

Committee of the Whole (2) Report

DATE: Tuesday, November 10, 2020

WARD(S): ALL

TITLE: 2021 BUDGET DIRECTIONS REPORT

FROM:

Michael Coroneos, Deputy City Manager, Corporate Services and Chief Financial Officer

ACTION: DECISION

Purpose

To seek Council endorsement to develop the 2021 Budget with assumptions of a tax increase of 0%, a water and wastewater rate increase of 2.9% and a stormwater average charge increase of 4.5% for 2021, which will be brought forward to the Special Committee of the Whole meetings in December 2020 for deliberation and Council approval on December 15, 2020.

Report Highlights

- Development of the 2021 tax supported operating budget will continue to be guided by Good Governance priorities, *Value for Money* and *Fiscal Sustainability* as part of the 2018-2022 Term of Council Service Excellence Strategic Plan.
- As uncertainty remains with respect to the time horizon and degree to which COVID19 will continue, development of the 2021 Operating Budget will also reflect the most recent projections of the financial impact of the pandemic and incorporate mitigation measures accordingly.
- Four potential scenarios to keep the tax rate increase low and affordable to residents and businesses are presented for Council consideration: 1) 0% tax rate increase; 2) 1% tax rate increase; 3) 1.2% tax rate increase; and 4) 2% tax rate increase.
- In order to provide additional support to residents and businesses, staff are recommending no change to the tax rate for 2021.

Report Highlights (continued)

- York Region is expected to increase the 2021 rates charged to the city for water and wastewater by 2.9%. To ensure the safety and sustainability of the city's water and wastewater infrastructure, Vaughan should increase rates by 2.9%, equivalent to the Regional increases.
- The stormwater charge should increase by 4.5% in 2021 to ensure adequate funding for upgrades and maintenance for the stormwater infrastructure.
- Council approval for the 2021 tax and rate supported operating budget is currently planned for December 15, 2020.

Recommendations

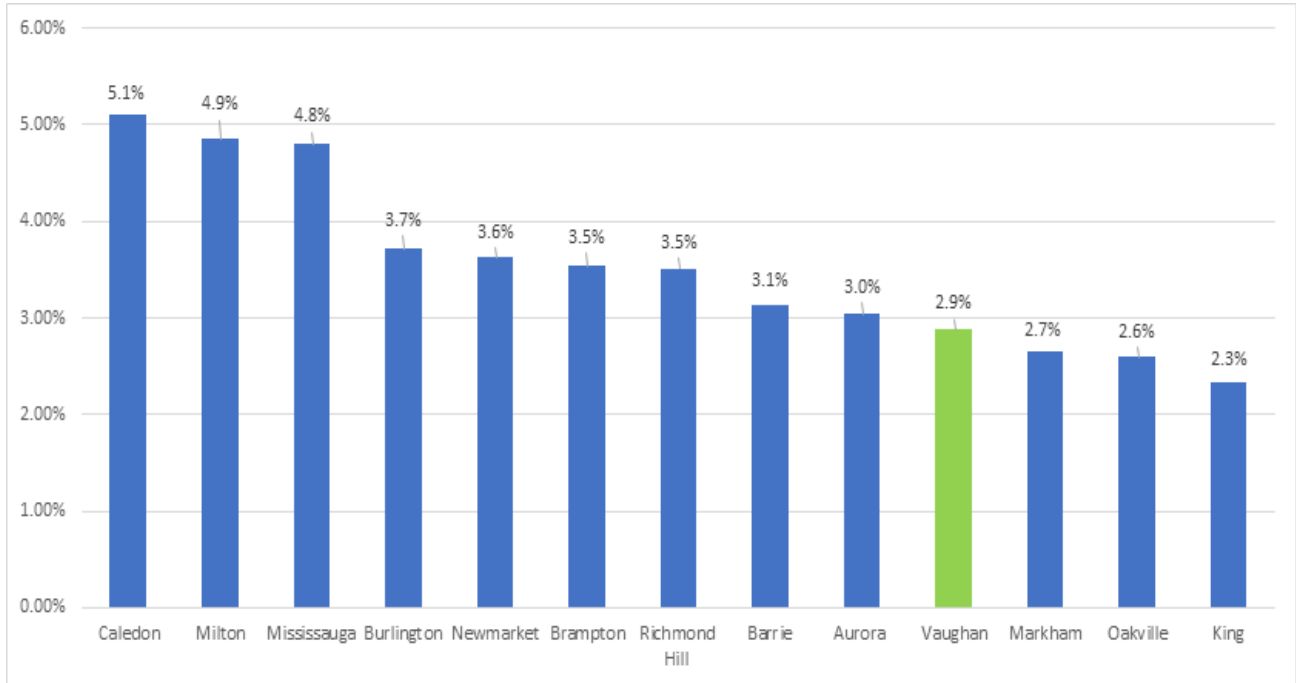
1. That Council endorse development of the 2021 Tax Supported Operating Budget with a 0% tax rate increase for 2021; and
2. That Council endorse development of the 2021 Rate Supported Operating Budget with a 2.9% combined water and wastewater rate increase for 2021 to match the expected Regional rate increase of 2.9%; and a 4.5% average stormwater rate increase for 2021.

