



SUBJECT: 2024 Budget Framework

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

FROM: Finance Department

Report Number: F-23-23

Wards Affected: All

File Numbers: 435-03

Date to Committee: June 26, 2023

Date to Council: July 11, 2023

Recommendation:

Receive and file Finance Department report F-23-23 regarding the 2024 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 2024 proposed budget. The framework presented in this report will outline principles that have been recognized by Council as important policy decisions, as well as provide the multi-year budget simulation which has been developed to model tax impacts for the next 5 years. As was the case with the 2023 approved budget, the 2024 proposed budget will again place priority on a number of key strategic investments in particular continued enhancement of city services and long-term capital asset renewal.

Related Reports:

2023 BMA Management Consulting Inc. financial condition assessment (F-19-23)

In May 2023, Council received the Financial Condition Assessment report which provided an analysis of the city's current financial health and position, observations, and review of the city's existing financial policies.

This report outlined some of the key fiscal challenges the city is facing including:

- A heavy reliance on property taxes to manage the city's day-to-day operations. Limited assessment growth and increasing service demands resulting from changing demographics and community intensification continue to stretch these revenues.
- Continued city growth while growth-related funding tools are being limited by provincial legislation (development charges, community benefits charges, and park dedication revenues). This affects the city's ability to provide new growth-related capital infrastructure thereby placing an increasing reliance on the city's existing assets to deliver services. As a result, further pressure is placed on the city's tax revenues to support additional debt financing costs for new capital investments and infrastructure renewal funding to support aging assets.
- BMA has placed several of the city's reserve funds in a *caution* status, as a result of declining balances from the period 2018-2022.
- Capital reserve funds have decreased by 31% (\$12.8 million) since 2018. Low reserve fund balances results in insufficient funding to manage annual renewal needs or address the infrastructure funding gap or backlog. This can result in increased reliance on the tax levy and possible additional debt financing to address now-needs.
- The city's asset consumption ratio is 39% which is higher than the peer municipal comparator average and median. A high ratio reflects older assets by comparison. Many of the assets in the city are reaching the mid-point of their estimated useful life, signifying increased annual renewal needs as assets begin to reach the end of their useful life.
- Continued elevated inflation and balancing desired levels of service will require the city to increase the pace of the increases to the dedicated infrastructure levy to avoid further increases to the backlog.

Drawing on the recommendations within the Financial Condition Assessment the city is providing an update to the following long-term financial plans:

2023 Asset Management Financing Plan update (F-20-23)

This report, presented to Council in May of 2023, provided a high-level interim update to the city's asset replacement values by taking into consideration recent economic pressures that have impacted the plan since it was last presented in 2021.

The updated financial strategy recommends an increase to the dedicated infrastructure renewal levy from 1.6% to 2.0%, in 2024 with subsequent increases following the completion of the 2025 Asset Management Plan. This recommendation is in line with the challenges impacting asset management and flagged in the BMA financial condition assessment noted above.

Multi-year Community Investment Plan (CM-03-22)

In April 2022, the Multi-Year Community Investment Plan (MCIP) provided a foundation and strategic focus for proposed multi-year community investment opportunities.

In Q3 2024, staff will be bringing forward phase 2 of the MCIP which will be refined to include the completion of various master/conceptual plans and strategies completed to date. Phase 2 will inform an updated list of proposed multi-year community investments. Staff anticipate bringing forward a list of needs that are sequenced over a long-term planning horizon with an evaluation of existing funding sources to assist in the implementation of the city's overall strategic objectives.

Further to the above, staff will be working towards bringing a revised comprehensive long-term financial planning document forward as per BMA's recommendation in Q1, 2025. This plan will incorporate the multi-year community investment plan (MCIP), 2025 Asset Management Financial Plan and the multi-year operating budget simulation to provide a holistic view of the multiple financing strategies, the fundamental needs, and overall management of risk considered into one platform. This will be aligned with the Council approved Long-Term Financial Plan (F-12-22) which outlined strategic objectives and policies to ensure financial sustainability and responsible financial management.

