SUBJECT: 2023 budget framework

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

FROM: Finance Department

Report Number: F-25-22

Wards Affected: All

File Numbers: 435-03

Date to Committee: July 4, 2022

Date to Council: July 12, 2022

Recommendation:

Receive and file finance department report F-25-22 regarding the 2023 budget framework.

PURPOSE:

Vision to Focus Alignment:

- Deliver customer centric services with a focus on efficiency and technology transformation

Background and Discussion:

This report provides Council with the preliminary framework and related parameters on which staff will prepare the 2023 proposed budget for consideration by the new 2022-2026 City Council. The framework presented in this report will outline principles that have been recognized by Council as important policy decisions, as well as highlight the Multi-year Budget Simulation which has been developed to model tax impacts for the next 5 years.

- 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 July 2019 Council received the Financial Condition Assessment report which provided a recommendation to enhance existing financial policies to continue to ensure fiscal sustainability and maintain flexibility to address changing conditions.
- In 2019, the Vision to Focus 4-year Workplan (CM-06-19) was approved which includes a number of key initiatives for this term of Council.
- In November 2021, the Asset Management Financing Plan (F-34-21) recommended increases to the dedicated infrastructure renewal levy.
- In May 2021, Council approved a staff direction to incorporate process changes reflecting a coordinated corporate integrated business planning, measurement, budget and performance management process.
- In September 2021, eight service information workshops were held with council covering 36 services providing an overview of the current service delivery including known financial gaps and service needs.
- In April 2022, the Multi-Year Community Investment Plan (CM-03-22) provided a foundation and strategic focus for proposed multi-year community investment opportunities that will be refined subject to the completion of various master/conceptual plans and strategies which will inform a future list of proposed multi-year community investments.

The 2023 budget will align with the objectives and updated policies of these reports, as they represent important and prudent policy decisions of council.

This report also includes an enhanced Multi-Year Simulation (5 years) which provides a detailed overview of major budget drivers and expected future tax rate impacts. This is attached as Appendix A and discussed in detail throughout this report.

Inherent in the annual operating budget process are the pressures of inflation, growth, fluctuating revenues, as well as infrastructure renewal costs.

Separate risk mitigation measures (business cases) for increases to the budget beyond inflationary impacts will continue to be presented to Council where appropriate. These 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
- Ongoing implementation of Designing and Evolving Our Organization (DEOO)

Enhanced multi-year budget simulation

The simulation uses the 2022 approved budget as a starting point and adjusts the 2023–2027 forecast based on estimated budget drivers, known budget pressures and forecasted risk mitigation measures. This simulation was reviewed in depth by the Strategy and Risk Team (SRT).

As with any modeling tool, the simulation forecast has the greatest precision in the first year. 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:

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

2023-2027 Budget Pressures

When developing the 5-year budget simulation model, staff considered many factors including:

- Known inflationary and contractual obligations impacting the base budget
- Alignment to the goals and objectives of the City's Long-Term Financial Plan and Financial Condition Assessment
- The general outlook for the city including growth projections
- Infrastructure renewal funding consistent with the Asset Management Funding Plan
- Financial commitments resulting from recent Council decisions, previously approved capital projects and adjustments made to the 2022 Budget.
- Forecasted investments required to sustain city operations, manage community growth, and enhance city services.

Information regarding each of these areas are outlined in greater detail below. The items have been numbered to assist with referencing to the attached simulation (Appendix A).

Maintaining Current Service Levels – Base Budget

1. Inflationary Pressures and User Fees

Over the past year, consumer inflation has steadily increased. Canadian total Consumer Price Index (CPI) reached 5.7% year-over-year in February which was the highest level since August 1991. It rose again in March (6.7%) and in April, the year-over-year CPI reached 6.8%. Heightened consumer demand, labour shortages and a strained global supply chain are some of the main factors contributing to higher prices.

Additionally, Russia's invasion of Ukraine and related economic and financial sanctions have created a negative global supply shock that is pushing up commodity prices.

CPI was originally projected at 3.9% for 2022 however economists continually revise forecasts as global inflation has proven to be stronger and more persistent than anticipated. Inflation has now reached levels not seen in decades.

