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**Subject: Budget 2023 Schedule and Direction**

**Department: Corporate Services**

**Division: Finance**

**Report #: CPS-2022-063**

**Meeting Date: 2022-08-08**

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### **Recommendations**

**That report CPS-2022-063 dated August 8, 2022, Budget 2023 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 maintaining of the cost-of-living allowance equivalent to the same level as 2022 of 2% as a guideline to report a budget for non-union staff salary and benefits in the proposed 2023 budget;**

**And that Council approve an additional \$200,000 to bring annual contribution to capital budget from \$2.6M to \$2.8M in light of global inflationary pressures.**

### **Background**

Each year, Council and municipal staff work to balance the cost of providing Town services with existing resources. The primary purpose of this report is to provide Council with parameters on which staff will prepare the Budget 2023 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 14, 2021, Council approved the 2022 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 2023 budget season, it is being proposed that Council will be provided for considerations with another 5-Year Budget Outlook, covering 2023 to 2027 for Operating budget and a 10 year outlook covering 2023-2032 for Capital budget as mandated by [O.Reg 588/17](#).

As with any financial modeling tool, the model forecast has the greatest precision in the first year. It provides an outlook of what the future financial picture for the Town of Orangeville may look like, help 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 hundred percent accuracy given ongoing uncertainties around:

- Magnitude and duration of the global inflation
- Magnitude and duration of Covid\_19 impacts
- Changes in market demands and economic conditions
- Fluctuations in citizen expectations
- Changes in legislation
- Changes in Senior Government Grant Programs
- Changes in Property Reassessments
- Business process improvements
- Climate change impacts
- Unforeseen operating impacts from approved capital initiatives

This report is divided in 4 broader sections: 1) Budget 2023 Strategy, 2) Budget 2023 Design, 3) Budget 2023 Timeline and 4) Budget 2023 Drivers; that will be considered in the development of the proposed Budget 2023 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 2023 development, including confirmation of the 2023 Council priorities and early guidance.

## Analysis

### Section 1: Budget 2023 Strategy

Budget 2023 will likely take place within a perfect alchemy of the global inflation and the global pandemic. While the impacts of the global pandemic are being felt in Canada and around the world, the invasion of Ukraine and the resulting sanctions against Russia have weighed on markets and confidence; led to a surge in commodity prices; and resulted in a deterioration of the global economic outlook. Higher commodity prices and additional supply disruptions have exacerbated the inflationary pressures already seen across the world. These impacts are universal to all Town's services and will require us to assess the permanency of its social, economical, and legislative impacts, and plan for an extended recovery period that may take us beyond 2023. We have learned thus far that the Bank of Canada is taking measures to stabilize the growing inflation. We may see some normality in the market by the spring of 2023. We are also aware of the continual choke points in the global supply chain due to various and unforeseen world events. Finally, there are incentive programs laid out both in the federal and provincial budgets for 2022 in the areas of infrastructure, housing, healthcare, transit, water, and wastewater.

For these reasons, the 2023 budget does not consider any major service level changes. Staff is proposing to continue managing budget pressures through expense mitigation strategies, shifting work plan priorities, and temporary modifications in service to offset potential revenue losses. Given the volatility of the market inflation, it is not possible to ascertain or pinpoint the exact nature of the medium- and long-term impact of inflation on the Town of Orangeville budget and economic outlook. In the last two years, we have learned to be nimble and pivot, and that collective skill set will pay dividends as we traverse through these uncharted territories of the global inflation. That said, the Town has a healthy tax base, a sizeable reserves, well maintained investment and debt portfolios, ample liquidity in terms of cash flow, and a team of wise guardians looking over the Town's finances.

### Section 2: 2023 Budget Design

Budget 2023 will be presented as a consolidated document of capital and operating budgets in a hybrid Service/Performance-based format. A combined format such as this allows for the consideration of operating impacts at the same time as capital investments. Each service area (division) will have the following:

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

### Section 3: 2023 Budget Timeline (Special Budget Meetings)

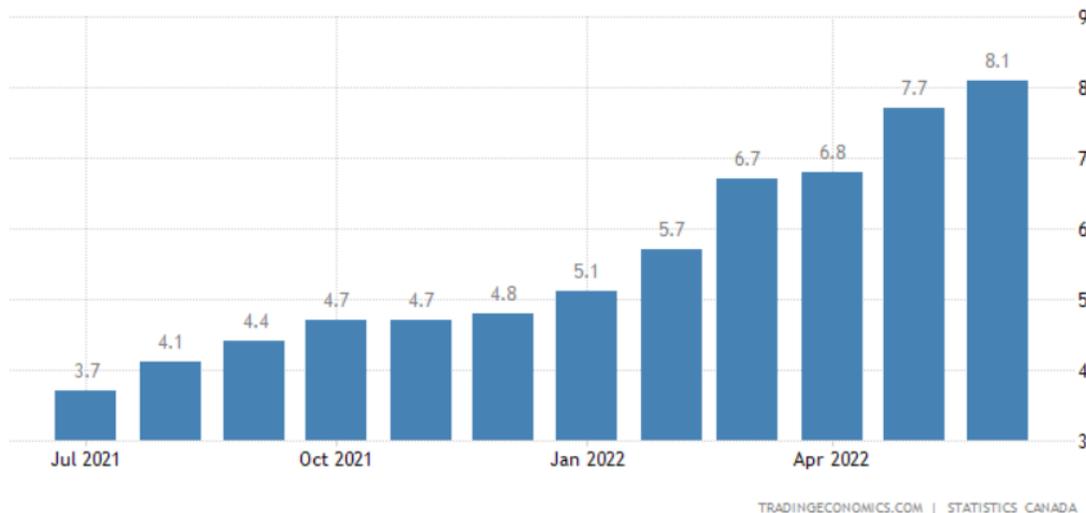
- Draft 2023 Budget Tabled: December 5, 2022
- Capital Budget Presentation: January 16, 2023
- Operating Budget Presentation and Consolidated Budget Recommendation: January 17, 2023
- Additional Budget Meeting (if needed): January 30, 31, 2023

### Section 4: Budget 2023 Drivers

The 2023 Multi-year operating, and capital budget will consider the following key budget drivers (pressures and mitigations/reliefs):

#### 1. Global Inflation

Canadian economy is seeing a rapid escalation of inflationary increases in consumer goods and services. The Consumer Price Index (CPI) represents changes in prices as experienced by Canadian consumers. It measures price change by comparing, through time, the cost of a fixed basket of goods and services. As of writing this report, CPI for Canadian good and services is currently sitting at **8.1%** (June 2022). The graph below shows the rapid escalation on inflationary increases in consumer goods and services over a 12-month period between July 2021 and June 2022.



#### 2. Cost of Living Adjustment (COLA)

Based on the upward trajectory of the global inflation and rapid increase of the Consumer Price Index provided in the graph above, staff is recommending maintaining cost-of-living adjustment (COLA) for the non-union employees at the

same level as 2022 and 2021 COLA adjustment of 2%. Council does have the discretion to provide further direction to staff in the matter.

### **3. Pandemic of the Century- Covid\_19**

Budget 2023 will feel the impact of continued uncertainty regarding COVID-19 global pandemic, 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. As of writing this report, Ontario has officially entered its seventh wave of COVID-19, driven this time by the Omicron BA.5 subvariant. While we are optimistic that given the current Provincial re-opening plan and vaccination rates that town services will largely be open in 2023, we recognize that a portion of this financial strain may continue into 2023 and beyond. 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.

The 2023 budget will incorporate the latest information available while identifying associated risks and pressures surrounding the ongoing pandemic. There will be a continued focus on core service delivery, continuous improvement and finding cost savings in all program areas to mitigate any sharp tax increase. Staff is diligently monitoring potential Federal and Provincial fiscal stimulus programs.

### **4. Global Supply Chain Disruption**

The biggest detriment to our capital budget during these trying times is the massive supply chain disruption. As an open economy and a trading nation, Canadian economy is confronted with the crippling impact of inflation on the global supply chain. Supply chain disruption is a major factor driving prices higher around the globe, as demand for goods such as cars, oil and computer chips have outpaced supplies. And predicting when those disruptions will end is nearly impossible due to the uncertain nature of the war in Ukraine. The longer it goes on, the more problems it is likely to cause. In addition to higher commodity pricing, the actual delay in arrival of consumer goods is creating a bottleneck in timely project delivery and completion. This unfortunate situation is not unique to the Town of Orangeville. As Council can appreciate, this is impacting municipalities across the country.

### **5. Special Asset Management Levy**

On July 11, 2022, Council approved the Town's 2022 Asset Management Plan for Core Assets. This asset management plan is compliant with the first phase of Ontario Regulation (O.REG) 588/17 Asset Management Planning for Municipal

Infrastructure for asset management plans for core assets. It establishes current levels of service and recommends actions and financial strategies to maintain current service levels within an acceptable level of risk over the next ten years. The financial strategy considers how the Town will fund the planned asset management actions to meet the current service levels. The financial strategy section of this asset management plan compares the budgeted annual funding available to the forecasted needs, to provide an estimated funding shortfall for capital renewal and recommends options for managing the funding gap.

