CITY OF Burlington

SUBJECT: 2023 budget overview

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

FROM: Finance Department

Report Number: F-01-23

Wards Affected: All

File Numbers: 435-01

Date to Committee: January 9, 2023

Date to Council: January 24, 2023

Recommendation:

Receive the 2023 proposed budget book; and

Direct the Chief Financial Officer to present the recommendations in Appendix A to the Corporate Services, Strategy, Risk and Accountability Committee meetings of February 6, 7 and 9, 2023 for review and approval, taking into consideration committee amendments.

PURPOSE:

This report provides an overview of the proposed 2023 operating and capital budget and forecast.

Executive Summary:

In July 2022, Council received the 2023 Budget Framework Report. The report provided Council with the parameters on which the 2023 budget would be prepared and outlined key budget pressures the city was anticipating.

Since that time, staff have finalized the proposed 2023 Budget which results in a recommended overall tax increase of 7.08% (including Region of Halton and Boards of Education). Of the 7.08% increase to the property tax bill, Burlington’s portion of the overall increase is 5.90%.

The 2023 proposed budget maintains service levels while recognizing higher than average inflation; addresses the continued financial impacts of COVID-19; dedicates funding to ensure our assets are maintained in a state of good repair; includes strategic community investments for the next 50 years; stabilizes and enhances city services and confirms a compensation program that reflects the council approved market position. All of this will ensure residents continue to receive the programs and services that provide for the high quality of life in Burlington.

Burlington is Growing, Changing and Improving…Now is the Time to Invest.

The 2023 and 2024 budgets are unprecedented and both years will be challenging – reflecting significant inflationary pressures, addressing ongoing COVID financial impacts and making strategic investments to address the needs of our growing community with limited increases to the property tax base (assessment growth) to offset these pressures. We are now playing “catch up” as city services and amenities have not kept pace with the population growth.

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All of this will ensure residents continue to receive the programs and services that provide for the high quality of life in Burlington.

Background and Discussion:

In July 2022, Council received the 2023 Budget Framework Report. This report provided Council with the parameters and assumptions on which the 2023 budget would be prepared and outlined key budget pressures the City was anticipating.

Since that time, staff have finalized the preparation of the proposed 2023 Budget which results in a recommended overall tax increase of 7.08% (including Region of Halton and Boards of Education). Of this 7.08%, Burlington’s portion of the overall increase is 5.90%.

This report will outline the process undertaken to finalize the budget, discuss key budget pressures/challenges and summarize the financial impacts for 2023 and forecasted years.

The 2023 budget submission continues to adhere to the guiding principles and directions of the following reports:

F-25-22:	2023 Budget Framework Report
CM-24-22	Designing and evolving our organization – updated department functional design and management structures
CM-3-22	Preliminary Multi-year Community Investment Plan (MCIP)

F-34-21: Asset Management Financing Plan

F-29-19: 2019 Financial Condition Assessment

CM-06-19: 2018-2022 Burlington's Plan: From Vision to Focus

F-22-12: The City of Burlington Long Term Financial Plan

2023 PROPOSED BUDGET

Strategy/process

The budget process provides a venue in which decisions are made to ensure an appropriate balance between affordability, maintaining service levels and financial sustainability is achieved over the long term.

The city, like everyone, is facing many significant challenges as we approach 2023. This year in particular is a difficult and unprecedented City budget. There is a need to deal with significant inflationary pressures and the ongoing COVID-19 impacts, while at the same time addressing the needs of our growing community with low assessment growth which is expected to increase over time.

Investments in city services and community amenities have not kept up with our growing community. The 2023 and 2024 budgets are about playing catch up and phasing in the investments required in our community which will prepare us for the future.

Budget priorities and urgent needs include:

- ensuring our infrastructure and assets are maintained in a state of good repair,
- maintaining service levels while realizing higher than average inflationary pressures,
- addressing the continued financial impacts of COVID-19,
- continuing to provide strategic investments aligned to Vision to Focus,
- addressing legislative changes,
- stabilizing and enhancing City services for improved customer experience, and
- support for market-based salary competitiveness for staff needed to deliver City services.

With our 2023 budget decisions, we need to focus on community priorities, deliver on them with new investments and plan for and protect our city's future. These decisions will help enhance the quality of life for residents.

In the 2021 community survey, 95% of residents rated their overall levels of satisfaction with City Services as very satisfied/somewhat satisfied and 89% of residents rated Burlington as an excellent/very good place to live. The City's investment in this budget ensures we maintain that quality of life and satisfaction with City services that residents care about.

2023 Budget Format

The budget is again presented in a service-based format combining both operating and capital needs allowing Council and residents to see how our services meet the growing demands of our community. The identification of revenues and expenditures by service ensure staff and Council is considering service adjustments when making budget decisions, as well as providing increased transparency and awareness to the public.

The capital budget continues to be presented as a 10-year program.

Budget Review Process

The internal budget review process included:

- A line-by-line review of the base operating budget by the Chief Financial Officer and Service Owners to ensure the base budget is as stringent as it can be.
- The Corporate Infrastructure Committee conducted an in-depth review of the 10-year capital program ensuring adherence to financial policies, coordination of projects and alignment with the Strategic Plan and corporate initiatives.
- A corporate/strategic review by the Strategy and Risk Team (SRT) which included alignment to strategic objectives and review, development and recommendation of specific key investments supported by business cases in the 2023 Budget.

Service Information Workshops – November and December 2022

On November 29 and 30 and December 12 and 15, eight Council Workshop sessions were held which allowed Service Leads to present overviews of their business plans to Council. Each of the City Services were grouped into the eight sessions by themes somewhat 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

In addition, an opening presentation on the first day (November 29) provided an overview of key highlights and progress that has been made during the last term of Council (2019-2022). As well, Committee received a closing presentation (December 15) which included a summary of the main themes presented during the workshop and an update on the overall Designing and Evolving Our Organization (DEOO) process.