Labour Market & Workforce

Municipalities are service organizations that rely heavily on human resources to deliver the range and quality of services that residents have come to expect. Human resource costs (including benefits, training, etc.) as a percentage of the City's 2022 gross operating budget is 47.8%.

A significant risk to the corporation is the attraction and retention of talent and this reality has been a focus in 2022 where to date we have already hired 117 staff and currently have 74 unfilled vacancies.

The following realities create a labour market and workforce risk:

- number of staff eligible to retire;
- ability to attract qualified candidates;
- ability to negotiate with external candidates and maintain internal equity;
- ability to retain employees in a highly competitive market; and
- a compensation system requiring significant updates to be more competitive.

One of the ways the City is addressing this issue is by adopting a permanent hybrid workforce model. Under this model, staff working in job functions which allow for remote working are provided the flexibility to choose this option. A hybrid workforce provides existing employees with greater flexibility over their work arrangements and location. As well, it increases the City's ability to recruit talent from across the province without necessarily requiring the new employee to permanently relocate.

The City is also undergoing a significant update to its non-union compensation system. This update will modernize the current job evaluation system and compensation policies while realigning to the Council approved market position.

The simulation has included known and estimated contractual increases for unionized staff and standard increases for non-union staff. Also included is ongoing funding for HR Market Competitiveness (2023-2025) in the Additional Base Budget pressures section.

Commodity Costs

Russia's invasion in Ukraine has resulted in economic and fiscal sanctions which have driven up the price of fuel. Fuel prices began to increase steadily beginning in January and are currently sitting at record-breaking highs. In 2021, the average price of gasoline was $1.29/L. Currently the average price of gas in Ontario is $2.10/L.

The city maintains a commodity stabilization reserve fund to mitigate the impacts of volatile commodity costs on the city's finances. The current uncommitted balance in this reserve fund is $1,109,376.

A portion of this funding may be required to offset unfavourable commodity variances in 2022 depending on the city's year-end financial position.

The simulation currently includes an average increase of 15% across all commodity categories (hydro, natural gas and fuels) for 2023 reducing to 5% per annum thereafter.

Other Operating Expenses

With the exception of human resources and commodities, 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.

As we move into July, the City has already experienced the impacts of increased inflationary pressures on the 2022 budget. The various commodity cost impacts and inflationary pressures mentioned above continue to greatly affect our external goods and services contract costs.

The "Additional Base Budget Pressures" section of the simulation includes an allowance of $300,000 in 2023 to recognize these higher-than-average inflationary increases experienced on 2022 contract renewals. The 2023 budget documents will include a summary of identified higher than average inflationary increases.

User Fees / Controllable Revenues

Most user rates and fees are assumed to be increased by 3.0% per annum. This assumption is dependent on the nature of the revenues, the overall economic recovery post-COVID and external market conditions. Additionally, included in years 2023 and

2024 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 ($250,000 per year).

Efficiency Savings

As part of the annual budget development process, the Chief Financial Officer (CFO) conducts an extensive line by line review of the budget submitted by each service using a cost containment lens. While significant savings were found for the 2022 budget, it should be noted that this level of net budget reductions to the base budget was high in comparison to recent years. Reduced estimates of potential savings have been incorporated into the simulation given known service funding challenges and service redesign impacts.

2. Corporate Expenditures/Revenues

Provisions to Reserve Funds

Reserves and reserve funds when used in conjunction with debt policies are a critical component of a municipality's long-term financial plan and financial health.

A financial condition assessment of the city is presented to Council every four years. The most recent was in June 2019 (Report F-29-19). This report presents the city's financial health and position, observations and a review of reserve and reserve funds with related financial policies. An updated financial condition assessment will be completed in 2023.

Reserves and reserve funds provide tax rate and cash flow stability when the City is faced with unforeseen or uncontrollable events. It ensures cash flows are sustained and allows for internal financing for temporary or one-time expenditures. Furthermore, these funds provide the City flexibility to manage debt levels and planning for future liabilities.

The simulation includes:

- The maintenance of existing corporate reserve fund provisions.
- An annual increase to the provisions for Insurance and Contingency Reserves of $50,000 each.

