



SUBJECT: 2021 budget multi-year simulation

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-14-21

Wards Affected: All

File Numbers: 435-01

Date to Committee: February 23, 2021

Date to Council: March 3, 2021

Recommendation:

Receive and file finance department report F-14-21 regarding 2021 budget multi-year simulation.

PURPOSE:

To present a 10-year operating budget forecast as part of the City's long-term planning.

Background and Discussion:

The City's Long-Term Financial plan (Report F-22-12), contains the following key strategic objectives for the city:

1. Competitive Property Taxes
2. Responsible Debt Management
3. Improved Reserves and Reserve Funds
4. Predictable Infrastructure Investment
5. Recognized Value for Services

Other related reports:

F-04-21: 2021 Budget Overview

F-29-19: Financial Condition Assessment

F-12-17: 2016 Asset Management Financing Plan

Strategy/process

In prior years, Council was presented with a 20-year simulation showing forecasted tax increases within this timeframe. With the uncertainty of COVID impacts, the timeframe of the forecast has been reduced to 10 years, aligning to the 10-year Capital Program. This 2021-2030 simulation uses the 2021 proposed budget (as submitted) as a starting point and adjusts the 2022–2030 forecast based on estimated budget drivers.

As with any modeling tool, the simulation forecast has the greatest precision in the first year. It is imperative that the results are simply used as an information tool regarding major budget drivers and future projected tax impacts. It provides an analysis of what the future financial picture for the City of Burlington may look like, helps assess financial risks and the affordability of existing services and capital investments, and provides an opportunity to analyze sensitivities to assumptions.

When forecasting into the future, it is difficult to predict with 100% accuracy given uncertainties around:

- Magnitude and duration of COVID impacts
- Senior Government Grant Programs
- Changes in economic conditions and market demands
- Fluctuations in customer expectations
- Legislative changes
- Reassessment impacts
- Operating impacts from approved capital initiatives
- Business process improvements
- Climate change impacts

When updating the 10-year forecasting model, staff considered the general outlook for the city. Staff have shown a realistic scenario where assessment growth is maintained at 0.6% per annum for the next 3 years, increasing to an average of 1.05% in 2025 and 2026 and then remaining steady at 0.9% for years 2027-2030. These estimates are based on future development projections including an allowance for assessment appeals. Infrastructure renewal funding is consistent with the Asset Management Financing Plan and repurposing of the hospital levy to infrastructure renewal as the commitments for the hospital decline. These components provided the basis for estimating budget drivers (as per Appendix A) and include the following assumptions within each item:

Maintaining Current Service Levels – Base Budget

Inflationary Impacts and User Fees

- With the exception of human resources and commodities (hydro, water, fuel etc.), 2.0% inflation per year has been applied to other expense categories (materials and supplies, purchased services) and 1.75% increase per year applied to contributions to Local Boards and Committees.
- Most User Rates and Fees are assumed to increase at 2.0% per annum, which is dependent on the nature of the revenues and external market conditions. However, included in years 2022 and 2023 is an estimated normalizing of revenue based on shift in consumer behavior and ongoing operational impacts post-COVID, resulting in projected revenues losses of \$500,000.

Corporate Expenditures/Revenues

- An annual increase to the provisions for Insurance and Contingency Reserves of \$50,000 and \$100,000 respectively.
- An increase in Investment Income of \$50,000 per year starting in 2023 subject to a moderately increasing interest rate environment.

Other Key Priority Expenditures

Key Priorities identified in the simulation are classified within 4 categories as follows:

Sustaining City Operations and Financing

- Initiatives and obligations that serve to maintain City operations at a certain standard including:
 - funding for the maintenance of City assets
 - improved investments in Forestry operations
 - ongoing operational support of IT initiatives
 - funding to sustain Transit Capital program
 - ongoing funding for HR Market Competitiveness
 - continued phased implementation of Designing and Evolving Our Organization initiative.