Additional Key Reports:

The 2024 budget and multi-year simulation will align with the objectives and updated policies of the following reports, as they represent important and prudent policy decisions and the future vision of council.

Vision to Focus

In 2019, the Vision to Focus (V2F) 4-year Workplan (CM-06-19) was approved which included a number of key initiatives for the last term of Council. An updated Vision to Focus is currently under development and will be provided to Council in September. This updated V2F will outline the focus areas, objectives, initiatives and measures for this term of Council. Drawing on the various master plans, strategies and work started in the previous term of Council, the initiatives will be prioritized and sequenced to occur throughout the term subject to human capital and financial resource availability.

Enterprise Business Planning and Portfolio Management (CS-11-23)

The city's integrated approach to Enterprise Portfolio Planning (EPP) will align strategic plans and objectives to the organization's work while taking stock, strategizing, and making decisions collectively from a corporate lens. This process will deliver a corporate work plan which defines projects for completion, including timing and alignment and coordination across multiple departments, while recognizing resource capacity. The Enterprise Portfolio Plan will inform future multi-year budget simulations.

2024 Budget Development

Inherent challenges in the development of the annual operating budget are inflation pressures, increased growth, fluctuating revenues, and infrastructure renewal costs.

Separate key investments (business cases) for increases to the budget beyond inflationary impacts will continue to be presented to Council where appropriate. These will include comment to reflect how the business aligns with one or more of the following items:

- 4-year Workplan (From Vision to Focus)
- A new regulations or changes in legislation
- An operating impact from the implementation of a capital project
- An enhancement to a city service
- Ongoing implementation of Designing and Evolving Our Organization (DEOO)

Burlington is a growing, changing and ever-improving city. Similar to 2023, the 2024 Budget will require significant investment to ensure residents continue to receive the programs and services that provide for the high quality of life in Burlington.

The 2024 Budget will continue to address inflationary pressures, adjust for permanent COVID financial impacts, and fund strategic investments to address the needs of our growing community with limited increases from assessment growth to offset these pressures. While progress has been made in recent years, the city remains in a state of "catch up" as city services and amenities have not kept pace with population growth.

The multi-year budget forecast 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.

New Budget Funding

Municipal Accommodation Tax

The city's portion of Municipal Accommodation Tax revenue (50 per cent of total collected minus administration costs) is allocated to the City MAT Reserve Fund. This fund supports projects and initiatives that result in measurable improvements to city services seeking to enhance tourist experiences and increase visitation. A MAT task group has been formed to oversee this fund. This task group is comprised of representatives from Recreation, Community and Culture (RCC), Engineering Services, Community Planning, Facilities, Assets and Sustainability, Finance and Tourism. For the 2024 budget and beyond, the task group will identify projects that fit established MAT qualifying criteria and recommend them for inclusion in the capital budget. These projects will be approved by Council as part of the annual capital budget process.

Innovation & Transformation Fund

In February 2023 as part of the 2023 budget deliberations, Council approved the motion memorandum to:

“Establish an Innovation & Transformation Fund by adding \$1 million to the 2023 Budget. The objective would be to accelerate achievement of corporate strategic objectives and embed process improvement and related technology integration solutions/practices and learning into the fabric of the organization; and

Direct the City Manager and Chief Financial Officer to report back on the governance structure to administer the allocation of funds based on to be established criteria, a reserve fund by-law, and any other matters related to accelerating achievement of corporate strategic objectives by Q2 2023.” (*Staff Direction (F-01-23-1) Item 16*)

The report addresses the requirement to report to Council on the governance structure to administer the allocation of the innovation and transformation fund. The allocation and use of the innovation and transformation fund in any given year will be the responsibility of SRT as part of their overall decision making in prioritization and more specifically work planning.

The use of this specific funding source will include:

- Quick wins
- Transformational change
- Agile and/or experimentation approach
- Continuation of an improvement initiative
- Funding amount required

Regular quarterly reporting of the status of corporate initiatives is in place. To enhance this process, prioritization, and sequencing decisions in the form of the multi-year plan can be provided to Council through this reporting. As additional projects are implemented, their status will be included in this regular reporting. In addition, this process can easily be extended to include a reporting of the allocation and balance of the Innovation & Transformation Fund to Council.

