



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: June 27, 2023

Report Number: SRCFS.23.034

Department: Corporate and Financial Services

Division: Financial Services

Subject: SRCFS.23.034 – 2024 Capital & Operating Budget Strategy

Purpose:

To highlight the anticipated budget pressures that the City of Richmond Hill will face in 2024 and provide a timetable and guidelines for the development of the 2024 Capital Budget, Operating Budget and the Water, Wastewater and Stormwater Management Budgets.

Recommendations:

- a) That report SRCFS.23.034 be received;
- b) That staff present a 2024 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;
 - iii. Proposes funding not to exceed:
 - a. \$31 million from Tax Supported Reserve Funds
 - b. \$23 million from Development Charges Reserve Funds
 - c. \$9 million from Cash-in-Lieu of Parkland Reserve Fund
- c) That staff present a 2024 Draft Operating Budget that:
 - i. Supports Council priorities;
 - ii. Utilizes the budget considerations outlined in staff report SRCFS.23.034 as a guideline;
 - iii. Proposes a tax rate increase target of 3%, excluding the Capital Asset Sustainability Levy;
 - iv. Staff identify service level changes to meet the guideline;
 - v. Proposes a Capital Asset Sustainability Levy in the operating budget equivalent to 1.5% tax rate increase.

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- d) That staff present a 2024 Draft Water & Wastewater Budget that reflects the wholesale rate increase from Region of York and approved factors from the Water/Wastewater Financial Plan;
- e) That staff present a 2024 Draft Stormwater Management Budget that reflects the new stormwater management funding and rate structure;
- f) That staff be directed to proceed with the 2024 Budget process in accordance with the timetable outlined in Appendix “A” and guidelines described in staff report SRCFS.23.034.

Contact Person:

Lisa Chen, Manager, Fiscal Planning and Strategy, ext. 6311

Report Approval:

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

Approved by: Darlene Joslin, 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 follows a year-round budget process. Staff begin working on the following year’s budget early in the current year. Starting the process early allows for ample time to collect data, conduct analysis and carefully consider relevant information. Throughout the year, staff collaborate closely with relevant departments and stakeholders to gather insights for budget preparation.

This report provides an overview of the factors that influence the budget, such as economic conditions, projected revenues, expenditure patterns, and community needs. It also seeks Council's endorsement for next year’s capital and operating budget strategy before staff finalize the budget submissions over the summer months. This approach enables staff to make informed decisions, effectively allocate resources, and provide essential services to the community in a fiscally responsible and efficient manner that aligns the budget with the strategic priorities and goals of the City.

Annual Budget Cycle and 2024 Budget Schedule

The continuous budget cycle overlaps with the reporting of the prior year’s financial results of operations and the current year’s year-end forecasts, as they are taken into consideration prior to finalizing next year’s proposed budget. A typical Budget Committee of the Whole process is outlined in Table 1 below (except the year following an election where the Municipal Act requires the budget to be approved in the relevant budget year):

Table 1: Typical Budget Committee of the Whole Process

Item	Process	Budget Year	Timeframe
1.	Prior year’s financial results	2022	April to June
2.	Budget Strategy	2024	April to June
3.	User Fees Review and Updates	2024	June or September
4.	Current year’s interim financial results	2023	September
5.	Current year’s capital project status	2023	June and November
6.	Capital Budget and Forecast	2024	November
7.	Operating Budget and Financial Outlook	2024	November

The detailed schedule for the 2024 Budget deliberations is outlined in Appendix “A”, targeting a staff proposed 2024 Capital and Operating Budget presentation to Budget Committee of the Whole in November 2023, and Council adoption in December 2023.

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Budget Public Consultation

At the February 14, 2023 meeting, Budget Committee of the Whole directed staff to “report back on a budget consultation plan for the 2024 Budget process, including the use of an online budget tool/survey before summer recess in 2023.” Taking into consideration the ongoing development of the City of Richmond Hill’s 2023-2027 Strategic Plan, staff will coordinate with the Strategic Plan team to leverage planned activities and gather insights to inform the budget.

The Strategic Plan holds significant importance as a vital policy document that outlines the community’s goals and objectives, each of which has budget implications. The Strategic Plan team is actively engaged in community outreach activities, including surveys, open houses, community events booths, and consultations with the business community. Preliminary findings, indicating emerging trends, will be reported to Council in September.

Following this, a report will be presented to the Budget Committee of the Whole, delving deeper into the 2024 Operating Budget implications. The 2023-2027 Strategic Plan, scheduled to be approved by Council before the end of the year, establishes well-defined and actionable plans to reach City of Richmond Hill’s goals and objectives under the current Council. Looking ahead, staff will explore budget consultation activities for the 2025 Budget process.

