

Subject: 2021 Budget Schedule and Direction

Department: Corporate Services

Division: Finance

Report #: CPS-TF-2020-26

Meeting Date: September 28, 2020

Orangeville Forward – Strategic Plan

Priority Area: Strong Governance

Objective: Financial Responsibility

Recommendations

That report CPS-TF-2020-26, dated September 28, Budget 2021 Schedule and Direction, be received;

And that Council endorse receiving a 5-year budget outlook for Operating Budget and a 10-year budget outlook for Capital Budget deliberations;

And that Council approve the inclusion of a cost of living allowance equivalent to the CPI of June 2019 of 2% as a guideline to report a budget for non-union staff salary and benefits in the proposed 2021 budget;

Background

The primary purpose of this report is to provide Council with parameters on which staff will prepare the Budget 2021 framework outlining principles that have been recognized by Council as important policy decisions, as well as highlight budget drivers that will impact the next budget cycle. As Council is aware, with the adoption of multi-year budget process, each year, a new multi-year budget outlook is provided with only the first year being approved by a by-law (i.e. Council will continue to have full discretion on a year to year basis). Providing a Multi-Year Budget Outlook provides several significant benefits including:

- Providing a longer-term funding plan so that longer-term goals can be identified and achieved;
- Understanding the impacts of decisions made in the current year on future years;
- Ensuring the Town budget and outward looking plan are consistent with Council's priorities;
- Ensures the connection between capital project approvals and their operating budget impacts is consistent with the careful planning and improved forecasts of costs and revenues associated with multi-year budgeting;
- Provides citizens with more certainty about the direction for the Town's services, finances and future tax levels;
- Makes more strategic use of Council's time in reviewing budgets and the administration's time in preparing them;
- Instills discipline to control spending plan changes.

On December 16, 2019, Council approved a multi-year operating and capital budget, with the first year in the multi-year budget being approved by a by-law and the subsequent years being adopted in principle.

For the 2021 budget season, it is being proposed that Council will be provided for considerations with another 5-Year Budget Outlook, covering 2021 to 2025 for Operating budget and a 10 year outlook covering 2021-2030 for Capital budget as mandated by [O.Reg 588/17](#).

This report is intended to describe the known pressures and opportunities that will be considered in the development of the proposed Budget 2021 and seeks Council's direction on guidelines to ensure a proposed budget that is in keeping with Council's objectives. Council can provide direction for Budget 2021 development, including confirmation of the 2021 Council priorities and early guidance.

Analysis

Budget Drivers

#1: Pandemic of the Century- Covid_19

Budget 2021 will be developed in an environment of continued uncertainty regarding future COVID-19 impacts expected into 2021, potentially including reduced revenues due to provincial health orders and related closures of facilities; and increased costs due to the Town's response efforts, particularly for the most vulnerable citizens. While this uncertainty makes it challenging to anticipate what 2021 and beyond will look like, there are some changes that we have seen already that have the potential to significantly change the way organizations operate. We have seen a shift to working from home that will influence the future of workspace, and an accelerated transition to online service delivery as examples. Between now and the draft budget, staff will work on aligning current service plans and budgets to support Council priorities adjusted for

COVID recovery. Staff will work to address cost pressures, refine budget estimates, and identify opportunities for cost savings and process improvement.

Staff is diligently monitoring potential Federal and Provincial fiscal stimulus programs and is partnering with other municipalities through the Federation of Canadian Municipalities (FCM) and Association of Municipalities of Ontario (AMO) to ensure that needs of municipalities are represented as the government considers future stimulus packages. These potential funding programs will be considered as the 2021 Operating and Capital budgets are developed to ensure the Town of Orangeville could participate in the programs to support key Council priorities.

#2: Inflationary Measures (CPI) and COLA for Non-Union:

The Consumer Price Index (CPI) produced by Statistics Canada is the most widely used calculation of inflation for Canada, the provinces and municipalities. CPI Measures the overall price change in a fixed basket of goods and services bought by an average Canadian consumer over time. Council will note that in 2020 (approved budget) and 2019 (approved budget) May 2019 CPI and May 2018 was adopted respectively as inflationary increase for cost of living adjustment for non-union employees. CPI Canada and Ontario are trending at negative since the start of the global pandemic. Bank of Canada is forecasting a sharp decline in national GDP around 7.8% in 2020 and predicting a continuing negative trend for CPI for the better part of 2021.

Personnel costs are a major component of the operating budget. Various mitigating factors will be considered when preparing the compensation envelope for the budget. Projected compensation impacts in the proposed 2021 budget will include appropriate assumptions for on-going negotiations of various collective agreements, the impact of annualization for 2020 new hires, and the estimated impacts for benefits and pension based on prior years.

CPI is the most widely used measure for setting annual wage increases. Given the uncertainty around CPI trends in recent months, most municipalities who have adopted multi-year budget process are recommending that a cost of living allowance for 2021 remain the same as equivalent to the CPI rate as of June 2019. Council will note that the Town adopted, in principle, June 2019 CPI rate of 2% in the 2020 multi-year budget documents for each year between 2021-2024. Staff is recommending that the CPI for 2021 remain at the same level as June 2019 CPI of 2%. Council does have the discretion to provide further direction to staff in the matter.