Debt

In an effort to rein in high inflation, The Bank of Canada raised its benchmark interest rate to 1.5 % in June and has signaled that additional increases are likely. This brings the rate to 0.25% below the pre-pandemic level.

Staff continue to monitor the interest rate environment, and regularly review debt modelling to adjust for current and forecasted impacts of interest rate changes. Increased interest rates reduce available debt capacity and result in higher debt financing costs to the City. The budget for tax supported debt charges will need to be increased to reflect the increase in financing costs associated with forecasted debenture issuances related to the city's capital program. As the interest rate market is changing, estimated impacts are based on projected rates at time of issuance and are subject to change.

The "Impacts of Previously Approved Capital Projects" section of the simulation includes increases in tax supported debt charges of:

- $550,000 in 2023 and 2024 to accommodate the Skyway Community Centre Revitalization project. The city recently learned that our $13M application to the Green and Inclusive Community Buildings fund for this project was unsuccessful. As part of report EICS-03-22 (April 2022) Council endorsed $13M of tax supported debt requiring a total of $1.1M of additional budgeted debt charges in the event that the grant application was unsuccessful.
- $1M in 2024 and 2025 to accommodate the Bateman phase 1 site renovations project (Report EICS-14-22). This is a preliminary estimate and subject to change upon finalizing tenant lease agreements.

Corporate Revenues

Economic recovery and record high inflation led to a sharp increase in interest rates in 2022. Expectation is that the recovery will slow for 2023 and interest rates will stabilize at a neutral rate. This rate adjustment will allow the City to rebalance its portfolio and take advantage of higher yielding investments which will ultimately decrease the reliance on capital gains to meet budget. Staff will continue to monitor current market and economic conditions and reassess investment strategies to ensure prudent decisions making.

The simulation includes:

- An increase in Investment Income of $50,000 per year starting in 2024 based on an increasing interest rate environment.

3. Assessment Growth

Assessment growth is estimated to be 0.6% per year for 2023, 0.75% for 2024, and increasing to 1.0% for 2025 - 2027. For the 2023 budget the estimated 0.6% growth provides approximately $1.15 million of additional revenue to offset inflation and growth-related costs in the base budget.

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). Finance staff will work closely with MPAC and should assessment growth assumptions change they will be incorporated in the 2023 Proposed Budget and adjusted in future updates to the simulation.

Over the past 5 years, assessment growth has ranged from a high of 1.07% to a low of 0.34% for an average of 0.59%.

Year	Assessment Growth
2018	0.41%
2019	0.64%
2020	1.07%
2021	0.34%
2022	0.47%
2018-2022 Average	0.59%

4. Additional Base Budget Pressures

Human Resource Items

In addition to the standard allowances for HR increases in the base budget there are a number of additional HR related items that are putting pressure on the simulation.

These include estimates for:

- Ongoing funding for HR Market Competitiveness (2023-2025)
- Estimated impact of OMERS costs for PT staff now eligible under the program (2023)
- On-call pay for communications staff (2023).

Reversal of 2022 one-time funding - reduced Assessment Growth

For the 2022 budget, actual assessment growth was 0.47% which was 0.13% lower than forecasted. To reduce the impact on the tax rate, this shortfall was offset by a one-time transfer ($240K) from the Tax Rate Stabilization Reserve. The reversal of this one-time reserve fund draw will result in a 0.12% increase to the 2023 base budget.

5. Impacts of Prior Council Decisions

Adjustments made to the 2022 Budget to mitigate the tax increase as well as recently approved service changes will have an impact on the 2023 and future budgets. These items include:

- Annualization of staff positions partially funded in 2022 Budget
- Tax base support for Tyandaga Golf Course - Report RCC-01-21 (2023-2024)
- Adjustments to the Private Tree By-Law fee structure and operating expenses
- Continued investment in recreational facility maintenance (2023-2026)
- Approved ongoing contribution to the Bay Area Climate Change Council (EICS-05-22)

In total, these items add $881,000 to the 2023 budget resulting in a tax increase of 0.46%.