For 2024, staff will present the proposed 2024 Operating Budget to Budget Committee of the Whole on November 21, 2023. During that week, staff will hold a public budget information session prior to Council adoption on December 13, 2023.

Financial/Staffing/Other Implications:

Economic Impact – Inflationary pressures

Prior to the preparation of next year’s budget, it is crucial to evaluate the economic landscape. The City currently operates in a new environment where higher expenses from persistent inflationary pressures have become the ‘new normal’ and fiscal sustainability is increasingly important and challenging. Demand for goods and services still remain in excess, even amidst slowing economic conditions from higher interest rates. This was evidenced by another interest rate hike in early June 2023 from Bank of Canada, which brought its Overnight rate to 4.75% (Source: Bank of Canada), and reflects concern that CPI inflation may remain well above their 2% target.

Although supply chains have much improved, corporate pricing behaviour has yet to normalize, which inevitably impacts all businesses, residents and the City itself. Inflation remains stubbornly high, and even though gasoline prices are well-off its peak, they are once again up 11.2% on average in Ontario, from January to April 2023 (Source: Statistics Canada). The Non-Residential Construction Price Index for Toronto increased 12.3% from March 2022 to March 2023, with higher labour costs, concrete and metal

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prices as major contributors. This reflects obstacles still persist in the construction sector such as shortages in skilled labour and lack of available materials.

Looking forward, Ontario CPI projections are currently at 3.5% for 2023 and 2.4% for 2024. Predicting economic growth in 2024 with any accuracy is complex, especially given the new dynamics of the current environment and the unknown long-term impacts. Despite the City having a rigorous and competitive procurement process, the costs associated with vendors and supplies are skewed to the upside, especially when contracts are renewed. Despite the Ontario unemployment rate hovering near record lows of 5.5% (Source: Statistics Canada) at the end of May, the City still experiences financial challenges related to increased wages, particularly in the its recreation area, as part of maintaining its highest level of service to the community.

Investment income will benefit from a much higher interest rate environment, but can only partially offset greater expenses that are expected to continue outpacing revenues. Nevertheless, the City will look to minimize cost increases or look for alternative cost savings where feasible. Forecasted financial indicators (see Appendix 'B') highlight other 2024 pricing pressures as the City begins to prepare the capital and operating budgets.

Capital Budget Pressures and Strategy

The City of Richmond Hill's Capital Budget and Forecast process follows an iterative approach whereby the ten-year capital forecast is approved in the prior year's budget. The ten-year capital budget and forecast development approach provides both the immediate capital investment needs as well as identifies the longer-term outlook of future capital needs so these pressures can be proactively planned and addressed in a financially sustainable manner. The Capital Budget and Forecast is informed by the recommendations from the City's Enterprise Asset Management System and Corporate Asset Management (CAM) Plan, master plans and studies that provide guidance on growth needs and the Fiscal Sustainability Strategy. Together it results in optimal prioritization of infrastructure needs and capital funding allocation

Through ongoing evaluation and review of the City's long-term master plans, such as the Recreation and Culture Master Plan and Transportation Master Plan, the capital forecast is adjusted to reflect changing growth needs, emerging priorities and external circumstances. This process enables the City to prioritize capital projects, allocate resources efficiently, and make informed decisions that support a growing, changing and developing community.

Capital funding prioritization is based on achieving strategic priorities, addressing regulatory needs and an asset management risk assessment. The funding source is dependent on the type of infrastructure investment: state of good repair (existing assets) and new or growth assets. Projects with both elements are funded based on the proportionate share. The distinction delineates funding eligibility based on legislation or internal policy as shown in Table 2 on the following page.

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Table 2: Eligible Funding Source by Infrastructure Investment Type

Eligible Funding Source	State of Good Repair Investments	New or Growth Investment
Tax Supported Reserve Funds	✓	✗
Rate Supported Reserve Funds	✓	✗
Development Charges	✗	✓
Cash-in-Lieu of Parkland Reserve Fund	✗	✓
Community Benefits Charges	✗	✓
Canada Community Building Fund and other Grants	Dependent on funding agreement conditions	

At the [June 7, 2023 Committee of the Whole](#), staff outlined factors that will impact the 2024 Capital Budget and Forecast Strategy including: managing [the state of good repair backlog](#), updating the 2020 [Fiscal Sustainability Strategy](#), and mitigating the forecasted [Bill 23 development revenue losses](#).

