plan to help inform the prioritization of core asset investment needs; and
- v. Incorporate fiscal responsibility in addressing the City's Infrastructure funding gap.

Operating Budget Pressures and Strategy

In developing the City's 2023 Operating Budget, staff will consider the anticipated economic pressures facing the average Richmond Hill household, balanced with the economic pressures facing the municipality. The lingering effects of Covid-19 may very well extend into its fourth year in 2023 and as such, the operating budget will need to reflect ever-changing priorities and support the City's continuing response and recovery efforts.

Appendix 'C' presents the 2023-2025 Financial Outlook, where the City is forecasting a 1.74% tax rate increase for business as usual services, before consideration of the Covid-19 impact to Recreation programs, for the 2023 Operating Budget. The 2023 projected budget increase reflects the anticipated challenges on City's resources through base, legislative or growth/service enhancement pressures. Staff will strive to contain expenditures through fiscal responsibility, continuous improvement and efficiencies.

The 2023 – 2025 Financial Outlook also includes the potential financial impacts from Covid-19. The Outlook highlights the financial pressures, growth factors and the estimated impacts from Covid-19 in order to provide for a tax rate impact projection. Early indications of the tax rate impact is an approximate increase of 4.02% in 2023. The increase provides for base and growth budget pressures, the public works enhancement program, the Fire Master Plan, wage contract settlements, commodity pricing increases and more notably, the anticipated impact of Covid-19 on the City's Recreation program in 2023.

From the Safe Restart Agreement, federal and provincial assistance amounted to \$11,460,790:

Page 7

- \$1,553,200 used to cover the City's 2020 operating deficit
- Proposed \$2,773,900 on the 2021 Covid-related deficit.
- Remaining \$7.1 million is available to be used to offset any Covid-19 impact in 2022 and furthermore in 2023, where applicable.

Covid-19 Economic Impact – inflationary pressures

The continued Covid-19 environment is expected to result in uncertain economic conditions amidst a rapidly rising investment rate environment that will significantly impact businesses and taxpayers. As of March 2022, the provincial government had lifted the mask mandate in most public settings as well as removed capacity limits in all indoor public settings. It is uncertain how long it will take to recover to previous levels of economic activity or what the “new normal” will look like.

Predicting economic growth in 2023 with any accuracy is complex, especially given the new dynamics of the current situation and the unknown long-term impacts. Some forecasts project steady economic growth this year and into 2023. Ontario CPI projections are currently at 6.95% for 2022 and 2.1% for 2023. These rising prices may be largely unavoidable because of the nature of some expenses, but the City will look to minimize cost increases or look to other cost saving alternatives, where feasible. Moreover, forecasted financial indicators (see Appendix 'B') highlight some of the inflationary pressures that the City may be facing in 2023 as it proceeds to build out the capital forecast and operating budget.

MPAC Assessment

In March 2020, the Ontario government had initially deferred the 2021-2024 Property Assessment update to provide relief to residents. As of the time of writing, there has not been a formal announcement on when the next update will take place. Property assessments for the 2022 and 2023 property tax years will continue to be based on the fully phased-in January 1, 2016 current values. This means that property assessment values remain the same as they were for the 2021 tax year, unless subsequent changes have been made to the property.

Maintaining the same assessment values in 2023 does not affect the total amount of taxes collected by municipalities. Individual property assessment values are used to calculate each property owner's share of the total taxes paid. Consistent with prior years, the 2023 property value assessments for an average single, detached residential property in Richmond Hill is \$1,148,000 and classifications for all Richmond Hill properties will remain unchanged.

From building permit data, the City has experienced a surge in housing growth over the past year, registering 2,346 new housing units in 2021, as compared to 896 and 890 in 2020 and 2019, respectively¹. In addition, in 2021, the City executed subdivision and other development agreements which will lead to an increased assessment base in

¹ City of Richmond Hill building permit data and Statistics Canada building permit data

Page 8

upcoming years. The timing of when development activity will translate to registered housing units will depend on how soon construction will be completed, how quickly occupancy is filled and when MPAC receives the information to add to their tax roll. Any delays in each of the steps can contribute to a lag in updating the tax assessment base.

Historically, property assessment growth has been estimated at 1.5%, however MPAC has had delays in providing completed development information, which may result in 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 of 1.5% or better for 2023.