Background

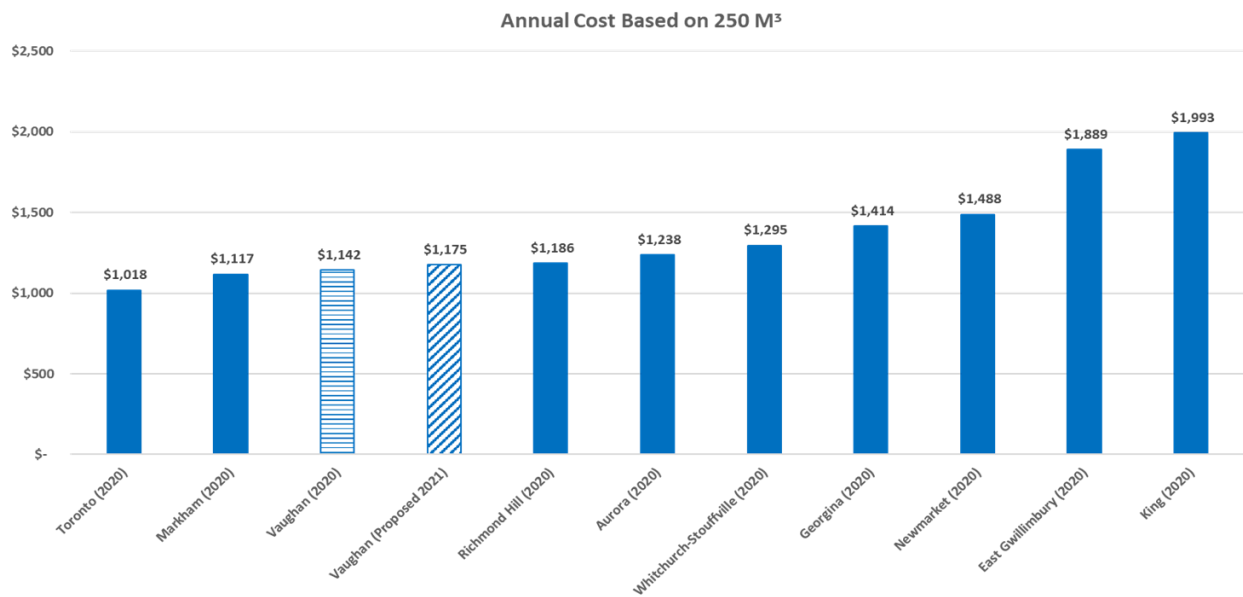
At the meeting of the Committee of the Whole (2) on October 14, 2020, a Member's Resolution was submitted by Mayor Bevilacqua (and unanimously adopted by Council), recommending City staff bring forward a 2021 Budget with the option for a zero per cent property tax increase, for Council's consideration. In response to the Member's Resolution, this report outlines four options for a potential tax rate increase in 2021, the implications of each option, and a proposed high-level roadmap to achieve the recommended target in the 2021 Budget. Also included in this report are recommendations for rate increases in 2021 for water, wastewater and stormwater for Council consideration.

Over the past four years, increases in tax rates to the residents and businesses in the City of Vaughan have averaged 2.91%. Most recently, the 2020 tax supported operating budget for the City was approved by Council with a 2.85% tax rate increase over 2019, and an outlook for 2021 with a 3% tax increase over 2020. These modest tax rate increases, which help fund contractual and inflationary budget pressures have been among the lowest tax rate increases when compared to peer municipalities in the Greater Toronto Area, as indicated in the chart below.