Budget Motion Memorandums Forms

Similar to the process introduced for the 2022 budget, should a Member of Council wish to propose an amendment to the budget they are requested to prepare a Motion Memorandum. This memo will include the rationale for any proposed budget amendment. These Motion Memorandums will 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.

Motion Memorandums are due to Finance by 4pm on January 23, 2023, to allow sufficient time for inclusion into the CSSRA-budget agenda of February 6, 2023. These Motion Memorandums will form the basis for the agenda to review the budget.

Budget Review and Approval Timelines

Below is a brief timeline of the 2023 budget review and approval process:

Date	Meeting	Item
January 19, 2023	TEAMS Live	2023 Budget Virtual Town Hall 7:00 – 8:30 PM
January 23, 2023		Budget Motion Memorandums due to Finance
February 6, 7 and 9, 2023	CSSRA	2023 Budget Review and Approval
February 14, 2023	Council	2023 Budget Approval

BUDGET PRESSURES, FINANCIAL SUSTAINABILITY AND BUDGET RISKS

The city continues to closely monitor revenue sources and strategies to maintain financial sustainability as outlined in the objectives of the city's long-term financial plan. There are a number of issues that the City will need to be mindful of in 2023 and future years. In preparing the 2023 budget for Council's consideration, staff have identified pressures that need to be considered within the context of the budget discussions.

These pressures, outlined in subsequent sections of this report, primarily relate to staff's ability to continue to deliver existing services. Left unaddressed, these pressures will significantly challenge the organization's ability to deliver services at their current levels.

These pressures include:

Economic Considerations

Inflation, supply chain impacts and labour shortages in Ontario continue to pose an issue for municipalities.

- **Inflation** – Over the past year, consumer inflation has steadily increased. The Consumer Price Index (CPI) rose to 6.9% year over year in October, matching the increase in September. Heightened consumer demand, labour shortages and a strained global supply chain are some of the main factors contributing to higher prices.

  The City is experiencing significant increasing costs for contracted services, fuel, software license fees and materials that place additional pressures on the budget. For 2023 these higher-than-average inflationary pressures are estimated to be $772,000.

  As the economy responds to higher interest rates and as the effects of elevated commodity prices and supply disruptions fade, the Bank of Canada expects inflation to fall to about 3% in late 2023, then return to 2% in 2024.

- **Supply Chain** – Many materials and supplies the city uses in construction activities are driven by market conditions and more recently significant price volatility and increased lead times during the COVID-19 pandemic. This results in the construction price index increasing higher than the rate of inflation. From 2017 to the third quarter of 2022, the construction price of erecting non-residential buildings was over 33% higher than in 2017, the year when the index base was set. This has had a significant impact on the City's capital program.

- **Foreign Exchange** – The City has a number of large purchases that are paid using United States (US) dollars such as fire trucks and software maintenance. The foreign exchange risk can cause large fluctuations in the market value of these goods at any time during the year given changing economic conditions. Legislation limits the City in its ability to protect itself against this risk as it is restricted in the amount of US dollars it can purchase in advance and prohibited from entering into foreign exchange contracts.

Human Resource Management, Labour Market and 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.

A significant risk to the corporation is the attraction and retention of talent and this reality has been a focus in 2022. As of mid-December 2022, we have already hired 212 staff and currently have 54 unfilled vacancies. The turnover rate is currently at 11% as compared to a corporate target of 5% as per CM-6-22.

The following realities create a labour market and workforce risk:

- An outdated non-union compensation system requiring significant updates to be more market competitive and to provide a foundation to improve our ability to:
  - Attract and hire qualified candidates to fill vacancies.
  - Retain employees in a highly competitive labour market.
- Increased number of staff eligible to retire;
- The need to improve and update our employee retention strategies by evolving and implementing robust workforce programs that:
  - Develop our employees and prepares them to take on other roles;
  - Establishes individual performance goals and metrics and recognizes exceptional effort in a meaningful manner; and
  - Ensures our workplace is diverse, inclusive and welcoming to all.

Labour market and staff retention risk continues to pose a significant enterprise risk for the City. While approximately 100 additional staff positions were added in recent budgets, financial constraints prevented many other pent-up needs from being incorporated. This results in deficiencies in human capital, difficulties servicing a growing population, and this leads to risk in operations and compliance with legislation.

The City wants the best people working here to support our community and maintain quality of life. However, we are having a hard time not only attracting the best candidates but also retaining our excellent staff.

Our current compensation structure has created issues with compression and being out of line with the competitive marketplace.

The budget includes known and estimated contractual increases for unionized staff and standard increases for non-union staff. Also included is $4.7 million of ongoing funding for HR Market Competitiveness which has been included as an additional pressure on the base budget. This will support a significant update to the full-time and part-time non-union compensation program by modernizing the job evaluation system and updating compensation policies while realigning to the Council approved market position.

The compensation update is the first step to building a foundation for attraction and retention strategies. Supporting and developing our current staff is just as important as attracting new and qualified candidates for vacancies. Over the next several years, workforce programs such as succession management, performance management and a diversity and inclusivity strategy also need to be enhanced/developed to address retention risks. With the introduction of our new Workday platform in 2023, we also want to seize the opportunity to integrate new functionality and transform our HR business processes.

Designing and Evolving our Organization

Since 2019, the City has taken a corporate-wide strategic approach to refine its functional design and organizational structure through Designing and Evolving our Organization (DEOO). As Council is aware, the City of Burlington has reached its tipping point where the ability to provide effective and quality services at current staffing levels is not sustainable. The impacts were highlighted during the recent Service Information Workshops particularly with respect to City operations and internal capacity to effectively implement and execute strategy.

Designing and Evolving our Organization has allowed the City of Burlington to continue to evolve to meet the changing environment, to address the strengths and weaknesses of the organization in a strategic and comprehensive manner and most importantly prepare for the future.

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-centered organization and to effectively deliver on our commitments.