#3: Annual Contribution to Capital Budget

A 10-year capital budget and forecast will be prepared that will identify the investment required to support the anticipated growth in the community as well as the Town's infrastructure maintenance and rehabilitation needs. The starting point for preparing the 2021-2030 budget and forecast will be the 10-year forecast presented and approved in principle through the 2021 budget process. Investing in new and expanded

infrastructure has a significant financial impact on future operating budgets and tax levies. Capital investment in local infrastructure that is constructed by developers and assumed by Towns through new developments also results in ongoing incremental cost. Maintaining a robust Capital Budget funding envelop through incremental increases help support the Town's infrastructure maintenance and rehabilitation needs.

Council provided direction last year to maintain contribution to capital budget at the same level as 2020 budget for the next 10 years. Therefore, no further direction required from Council for the 2021 budget cycle.

#4: Annual Contribution to General Capital Reserves

Reserves are affective resources set aside to provide financial flexibility for current and future capital needs to buffer sharp tax increases. Sensitivity analysis is required to ensure adequate reserve levels are maintained on an annual basis. Adequate Capital Reserves ensure stable and predictable levies; safeguard and optimize existing assets thereby reducing service level interruptions and provide for balance sheet stability and flexibility.

Council provided direction last year to maintain contribution to reserves from tax levy at the same level as 2020 budget for the next 10 years. Therefore, no further direction required from Council for the 2021 budget cycle.

#5: Predictive Grants: Gas tax and OCIF

While the Federal and Provincial funding envelop and allocation for Gas Tax remain unaffected in 2021, the OCIF funding envelop has seen some drastic changes in 2019. OCIF provided steady, long term funding for small, rural and norther communities to develop and renew infrastructure projects. The application-based stream of the funding envelop has been eliminated as of 2019. The formula-based stream ensures funding allocation until 2021 which may be subject to change pending 2021 Provincial budget deliberation. With the potential elimination challenges for the formula based OCIF looming on the horizon, the Town may be looking at an \$800K revenue loss.

#6: Safe Restart Fund (SRF)

On July 27, 2020, as part of the federal-provincial Safe Restart Agreement (SRF), the Ontario government announced that it had secured up to \$4 billion in emergency assistance to provide Ontario's 444 municipalities with the support they need to respond to COVID-19. Under the municipal operating stream, \$1.39 billion will be available to Ontario's municipalities to address operating pressures and local needs. This funding will be allocated in two phases: 50% allocated in Phase 1 for all municipalities, and 50% allocated in Phase 2 for municipalities that require additional funding. Phase 1 of this funding has been allocated on a per household basis and the Town of Orangeville will be receiving a payment of \$673,400 to support COVID-19 operating costs and pressures. The Town will also be receiving \$96,430 for Transit under the same funding envelope.

To be considered for SRF Phase 2 funding, municipalities will be required to submit reports outlining their COVID-19 operating costs and pressures in a template to be provided by the ministry. These reports will be due by October 30, 2020. Municipalities who are eligible and approved to receive funding under Phase 2 will be informed before the end of the calendar year and can expect to receive a payment in early 2021.

#6: Projected 2020 Phased-in Assessment and Real Growth

The Assessment Act requires that MPAC reassess all property values every four years based on the current value assessment (CVA) system. CVA is defined as the amount of money a property would realise if sold at arm's length by a willing seller to a willing buyer. The Province established a phase-in of assessment valuation increases to provide a greater level of stability and predictability and avoid significant fluctuations in assessment values resulting from annual valuation changes. Mandatory phase-in requires that increases in assessed value be distributed equally over four years, while decreases are applied immediately. January 1, 2016 was the most recent valuation date which phases-in increases over the 2017 – 2020 property tax years.

The Ontario government has announced that the 2020 Assessment Update has been postponed. They have indicated that property assessments for the 2021 property tax year will continue to be based on the fully phased-in January 1, 2016 current values. This means property assessments for the 2021 property tax year will be the same as the 2020 tax year, unless there have been changes to one's property. Property taxation is based on the assessed value of properties and in Ontario those assessments are updated every four years. The last assessment update was in 2016 (the "2016 Current Value Assessment (CVA)"), with the Ontario government planning on completing the Ontario-wide reassessment in 2020 for the 2021 taxation year.

The delta between year over year phased in assessments resulting from reassessments every four year along with new assessment growth helps mitigate annual budgetary inflations. While new growth for 2020 will still be reported by Municipal Property Assessment Corporation (MPAC) for the 2021 assessment year, the postponement of reassessment of existing assessment base for the Town of Orangeville may have significant impact on 2021 budget. It is too early to determine the technical aspect of this impact. Staff continues to work closely with MPAC and will report to Council as this information becomes available.

Assessment growth is a result of all the changes that happen to the Town's tax base during a year, including:

- New construction
- Major renovations
- Demolitions
- Property value appeals

Most of the growth in assessment relates to new construction or expansion (meaning additional residents or business). As new development occurs, the Town is responsible

for the maintenance and winter control of additional roadways and other expenses as a result of an increasing population. The growth in assessment helps to mitigate the impact of maintaining existing service levels to a growing base. In a perfect world, growth pays for growth.

MPAC will continue to assess on real assessment growth. Current estimates of real assessment growth for 2020 is forecasted to remain steady at 1%.

2021 Budget Timeline (Special Budget Meetings)

- Draft 2021 Budget Tabled: Dec 7th, 2020
- Capital Budget Presentation: December 15th, 2020
- Operating Budget Presentation and Consolidated Budget Recommendation: Dec 17th, 2020
- Further Budget Deliberation Meeting (if needed): January 18th and February 1st, 2021

Financial Impact

There are no direct financial implications from the recommendations in this report.

Respectfully submitted
Andrea McKinney, GM, Corporate Services

Prepared by
Nandini Syed, MPA, CMM III, CPA, CMA
Treasurer

Attachments:

1. None