Managing Community Growth

- Additional staff resources for the Development Review and Application process addressing workload demands as outlined in PL-45-20.

Enhancing Services

- Funding to enhance City services including:
 - investment in Transit services aligned to the 5 year Transit Business Plan
 - initiatives to improve City parks
 - funding for a Green Levy

Modifications to Service to address COVID

- Estimated \$500K in lost revenues over the next two years as ongoing operational impacts post-COVID and a longer-term shift in consumer behavior impact City operations.

Infrastructure Renewal Funding

- An annual increase of 1.25% for Dedicated Infrastructure Renewal Funding. This provides funding for capital renewal, as per the Asset Management Financing Plan.
- Includes the repurposing of the hospital levy to infrastructure renewal in 2023 (\$150 thousand), 2025 (\$110 thousand) and 2027 (\$2.84 Million)
- An annual increase of 4% to the Vehicle Depreciation Reserve Fund to sustain the City's fleet and equipment inventory

Service Reviews & Efficiency Savings:

City Manager Sustainable Expenditure Savings Target

The City Manager has included a goal of finding \$250K of annual on-going expense savings as part of his City Manager Objectives workplan. Estimates of potential savings have been incorporated into this simulation however they will be refined in future simulations.

Chief Financial Officer Annual Budget Review

As part of the annual budget development process, the CFO conducts a line by line review of the budget submitted by each service. Estimates of potential savings have been incorporated into this simulation however they will be refined in future simulations.

Allowance for Unknown Factors

As with all forecasts, it is imperative to recognize that there are unknown factors that will likely occur in the future that could impact the model. In order to address these unpredictable factors, an amount of \$150,000 has been included in the 2023 forecast, increasing by \$50,000 per year until 2030. This allowance has been included to recognize that factors in the simulation such as future efficiency savings and

assessment growth can be increasingly difficult to predict the further out into the future they are.

Assessment Growth

Assessment growth is estimated to be 0.6% per year from 2022 to 2024, increasing to an average of 1.05% in 2025 and 2026 and then remaining steady at 0.9% for years 2027-2030. These estimates are based on an analysis of future development projections including an allowance for assessment appeals. This growth can be difficult to forecast as it is dependent upon new properties being added to the assessment roll by the Municipal Property Assessment Corporation (MPAC). In 2020 actual assessment growth was 0.34% which was 0.26% lower than estimated. To reduce the impact on the tax rate, this shortfall was funded by a one-time transfer (\$450K) from Tax Rate Stabilization Reserve. Should growth assumptions change they will be adjusted in future updates to the simulation.

Financial Matters:

The proposed 2021 Budget reflects a city tax impact of 4.99%, resulting in an overall tax increase of 2.88% (City, Region and Education).

The simulation forecasts the city tax impact from 2022 to 2030 to begin at 5.25% reducing to 3.23%. The overall tax rate impact (City, Region and Education) ranges from 2.84% in 2022 to 2.10% in 2030.

Total Financial Impact

The model indicates tax increases as follows (detailed in Appendix A):

| | Proposed 2021 | 2022 | 2023 | 2024 | 2025 | Average 2026-2030 |
|--------------------------------|---------------|-------|-------|-------|-------|-------------------|
| City Tax Increase | 4.99% | 5.25% | 5.14% | 4.85% | 4.04% | 3.36% |
| City Tax Bill Impact | 2.23% | 2.39% | 2.40% | 2.31% | 1.97% | 1.70% |
| Overall Tax Bill Impact | 2.88% | 2.84% | 2.87% | 2.78% | 2.43% | 2.13% |

Conclusion:

The 10 Year Budget Driver forecast is a tool that provides a high-level summary of major budget drivers and the expected tax impacts. This will be helpful to establish future budget targets, as well as provide the ability to undertake tax impact sensitivity analysis should circumstances change.

Respectfully submitted,

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Appendices:

- A. 10-Year Forecasted Budget Drivers

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.