2024 Budget Presentation

The 2024 Budget will 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 provide 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.

Budget Preview Process

Service Information Workshops

For the past two budget cycles the city has been holding Service Information Workshops. The past sessions were eight (8) workshops held over four (4) days which allowed all the city services to present overviews of their business plans to Council. The services were grouped into the eight (8) sessions by themes aligned to the Strategic Plan. 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

While Council expressed their appreciation of these informative sessions there is an opportunity to adjust and streamline the format. For the 2024 Budget process Service Information workshops will be held over two (2) days.

On day one (September 19th) the presentation will highlight areas where Services have made business area improvements and other organizational gains. Services will demonstrate where they have been able to leverage on recent investments and improve overall service delivery and customer satisfaction.

On day two (September 25th) the presentation will highlight areas where Services continue to be challenged in meeting service level expectations, addressing legislative changes or keep pace with growth. This will demonstrate where future investment is best positioned to address these concerns.

Chief Financial Officer (CFO) Review Process

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. This review considers the sustainability of revenues and historical spending requirements. While savings are found each year as part of this process, it should be noted that continued reliance on these saving is challenging given known service funding challenges and service redesign impacts.

Budget Motion Memorandums

Similar to the previous two (2) years, staff request that each Member of Council prepare a Motion Memorandum(s) outlining the budget amendment(s) they wish to propose to the 2024 Budget when it is presented later this year. Each memo should include the rationale for the proposed budget amendment.

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

Budget Motion Memorandums provide Members of Council and most importantly the public, greater clarity as to the rationale of a proposed budget amendment.

Multi-year budget simulation

The Multi-Year Simulation (5 years) provides a detailed overview of major budget drivers and expected future tax rate impacts. Included as Appendix A, it is discussed in detail throughout this report.

The simulation uses the 2023 approved budget as a starting point and adjusts the 2024–2028 forecast based on estimated budget drivers, known budget pressures, and forecasted key investments. 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
- Changing customer expectations
- Legislative changes
- Assessment growth
- Operating impacts from approved capital initiatives
- Business process improvements
- Climate change impacts

2024-2028 Budget Pressures

When developing the 5-year budget simulation, staff considered the following factors:

- 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 and related assessment base forecasts
- Infrastructure renewal funding consistent with the updated 2023 Asset Management financing strategy
- Financial commitments resulting from recent Council decisions and previously approved capital projects.
- Forecasted investments required to sustain city operations, manage community growth, and enhance city services.

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

1. Base Budget - Maintaining Current Service Levels

Inflationary Pressures and User Fees

The city is experiencing significant increasing costs for contracted services, fuel, software license fees and materials that place additional pressures on the budget.

The Consumer Price Index (CPI) rose 6.8% on an annual average basis in 2022. Heightened consumer demand, labour shortages and a strained global supply chain were some of the main factors contributing to higher prices. CPI rose 4.4% year over year in April 2023, following a 4.3% increase in March.

The Bank of Canada expects CPI inflation to ease to 3% in the summer, from lower energy prices and adjustments for large price gains falling out of the yearly data. However, with three-month measures of core inflation running in the 3.25% - 4% range for several months and excess demand persisting, concerns have increased that CPI inflation could remain materially above the 2% target. While inflation values may be declining, this reduction (disinflation) does not mean that prices will fall, it simply means that prices are rising at a slower pace than the previous year.

Labour Market & Workforce

Municipalities like other service organizations 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 2023 gross operating budget is 49.8%.

A significant risk to the corporation is the attraction and retention of staff. This has been a primary area of focus in recent years. As part of the 2023 Budget a significant investment was made to update the non-union compensation system to make it more market competitive and provide a foundation improving on our ability to:

- Attract and hire qualified candidates to fill vacancies.
- Retain employees in a highly competitive labour market.

This comprehensive job evaluation (JE) review which is currently underway will result in a significant update to the non-union compensation system. This update will modernize the current job evaluation system and compensation policies while realigning to the Council approved market position being the 65% percentile vs our municipal market comparators.