Annually DEOO includes the following process:

- Assessing current state resources based on risks and service needs
- Updating the plan including resource rationalization and process improvement
- Presenting the plan for review and approval in principle
- Recommending Council consideration and approval of updated DEOO Plan and related budget implications

By following these steps, DEOO has become a part of our natural process of aligning our resources to the achievement of strategic objectives and effective and efficient service delivery while managing risk. Through this process, resource needs are identified and prioritized, giving consideration to rationalization where it makes sense and process improvements. These decisions are reflected in an annually updated DEOO plan and incorporated into the budget.

As part of the 2023 budget, additional staffing requests amounting to 38.5 FTEs in total are reflected in the recommended Key Investments under the category of Sustaining City Services and are supported by business cases.

What's Different in these Business Cases?

The approach to business cases requesting resources has been enhanced to recognize the full spectrum of staff required to ensure the service is effectively resourced to accomplish its objectives. Beginning this year, business cases include the customer facing or service front-line, service back-office and corporate support resources collectively required to achieve the objectives. This approach is a change from the past where only service front-line and service back-office resources were included in a business case.

Proposed New By-Law Compliance Department

For greater clarity, an example serves to highlight the enhancement. The business case to create a By-law Compliance Department to add much needed inhouse by-law review and development capacity, centralize enforcement expertise and modernize service delivery includes all the resources required to accomplish this objective over the three phases. More specifically, the business case outlines the resources in positions directly providing the service e.g. by-law officers and licensing clerk, positions directly supporting the delivery of the service e.g. supervisor of policy & administration and policy coordinator, and corporate service positions required to support the service e.g. solicitor general litigation, municipal law, insurance practice and communications advisor.

It is important to note, the inclusion of corporate support positions within a specific business case does not affect the department membership and reporting structure of these positions. For example, the solicitor would remain a member of the Corporate Legal department and report to the relevant people leader and the Communications Advisor would remain a member of the Corporate Communications & Engagement department reporting to the relevant people leader.

The enhanced approach recognizes the increase in staffing required to stabilize operations and enhance services must be supported by an increase in staff in the corporate support services. The ratio of service front-line and service back-office to corporate support resources is not one to one. Some services, e.g. Human Resources and Information Technology, have benchmark ratios within specific functions (e.g. human resource representatives and IT computer service desk), while other services, e.g. finance and legal, do not have these same ratios. As a result, our approach is to understand the whole picture and identify where corporate support staffing best fit into the picture.

The whole picture includes what specific skills and competencies are needed to deliver and support services, the total number of proposed new staff positions in all services, and the capacity of existing staff in corporate support services. With this information, corporate support positions are identified and included in the business case where the skill and competency are needed most. With this approach, it is understood the majority of time and focus of the corporate support position will be directed to the designated service with some time to provide support to other services. For example, in the By-law Compliance Department business case, the solicitor general litigation, municipal law, insurance practice and the communications advisor will have by-law compliance as the primary focus of their responsibilities. As it is likely to occur, their excess capacity will permit their skill and competence to be focused on other services. For example, the solicitor could support insurance litigation and the communication advisor could support transit services.

Building a 21st Century Workforce and Digital Services Transformation

There are several transformational technology related projects currently underway to modernize the delivery of city services and provide ongoing operational efficiencies and improved data analytics. Each of these major initiatives require financial and staffing resources to ensure a successful implementation and as well as ongoing operational support.

Included in the DEOO item mentioned above, are permanent resources being requested to support the strategy, processes and technology for the Enterprise Resource Planning (ERP) system and Enterprise Asset Management System (EAMS).

Also included is the transformation of Information Technology Service to Burlington Digital Service with the refinement of functional areas to expand beyond the traditional functions (e.g. network operations, information and data security, and application and solution support) to functions supporting digital enterprise architecture, product delivery and decision support, and human-centered delivery.

For further details on the Digital Services Transformation please refer to Report IT-02-23 on this same agenda.

COVID-19 Pandemic

The COVID-19 pandemic continues to impact our city. Aside from the health concerns for people and pressures on the medical system, it represents one of the most significant financial challenges municipalities have ever faced.

Budgetary pressures associated with the COVID-19 pandemic are expected to continue into 2023. The largest of these impacts relate to decreased revenues particularly in recreation programs, facility rentals and parking. For 2023, $519,000 of these revenue losses are anticipated to be temporary in nature and will be funded from a one-time funding plan as has been done in the prior two budgets. However, it is now recognized that shifting customer behaviour and current world economic conditions have resulted in $527,000 of anticipated long-term revenue reductions.

To date $22 million in funding has been announced under the Safe Restart Agreement from senior levels of government (with the latest announcement on Dec 7/22). This funding has assisted 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 provided 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 for staff.

Of the Safe Restart funding received, $6.9 million was used in 2020 and $10.1 million was used to offset the 2021 year-end position. This leaves $5.0 million of Safe Restart funding remaining to be used to offset the 2022 year-end financial position.

The 2022 COVID budget and financing plan assumed safe restart funding available of $2.66 million and a draw from the tax rate stabilization reserve fund of $2.89 million. As reported in the Financial Status Update as of September 30, 2022 (Report F-40-22), the City currently anticipates a year-end deficit of $1.2 million. After using all remaining Safe Restart funding, the required draw from the tax rate stabilization reserve would be $1.75 million. Unlike the Federal and Provincial Governments, the City cannot budget for a deficit and therefore must budget and fund revenue shortfalls.

Currently, senior levels of government have not made any further financial commitments for municipalities related to COVID-19 beyond 2022. Staff will continue to work with other municipal partners to educate and seek additional support from senior levels of government to address the continued pressures in 2023 and the important role that municipalities play in economic recovery in the aftermath of the pandemic.

Legislative Changes

Recent provincial legislation and regulations are forecasted to have significant impacts on the City's finances and future budgets.

