



SUBJECT: 2020 Budget framework

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-28-19

Wards Affected: All

File Numbers: 435-03

Date to Committee: July 8, 2019

Date to Council: July 15, 2019

Recommendation:

Receive and file finance department report F-28-19 regarding the 2020 budget framework.

Purpose:

- An Engaging City
- Good Governance

Background and Discussion:

This report provides Council with the parameters on which staff will prepare the 2020 budget. The framework presented in this report will outline principles that have been recognized by Council as important policy decisions, as well as highlight budget drivers that will impact the 2020 budget.

In November 2012, Council approved the City of Burlington's Long-Term Financial Plan which outlined strategic objectives and policies to ensure financial sustainability and responsible financial management. In May 2017, the Asset Management Financing Plan maintained the recommended increases to the dedicated infrastructure renewal levy.

On this same agenda is the 2019 Financial Condition Assessment report which provides a recommendation to enhance existing financial policies to continue to ensure fiscal sustainability and maintain flexibility to address changing conditions.

Council has also recently reviewed the draft Vision to Focus 4-year Workplan (CM-06-19). Work is currently underway to develop a related financing plan for these initiatives which will be brought forward this fall.

The 2020 budget will align with the objectives and updated policies of these reports, as they represent important and prudent policy decisions of this council.

In addition, in February 2019, Council received the 20-Year Simulation of Forecasted Budget Drivers (F-03-19), which provided a high-level overview of major budget drivers and expected future tax rate impacts. Inherent in the annual operating budget process are the normal pressures of inflation, growth, fluctuating revenues, as well as infrastructure renewal costs.

The 20-year simulation presented to Council in February 2019 (updated to reflect the 2019 Approved Budget) is attached for your reference as Appendix A, to provide a forward-looking outlook on the city's budget impacts. Since the 2019 budget approval, minor adjustments have been made to estimates resulting in a forecasted city tax increase of 4.27% for 2020. As part of the 2020 budget development process staff will continue to look for opportunities to mitigate increases where possible.

Increases beyond inflationary pressures will be presented as separate business cases which will include commentary as to how the requested change is the result of one or more of the following items:

- 4-year Workplan (From Vision to Focus)
- A new regulation or change in legislation
- An operating impact from the implementation of a capital project
- An enhancement to a service

Related reports:

F-29-19: 2019 Financial Condition Assessment
CM-06-19: 2018-2022 Burlington's Plan: From Vision to Focus
F-03-19: 20-Year Simulation of Forecasted Budget Drivers
F-12-17 2016 Asset Management Financing Plan
F-22-12: The City of Burlington Long Term Financial Plan

Strategy/process

Redesign of the Budget

During the approval of the 2019 Budget the following staff direction was passed:

“Direct the Director of Finance to schedule a committee workshop focusing on how to retool, rethink and reinvent the capital and operating budget process, management and delivery.”

Process

Some of the concerns raised by Council was that the existing budget review process was challenging as budget related information was presented in three different documents (Operating Budget Book, Capital Budget Book, and Service Business Plan Book). In addition, decisions that impacted both capital and operating expenses were reviewed and approved at different times. As an example, a decision to expand Transit service would require the approval of additional buses in the Capital Budget and additional Transit Operators in the Operating Budget.

Staff conducted a review of budget processes internally as well as from other municipalities. In many municipalities it is common practice to present annual budgets as a consolidated document of operating and capital. For those municipalities that present their budgets in a service-based perspective they also typically include Service Business Plans in the same document. For the 2020 Budget Process Staff are recommending that we follow a similar approach with the consolidation of Business Plans, Operating and Capital Budgets.

The operating budget will continue to be presented in a service-based format with two years history for comparison. Historically City Services were grouped into Service Categories. These groupings were generally based on keeping services aligned with similar functions together. As an example, all maintenance services were grouped into a Maintenance Service Category.

We are proposing that the existing Service budgets be realigned to more closely follow the City's Strategic Plan. By doing so we will be better positioned to demonstrate how investments made by the city deliver on key initiatives in the 4-year workplan and overall Strategic Plan.