The non-union 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, equity and inclusivity strategy also need to be enhanced/developed to address retention risks. With the introduction of our new Workday platform, we also want to seize the opportunity to integrate new functionality and transform our HR business processes.

While approximately 160 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, leading 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 difficult time not only attracting candidates but also retaining our excellent staff particularly in high demand job categories (technical and professional positions).

Commodity Costs

There continues to be significant price volatility in commodities, particularly fuels. Gasoline prices rose by 6.3% in April 2023 compared with March, the largest monthly increase since October 2022. This increase followed an announcement from OPEC+ (countries from the Organization of Petroleum Exporting Countries Plus) to reduce oil output, pushing prices higher. The switch to summer blend and an increase in carbon levies also contributed to higher prices. Compared to the previous 18 months, gasoline prices were 10.0% higher in April 2023.

The city maintains a commodity stabilization reserve fund to mitigate the impacts of volatile commodity costs on the city's finances. This reserve fund was drawn upon in 2022 to offset unfavourable fuel budgets. The current uncommitted balance in this reserve fund is \$933,921.

The simulation currently includes an average increase of 5% annually across all commodity categories (hydro, natural gas and fuels).

Other Operating Expenses

With the exception of human resources and commodities, 4% inflation per year has been applied to other expense categories (materials and supplies, purchased services) for 2024 reducing to 2% per annum thereafter. A 1.75% increase per year has been incorporated for the contributions to Local Boards and Committees.

As we move into July, the City has already experienced the impacts of increased inflationary pressures on the 2024 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 \$700,000 in 2024 to recognize these higher-than-average inflationary increases experienced on 2023 contract renewals.

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. Similar to 2023, the 2024 simulation also includes an estimated normalizing of revenue based on a continued shift in consumer behavior post-COVID, resulting in projected revenues losses of \$500,000.

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, as highlighted in the recent BMA financial condition assessment (May 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.

BMA recently placed the following indicators in a Caution status (Report F-19-23):

- Stabilization Reserve Funds are below target policy levels
 - The target balance for the consolidated stabilization reserve funds (excluding Building Permit Stabilization Reserve Fund) is set at 10%-15% of the city's own source revenues. As of 2022, the consolidated balance of these reserve funds is below target at 9.3%.
- Other Capital Reserve Funds are below target policy levels with a downward trend.
 - A consolidated target for capital reserve funds should be a minimum balance of 2% of the total asset replacement value. Based on the city's updated 2023 total asset replacement value of \$6.3 billion, this equates to \$126 million. As of 2022, the City's uncommitted consolidated year-end balance in capital reserve funds is approximately \$28 million, well below the intended target. Furthermore, the consolidated balance in capital reserve funds has decreased by 31% over the last five years.
- Corporate reserves & reserve funds – liabilities are increasing at a faster rate than reserve balances.
- Discretionary reserves/reserve funds as a % of taxation - decreased to 50% (2022)

To address this the simulation includes:

- An annual increase to the provisions for Insurance and Contingency reserves of \$50,000 each.
- \$750,000 for increased financial sustainability targeted towards increased provisions (or reductions in budgeted draws) to key corporate and discretionary reserves / reserve funds in 2024.

Debt

The city's debt policy limits the total debt charges as a percentage of net revenues to 12.5% (provincial legislated limit is 25%). As of March 31, 2023, the City's total debt charges as a percentage of own source revenue is estimated to be 12.96% (as per report F-17-23 – Quarterly Financial Status Report).

The city's debt policy contains an allowance to temporarily exceed the 12.5% to a maximum of 15% for no more than three (3) consecutive years. The corresponding recovery from the overage should also be sustained for a minimum of three years. The city's current debt limit is within the parameters as defined by the policy.

In an effort to rein in high inflation, the Bank of Canada raised its benchmark interest rate by 25 basis points to 4.75 % on June 7th and has signaled that additional increases are possible. This is the highest interest rate since 2007.

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:

- \$700,000 in 2024 to accommodate the final phase of debt charges for the Skyway Community Centre Revitalization project.
- A total of \$6.4 million phased over 2024-2026 to accommodate known and estimated debt charges for 2 phases of the Robert Bateman High School Adaptive Reuse Project.