- **Bill 109**, ***More Homes for Everyone Act*****, 2022** – Bill 109 received Royal Assent on April 14, 2022. While parts of this legislation came into force at the time of Royal Assent, significant portions of Bill 109 come into effect in 2023. Bill 109 was introduced by the province with the stated intention of accelerating development application review timelines and streamlining the approvals process to allow new housing to be constructed quicker.

One of the key legislative changes resulting from Bill 109 includes a requirement to refund Zoning By-law Amendment and Site Plan Application fees if a decision is not issued within legislated timelines.

Based on historic and anticipated development application trends, approximately $2 million of annual application fees are at risk of being refunded if applications are not processed within legislated timelines. Historically, the fees charged for development applications reflect the staff effort involved in processing the applications. Bill 109 introduces changes to that funding model by requiring application fees to be refunded if a decision is not made within the legislated timelines, regardless of the amount of staff time and effort dedicated to that file.

While it is staff's intent to minimize, to the extent possible, application refunds, it is likely that there will be a financial impact, which is difficult to predict. As such, there will be the need for continued strategic monitoring of application processes, revenues and refunds by Community Planning staff. The purpose of this monitoring will be to assess staff capacity in our service delivery while ensuring application fee refunds are minimized. There is the potential that additional staff resources may be required to respond to this legislation and minimize the potential for application fee refunds.

- **Bill 23, *More Homes Built Faster Act*, 2022** – The goal of the legislation is to facilitate the construction of 1.5 million new homes in Ontario by 2031. The Bill received Royal Assent on November 28, 2022. The omnibus bill amends a number of existing statutes including: *the Planning Act, Ontario Heritage Act, Development Charges Act, Conservation Authorities Act, and Ontario Land Tribunals Act*, amongst others.

  The legislative amendments amount to the most drastic changes to the land use planning process that Ontario has seen in years.

  Amongst other things, Bill 23 will:

  - Restrict the ability of the municipality to obtain or deliver future parkland and open space through land conveyance or cash-in-lieu;
  - Restrict the ability of the municipality to deliver much needed growth-related capital infrastructure given the introduction of caps, exemptions, phase-in of charges and ineligible costs related to Development Charges

  The City is committed to the long-standing principle that new growth is financially sustainable and that development related charges pay for growth-related infrastructure, facilities and parks to support the development of complete communities. The principle of growth paying for growth is a critical consideration to avoid or minimize the burden of growth costs falling on existing taxpayers.

The changes in Bill 23, namely those impacting development charges and parkland dedication fees (including land conveyance), will have significant detrimental consequences to municipal finances limiting the City's revenue potential to support growth-related infrastructure.

Under Bill 23, revenues from development charges and parkland dedication fees (including land conveyance) are artificially lowered which will increase the burden on municipalities to fund growth-related infrastructure from other revenue sources, which are limited. Therefore, the revenue to provide the required infrastructure will put greater pressure on the property tax base and will impact the City's debt capacity through the increased use of long-term debt and associated financing costs.

This affects all facets of the City's capital program as the limited funding envelope impacts our ability to deliver infrastructure needs related to renewal, growth, and new strategic projects, resulting in tough choices between maintaining existing assets and building new infrastructure.

Development Charges (DC) reserve fund balances are not abundant or excessive given our multi-year capital forecast needs. The funds are used efficiently and are only spent to provide timely infrastructure associated with growth. Based on rising costs, and already reduced revenues in these areas, planning for growth related projects are already seeing delays and insufficient funding.

Staff will continue to review the changes contained in Bill 23 and will outline further financial impacts as more information becomes available. In advance of further analysis, the multi-year simulation includes a $1 million placeholder in 2024 to account for future potential financial impacts.

Assessment Growth

The impacts from growth accounts for a portion of the city's increased costs year over year. These cost increases have been offset by assessment growth which allows a municipality to finance increased costs without increasing taxes.

The 2023 budget includes assessment growth at 0.60%. This provides approximately $1,149,555 of additional revenue to offset inflation and growth-related costs in the base budget. The assessment growth of 0.60% reflects increased assessment from new construction offset by reductions to assessment resulting from appeals based on Assessment Review Board (ARB) decisions and Requests for Reconsideration.

Assessment growth has declined sharply from historical values. Average assessment growth from 2004-2008 was 3.5 times higher than that realized today. While growth has remained low in recent years it is forecasted to increase as new residential units are added to accommodate population growth.

Historical Net Assessment Growth Averages

5 - Year range	Average Net Assessment Growth
2004-2008	2.10%
2009-2013	1.34%
2014-2018	0.65%

Over the past 5 years, net assessment growth has ranged from a high of 1.07% to a low of 0.34% for an average of 0.62%. Net Assessment growth is forecasted to average 0.93% from 2024 – 2027.

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Actual					Forecast			
Net Assessment Growth	0.64%	1.07%	0.34%	0.45%	0.60%	0.75%	1.00%	1.00%	1.00%
Average	0.62%					0.93%			

Infrastructure Funding Deficit and Asset Management Plan

The Asset Management Financing Strategy approved by Council in 2021 (F-34-21), provides a long-term planning horizon, with long term goals and objectives of sustainability, predictability, and stability; that the assets are managed for present and future residents in a fair and sustainable manner.

The 2021 financing strategy placed a greater emphasis on the importance of sustaining and growing the dedicated infrastructure levy in increments of five years, representing sustainable and predictable infrastructure funding aligned with the city's long-term financial plan. As per the plan, an increase of 0.35% to the levy to 1.60% is recommended as a minimum requirement for the levy to begin to address current needs, while building towards future needs. This assists in preventing increased capital and operating costs due to unplanned reactive maintenance and renewal activities, which further adds to the city's backlog. It is important to emphasize that any downward adjustment to the approved dedicated infrastructure levy below the 1.6% will significantly impact the management of city assets and service delivery of our $5.2 billion worth of existing assets.