6. Impacts of Previously Approved Capital Projects

To mitigate the 2022 tax increase, a portion of the operating expenses of newly acquired city assets were deferred. As well, additional investments in community assets have been approved which will result in additional operating expenses. These items will impact the 2023 and future budgets and include:

- Increased software maintenance costs resulting from IT capital projects which support Building a 21st Century Workforce (2023-2027)
- Expansion of Conventional Transit – operating expenses for 4 buses purchased in the 2022 Budget
- Expansion of Specialized Transit – operating expenses for a Handi-van purchased in the 2022 Budget
- Additional operating costs required for the new Transportation Operations centre (2023)
- Operating costs associated with the new recreational assets funded by the donation from the McNally Foundation (Report RCC-05-22) (2023 - 2024)
- Additional tax supported debt charges as outlined earlier in the Debt section of this report (2023-2025)
- Operating impacts of the revitalized Skyway Community Centre (2024)

In total, these items add $1,827,000 to the 2023 budget resulting in a tax increase of 0.95%.

7. Infrastructure Renewal Funding

The city's infrastructure renewal levy is in place to provide increased funding annually to the capital renewal program and is the largest funding source for these projects. Any long-term reduction in this funding will significantly impact the city's Asset Management Program and accompanying 60-year Financing Plan and will result in decreased levels of service across many asset categories.

The City's Asset Management Plan was recently updated. The updated Asset Management Financing Plan was presented to Council in November 2021 (Report F-34-21) and recommended increases to the Dedicated Infrastructure Renewal Levy.

The simulation is aligned to the plan and currently includes:

- An annual increase of 1.60% for Dedicated Infrastructure Renewal Funding as recommended and supported by Council.
- The repurposing of the hospital levy to infrastructure renewal in 2024 ($300 thousand), and 2027 ($2.8 Million)
- An annual increase of 4% to the Vehicle Depreciation Reserve Funds (VDRF). The VDRFs and associated policy are currently under review to ensure long-term sustainability of the City's fleet and equipment inventory. Any recommended changes to the current policy and funding strategy will be brought forth to Council in 2023.

Staff will provide an annual update on the Asset Management program as part of the budget process.

8. Risk Mitigation Measures

Risk mitigation measures are proposed variations in the budgeted expenditures or revenues for which separate budget disclosure is warranted.

These key priorities identified in the simulation are classified within 3 categories. Items in these categories will be prioritized by the Strategy and Risk Team (SRT) and presented as risk mitigation measures (business cases) in the Proposed Budget documents.

a. Sustaining City Operations and Financing

As Council is aware, the City of Burlington is at a tipping point related to risk management particularly with respect to City operations and internal capacity to effectively implement and execute strategy.

Management is working across and throughout the organization to stabilize and enhance our competency, capability and capacity through resource needs – from people, process, and technology – to be a customer-centric organization and to effectively deliver on our commitments.

The simulation includes a number of initiatives and obligations that serve to maintain City operations at a certain standard such as:

- Continued phased implementation of Designing and Evolving Our Organization initiative - DEOO (2023-2027)
- Eight (8) additional firefighters to fully staff Fire Station #8 as recommended in the Fire Master Plan (Report BFD-03-22)
- Increased budget for tax supported debt charges to reflect increased interest rate environment (2024 & 2026)
- Improved investments in Forestry Service in the areas of tree planting and pest management and other RPF operations including ditch and culvert maintenance and grid pruning operations (2023-2027)

b. Enhancing Services

In July 2019, Council approved the 2018-2022 Burlington's Plan from Vision to Focus (V2F). Some of the key actions of this document include improving integrated mobility, decreasing the city's infrastructure funding gap, reduce greenhouse gas emissions from city operations and increase the city's tree canopy.

There are a number of operational and infrastructure investments that can support the city's goal of reducing greenhouse gas emissions by reducing the reliance on the use of fossil fuels, including:

- the greening of the corporate fleet and city facilities;
- the expansion and greening of the transit system;
- the construction of active transportation facilities related to cycling and trails; and
- an expanded tree planting and parkland acquisition program.

