



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

**Date of Meeting:** June 11, 2024

**Report Number:** SRCFS.24.025

**Department:** Corporate and Financial Services

**Division:** Financial Services

**Subject:** **SRCFS.24.025 – 2025 Capital and Operating Budget Strategy**

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### **Purpose:**

To highlight the anticipated budget pressures that the City of Richmond Hill will face in 2025 and provide a timetable and guidelines for the development of the 2025 Capital Budget, Operating Budget and the Water, Wastewater and Stormwater Management Budgets

### **Recommendations:**

- a) That staff report SRCFS.24.025 regarding the 2025 Capital and Operating Budget Strategy, be received;
- b) That Budget Committee of the Whole recommends the Mayor directs staff to present a 2025 Draft Capital Budget that:
  - i. Continues to manage the City's capital program reflective of the City's Strategic Priorities;
  - ii. Maximizes all funding from external sources, development charges and reserve funding;
  - iii. Proposes funding, including project management and overhead costs not to exceed:
    - a. \$33.3 million from Tax Supported Reserve Funds
    - b. \$23 million from Development Charges Reserve Funds
    - c. \$6 million from Cash-in-Lieu of Parkland Reserve Fund
    - d. The principles of the approved 2024 Water and Wastewater Financial Plan
    - e. The existing capital contribution levels for Water Quality Protection Reserve Fund
- c) The Budget Committee of the Whole recommends the Mayor directs staff to prepare a 2025 Draft Operating Budget that:
  - i. Supports the City's Strategic Priorities;

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- ii. Utilizes the budget considerations outlined in staff report SRCFS.24.025 as a guideline;
  - iii. Staff identify service level changes to meet the guideline;
  - iv. Proposes a Capital Asset Sustainability Levy in the operating budget equivalent to 1.5% tax rate increase.
- d) The Budget Committee of the Whole recommends the Mayor directs staff to present a 2025 Draft Water & Wastewater Budget that reflects the wholesale rate increase from Region of York and approved factors from the Water/Wastewater Financial Plan;
- e) The Budget Committee of the Whole recommends the Mayor directs staff to present a 2025 Draft Stormwater Management Budget that aligns with long-term requirements;
- f) The Budget Committee of the Whole recommends the Mayor directs staff to proceed with the 2025 Budget process in accordance with the timetable outlined in Appendix “A” and guidelines described in staff report SRCFS.24.025.

### Contact Person:

Lisa Chen, Manager, Financial Planning and Analysis, 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.

### 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

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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 2025 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.

The Mayor, to comply with the Strong Mayor Powers in Part VI.1 of the *Municipal Act, 2001*, has directed staff to commence the 2025 Budget process in Mayoral Decision 11-24 (Appendix “D”). Specifically, to consult with the Budget Committee of Whole on the preparation of the draft Capital and Operating City budgets for the 2025 Fiscal Year, including a schedule of meetings for Budget Committee of the Whole to comment on the draft 2025 Capital and Operating budgets in Fall 2024.

The 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), highlighting the upcoming meetings on the 2025 Budget process.

**Table 1: Typical Budget Committee of the Whole Process**

Item	Process	Budget Year	Timeframe
1.	Prior year’s financial results	2023	April to June
2.	<b>Budget Strategy</b>	<b>2025</b>	<b>April to June</b>
3.	<b>User Fees Review and Updates</b>	<b>2025</b>	<b>September</b>
4.	Current year’s interim financial results	2024	September
5.	Current year’s capital project status	2024	June and November
6.	<b>Capital Budget and Forecast</b>	<b>2025</b>	<b>November</b>
7.	<b>Operating Budget and Financial Outlook</b>	<b>2025</b>	<b>November</b>

The detailed schedule for the 2025 Budget deliberations is outlined in Appendix “A”, with the budget engagement process taking place over the summer months (refer to SRCFS.24.023 – 2025 Budget Engagement, included in today’s meeting agenda), a staff proposed 2025 Capital and Operating Budget presentation to Budget Committee of the Whole in November 2024, and the Mayor’s Budget adopted in December 2024.

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### Economic Indicators

A review of the recent economic indicators guides staff in preparing submissions for the upcoming budget process.

#### Inflation

In 2023, supply chain dynamics started to normalize with inflationary pressures slowly easing. The Consumer Price Index (CPI) for Canada dropped from 6.3% at the start of the 2023 to 2.8% in June before ending at 3.4% in December. The Bank of Canada projects inflation to remain around 3% during the first half of 2024 before returning to the 2% by the end of 2025 (April CPI – 2.7%). Economists have a wide range of views, with forecasts for 2024 inflation ranging from 1.8% cent to 3.0% (Source: 2024 Ontario Budget).