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-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. The 2023 operating budget will reflect year 4 of the 8 year phase-in plan.

Additional budget pressures from 2023-2025 Outlook (Please refer to Appendix C)

- Staffing cost increase of \$2.5M includes:
 - Approved 2023 ADMIN, SEA & CUPE service agreements.
 - FIRE agreement set to expire on December 31, 2022.
 - Outlook is based on approved rates projected out to 2025
- Recreation programs (Covid impact) includes a projected 15% user fees decrease, equal to a \$2.8M revenue budget reduction in 2023. For the 2023 operating budget, the City will revisit the need for any revenue adjustments, offset by potential savings in casual staffing and/or program expenses, as the City attempts to bridge the gap between a pre-pandemic environment and the 'new normal'.
- Final year of the phased reduction of investment income, equal to \$425K in 2023
- Year one of a 5 year plan to phase-in the cost of 16 firefighters, as per the Fire Master Plan, equal to \$500K in 2023

Other new budget pressures to consider:

- Firefighter sick leave credits are accumulated during the term of firefighters' term of employment and paid out at the time of retirement, voluntary resignation or death. These payouts were historically offset by withdrawals from the sick leave reserve fund. However, the reserve fund has been depleted in recent years due to increased retirements/payouts combined with a lack of contributions to the reserve fund and reduced interest earned on the reduced balance. The City will need to consider a longer term funding strategy as part of the 2023 operating budget process.

Page 9

- The City has entered into various new contract agreements over the recent years. Contract pricing, such as for roads operations/maintenance and refuse collection & recycling, has experienced significant increases in 2022 due to rising fuel prices and supply chain disruptions. These inflationary pressures, specifically within the Public Works Operations Division, will need to be managed and budgeted accordingly should they continue to persist into the next year.
- Based on the building permit revenue growth in 2021 and, thus far in Q1-2022, there may be an opportunity to increase the 2023 revenues budget and correspondingly budget for a reduction in the transfer from the building permit rate stabilization reserve fund, as building services is a fully self-funded operation.

Operating Budget Strategy

Staff propose to present a 2023 Draft Operating Budget that:

- i. Supports Council priorities;
- ii. The operating budget considerations outlined in report SRCFS.22.017 be used as a guideline in the development of the 2023 Operating Budget.

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 (\$1.2M budgeted in 2022), 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).

In late 2020, Council approved the proposed CAS Levy increase to 1.5% tax rate equivalent, via the Financial Sustainability Strategy (SRCFS.20.026), in recognition of imminent funding gap pressures. However, given that future capital funding needs are highly dependent on the completion of the Official Plan, Transportation Master Plan, Urban Master Environmental Servicing Plan and Parks/Recreation Plan, and Corporate Asset Management Plan, the City decided to defer any increase to the CAS Levy until all Plans were finalized. An updated Financial Sustainability Strategy will be presented once a comprehensive and complete picture of the City's long-term capital needs can be determined.

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 and passes these costs on to residents and businesses through a combined retail rate. For the 2023 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.

Page 10

In January 2020, Council approved a new stormwater management rate structure and funding approach to allow for a more equitable allocation of the rate burden, moving the City closer to long-term financial sustainability for funding of stormwater infrastructure. Modifications to the City's billing system have been completed and the new rate structure has been in effect for billings commencing April 2022. The new rate structure will continue to be the foundation of the 2023 Stormwater operating budget, as it has in the prior year.

Relationship to Council's Strategic Priorities:

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 2023 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 – 2023 Budget Process Timetable
- Appendix B – Financial Indicators and Outlook
- Appendix C – 2023-2025 Financial Outlook

Page 11

Report Approval Details

Document Title:	SRCFS.22.017 2023 Capital and Operating Budget Strategy.docx
Attachments:	- SRCFS.22.017 Appendix A - 2023 Budget Process Timetable.pdf - SRCFS.22.017 Appendix B - Financial Indicators.pdf - SRCFS.22.017 Appendix C - 2023-2025 Financial Outlook.pdf
Final Approval Date:	Jun 21, 2022

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

Paolo Masaro - Jun 20, 2022 - 8:21 AM

Gigi Li - Jun 20, 2022 - 9:15 AM

Sherry Adams - Jun 20, 2022 - 3:08 PM

Darlene Joslin - Jun 21, 2022 - 10:53 AM