These initiatives have numerous environmental and social benefits, but they will require significant additional operating and capital investment on an ongoing basis if meaningful progress is to be made.
The simulation includes:

- Funding for a Green Levy beginning in 2024
- Investment in further Conventional and Specialized Transit service expansion beginning in 2024
- Continued investment in recommendations of the Fire Master Plan (2024-2027)

c. Modifications to Service to address COVID

The COVID-19 pandemic continues to impact city programs and services. While some of these revenue losses are temporary in nature, it is anticipated that a portion of these revenues may be permanently altered as consumer behaviour shifts longer-term.

The simulation includes:

- Estimated $500K in lost revenues over 2023 and 2024 as ongoing operational impacts post-COVID.

9. 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. To address these unpredictable factors, an amount of $150,000 has been included in the 2024 forecast, increasing by $50,000 per year. 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.

Multi-Year Simulation

The Multi-Year Simulation forecasts tax increases as follows (detailed in Appendix A):

	2023	2024	2025	2026	2027	Average 2023-2027
City Tax Increase	**7.97%**	**6.84%**	**6.45%**	**5.13%**	**4.92%**	**6.26%**
Overall Tax Bill Impact	**4.55%**	**4.11%**	**3.89%**	**3.30%**	**3.23%**	**3.82%**
City Share of Overall Impact	**3.68%**	**3.26%**	**3.16%**	**2.57%**	**2.51%**	**3.04%**

Options to Mitigate the 2023 Tax Impact

Staff will be working closely with Services during the development of the 2023 budget to try to lessen the increase. While staff have provided some mitigation options for 2023, it is important to understand that our ability to respond to urgent existing and future needs across many areas is clearly and directly tied to Council's support for additional tax funding. Some mitigation items which may be considered include:

Rates and Fees increase of 5%

The current simulation includes an estimated increase of 3% on average to most City rates and fees. Recognizing that the cost to deliver city services is increasing at a rate higher than 3% largely due to inflationary pressures this would result in a further tax subsidy of city programs and services.

Increasing these fees by a further 2% to an average 5% would generate additional non-tax supported revenues and reduce the tax impact in 2023 by 0.21%. To mitigate the 2022 tax increase the majority of Recreational rates and fees were increased by 2% while most other rates and fees across the city received no increase.

Deferral of Rental Space for Building and By-law Staff

In order to accommodate the space requirements of other departments, Building and By-law staff temporarily relocated to the Aldershot Arena. A request was made in the 2022 budget to add funding for the rental of a dedicated facility to meet their long-term needs. To mitigate the 2022 tax impact this item was deferred. The 2023 simulation again includes funding to provide this service with dedicated space.

To mitigate the 2023 tax impact this item could again be deferred to 2024 resulting in a tax decrease of 0.06%. This deferral would continue to leave these staff without a long-term solution to their space needs and eliminate the public’s access to the community space at Aldershot Arena.

Defer the Phase-in of Funding to Support Recreational Asset Maintenance

A funding shortfall of $750,000 was identified in Recreational Asset Maintenance. In 2021 a phased funding plan was put in place to add $100,000 per year until this funding gap was closed. Funding was added in the 2021 and 2022 budgets to support this initiative. The 2023-2027 forecast includes the remaining required funding at $100,000 per year.

An option to reduce the 2023 tax impact would be to defer the 2023 funding and adjust the 2024 and 2025 forecast to include an additional $50,000 of funding in each of those years. This option would reduce the 2023 tax impact by 0.05%. However, the deferral of this funding increases the risk of emergency facility closures from system failures and increases capital budget requirements for capital repairs ahead of planned lifecycle renewal.

Defer enhancements to Forestry Service

The simulation includes placeholders in 2023-2027 to increase investments in the Forestry Service. These investments include increased funding for pest management to address invasive species, tree planting initiatives and other items to enhance and protect the City’s tree canopy.

An option to reduce the 2023 tax impact would be to defer these enhancements to 2024. This option would reduce the 2023 tax impact by 0.05%.

Defer investments to other Roads, Parks and Forestry Services

The simulation includes placeholders in 2023-2025 to increase investments in various RPF related activities including critical asset maintenance such as grid pruning and ditch and culvert maintenance.

An option to reduce the 2023 tax impact would be to defer these investments to 2024. This option would reduce the 2023 tax impact by 0.05% but similar to the deferral of recreational asset maintenance could result in enhanced risk of asset failure and increased capital renewal costs.