The Province will increase the minimum wage from \$16.55 per hour to \$17.20, effective October 1, 2024, representing a 3.9% increase based on the Ontario CPI rate at the end of 2023. The 2025 Budget will continue to face financial challenges from increased wages, particularly in Recreation and Culture Services, as well as Fire and Emergency Services.

The non-residential building construction price index was 4.6% at the end of March 2024 compared to the double-digit levels from the past three years.

Although inflation have come well off their highs from the past years, prices remain consistently high as it increased on a cumulative basis. Despite the City having a rigorous and competitive procurement process, the costs associated with vendors and supplies escalate, especially when contracts are renewed. This continues to impact the City with its cost pressures, as it continues to maintain and build out its infrastructure, while maintaining its high level of service to residents.

#### Interest rate

The Bank of Canada has kept its Overnight rate unchanged at 5.0% since July 2023, focusing on balancing economic activity and inflation control. There is a high degree of confidence that although interest rates will eventually settle at lower levels, they will remain elevated for a while.

The City has an investment income allocation strategy as it continues to benefit from a high interest rate environment, but it can only partially offset greater expenses that are expected to continue. Staff will look to minimize cost increases or look for alternative cost savings where feasible. Forecasted financial indicators (see Appendix 'B') highlight other 2025 pricing pressures as the City begins to prepare the capital and operating budgets.

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### Legislative Updates

The legislative environment has a significant impact in a municipal government setting. Several updates to the development planning and affording housing initiatives announced by the Province continue to impact the City, financially and with operational processes, compounded by further complexities and re-work as some of the changes are rolled back. Further details on the financial impact were tabled at the Capital Sustainability Steering Committee on June 4 through the report, [SRCFS.24.029 2025 Capital Budget Strategy Considerations](#).

### Financial/Staffing/Other Implications:

#### A. 2025 Capital Budget Strategy Considerations

Staff outlined financial considerations for the 2025 Capital Budget Strategy through the [SRCFS.24.029 2025 Capital Budget Strategy Considerations](#). In summary, the report reviewed:

- Financial feasibility of implementing the 2024 Asset Management Plan requirements to maintain existing levels of service with respect to the state of good repair assets at “Good” and “Very Good”
- Requirement to smooth out the timing of water and wastewater infrastructure investments and annual user rate increases needed to maintain legislative compliance with respect to financially sustainable operations
- Historical underfunding and deferral of stormwater management projects, along with depleting of the reserve fund has culminated in the funding challenges the City now faces along with the infrastructure backlog for stormwater management assets
- Increases in asset inventory levels acquired or constructed to accommodate development and potential enhancements to the City’s existing assets (such as upgrades due to environmentally friendly initiatives) will need to be prioritized against the backlog of state of good repair projects
- Developer funding legislative updates impacting capital funding availability, although partially mitigated by Bill 185
- Economic uncertainty impacting the pace of development, applying additional capital funding pressures and requires review of the timing of growth-related capital projects

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- Requirement for Council to approve proposed future level of services as part of the 2025 Asset Management Plan - depending on Council's desire to address the infrastructure backlog sooner or later, the following options will need to be evaluated: potential service level changes, increase in contributions to the tax and rate supported reserve funds, target reserve fund levels, and financing options
- Financial Sustainability Strategy (to be discussed in 2025) will eventually inform the annual capital budget strategy – in the interim, a funding envelope approach for each major funding source, similar to the 2024 Capital Budget process, is being recommended by staff for the 2025 Capital Budget Strategy

### Capital Budget Strategy

Staff recommend that as an interim strategy, a 2025 Capital Budget Strategy that:

- a) Continues to manage the City's capital program reflective of the City's Strategic Priorities
- b) Maximizes all funding from external sources, development charges and reserve funding
- c) Proposes funding not to exceed the following funding envelopes by major funding source (including project management and overhead costs):
  - I. Tax Supported Reserve Funds – \$33.3 million by applying the Indexed Historical Capital Budget Average Funding scenario
  - II. Water and Wastewater Reserve and Reserve Funds – follow the principles of the approved 2024 Water and Wastewater Financial Plan and re-evaluated during the budget process if more current information is available
  - III. Stormwater Management (Water Quality Protection) Reserve Fund - follow a pay-as-you go philosophy, prioritizing the 2025 capital based on the existing capital contribution levels
  - IV. Development Charges Reserve Funds – \$33 million to reflect anticipated residual financial impact of Bill 23 and based on the lower 2023 and year-to-date 2024 fees collected
  - V. Cash-in-Lieu of Parkland Reserve Fund – \$6 million to reflect anticipated residual financial impact of Bill 23 and based on the lower 2023 and year-to-date 2024 fees collected

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### **B. 2025 Operating Budget Strategy Considerations**

The 2025 Operating Budget will consider the anticipated economic pressures faced by the City as well as the average Richmond Hill household.