As a reminder, in presenting the 2021 Asset Management Plan (AMP), the city recognized that the financial plan is an iterative process and to progress on reducing the infrastructure gap it requires re-calibration, and updates based on changing variables and factors, as outlined in the report (F-34-21). In addition to the legislative changes mentioned above, there are multiple long-term factors (e.g., climate change) that impact the financial plan in the following areas:

- **Net new additions to the City's asset base** – The City's inventory of physical assets is continuously growing through the construction and acquisition of new infrastructure. This infrastructure supports key services, but also represents a long-term financial obligation.
- **Escalating levels of service (LOS)** – The city's existing inventory of assets is based on renewing or replacing assets at similar function or equivalent utility. Much of the City's infrastructure is following an "incurred standard," meaning that in the absence of a defined level of service, there is an expected level of service that the city has been delivering on. This expectation supports projects that are aligned to the city's Vision to Focus initiatives and overall Strategic Plan. As service levels increase, the infrastructure needed to support service delivery will be costlier and will need to be reflected in future analysis.
- **Inflation, commodity prices and supply constraints** – The economic impacts of inflation and rising industry costs has limited the City's ability to address new and state of good repair needs. Prices for key materials used in infrastructure construction have risen between 15-25% from 2021. Multiple factors are driving these increases, including global supply chain backlogs. These factors result in a reduced capital renewal program and making less progress against the infrastructure renewal backlog.

Asset Planning and Finance staff continue to review the aforementioned impacts to the AMP and Financial strategy. As part of the 2023 budget presentation staff will bring forward an overall view of the significant changes experienced over the last year as it relates to the above factors and the impact these changes are having on the 60-year financing plan horizon.

As reported in the city's AMP (ES-47-21), to further advance asset management practices within the organization several items were noted as part of a continuous improvement plan, those centered around defining levels of service, and establishing performance metrics that focus on "How well are we doing?" One such initiative is the introduction of a Decision Support Solution (DSS) into the Asset Management System. This software tool utilizes asset information, lifecycle strategies and funding scenarios to model and inform future financial need through an optimization algorithm. Since the 2021 AMP, Asset Planning and Finance staff have received training in this tool and will continue to configure it in alignment with, and through the integration of the City's Enterprise Asset Management Solution (EAMS).

The introduction of new performance metrics currently being developed and evaluated will assist in annual reporting to Council. One such new metric, is the city's asset renewal ratio. This provides a measure of financial sustainability given the funds available towards the city's renewal needs. Based on 2021, the city's renewal ratio over ten years based on all assets is estimated at 0.68. Meaning that the city is funding $0.68 cents per every $1 of need. This means that over the next ten-year period the city is under-funding its renewal needs. Council will recall from 2021 the city is in a period of infrastructure deficit, and therefore a ratio of less than 1 is not surprising. However, this ratio represents another metric to ensure that the city is not falling further behind. A declining renewal ratio could signal an increasing financing gap, increased reactive maintenance, impact to asset condition, and service standard compared to plan.

In addition, the City of Burlington was selected to participate in a national climate action cohort study to identify how climate change will impact asset lifecycles and needs in a pilot project, which is currently underway. This project will also align with one of the key themes of the 2021 Climate Resilient Burlington Plan.

Asset Planning and Finance staff will continue to monitor the Asset Management System according to the legislative requirements under O.Reg 588/17. With the completion of the 2021 AMP, the City of Burlington is well-positioned in its Asset Management Strategy and exceeds the requirements for the July 1, 2024, requirement through the establishment of Current Levels of Service for all asset groups. The Asset Management Team is preparing to advance to the next and final requirement, which focusses on the determination of Target (or Desired) Levels of Service, which will require both Council and public consultation, by July 2025.

Debt/ Debt Charges

The proposed budget reflects *Responsible Debt Management* as the budget adheres to the city's debt policy limits while using debt in the most effective manner as per the city's long-term financial plan. The city's debt policy limits the total debt charges and liabilities as a percentage of revenues to 12.5% (provincial legislated limit is 25%).

Over the last several years, Finance staff have been using debt more efficiently to be consistent with the city's long-term financial plan, by ensuring that less debt is being applied to lifecycle projects and more debt is being used towards projects that are considered new / enhanced. This has the benefit of building a more sustainable source of funding towards the city's asset management plan.

The city's debt is monitored on a regular basis, and debt capacity is projected based on debt that is retiring, debt approved (issued and to be issued), as well the capital forecast debt requirements. Any in-year debt approvals beyond what is included in the city's capital program will be reflected in an updated debt capacity report. It is important to note that debt capacity changes from one year to the next, and capacity in one year is not necessarily indicative of the forecasted trend.

The City's debt policy does include a provision to temporarily exceed the limit to a maximum of 15% for a period of three years for major capital projects. For year-end 2022, the city's total debt limit is at 13.6%, and staying above the limit at 13% in 2023. The forecast does not include opportunities that may arise in the future and not currently approved by Council. Moving forward, the city will reflect on the debt capacity available to provide to future capital investment. Ensuring that we stay within the provisions provided by the city's debt limit policy, staff will not be recommending approval of debt financing outside of the capital program until 2024 to continue our principle of responsible debt management and minimize any undue pressure on the city's debt charges budget.

The city's 2023 budget for tax supported debt charges is $9.2 million, an increase of $700,000 over 2022. This reflects the first phase of debt requirements for the Skyway Community Centre project. The multi-year simulation includes increased debt charges in 2024 - 2025 for the remainder of the Skyway project and the adaptive re-use of the former Bateman High School.

Planning for the Future – Reserves and 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.

Reserves and reserve funds provide tax rate and cash flow stability when the City is faced with unforeseen or uncontrollable events such as the COVID-19 Pandemic. 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 plan for future liabilities.

- **Stabilization Reserve Funds** – These reserve and reserve funds are used to mitigate raising taxes or reducing service levels due to unforeseen or temporary events. In order to maintain a prudent level, the city is targeting an uncommitted balance in stabilization reserve funds of between 10-15% of net revenues ($22.4 million to $33.6 million).

  As of September 2022, the consolidated balance of these reserve funds is below the target at 9.5%.