Partially Defer New Staffing Resources

The simulation includes an estimated impact to continue the phased implementation of Designing and Evolving Our Organization (DEOO) as well as new staffing in transit to support bus purchases made in the 2022 budget and Fire staffing for Station 8 as identified as an immediate priority of the Fire Master Plan. Deferral of a portion of these staffing costs (estimated as $620K) would reduce the 2023 tax impact by 0.32%.

Phase in of Part-time OMERS impacts

As of January 1, 2023, all part-time staff become eligible to join the OMERS pension plan. While it is difficult to predict the volume of staff who will opt into this plan the simulation has included the financial impact of a 67% part-time staff take up rate.

An option to reduce the 2023 tax impact would be to phase this impact in over 2023 and 2024. This option would reduce the 2023 tax impact by 0.11%. This will require the budgeting of one-time funding from the tax rate stabilization reserve fund to offset the portion of the estimated impact that is deferred to 2024.

Total of All Mitigation Options

Should all mitigation options be incorporated into the 2023 Budget the city tax impact would decrease from a forecasted 7.97% to 7.16% (0.81% reduction). However, incorporating any or all options will have the effect of simply deferring known costs and will increase service delivery risk to future years.

2023 Budget Mitigation impact on future budgets (Appendix B)

It is important to note that known budgetary pressures that are deferred in the 2023 Budget will need to be incorporated into future years. As such they increase the forecasted tax increases identified in the multi-year simulation for 2024 and beyond. Appendix B details how the removal of costs in 2023 will impact these future budget years. Deferring these pressures in 2023 makes a negligible impact to the 5-year average of forecasted tax increases but does defer investments in service enhancements and adds additional risk to operational sustainability.

Budget Process

Enterprise Business Planning and Portfolio Management

Staff Direction

At the Corporate Services, Strategy, Risk and Accountability (CSSRA) Committee meeting of May 5th, 2021 the following staff direction was approved: “Direct the Chief Financial Officer to report back in July 2021 as part of the budget framework report on process changes reflecting a coordinated corporate integrated business planning, measurement, budget and performance management process.”

In response to this staff direction staff incorporated several enhancements to better integrate business planning and work prioritization as part of the 2022 budget process. Work continues to incorporate additional changes into future budget cycles.

Service Information Workshops

This past September as part of the 2022 Budget process the city introduced Service Information Workshops. Eight Council Workshop sessions were held over 4 days which allowed all of the City Services to present overviews of their business plans to Council. The Services were grouped into the 8 sessions by themes aligned to the Strategic Plan.

These workshop presentations included:

- A summary of current financial investment by service
- An overview of current service delivery including known financial gaps and service needs
- An overview of the asset investment required for service delivery
- Key Performance Indicators (KPIs)
- An overview of service goals and objectives

Council expressed their appreciation of these informative sessions.
With the 2022 Municipal Election scheduled for October 24th, there is the potential for a changeover in the current composition of Council. Traditionally following the inauguration of a new Council, city staff organize a series of orientation workshops to familiarize new members of Council with city services, policies, and practices. Depending on the magnitude of any changeover in the composition of Council, there may be an opportunity to combine the content provided in the Service Information Workshops with New Council Information Workshop material. This will be confirmed following the results of the 2022 Election.

Monthly Service Operations Updates

As the City transitions to a new normal state of operations following the pandemic, the monthly COVID updates will no longer be required. Following Council's recommendation, the content of these updates will shift to regular service updates; the frequency will be established for the new term of Council. These updates will allow for more regular and timely reporting on Service needs throughout the year.

Budget Motion Memorandums

Similar to last year, we ask that each Member of Council prepare a Motion Memorandum outlining the various budget amendments they wish to propose. This memo should include the rationale for each proposed budget amendment. Attached to this motion memorandum will be a form similar to the traditional BAR form which would summarize all of a Member of Council's proposed amendments and amounts.

All proposed amendments will be consolidated into a document to form the agenda for the budget review meetings. Individual memos will be included within the budget review meeting package materials to ensure appropriate public disclosure.

These Budget Motion Memorandums provide other Members of Council and most importantly the public, greater clarity as to why an amendment is being proposed and the rationale for the budget change request.