Appendix 'C' presents the updated 2024-2026 Financial Outlook prepared as part of the 2024 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.

The City forecasted a 5.04% tax rate increase in 2025 in the financial outlook and it reflects the anticipated financial challenges in maintaining the current level of service. 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.

#### **Budget Pressures Identified in the 2025 Outlook (Please refer to Appendix C)**

##### **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%.

##### **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 \$557,400. The 2025 operating budget will reflect year 7 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 \$550,000. The 2024 operating budget will reflect year 3 of the 5-year phase-in plan.

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The 2025 Outlook also included the following assumptions:

- Estimated collective bargaining negotiated agreements, 23 new staff requests (tax and non-tax funded) and annualization of new staff requests added in 2025.
- Inflation and User fees increases of 3.3% in 2025.
- Due to staffing shortages anticipated in the aquatics, facility closures were budgeted in the 2023 and 2024 Recreation program budgets. The 2025 outlook includes a \$700,000 recovery to phase in the budget up to pre-pandemic levels.

Updated or additional information that has or becomes available will be incorporated into the staff proposed 2025 Budget. These include: updated estimates for collective bargaining, inflation and user fee increases reduced to 3% and increases in revenue from the development fee review. In addition, the 2024-2027 Strategic Plan will identify new workplan items for budget consideration.

A number of mitigating strategies have also been identified:

- Utilize Tax Rate Stabilization Reserve for one-time budget impacts
- Phasing in of the investment income strategy
- Prolong Public Works Enhancement Program funding / New fire fighters funding phase-in
- Prioritize 2025 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
- Review opportunities to generate savings and efficiencies

### **User Fees Review and Update**

As part of the City's annual budgeting process, staff 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 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. To streamline the annual fee review



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process, staff will be recommending for the 2025 Budget process that the majority of fees be indexed by anticipated inflation, estimated at 3%.

In addition, staff will 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 at the September 24, 2024, Budget Committee of the Whole meeting.

### **Operating Budget Strategy**

In consideration of the budgetary impacts faced by the residents and the City, staff propose a balanced approach that follows a 2025 Operating Budget Strategy that

- Supports the Strategic Plan priorities
- Utilizes the budget considerations outlined in staff report SRCFS.24.025 as a guideline
- 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

### **C. 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 2025 Draft Water & Wastewater Budget will follow the principles of the recently approved 2024 Water and Wastewater Financial Plan which assumes the wholesale cost of water will increase by 3.3%, inflationary impacts on the City's operating costs of maintaining the water and wastewater system, and projected volumes and revenues generated from residents and businesses through the retail rate.

The Stormwater Management Financial Plan is currently underway. The 2025 impact and longer-term rate impact will be presented to the Mayor and Council during budget deliberations.

### **Relationship to Strategic Plan:**

Presenting Budget Committee of the Whole key factors impacting the 2025 Budget relates to Pillar 3, Strengthening our Foundations, specifically, Priority 1, Make decisions that are evidence based and data driven to enable the City's long term financial sustainability, as well as social, environmental and economic sustainability.

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### **Conclusion:**

The annual capital planning process sets out a path to capital and financial sustainability. Comments received from Budget Committee of the Whole, and the endorsement of the staff recommended funding approach will guide directions set by Council for the budget planning process. Staff will prepare the 2025 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 – 2025 Budget Process Timetable
- Appendix B – Financial Indicators
- Appendix C – 2025-2027 Financial Outlook
- Appendix D – Mayoral Decision 11-24

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Document Title:	SRCFS.24.025 - 2025 Capital and Operating Budget Strategy.docx
Attachments:	<ul style="list-style-type: none"><li>- SRCFS.24.025 Appendix A - 2025 Budget Process Timetable.pdf</li><li>- SRCFS.24.025 Appendix B - Financial Indicators.pdf</li><li>- SRCFS.24.025 Appendix C - 2025-2027 Financial Outlook.pdf</li> <li>- SRCFS.25.025 Appendix D – Mayoral Decision 11-24 - Accessible</li></ul>
Final Approval Date:	May 31, 2024

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

**Gigi Li - May 31, 2024 - 3:55 PM**

**Task assigned to Sherry Adams was completed by Gigi Li**

**Gigi Li on behalf of Sherry Adams - May 31, 2024 - 4:13 PM**

**Darlene Joslin - May 31, 2024 - 4:52 PM**