State of Good Repair Backlog and the 2023 State of Infrastructure Report

The 2021 CAM Plan estimated the backlog of immediate infrastructure investment needs for core assets (roads, structures, water, sanitary sewer and stormwater management assets) of approximately \$120 million, and it was recommended to be phased over time to reach an average annual financing increase of \$15 million for SOGR funding. This 2021 estimate has since been compounded by the recent rising inflationary cost pressures, the growth in new assets, the advancement in the analysis of non-core assets, and more costly treatments at later stages of the asset’s lifecycle as projects are deferred.

Based on the 2023 Capital Forecast, 70% of this 2021 backlog of core asset needs was identified for renewal over the ten-year capital forecast.

The recently endorsed 2023 State of Infrastructure Report provided an updated status on all of the City’s assets. Based on that report, approximately \$300 million worth of assets were identified in poor and very poor condition. The majority of these assets were also included for renewals in the 2023 Capital Budget and Forecast. The upcoming 2024 CAM Plan will provide updated insights on the condition assessment along with the financial implications.

2020 Fiscal Sustainability Strategy

The Capital Sustainability Steering Committee was recently re-instated to review the City’s long-term capital investment requirements and alignment with recently updated master plans and studies, and to consider the impact of lost development revenues from Bill 23. While an update is needed, the 2020 Fiscal Sustainability Strategy serves as a valuable interim target until the Committee is fully engaged.

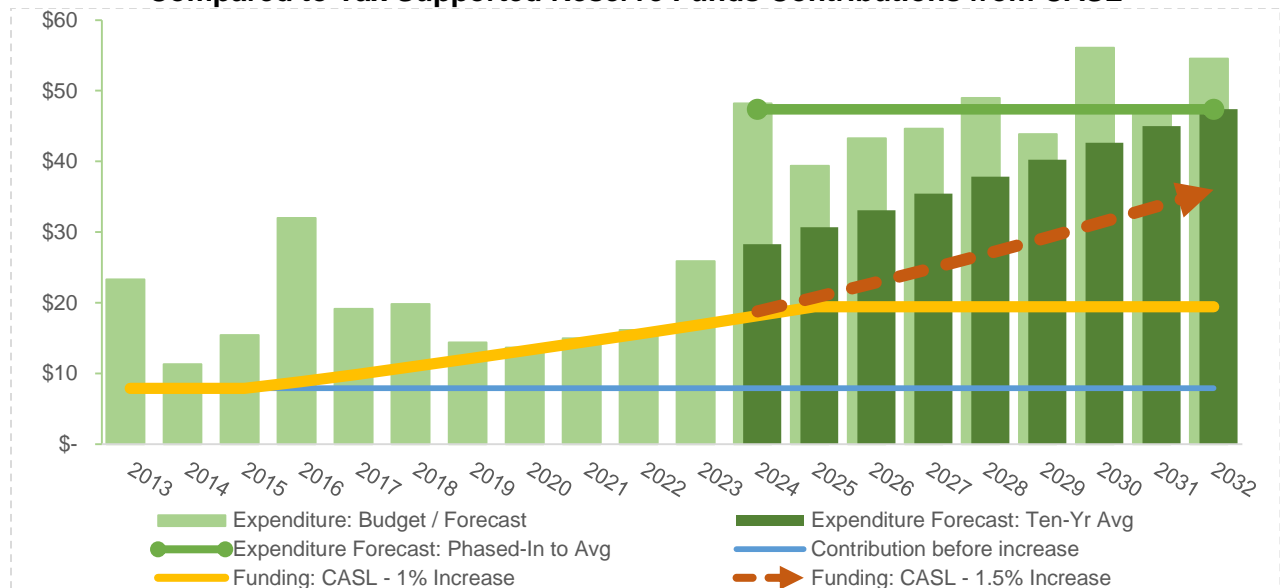
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Tax Supported Reserve Funds

The Capital Asset Sustainability Levy (CASL), equivalent to an annual 1% tax rate increase, was approved in 2016 to minimize the state of good repair infrastructure funding gap of over ten years. The CASL is applied based on the Current Value Assessment of a property as determined by the Municipal Property Assessment Corporation, and was expected to reach its goal of increasing contributions to the tax supported reserve funds by 2025.

In late 2020, Council approved the CASL increase to 1.5% tax rate equivalent through the report, *Financial Sustainability Strategy (SRCFS.20.026)*, recognizing imminent funding gap pressures. However, it was dependent on City Plans that were still in progress at the time (e.g. Official Plan, Transportation Master Plan, Urban Master Environmental Servicing Plan and Parks and Recreation Master Plan, and Corporate Asset Management Plan), and deferred implementation. Using the 2023 Capital Forecast, the potential impact is illustrated in Chart 1.