Average Tax Rate Increase 2015-2019



Over the past four years, increases in water and wastewater rates for Vaughan residents and business have averaged 9.9%. Most recently, the 2020 rate supported operating budget for the City was approved by Council with a 9.0% rate increase over 2019, and an outlook for 2021 of 2.9% rate increase over 2020. Despite the proposed 2.9% increase, the City of Vaughan’s combined 2021 water and wastewater average annual consumption costs remains second lowest in the Region when compared to 2020 municipal comparators as indicated in the chart below.



Since approval of the 2020 Budget and 2021 outlook, COVID-19 and its resulting health and societal implications have had a significant impact globally, nationally and within the community. The impact to the City's operations includes loss of revenues due to the closure of facilities and programs, cancelled water and wastewater rate increases, incremental costs and avoided expenses from closures and workforce re-balancing. An update to the financial impact of COVID-19 was presented to the Ready, Resilient and Resourceful Committee on September 29, 2020 in the report entitled "Update on the City's Response to COVID-19."

The impact to many residents and businesses in Vaughan and communities across the nation included temporary and permanent loss of employment and businesses compelled to shut down to stop the spread of the virus resulting in significant losses of income. When businesses re-opened, new societal norms and the need to social distance have resulted in fewer customers and lower revenues which are expected to continue into the foreseeable future.

Since declaration of a State of Emergency in March, the City has responded with measures to support its residents and businesses including (but not limited to):

- Issued refunds without penalty for all cancelled camps, programs and permits;
- Financial assistance with respect to deferral of property taxes (waived late payment penalty on the Interim billing until July 1st);
- Cancelled budgeted 2020 water and wastewater rate increases;
- Deferred stormwater charge for two months;
- Deferred renewals of Business Licenses for existing businesses by up to 90 days;
- Deferred monthly rent payments for not-for-profit Tenants within City-owned facilities for 3 months (Apr-Jun); and
- Suspension of collection of Municipal Accommodation Tax until September 1st.

As a result of the financial challenges many residents and businesses are confronting, four options for tax rate increases are provided for Council consideration for the 2021 Operating Budget to keep tax rates low and affordable.

Options for 2021 Tax Rate Increase from 2020:

- 1) 0% tax increase;
- 2) 1.0% increase;
- 3) 1.2% increase; or
- 4) 2.0% increase.

York Region's wholesale water and wastewater rates represent approximately 75% of Vaughan's water and wastewater rates. As a result of York Region's expected 2.9% combined increase for water and wastewater for 2021, Vaughan should increase its rates at a similar 2.9%.

Increased stormwater infrastructure maintenance costs and capital spending, including projects approved for Disaster Mitigation and Adaptation Funding (DMAF) have put pressure on the stormwater reserve. Moving project start times and improving efficiency through project bundling will lower costs, however a proposed 4.5% average rate increase for 2021 will be required to help ensure the long-term sustainability of the stormwater reserve.

Previous Reports/AuthorityN/A

Analysis and Options

Under normal circumstances, the 2021 approved outlook with a 3% tax rate increase would have been the starting point for the 2021 budget. However, given the impact of the ongoing global pandemic to residents and businesses, staff is seeking Council approval of a tax rate increase in 2021 that is lower than the previously approved outlook as the revised starting point for the 2021 Operating Budget. It is important to note that a 1% increase in the tax rate equates to approximately \$2.1 million in additional tax revenues. The following table illustrates the impact to tax revenues of each option for the 2021 tax rate:

| Tax Levy Change % | 0% | +1% | +1.2% | +2% |
|--------------------------------------|-----------|------------|--------------|------------|
| Additional Tax Revenues (\$M) | \$0.0 | \$2.1 | \$2.5 | \$4.2 |

Impacts of COVID-19 and Guiding Principles for Development of the 2021 Operating Budget

As the full extent of COVID-19 remains unknown, development of the 2021 budget factors this uncertainty and is guided by conservatism, flexibility and sustainability:

- Low and affordable property tax rate increase
- Factor impacts of COVID-19 – lower own-sourced revenues, new spending needs
- Conservative reserve contributions
- Continue to deliver key infrastructure projects – support economic recovery
- Modest and realistic capital programs
- Only essential and urgent Additional Resource Requests (ARRs)
- Focus on legislated deliverables, business continuity and service-level recovery
- Manage short-term liquidity / Maintain long-term fiscal sustainability

In the update to the City’s response to COVID-19 to the RRR Committee on September 29, 2020, staff have assessed the financial impact of 2 possible scenarios to the City’s operations for both 2020 and 2021. As uncertainty to the extent of the pandemic and recovery period remains, a hybrid of the projections included in the 2 scenarios is being used to inform development of the 2021 Operating Budget.

Preliminary estimates based on budget submissions suggest the total tax levy required in 2021 to deliver the same levels of services as in 2020, factoring in adjustments for COVID-19 would be \$215.6 million, an increase of \$5.7 million or 2.7% from 2020. These estimates do not include assessment growth, and additional resource requests, which will be prioritized separately based on urgency.

Financial Assistance

As part of the Safe Restart Agreement (SRA) announced in July, total funding of \$2 billion is to be distributed to Ontario’s municipalities to support COVID-19 operating costs and pressures in 2020 and help avoid large tax increases. Fifty percent of the funding was allocated in Phase 1 and sent to all municipalities through September and October, and 50% is allocated in Phase 2 for municipalities that require additional funding support in 2020. Vaughan received **\$6.15 million** in Phase 1. Any unused amounts can be deposited to a reserve to offset pressures in 2021.

As current SRA funding is intended to provide relief to municipalities for 2020, no support from senior levels of government has been factored into development of the 2021 budget, but the City will continue to work with municipal partners to advocate for additional funding in 2021 if required.

Options for the 2021 Tax Levy

Based on the estimated 2021 tax levy required (which does not include assessment growth and additional resource requests), all the proposed tax levy options for 2021 result in an operating pressure. The magnitude of the pressure is dependent on the tax levy option adopted by Council, which is illustrated in the table below.

| \$ Millions | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|
| 2021 Tax Change % | 0% | +1% | +1.2% | +2% |
| 2020 Tax Levy | 209.9 | 209.9 | 209.9 | 209.9 |
| Additional Tax Levy for 2021 | | 2.1 | 2.5 | 4.2 |
| 2021 Total Tax Levy | 209.9 | 212.0 | 212.4 | 214.1 |
| ESTIMATED 2021 Tax Levy Required | 215.6 | 215.6 | 215.6 | 215.6 |
| Surplus (Pressure) | (5.7) | (3.6) | (3.2) | (1.5) |

Recommendation

COVID-19 has created unprecedented challenges for the provincial, national and global economy. The significant impacts to residents and business of the City of Vaughan is expected to continue well into 2021. The City recognizes these challenges and

continues to evaluate and implement additional measures to support its residents and businesses during this difficult time.

In order to provide additional support to the City's residents and businesses, staff are recommending Council endorse development of the 2021 Tax Supported Operating Budget with a tax rate increase of 0%. The result will be a base operating pressure of \$5.7 million to be mitigated in the 2021 Budget, with the goal of not impacting service levels to the community.

As legislated by *the Municipal Act*, Section 290(4), municipalities must table a balanced operating budget each year. Staff have begun to develop a budget road map to achieve a 0% tax increase and comply with legislation.

2021 Budget Roadmap - Potential Measures and Associated Risks

Ongoing Measures:

1. Apply Assessment Growth - Assessment growth in 2020 was 1.45%, slightly lower than anticipated due largely to the pandemic. Staff are forecasting an unchanged growth rate for 2021. While there is always some risk with forecasting growth rates, it is low given the historic growth and activity experienced in Vaughan.
2. Contain Cost Increases (Economic Factors, Cost of Living Adjustments) - Staff will review key cost drivers and search for ways to contain increases, such as approving fewer additional resource requests (ARR's), implementing more efficient ways of delivering services, reviewing / re-negotiating contracts and reducing use of resources. These strategies are consistent with Council Strategic Priorities of Service Excellence and Good Governance. The focus will be on strategies that are sustainable and improve / maintain service delivery and efficiency.
3. Increase the Portion of Dividends the City Receives from Alectra - The City currently receives 75% of dividends declared by Alectra, while Vaughan Holdings Incorporated (VHI) retains the remaining 25%.
4. Reduce Discretionary Expenditures - Since the beginning of the pandemic, a temporary freeze on discretionary expenditures such as events, conferences and seminars has been in place to offset pressures as a result of the pandemic. A permanent reduction in the budget for these costs will yield small savings but may have negative unintended consequences.
5. Reduce Corporate Contingency - Staff recommended an increase to the Corporate Contingency budget for 2021 due to the uncertainty of the impacts of COVID-19. A

decrease to the contingency budget would reduce the amount available to mitigate unforeseen pressures which may arise in 2021.