- **Capital Reserve Funds** – Annual contributions to capital funds that are consistent and predictable is vital for the future rehabilitation and replacement of assets.

  The city is targeting a balance equal to 2% of the total asset replacement value. Based on the City's total asset replacement value of $5.2 billion, this equates to an estimated $104 million.

  As of September 2022, the City's uncommitted consolidated balance in capital renewal reserve funds is approximately $28.8 million, well below the intended target.

- **Corporate Reserves and Reserve Funds** - These reserves and reserve funds are used to manage costs that will be transferred to future generations, as the City incurs liabilities that do not have to be paid immediately. Reserves and reserve funds in this category include Employee Accident (self-insured WSIB), Benefits and Insurance costs.

  Contributions to Corporate Reserves and Reserve Funds should take into consideration the liability associated with these funds. A sufficient budget allocation is required to fund in-year WSIB costs and post-employment benefits so that the Employee Accident Reserve Fund and Benefits Reserve Fund can eventually be replenished to cover the future liabilities.

Preliminary Multi-year Community Investment Plan (MCIP)

The city presented the MCIP to Council in April 2022, providing a high-level summary of potential community investment opportunities. The report also provided a preliminary review of potential financing mechanisms and known financing constraints over the forecast period. This examination of our multi-year financing capacity will assist in our approach to prioritize land acquisitions and related site/ facility developments and move towards increasing our dedicated reserve funding to meet future community investment opportunities and expansion of city operations. Staff anticipate reporting back in Q2 of 2023 to provide more detail on the city's future outlook of community investments subject to completion of master/ conceptual plans and various strategies.

Local Boards

Local Boards include the Burlington Public Library, Burlington Museums, Art Gallery of Burlington, The Burlington Performing Arts Centre (BPAC), Tourism Burlington and Burlington Economic Development. For 2023, a base budget increase of 1.75% was provided for local boards, equating to $283,773.

2023 PROPOSED CAPITAL PROGRAM

As presented in previous years, the capital program categorizes projects into the following four areas:

- **New / Enhanced projects** – increases to current service levels beyond what the city currently provides, not as a result of growth
- **Infrastructure Renewal projects** – repair, refurbishment or replacement of an existing asset to extend its useful life in accordance with the asset management plan
- **Growth projects** – capital required to service growth within the city
- **Green projects** – projects which support the city's climate goals

The 10-year capital program (2023-2032) is $878.0 million.

The table below provides a summary for each service category. Infrastructure renewal represents the largest type at 74.40% followed by growth-related projects at 11.06%, new / enhanced projects of 8.47% and green projects of 6.07%.

10-year capital budget by service category

Project Type	New/ Enhanced	Infrastructure Renewal	Growth	Green	Total
A City That Grows	$ -	$ 370	$ 2,200	$ 68	$ 2,638
A City That Moves	$ 40,515	$ 355,989	$ 70,448	$ 28,995	$ 495,947
A Healthy and Greener City	$ 25,002	$ 188,421	$ 24,202	$ 21,420	$ 259,044
An Engaging City	$ 3,165	$ 15,146	$ -	$ 324	$ 18,635
A Safe City	$ 325	$ 35,133	$ -	$ 1,678	$ 37,136
Good Governance	$ -	$ 1,000	$ -	$ -	$ 1,000
Enabling Services	$ 5,400	$ 57,166	$ 250	$ 816	$ 63,632
Total	**$ 74,408**	**$ 653,224**	**$ 97,100**	**$ 53,302**	**$ 878,033**

All values in thousands ('000)
Numbers may not add due to rounding

Recent asset investments that have been captured in the Preliminary Multi-year Community Investment Plan (CM-03/22) include:

- A new Skyway Community Center which includes a state-of-the-art community center with an NHL-sized rink; community meeting rooms, more recreation opportunities such as an indoor walking track and all with a net zero energy impact which is tied to the City’s climate action plan.
- The redevelopment of the former Robert Bateman High School into a new City-owned community hub for leisure and learning. When fully complete in 2026 this will be the largest community center in the city with additional recreational space and pool, an expanded library, HDSB adult education, Tech Place and Brock University.
- An expansion of the City’s Harvester Road Operations Campus (Transit and Roads, Parks and Forestry) to support continued investment in service delivery.

Funding the Capital Program

The capital program is funded from a variety of sources. Tax supported funding (cash and debt funding provided by the operating budget) continues to be the largest component accounting for almost two thirds (65.6%) of the overall funding envelope. The program continues to rely on the cash flow from development charge revenue to fund growth projects (7.5%), the Canada Community Building Fund and provincial gas taxes (10.0%), vehicle depreciation reserve funds (6.3%), park dedication reserve fund (1.8%) and other recreation facility renewal reserve funds for recreation assets. As well, anticipated funding from the Investing in Canada Infrastructure Program (ICIP) has been included into the 10-year capital program.

Non-tax Supported Capital Funding:

Development Charges and Park Dedication

The city amended the 2019 Development Charges (DC) By-law in April 2022. Further, a new parkland dedication by-law was approved in July 2022. Strategic initiative 4.1.f states: “New infrastructure needed to support growth is paid for by new development”.

The 2023 capital budget and forecast includes development charge funding of approximately 7.5%. The growth-related capital infrastructure included in the DC Background Study formed the basis of projects included in the 2023 capital 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.

As mentioned earlier, Bill 23 reduces the City's ability to collect fees from developers for growth related capital costs such as parkland, roads, transit and recreation facilities.

Staff will continue to closely monitor these revenue sources as fluctuations can significantly impact the funding of the city's growth-related capital program.

Canada Community Building Fund and Provincial Gas Tax

The Canada Community Building Fund (formerly known as the Federal Gas Tax program) was introduced in 2005 and provides approximately $6.1 million of funding annually for infrastructure renewal.

Of the total money received, 75% is used to fund road projects while the remaining 25% supports Transit renewal needs such as the conventional bus replacement program.