Investment Income

Economic recovery and record high inflation led to a sharp increase in interest rates through 2022. Minor increases have continued in 2023 to address core inflation and excess demand in the economy. The Bank of Canada is hopeful that the economy will stabilize by the end of 2023 allowing interest rates to reach a neutral rate. These rate adjustments 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 2025 based on an increasing interest rate environment.

2. Assessment Growth

Assessment growth is estimated to be 0.75% for 2024 and 1.0% for 2025-2028. For the 2024 budget the estimated 0.75% growth provides approximately \$1.64 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 2024 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 0.62%.

Year	Assessment Growth
2019	0.64%
2020	1.07%
2021	0.34%
2022	0.47%
2023	0.60%
2019-2023 Average	0.62%

3. Additional Base Budget Pressures

- **Inflation on 2023 contract renewals:** As mentioned previously, the simulation includes an allowance of \$700,000 in 2024 to recognize higher-than-average inflationary increases experienced on 2023 contract renewals.
- **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 later this year. 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.

While it is staff's intent to minimize, to the extent possible, application refunds, the multi-year simulation includes a \$1 million provision in 2024 to account for future potential impacts.

4. Impacts of Prior Council Decisions

Approved service changes will have an impact on the 2024 and future budgets. These items include:

- The final year of phased tax support funding to Tyandaga Golf Course (Report RCC-01-21)
- Continued investment in recreational facility maintenance (2024-2027)
- Ongoing maintenance costs for the Canal Pier (Report ES-43-22)
- Free Transit for Seniors (Report TR-04-23)
- Ongoing annual funding for the Food for Feedback event (Report CC-01-23)

5. Impacts of Previously Approved Capital Projects

Additional investments in community assets have been approved which will result in additional operating expenses in 2024 and future budgets as follows:

- Increased software maintenance costs resulting from IT capital projects which support Building a 21st Century Workforce (2024-2028)
- Expansion of conventional transit, operating expenses for 4 buses purchased in the 2023 Budget
- Expansion of specialized transit, operating expenses for a Handi-van purchased in the 2023 Budget
- Operating costs associated with the new recreational assets funded by the donation from the McNally Foundation (Report RCC-05-22) (2024)
- Additional tax supported debt charges as outlined earlier in the debt section of this report (2024-2027)
- Phased operating impacts of the revitalized Skyway Community Centre and Robert Bateman Adaptive Reuse Project (2024 and 2025)

6. 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 updated Asset Management Financing Plan was presented to Council in May 2023 (Report F-20-23) and recommended an increase to the dedicated infrastructure renewal levy.

The simulation is aligned to the plan and currently includes:

- An annual increase of 2.0% in 2024 to the Dedicated Infrastructure Renewal Funding as recommended and supported by Council. The 2.0% levy translates to 0.97% on the overall tax increase.
- The repurposing of the hospital levy to infrastructure renewal in 2024 (\$500 thousand), and 2027 (\$2.6 Million) as the debt payments retire.
- 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 given significant recent increases in vehicle prices. Any recommended changes to the current policy and funding strategy will be included in the 2024 Proposed Budget.

7. Key Investments

Key Investments are proposed variations in the budgeted expenditures or revenues for which separate budget disclosure is warranted.

These priorities identified in the simulation are classified within 3 categories. Items in these categories will be prioritized by SRT and presented as Key Investments (business cases) in the proposed budget documents.

a. Sustaining City Operations and Financing

As Council is aware, the City of Burlington is still at a near 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 (2024-2028)
- Four (4) additional firefighters to fully staff Fire Station #8 as recommended in the Fire Master Plan (Report BFD-03-22)
- 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 (2024-2026)

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 city presented the Multi-year Community Investment Plan (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 Q4 2023 to provide more detail on the city's future outlook of community investments subject to completion of master/conceptual plans and various strategies.