The capital budget will continue to remain a 10-year program, with projects further categorized as new / enhanced, renewal, or growth infrastructure. However, capital

projects will now be grouped under the respective realigned Service Categories they support. This will result in a more refined and customer focused approach to budgeting.

Budget Pressures

Tax Supported Capital Funding

As part of the 2019 Budget, \$929,000 of tax supported capital funding was removed to mitigate the 2019 tax increase. This results in a \$9.3 million reduction to the financing guidelines provided to the 2020-2029 capital program.

Transit Funding

Provincial Gas Tax

In 2017, the province announced the doubling of the gas tax from the current 2 cents per litre to 4 cents per litre. It was projected to increase to 2.5 cents per litre in 2019-20, 3 cents in 2020-21 and 4 cents in 2021-22.

This planned increase was cancelled in April as part of the 2019 Provincial Budget. Under the current 2 cents per litre program the city receives approximately \$2.2 million of annual funding from Provincial Gas Tax. Over the 10-year capital program based on the former planned increases this would have amounted to an additional \$19.25 million of revenue to fund transit priority projects.

Public Transit Infrastructure Fund

Under the Investing in Canada Infrastructure Program the Federal and Provincial government signed an Integrated Bilateral Agreement with \$8.3 billion of funding from the Federal Government and \$7.3 billion in Provincial funding for public transit projects over 10 years. Costs of eligible projects under the program were to be shared as follows:

- Federal – up to 40%
- Province – up to 33 %
- Municipalities – up to 27%

In March 2019, the Province announced the first intake of the public transit stream of \$1.62 billion over 10 years in joint provincial and federal funding. This allocation was for municipalities outside of the GTHA.

There has been no word yet on an intake for municipalities within the GTHA. The Mayor will be meeting with our local MPP to determine the status of the infrastructure funding program as it relates to the City of Burlington. The Federal Election on October 21, 2019 may further delay a second intake process. Finance staff is working with the City's government relations team to monitor this program.

Development Related

- Bill 108 Impacts (More Homes, More Choice Act, 2019 passed and received Royal Assent on June 6, 2019)

As noted in report CM-11-19 there are significant financial implications to the City as a result of the Bill 108, however it is difficult to quantify the full extent of the impacts at this time given the limited information available in the legislation and lack of clarity currently provided. At a high level there will be financial implications resulting in the following areas at minimum:

- Administrative costs, changes in technology, and appraisal costs for land values
 - Increased use of debt financing for growth infrastructure, impacting the city's debt capacity and the DC quantum
 - Changes to the collection of the Community Benefit Charge (CBC) that cannot be predicted or forecasted
 - Increased exemptions will result in increased costs to the taxpayer to the growth-related cost
 - Reduced funding available for community needs for "soft services" such as parks, recreations centres and libraries as a result of their exclusion from the DCs and dependent on the calculation of the CBC
- Development Charges (DC)
The city has recently approved a new Development Charges By-law which came into effect on June 1, 2019. The growth-related capital infrastructure included in the 2019 DC Background study will be identified for inclusion in the 2020 Budget and Forecast.

Spending of development charges is based on the City's policy that expenditures in any year do not exceed the uncommitted balance in the reserve fund at the end of the preceding year.

Development Charge revenues received to date in 2019 have been considerably less than prior years. This may be a result of delays in development due to Bill 108. Staff will continue to closely monitor this revenue source and related implications.

- **Park Dedication**

Bill 108 consolidates funding of parkland dedication, public benefits through density as well as soft services (parks and recreation and library services) currently financed through development charges into a Community Benefits Charge. It is very difficult to determine the full impact of the change and creates uncertainty in forecasting funding for growth.

- **Assessment Growth**

The weighted assessment growth for the 2020 budget is estimated to be 0.6% which provides approximately \$1 million of additional revenue to offset inflation and growth-related costs in the base budget.

Over the past 4 years, assessment growth has ranged from a high of 1.16% to a low of 0.15% for an average of 0.59%.