Future Budget Process Changes (2024 Budget and beyond)

Strategic Direction Business Plans

A distinct business plan will be prepared for each strategic direction. It is recommended that this process be considered with the new term of Council in 2023 and incorporated into future budget cycles.

5 Year Integrated Enterprise Business Plan

With the new term of Council, it is recommended that a 5-year enterprise business plan be developed based on the individual Strategic Direction Business Plans. This 5-year Integrated Enterprise Business Plan would form the basis for the Multi-Year Budget Simulation.

2023 Budget Presentation

The 2023 Budget will again be presented as a consolidated document of capital and operating budgets in a Service-based format. The document will include Service Business Plans with operating budget details including the prior year history for comparison. Services will be grouped into Service Categories which are closely aligned to the City's Strategic Plan. These groupings 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, green, or growth infrastructure. The capital projects will be grouped under the respective Service Categories they support.

A combined format such as this allows for the consideration of operating impacts at the same time as capital investments.

COVID-19 Impacts

The COVID-19 pandemic continues to place significant pressure on the city's finances. As reported monthly as part of the COVID-19 emergency response verbal updates, the city is currently forecasting $2.7M of additional revenue losses and increased expenses as a result of the pandemic in addition to those forecasted in the 2022 budget. A portion of these impacts have been offset by operational savings realized during the course of this year. While we are optimistic that given the current lifting of Provincial restrictions and vaccination rates that city services will remain largely open during 2023, we recognize that a portion of this financial strain may result in a permanent adjustment to budgeted line items (lost revenues and increased expenses).

Unlike the Federal and Provincial Governments, the City cannot budget for an operating budget deficit. Staff will continue to monitor the impacts of COVID-19 and the projected recovery plan to identify pressures that are anticipated to extend into 2023 and beyond.

The 2023 budget will incorporate the latest information available while identifying associated risks and pressures. There will be a continued focus on core service delivery, continuous improvement and finding cost savings in all program areas to mitigate the tax increase.

The 2023 budget documents will include a summary of COVID-19 financial impacts should there be any.

Safe Restart Agreement Funding

The city remains grateful for the senior government support received to date under the Safe Restart Agreement. This funding helps municipalities like Burlington protect the health and well-being of our residents, while continuing to deliver critical public services to our community and assist with economic recovery. It also provides immediate relief from transit pressures, such as lower ridership, reduced revenues as well as for new costs due to COVID-19, such as enhanced cleaning and personal protective equipment.

To date nearly $20.5 million in funding has been announced under the Safe Restart Agreement. $17M of this funding was used to offset the 2020 and 2021 year-end positions. The balance of this funding will be used to offset 2022 impacts including an estimated draw of $3.3 million from the tax rate stabilization reserve fund should additional Safe Restart funding not be received.

Financial Matters:

The forecasted City tax increase for 2023 at 7.97% is an increase of 2.25% over the 5.72% presented in the last simulation. This is largely attributable to:

- adjustments made to the 2022 budget to mitigate the tax increase which then need to be included in the 2023 budget,
- substantial increases to the estimated impacts of inflation on 2023 costs,
- recently approved service changes and community investments which result in ongoing operational impacts.

The following table summarizes the changes in the 2023 forecast from the last time it was presented to Council (November 2021) to the revised forecast outlined in this report.

Description	2023 Intial Forecast F-45-21	2023 Revised Forecast	2023 Mitigation Option
Base Budget *	1.91%	2.72%	2.50%
Additional Base Budget Pressures	0.32%	0.70%	0.59%
Impacts of Prior Council Decisions	0.13%	0.46%	0.41%
Impacts of Previously Approved Capital Projects	0.09%	0.95%	0.95%
Infrastructure Levy	1.60%	1.60%	1.60%
Total Additional Base Budget Items	2.14%	3.71%	3.55%
Risk Mitigation Measures (Business Cases)	1.67%	1.56%	1.13%
Total City Tax Increase (%)	5.72%	7.97%	7.16%
Overall Tax Bill Impact (%) **	3.48%	4.55%	4.18%
City Tax Increase of Total Tax Bill (%)	2.65%	3.68%	3.31%