The simulation includes:

- Incremental annual funding for the Multi-year Community Investment Plan (2024-2028) including a proposed dedicated provision for future strategic land acquisition.
- Investment in further Conventional and Specialized Transit service expansion
- Continued investment in recommendations of the Fire Master Plan (2024-2027)
- Ongoing funding for delivery of support services for people with disabilities participating in recreational programs (Report RCC-05-23)
- Ongoing funding to support the Burlington Lands Partnership
- A placeholder for ongoing funding to support the operation of Freeman Station (Report RCC-11-23)

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 2023 budget included both permanent as well as one-time revenue losses to recognize this shift in consumer behaviour. The simulation includes an estimated \$500,000 in further permanent revenues reductions for 2024.

8. 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 2025 forecast, increasing by \$50,000 per year. This allowance has been included to recognize that factors in the simulation such as inflation, service level changes, revenue impacts and assessment growth can be increasingly difficult to predict into the future.

Financial Matters:

The forecasted overall tax increase is 7.82% (including Region of Halton and Boards of Education). The 2023 overall tax increase was 7.44%. Of the forecasted 7.82% increase to the property tax bill, Burlington's portion of the overall increase is 6.82%. Factors which have adjusted the forecast since it was last presented to Council include:

- an increase in the infrastructure levy as recommended in report F-20-23.
- the inclusion of a Multi-year Community Investment Levy inclusive of additional dedicated funding for land acquisition,

- additional increases to the estimated impacts of inflation,
- recently approved service changes and community investments which result in ongoing operational impacts.

The following table summarizes the 2024 forecasted tax increased based on the financial impacts outlined in this report.

	2024 Budget Change	2024 Overall Tax Impact
Base Budget Impact including Assessment Growth*	\$ 9,726	1.79%
Dedicated Infrastructure Renewal Levy	\$ 4,384	0.97%
Additional Budget Pressures	\$ 1,700	0.38%
Impacts of Prior Council Decisions	\$ 495	0.11%
Impacts of Previously Approved Capital Projects	\$ 6,898	1.53%
Cumulative Impact	\$ 23,204	4.77%
Key investments		
Sustaining City Services and Finances	\$ 5,808	1.29%
Enhancing Services	\$ 2,925	0.65%
Modifications to Services to address COVID	\$ 500	0.11%
Grand Total City	\$ 32,436	6.82%
Overall Tax Impact (City, Region, Education)		7.82%

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

	2023 Approved	2024	2025	2026	2027	2028	Average 2024-2028
City Share of Overall Impact	6.34%	6.82%	5.10%	4.80%	4.13%	3.19%	4.81%
Overall Tax Bill Impact	7.44%	7.82%	6.06%	5.64%	4.94%	3.98%	5.69%

The multi-year simulation forecasts the overall tax rate impact (City, Region and Education) from 2024 to 2028 to begin at 7.82% reducing to 3.98%. The average increase

for the five-year period is 5.69%. The city's portion of the overall tax rate impact averages 4.81% over the 2024-2028 timeframe.

Staff will be working closely with service leads during the development of the 2024 budget to look for opportunities to minimize the increase. However, 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 supported funding. It is important to note that known budgetary pressures that are deferred in the 2024 Budget will also need to be incorporated into future years. As such they will increase the forecasted tax increases identified in the multi-year simulation for 2025 and beyond.

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.

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. As was the case with the 2023 budget, a communications strategy will also be developed in conjunction with the presentation of the proposed budget.

Budget Timelines

Below is a brief draft timeline of the 2024 budget process:

- Council Workshops – Service Presentations September 19 & 25, 2023
- CSSRA – 2024 Budget Overview October 30, 2023
- 2024 Budget Virtual Townhall November 2023 (TBD)

- CSSRA – 2024 Budget Review & Approval
- Council – 2024 Budget Approval

November 21 & 23, 2023

December 12, 2023

Conclusion:

Financial sustainability on a multi-year basis 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 2024 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 will work closely with services to mitigate the tax increase for 2024, 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 also important to note that known budgetary pressures that are deferred in the proposed 2024 Budget will need to be incorporated into future years thus increasing the forecasted tax increases identified in the multi-year simulation for 2025 and beyond.

Respectfully submitted,

Lori Jivan

Coordinator of Budgets and Policy

905-335-7600 ext. 7798

Appendices:

- A. Multi-Year Budget 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.