Year	Assessment Growth
2016	1.16%
2017	0.15%
2018	0.41%
2019	0.64%
2016-2019 Average	0.59%

Budget Timelines

Budget timelines have been compressed from last year as part of the retool, rethink, reinvent the process, management and delivery of the budget. Both the Operating and Capital Proposed Budgets will be presented in a consolidated document to Committee in November 2019. It is anticipated that budget review will occur in December allowing both budgets to be approved by Council before year-end.

Below is a brief timeline of the 2020 budget process.

- COW - Budget Overview November 4, 2019
- 2020 Budget Telephone Townhall November 19, 2019 (TBC)
- Council Budget Information Session Mid – November 2019
- COW – Budget Review & Approval December 10 & 12, 2019
- Council - Budget Approval December 16, 2019

Financial Matters:

Staff will prepare the 2020 budget on the framework presented above, representing the city’s long-term financial plan, and the important policy decisions of this council.

The following table outlines the forecasted tax increase for 2020:

	20 Year Simulation (Appendix A)	Forecasted City Tax Increase
Base Budget*	1.75%	1.75%
Infrastructure	1.25%	1.25%
Sub-total	3.0%	3.0%
“Net” Service Enhancements	1.27%	1.0%
Total City Increase	4.27%	4.0%
Estimated Overall Increase	2.67%	2.45%

* Includes estimated assesment growth of 0.6%

For 2018, the Toronto 12-month CPI average was 2.54%

Staff will be working closely with Services during the development of the 2020 budget to mitigate the simulated 4.27% city increase (2.67% overall).

To do this, budget targets have been established which will require \$1 million of efficiencies to be found.

On May 21, 2019 the province announced the creation of the Audit & Accountability Fund for municipalities interested in conducting service delivery expenditure reviews with the goal of finding efficiencies. Council approved the city applying to the province for funding the following service / sub-service reviews:

- corporate fleet
- leaf collection
- winter maintenance
- prebuilding permit development approval process

This process will assist us in realizing efficiency savings.

With \$1 million of efficiencies realized the overall tax increase may be mitigated below inflation of 2.5%. Should these savings not be able to be fully realized then the number of forecasted service enhancements will need to be reduced.

The chart below highlights the historical results of Council’s comprehensive budget deliberations at both the City and the Region;

Year	City* Tax Increase	Total (City, Region, Education)
2011	0.91%	0.94%
2012	3.29%	1.79%
2013	4.46%	1.81%
2014	3.50%	1.49%
2015	3.64%	2.08%
2016	3.14%	2.01%
2017	4.42%	2.60%
2018	4.36%	2.64%
2019	2.99%	1.96%
4-yr Avg.	3.73%	2.30%
9-yr Avg.	3.41%	1.92%

Over the last four years the average city tax change is 3.73% and the overall tax change is 2.30%. For the last nine years the city tax change is 3.41% with an overall tax rate change of 1.92%.

Connections to City Plans

Staff will ensure the 2020 Budget development is aligned to the strategic initiatives within the Vision to Focus 4-year Workplan.

As well, staff will ensure that the objectives of the city’s Asset Management Plan are being adhered to during the development of the 2020 budget.

Public Engagement Matters:

The city will continue to use existing online engagement tools such as survey opportunities. The results of all public engagement will be reported back to Council in advance of the budget review process. Similar to prior years, a telephone townhall will be scheduled in the fall. Finance staff are also available to attend Councillor Ward meetings where requested. The Open Book platform will also be used again to display the budget and allow the public to view the budget in an interactive and intuitive format.

Conclusion:

Financial sustainability will continue to be our key strategic priority. The budget will continue to face rising pressure from infrastructure renewal costs, limited revenue growth, and completion of the 4-year workplan initiatives representing visions to meet important community needs. These factors ultimately impact property taxes and reserve fund balances to maintain / enhance existing service levels and quality of life.

Respectfully submitted,

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Appendices:

- A. 20-Year Simulation of Forecasted Budget Drivers

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.