**Includes estimated assessment growth of 0.6%*

***Regional tax increase estimated at 2.5% in 2023 thru 2024 and 2.2% onwards as per Halton Region 2022 Proposed Budget*

Numbers may not add due to rounding

The Multi-Year Simulation forecasts tax increases as follows (detailed in Appendix A):

	2023	2024	2025	2026	2027	Average 2023-2027
City Tax Increase	**7.97%**	**6.84%**	**6.45%**	**5.13%**	**4.92%**	**6.26%**
Overall Tax Bill Impact	**4.55%**	**4.11%**	**3.89%**	**3.30%**	**3.23%**	**3.82%**
City Share of Overall Impact	**3.68%**	**3.26%**	**3.16%**	**2.57%**	**2.51%**	**3.04%**

The multi-year simulation forecasts the city tax impact from 2023 to 2027 to begin at 7.97% reducing to 4.92%. The average increase for the 5-year period is 6.26%. The overall tax rate impact (City, Region and Education) ranges from 4.55% in 2023 to 3.23% in 2027 with an average of 3.82%. The city's portion of the overall tax rate impact averages 3.04% over the 2023-2027 timeframe.

Historical Tax Increases

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)
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%
2020	3.99%	2.43%
2021	4.14%	2.50%
2022	4.62%	2.84%
4-yr Avg.	***3.94%***	***2.43%***
10-yr Avg.	***3.93%***	***2.24%***

Over the last four years the average city tax change is 3.94% and the overall tax change is 2.43%. During this four-year period, the city's budget included the 1.25%

infrastructure levy to lower the infrastructure funding gap while at the same time provided significant investments in Transit, By-law Enforcement and Forestry.

For the last ten years the city tax change is 3.93% with an overall tax rate change of 2.24%. According to the BMA annual study, Burlington remains below the group average of surrounding GTHA municipalities when comparing the tax burdens of similar properties.

Climate Implications

In April 2019, Council declared a Climate Emergency. Burlington's Draft Climate Action Plan (CW-20-19) identified a number of initiatives to assist the City in reducing its overall carbon footprint.

There are many foundational initiatives in the city's Vision to Focus (V2F) plan such as creating the Climate Adaptation Plan, Corporate Energy Plan, Green Fleet Strategy, Urban Forestry Management Plan and enhanced Transit that will require significant capital and operating funding to achieve the city's aspirational climate goals.

The inclusion of a Green Infrastructure Levy to support several long-term environmental infrastructure initiatives including active transportation and the greening of the corporate fleet and facilities has been forecasted to begin in 2024 as part of the multi-year simulation.

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. The Open Book platform will also be used to present the budget and allow the public to view the budget data in an interactive and intuitive format.

Budget Timelines

Budget timelines will be impacted by the 2022 municipal election this October. In an election year the Proposed Budget may only be adopted in the year to which the budget applies. Below is a brief draft timeline of the 2023 budget process assuming there is minimal changeover in the current makeup of Council members thus reducing the need to undertake extensive Council orientation:

- Council Workshops – Council Orientation & Service Presentations Dec 2022 (TBD)
- CSSRA – 2023 Budget Overview Jan 2023 (TBD)

• 2023 Budget Virtual Townhall	Jan 2023 (TBD)
• CSSRA – 2023 Budget Review & Approval	Feb 2023 (TBD)
• Council – 2023 Budget Approval	Feb 2023 (TDB)

Conclusion:

Financial sustainability will continue to be our key strategic priority. The budget will continue to face rising pressure from inflation, 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.

Staff will prepare the 2023 budget taking into account the budget pressures identified above, while aligning to the city's long-term financial plan and the important policy decisions of council.

While staff have provided some mitigation options for 2023, it is important to understand that our ability to respond to urgent existing and future needs across many areas is clearly and directly tied to Council's support for additional tax funding.

It is important to note that known budgetary pressures that are deferred in the 2023 Budget will need to be incorporated into future years thus increasing the forecasted tax increases identified in the multi-year simulation for 2024 and beyond.

Respectfully submitted,

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Appendices:

A. Multi-Year Budget Simulation

B. Budget Mitigation Strategy – Impact to Multi-Yr Simulation

Report Approval:

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