Chart 1: Tax Supported Capital / Forecast Expenditures (in \$ millions) Compared to Tax Supported Reserve Funds Contributions from CASL



The chart above compares tax supported capital expenditures to annual Tax Supported Reserve Fund contributions from CASL for the years 2013 to 2032. The light green bars indicate higher expenditures compared to the lower yellow line, which represents the annual CASL funding increase at a 1% tax rate until 2025. To attain a more realistic annual contribution target, the dark green bars represent an adjustment made to the tax supported capital expenditures, gradually increasing towards the \$47 million average by 2032. Additionally, the CASL is proposed to increase equivalent to a 1.5% tax rate equivalent starting in 2024 and extending beyond 2025.

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The expenditure and funding adjustments are interim measures to narrow the 2024 funding gap, while service level standards and an updated Fiscal Sustainability Strategy are established. In addition, staff will continue to follow 2023's tax supported funding cap, indexed to \$31 million, for the 2024 Capital Budget.

Development Funded Reserve Funds

Bill 23 impacts who pays for development. The projected \$330 million revenue shortfall over the next ten years presents challenges to the capital planning process, and may require growth-related infrastructure project deferrals, debt financing, or property tax increases. While still in early stages of implementation staff recommend that the 2024 Capital Budget as forecasted last year, be reduced by the projected 2024 revenue loss until remaining Bill 23-related guidelines are announced. Based on preliminary analysis Development Charges will decrease by \$5 million dollars in 2024 and Cash-in-Lieu of Parkland revenues will decrease by \$9 million.

Capital Budget Strategy

Staff recommend that as an interim strategy, Budget Committee of the Whole endorses a 2024 Capital Budget Strategy that:

- Continues to manage the City's capital program reflective of corporate priorities
- Maximizes all funding from external sources, development charges and reserve funding
- Proposes funding not to exceed:
 - a. \$31 million from Tax Supported Reserve Funds
 - b. \$23 million from Development Charges Reserve Funds
 - c. \$9 million from Cash-in-Lieu of Parkland Reserve Fund

In addition, staff propose that the Capital Asset Sustainability Levy increase from 1% to 1.5% be a part of the 2024 Operating Budget Strategy.

Operating Budget Pressures and Strategy

The 2024 Operating Budget will consider the anticipated economic pressures faced by the City as well as the average Richmond Hill household. The after effects of COVID-19 may extend over into 2024 with higher inflation rates, and as such, the budget will need to reflect the new normal and support the delivery of City services effectively.

Appendix 'C' presents the 2024-2026 Financial Outlook prepared in 2022, as part of the 2023 Operating Budget process. The 2024 – 2026 Financial Outlook highlights the financial pressures categorized by base, legislative or growth/service enhancement pressures. Staff will strive to contain expenditures through fiscal responsibility, continuous improvement and efficiencies.

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The City forecasted a 5.78% tax rate increase in the 2024 Outlook and it reflects the anticipated financial challenges in delivering services. The increase provides for base and growth budget pressures, the phasing in of the public works enhancement program and the phasing in of the new firefighters approved by Council in 2022, wage contract settlements, commodity pricing increases and property assessment growth.

Property Assessment

In March 2020, the Ontario government 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 the timing of the next update.

Maintaining the same assessment values in 2024 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 2024 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.

Property assessment growth has been estimated at 1.5%. For comparison, the assessment growth for the 2023 taxation year was 1.61%.

Public Works Enhancement Program (Phase-In)

In March 2019, Council adopted the Public Works Enhancement program, which included windrow-clearing services. The financial impact was to be phased-in over a number of years with funding from the Community Enhancement and Economic Vitality Reserve Fund resulting in an annual tax rate impact of \$500,000. The 2024 operating budget will reflect year 6 of the 10 year phase-in plan.

New Firefighters Approved in 2022 (Phase-In)

The cost of 16 new firefighter positions approved as part of the 2022 Operating Budget were to be phased in over 5 years, resulting in an annual tax rate impact of \$500,000. The 2024 operating budget will reflect year 2 of the 5 year phase-in plan.

Budget Pressures Identified in the 2024 Outlook (Please refer to Appendix C)

The 2024 Outlook included the following assumptions:

- Personnel increase of \$4.7 million based on negotiated / estimated salary agreements, 26 new staff requests and annualization of 15 new staff requests added in 2023.
- User fees increases of 2.3% in 2024.
- Due to staffing shortages in the aquatics and fitness programs, there were facility closures resulting in significant savings in 2023 Recreation program budgets. The 2024 and 2025 outlook include 50% recovery each year to bring budget up to previously levels, generating additional revenues of \$1.2 million each year.