The Provincial Gas Tax program was introduced in 2004 and provides funding for transit capital and operating expenditures.

Of the approximately $2.38 million of funding received annually, the city uses $880,000 to support transit operating expenditures with the balance used to support the transit capital program.

Investing in Canada Infrastructure Program

The Investing in Canada Infrastructure Program (ICIP) is a national cost-shared infrastructure funding program between the federal government, provinces and territories, and municipalities and other recipients.

This program will see up to $30 billion in combined federal, provincial, municipal and other partner funding directed into four funding streams:

- Public Transit
- Community, Culture and Recreation
- Green
- Rural and Northern

Funding has been reflected in the 10-year capital program based on current and anticipated applications to the Public Transit stream.

2023 PROPOSED OPERATING BUDGET

Budget Investment by Service Category

The following table summarizes the gross investment in City Services by each of the Service Categories as well as Corporate Revenues and Expenditures. These figures represent Service's base budgets. Excluded are any financial impacts of recommended key investments listed below.

Service Category	2023 Operating Investment
A City That Grows	$ 13,745
A City That Moves	$ 57,787
A Healthy and Greener City	$ 44,687
An Engaging City	$ 19,507
A Safe City	$ 39,317
Good Governance	$ 8,785
Enabling Services	$ 28,692
Corporate Expenditures	$ 92,864
Total	**$ 305,384**

Gross budget values are in thousands ('000)
Numbers may not add due to rounding

Key Investments

The 2023 budget includes a number of key investments which focus on community priorities, deliver on new investments and plan for and protect our city's future. These decisions will help enhance the quality of life for residents.

These investments are proposed variations in the budgeted expenditures or revenues for which separate budget disclosure is warranted and are supported by business cases.

Service investments include:

- A new By-law Compliance department which will modernize service delivery with more staff to keep you safe.

- A transformation of City services onto new digital technology platforms with new and improved customer experiences, business processes, vendor management and fiscal efficiencies.
- Evolving the IT Department into Digital Services to deliver human-centred, scalable, agile technology solutions to meet customer needs through engagement, achieve business outcomes and develop innovative responses to policy challenges.
- Significant transit investment in more buses and operators. Ridership is back to pre-pandemic levels and growing. Public transit assists in reducing greenhouse gas (GHG) emissions and is directly tied to the city's climate action plan.
- A 2-year Coyote Response Strategy to educate residents about living with coyotes. (one-time)
- Additional firefighters to protect the community as recommended in the City's Fire Master Plan.
- A Home Energy Retrofit Program which takes action against climate change and is part of our climate emergency declaration. (one-time)
- A new Automated Speed Reduction program to help address local traffic concerns. (one-time)
- Additional staffing resources in Roads Parks and Forestry and corporate support areas to meet community expectations and manage workload challenges.

One-time funding

A total of $2.23 million of one-time funding needs (including those mentioned above) are required to support the 2023 Budget. The current projected balance in the Tax Rate Stabilization Reserve Fund is insufficient to fully fund these needs. As a result, the budgeted provision ($2,238,445) to the Contingency Reserve is being redirected for one-year to the Tax Rate Stabilization Reserve Fund.

Items unable to be accommodated

Given pressures on the 2023 Budget there were a number of staffing requests and other investments that could not be accommodated and need to be deferred to 2024 and beyond.

A summary of these items has been included in Appendix D.

Financial Matters:

Budget Financial Summary

Municipalities are required by provincial law to balance their annual budget such that revenues match the expenditures for the current year.

The net tax levy is the amount of property taxes required to support city services after consideration of user fees and other corporate revenues.

For 2023, the net tax levy consists of a proposed base amount of $212,003,541 plus recommended key investments of $5,349,004 for a total proposed net tax levy of $217,352,545. This net tax levy represents 69.5% of total operating revenues in 2023.

The 2023 proposed budget maintains service levels while recognizing higher than average inflation; addresses the continued financial impacts of COVID-19; dedicates funding to ensure our assets are maintained in a state of good repair; includes strategic community investments for the next 50 years; stabilizes and enhances city services and confirms a compensation program that reflects the council approved market position.

All of this will ensure residents continue to receive the programs and services that provide for the high quality of life in Burlington.

2023 Overall Tax Impact

The overall tax increase for 2023 is proposed at 7.08%. This is the impact to the property tax bill, a result of the City of Burlington, Halton Region, and Boards of Education and is equivalent to $56.74 per $100,000 of residential current value assessment (CVA). Burlington's portion of the overall increase is 5.90%.

	2022 Share of Tax Bill	2023 Share of Tax Bill	2022 Taxes	2023 Tax Increase	2023 Taxes	$ Impact on Tax Bill	% Impact on Tax Bill
Burlington	46.20%	48.65%	$ 370.39	12.77%	$ 417.67	$ 47.28	5.90%
Halton	34.70%	33.53%	$ 278.37	3.40%	$ 287.83	$ 9.46	1.18%
Education	19.10%	17.82%	$ 153.00	0.00%	$ 153.00	$ -	0.00%
Total	100.0%	100.0%	$ 801.76	7.08%	$ 858.50	$ 56.74	7.08%

The following table provides a breakdown of Burlington's portion of overall tax increase:

2023 PROPOSED TAX SUMMARY

	2023 Budget Change	2023 Overall Tax Impact
Base Budget Impact including Assessment Growth*	$ 9,172,145	1.92%
Additional Budget Pressures	$ 6,689,564	1.60%
Impacts of Prior Council Decisions	$ 1,584,100	0.38%
Impacts of Previously Approved Capital Projects	$ 2,965,165	0.71%
Cumulative Impact	$ 20,410,974	4.62%
Key investments		
Sustaining City Services and Finances	$ 5,163,111	1.24%
Enhancing Services	$ 185,893	0.04%
Grand Total City	$ 25,759,979	5.90%
Overall Tax Impact (City, Region, Education)		7.08%

*includes 0.6% assessment growth

Multi-year Simulation

The Multi-year Simulation (attached as Appendix B) provides a 4-year forecast of future tax increases. This simulation uses the 2023 proposed budget (as proposed) as a starting point and adjusts the 2024–2027 forecast based on estimated budget drivers, information gathered in the Service Information Workshops and forecasted Operating budget impacts resulting from Capital projects.