6. Review of Vacancies - The number of vacancies in the City has increased directly and indirectly due to COVID-19. As part of the 2020 fiscal strategy to mitigate the impacts of COVID-19, vacancies are currently only filled if they are deemed essential. Positions which have been vacant for more than a year will be reviewed to determine if they are still required.

One-Time Measures:

The risk associated with all one-time measures is that they are temporary, non-repeatable, and could lead to future reductions to service levels and/or increases in taxes if used over sustained periods. Staff will try to avoid recommending one-time measures in order to balance the budget in 2021. However, should that not be possible, potential options include:

1. Remaining Safe Restart Agreement (SRA) / Canada Emergency Wage Subsidy (CEWS) Funding – Any remaining funding from SRA and/or CEWS in 2020 will be transferred in a reserve to be used to offset pressures in 2021. At this time, staff are not forecasting any surplus from 2020.
2. Discretionary Reserves – As part of prudent financial management and long-term fiscal sustainability, the use of Tax Stabilization and Working Capital Reserves are generally reserved for emergencies and not a planning tool.
3. One-Time Draw of Dividends from Alectra – This option is not sustainable, but available for short-term liquidity.

Staff will review all options and to the extent possible, will recommend measures that are sustainable without impact to essential services to mitigate all known pressures in 2021.

Staff are also recommending Council endorse development of the 2021 Rate Supported Operating Budget with a water and wastewater rate increase of 2.9% to match York Region's expected 2.9% combined increase for water and wastewater for 2021 and a stormwater average charge increase of 4.5% for 2021 to help ensure the long-term sustainability of the stormwater reserve.

2021 Budget Timelines

The following table provides a truncated timeline for development of the 2021 Budget:

| DATE | MILESTONE |
|---------------------|---|
| September / October | Budget Submissions Reviewed by Senior Leadership Team Draft Budget Finalized |
| October / November | Draft Budget Book Completed |
| December 2 | Special Committee of the Whole (Budget) |
| December 8 | Special Committee of the Whole (Budget) |
| December 15 | Special Council (Budget) * |

* Final approval dates may need to be revisited based on COVID realities and/or Provincial Budget (tabled November 2020) and/or York Region Budget (tabled 1Q 2021)

Financial Impact

The financial impact of the recommended option of 0% tax rate increase in 2021, excluding assessment growth and additional resource requests will result in pressures of \$5.7 million to be mitigated in the 2021 Base Operating Budget, with the goal of not impacting service levels to the community.

A combined 2.9% water and wastewater increase for 2021 will permit lifecycle contributions to the reserves, however the contribution amounts will be below the annual depreciation amounts. This represents a risk over the long-term as reduced reserve contributions will not keep pace with infrastructure replacement costs.

A 4.5% average stormwater rate increase is required for 2021 and further annual increases are suggested to help maintain the stormwater reserve.

All sustainable options to mitigate the financial pressures without impact to essential services in 2021 will be considered in order to deliver a balanced tax supported operating budget. Details of the measures recommended will be included in the 2021 Budget to be tabled at Special Committee of the Whole in December for Council consideration.

Conclusion

COVID-19 has continued to impact people, businesses and governments around the world. The City of Vaughan, like many other municipalities across Canada and Ontario, has responded with measures to stop the spread of the virus, protect its citizens and businesses while ensuring continuation of essential services. These measures have created challenges and financial pressures for the City, which have been incorporated into the development of the 2021 budget. The City will continue to provide support to its residents and businesses by maintaining low and affordable tax, water, wastewater and stormwater rates. It will accomplish this by continually searching for efficiencies and the most cost-effective way of delivering services while maintaining public safety.

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