Transportation and stormwater assets are estimated to have an average annual funding shortfall of \$1.8 million per year over the next ten years. The plan provides strategic financial recommendations to overcome the stated deficit in the next year. Council should note that the stated funding gaps is based on currently available data. There are estimated funding gaps, and climate change impacts will only add to this gap.

One of these financial recommendations relates to a special asset management levy. Finance in coming months is committed to bringing a more robust report surrounding the strategic financial recommendations laid out in the recently approved asset management plan. Although, Staff is not requesting any special asset management levy for Budget 2023, it is worthwhile to note that the current funding shortfall for core assets must be addressed in the future budgets to remain in compliance with the Ontario Regulation (O.REG) 588/17.

## **6. 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 2023-2032 budget and forecast will be the 10-year forecast presented and approved in principle through the 2022 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.

As of 2019, Council provided direction to maintain contribution to capital budget at \$2.6M. Given the global climate of inflation and supply chain disruption driving cost up, Staff would ask that Council considers bringing that contribution up to \$2.8M; an additional \$200,000.

## 7. 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. To that end, that Town will maintain contribution to reserves at an optimal level matching previous years' budget. Therefore, no further direction is required from Council for the 2023 budget cycle.

## 8. Orangeville Fare Free Transit Program (2 Year Pilot)

On July 11, 2022, Council approved implementation of a two-year pilot project, offering free fares on the Orangeville Transit system commencing as of January 1, 2023. The expected annual revenue loss per Report-INS-2022-048 is \$265,000.

## 9. Grants for Capital Budget

The table below provides a high-level list of predictive grants (formula based) and non-predictive (application based) available for capital budget. Council will note that the application-based grants list not an exhaustive one.

Type	Name of Grant	Amount	Amount Estimated or confirmed?	Notes
<b>Predictive Grants</b>				
	Canada Community-Building Fund	\$ 956,418.71	Confirmed	Formerly Federal Gas Tax.
	Provincial Gas Tax	\$ 291,000.00	Estimated	Based on 2022 Allocation
	OCIF	\$ 1,700,000.00	Estimated	Based on 2022 Allocation
	SBEC Core, Starter Company and Summer C	\$ 156,280.00	Estimated	Based on 2019-22 Allocation
	Public Library Operating Grant	\$ 30,700.00	Estimated	Same amount each year
	ICIP Public Transit	\$ 1,535,347.00	Confirmed	Used towards Transit Transfer Station.
	ICIP Green Stream	\$ 3,662,100.00	Confirmed	Used towards elevated water storage facility
	Canada Day Celebrations	\$ 11,000.00	Estimated	Based on 2022 Allocation
	Permanent Public Transit Program	\$ 83,280.00	Confirmed	For Battery Electric Bus Feasibility Study and Fleet Transition Plan
<b>Non-predictive grants - Applied for</b>				
	NDMP	\$ 75,000.00	Confirmed	Waiting for confirmation from Ministry
	Fed Dev Ontario	\$ 333,000.00	Requested	For roadway bricks - Application submitted

Currently, there is no indication whether the province will continue with the Safe Restart Agreement (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 was available to Ontario's municipalities to address operating pressures and local needs. In 2021, the Ontario government has provided an additional \$500 million to help municipalities address ongoing COVID-19 operating costs.

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

## **10. Projected 2023 Phased-in Assessment and Real Growth**

Although the province is gradually rebounding amidst the lingering consequences of COVID-19, the Ontario government has decided to **postpone the planned reassessment for the 2021, 2022, and 2023 tax years**. All property assessments will remain at the value and level they were assessed at for the 2020 tax year until 2024. Presumably, the new assessment values will begin to be phased in at that time.

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 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 2022 will still be reported by Municipal Property Assessment Corporation (MPAC), the postponement of reassessment of existing assessment base for the Town of Orangeville continues to accrue budgetary pressures.

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### **Strategic Alignment**

#### **Orangeville Forward – Strategic Plan**

Priority Area: Strong Governance

Objective: Financial Responsibilities

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**Notice Provisions**

Not Applicable

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**Financial Impact**

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

Respectfully submitted

Andrea McKinney  
General Manager, Corporate Services

Prepared by

Nandini Syed, MPA, CMM III, CPA,CMA  
Treasurer, Corporate Services

**Attachment(s):** None