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Since the 2024 Outlook was prepared last fall, a number of *additional pressures* have been identified:

- Part-Time minimum wage, wage compression and COLA to address staffing shortages in recreation program – minimum wage increases 6.8% as of October 2023, from \$15.50/hour to \$16.55/hour
- Inflationary impacts higher than typical years, impacting contracts, employee benefits and CPP
- Bill 109/23 operating impact
- Accounting Standards changes that limits development revenue to be recognized only the extent work has been completed
- Contractual price increases for roads operations/maintenance, and refuse collection and recycling, has experienced significant increases in 2023 due to rising fuel prices and supply chain disruptions

A number of mitigating strategies have also been identified:

- Utilize Tax Rate Stabilization Reserve for one-time budget impacts
- Utilize remaining Safe Restart Agreement funding – \$1.5 million available for 2024 after 2023 transfers
- Utilize gains from investment income strategy
- Prolong Public Works Enhancement Program funding / New fire fighters funding phase-in
- Prioritize 2024 new staffing requests
- Maximize revenue opportunities through the cost recovery portion of User Fees and use of Reserve Fund utilization from overhead recoveries from non-tax supported programs
- Review City operations for potential service level and process changes

User Fees Review and Update

As part of the City's annual budgeting process, staff will consider potential increases for all existing user fees and propose new fees, 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 partial to full recovery of the costs required to provide the service. The RBC Economics Provincial Outlook (March 2023) projects the 2024 CPI for Ontario is 2.4%.

The City continues to face higher prices (see Appendix 'B') as natural gas, fuel and energy rates have increased by double digit percentages over the past couple of years. These pressures impact the cost of operating City facilities, fleet vehicle usage and streetlight illumination, amongst other operations. In addition, minimum wage will increase by 6.8%. 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. In addition, staff will

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review service levels, seek alternative delivery methods and consider new services to increase user fee revenues. The results of the User Fee Review will be tabled for Budget Committee of the Whole's consideration at the September 26, 2023 meeting.

Operating Budget Strategy

In consideration of the budgetary impacts faced by the residents and the City, staff propose a balanced approach and recommend that Budget Committee of the Whole endorses 2024 Operating Budget Strategy that:

- Supports Council priorities
- Utilizes the budget considerations outlined in staff report SRCFS.23.034
- as a guideline
- Proposes a tax rate increase target of 3%, excluding the Capital Asset Sustainability Levy
- Staff identify service level changes to meet the guideline
- Proposes a Capital Asset Sustainability Levy in the operating budget equivalent to 1.5% tax rate increase

Water, Wastewater and Stormwater Management Budgets

As a lower tier municipality, the City of Richmond Hill purchases water from York Region at a wholesale rate and in turn, charges a retail rate to residents and businesses based on actual water usage. Wastewater is then collected from individual properties and directed back to York Region sanitary sewer mains. The 2024 Draft Water & Wastewater Budget will incorporate the wholesale cost of water, forecasted at 3.3%, and the City's operating costs of maintaining the water and wastewater system, against the revenues generated from residents and businesses through the retail rate.

Council approved a review of the storm water rate structure on December 7, 2022 through Response to September 14, 2022 Member Motion – Regarding Stormwater Fairness (Staff report SRCFS.22.040). Staff are preparing a new stormwater management rate structure study and funding approach to allow for a more equitable allocation of the rate burden, moving the City closer to long-term financial sustainability for the funding of stormwater management infrastructure. This new rate structure will be presented to Council in September 2023, prior to Budget Committee of the Whole's 2024 Budget deliberations.

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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.

Conclusion:

Staff will prepare the 2024 Draft Operating and Capital Budgets according to the timetable presented, reflecting the economic indicators, assessment growth and recommended strategy.

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 – 2024 Budget Process Timetable
- Appendix B – Financial Indicators and Outlook
- Appendix C – 2024-2026 Financial Outlook

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Report Approval Details

Document Title:	SRCFS.23.034 - 2024 Capital and Operating Budget Strategy.docx
Attachments:	- SRCFS.23.034 - Appendix A - 2024 Budget Process Timetable.pdf - SRCFS.23.034 - Appendix B - Financial Indicators.pdf - SRCFS.23.034 - Appendix C - 2024-2026 Financial Outlook.pdf
Final Approval Date:	Jun 21, 2023

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

Gigi Li - Jun 20, 2023 - 10:41 PM

Sherry Adams - Jun 21, 2023 - 10:01 AM

Darlene Joslin - Jun 21, 2023 - 10:53 AM