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.

The chart below highlights the historical results of Council's comprehensive budget deliberations at both the City and the Region as well as the forecasted tax increases based on the Multi-year Simulation. The percentage increases in the table reflect the City's share of the total tax bill impact for each year.

	2019	2020	2021	2022	2023 Proposed	2024	2025	2026	2027
	Actual					Forecast			
City Increase as % of Total	1.29%	1.76%	1.85%	2.10%	5.90%	5.96%	4.13%	3.98%	3.67%
Overall Tax Bill Impact	1.96%	2.43%	2.50%	2.84%	7.08%	6.96%	5.09%	4.83%	4.50%

From 2019 to 2023 (proposed), the average overall tax increase is 3.62%. During this period, the city's budget included increases to the infrastructure levy directed towards the growing infrastructure funding gap while at the same time provided significant investments in Transit, By-law Enforcement and Forestry.

The multi-year simulation shows an overall tax increase of 6.96% in 2024, reflecting the continued catch up required regarding the investments in our community to prepare us for the future. The simulation begins to anticipate an increase in assessment growth of 0.75% in 2024 increasing to 1% each year for the remainder of the forecast. For 2025 to 2027 the overall tax bill impact reduces to approximately 5%; 4.85% and 4.5% respectively.

It is important to note that Burlington remains below the group average of surrounding GTHA municipalities when comparing the tax burdens of similar properties per the 2021 BMA annual study.

Climate Implications

The impacts of a changing climate can have a significant impact on the City's budget. For example, increasing extreme weather events such as wind, freezing rain, extreme heat and cold can result in operational expenditures due to clean-up costs, more frequent emergency response and recovery efforts, and unbudgeted impacts to infrastructure requiring repairs and/or replacement. Climate Resilient Burlington provides a strategic pathway for all City departments to apply a climate lens in decision making to prepare for the changing climate.

Similarly, efforts to mitigate climate change can have a budgetary impact. Investments in renewable energy, electric vehicle charging infrastructure and public transit help to reduce greenhouse gas emissions.

In 2019, City Council declared a climate emergency, prioritizing the fight against climate change by applying a climate lens to the City's plans, actions and the budget. The City now has three related plans to take action on climate change:

- The Corporate Energy and Emissions Management Plan (2019) with a target for City operations to be net carbon neutral by 2040
- The Climate Action Plan (2020) with a target to become a net carbon neutral community by 2050, and
- Climate Resilient Burlington – A Plan for Adapting to Our Warmer, Wetter and Wilder Weather (2022)

There are many foundational initiatives in the city's Vision to Focus (V2F) that will require significant funding to achieve the city's aspirational climate goals.

Engagement Matters:

The City is continuously looking for ways to improve and increase transparency with the public. Staff will continue to use the city's website and engagement platform as a communication medium through videos, webcast and online surveys.

A budget survey was available on the city's Get Involved Burlington website from September 9 to December 6. In addition, on September 17, the city hosted its second Food for Feedback event. The budget was one of the key topics for which staff were seeking public feedback. The event was very successful with approximately 675 people attending. A total of 494 surveys were completed between the Get Involved website and at the Food for Feedback event. A summary of the survey responses can be found in Appendix C.

The "Budget Basics" video continues to be available on the website which explains how the city develops its budgets.

In addition, a revised version of Burlington Open Budget, on the city's website, is available to the public to allow residents to view the city's 2023 budget data in an intuitive and illustrative form.

A virtual budget townhall will be held on January 19, 2023 from 7:00 – 8:30 pm.

Conclusion:

The proposed 2023 budget has been thoroughly reviewed by staff. Decisions considered as part of Council's 2023 budget deliberations need to be made in the context of the multi-year budget framework to avoid deferring a known financial impact to a future year. This includes consideration of the operational and financial implications related to deferrals, use of one-time revenues, and service level revisions that may be associated with achieving the desired 2023 tax levy.

The proposed 2023 budget and 2024 forecast are "catch-up" budgets focused on planning ahead and protecting our city's future by making key community investments that improve service to residents. While our community has continued to grow, our investments in enhancing City services and amenities have not kept pace.

Burlington is growing and changing, and strategic community investments are required now to meet the future needs of this growing community.

Respectfully submitted,

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Appendices:

A. Budget Recommendations
B. Multi-year Simulation
C. 2023 Budget Survey Results
D. Items unable to be accommodated in 2023

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.

Appendix A: 2023 Budget Recommendations

Approve the 2023 Operating Budget including any budget amendments approved by the Corporate Services, Strategy, Risk and Accountability Committee to be applied against the proposed net tax levy amount of $217,352,545; and

Approve the 2023 Capital Budget for the City of Burlington, with a gross amount of $72,572,264 with a debenture requirement of $5,500,000, and the 2024-2032 capital forecast with a gross amount of $805,460,537 with a debenture requirement of $35,725,000 as outlined in report F-01-23 and as amended by the Corporate Services, Strategy, Risk & Accountability Committee; and

Approve that if the actual net assessment growth is different than the estimated 0.60%, any increase in tax dollars generated from the City portion of assessment growth from the previous year be transferred to the Tax Rate Stabilization Reserve Fund or any decrease in tax dollars generated from the City portion of assessment growth from the previous year be funded from the Tax Rate Stabilization Reserve Fund; and

Administer the debenture in the amount of $5,500,000 in 2023 as tax supported debt; and

Declare that, in accordance with sis. 5(1)5 of the *Development Charges Act, 1997* and s. 5 of Ontario Regulation 82/98, it is Council's clear intention that the excess capacity provided by the above-referenced works will be paid for by future development charges.