

Committee of the Whole (1) Report

DATE: Tuesday, September 14, 2021

WARD(S): ALL

TITLE: 2022 BUDGET DIRECTIONS

FROM:

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

ACTION: DECISION

Purpose

To seek Council endorsement to develop the 2022 Budget with assumptions of a tax levy increase of 2.0%, a water and wastewater rate increase matching the Regional increase (currently estimated at 3.5%) and a stormwater average charge increase of 4.5% for 2022, which will be brought forward to the Special Committee of the Whole meetings in November and December 2021 for deliberation and Council approval on December 14, 2021.

Report Highlights

- Development of the 2022 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 2022 Operating Budget will also reflect the most recent projections of the financial impact of the ongoing pandemic and incorporate mitigation measures accordingly.
- Three potential scenarios to keep the tax rate increase low and affordable to residents and businesses are presented for Council consideration: 1) 1.5% tax rate increase; 2) 2.0% tax rate increase; and 3) 2.5% tax rate increase.
- In order to maintain essential services to residents and businesses, staff are recommending an increase to the tax rate of 2.0% for 2022.

Report Highlights (continued)

- York Region will bring forward the multi-year water and wastewater rates increases for Regional Council approval in the fall. To ensure the safety and sustainability of the city's water and wastewater infrastructure, Vaughan should increase rates equivalent to the Regional increases. The 2022 water and wastewater rate increases are subject to change based on the decision from the Region.
- The recommended stormwater charge increase is 4.5% in 2022, to ensure adequate funding for upgrades and maintenance for the stormwater

Recommendations

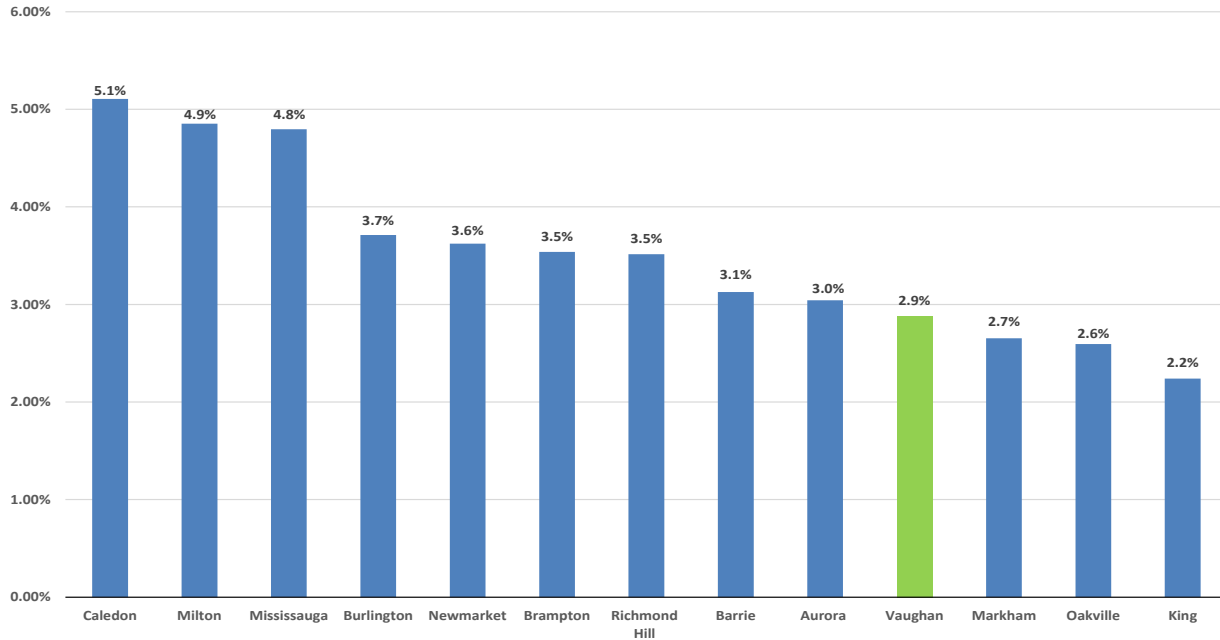
1. That Council endorse development of the 2022 Tax Supported Operating Budget with a 2.0% tax rate increase for 2022; and
2. That Council endorse development of the 2022 Rate Supported Operating Budget with a 3.5% combined water and wastewater rate increase for 2022, subject to change to match the expected Regional rate increase; and a 4.5% average stormwater rate increase for 2022.

Background

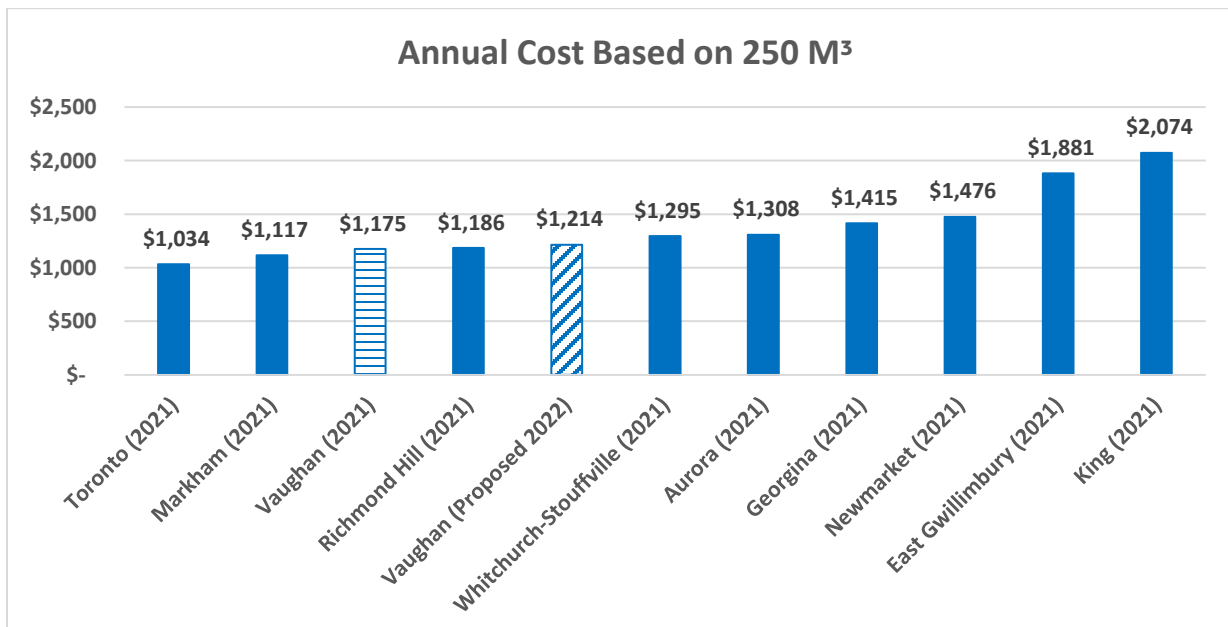
This report outlines three options for a potential tax rate increase in 2022, the implications of each option, and a proposed high-level roadmap to achieve the recommended target in the 2022 Budget. Also included in this report are recommendations for rate increases in 2022 for water, wastewater and stormwater for Council consideration.

Over the five-year period 2016-2020, increases in tax rates to the residents and businesses in the City of Vaughan have averaged 2.9%. Most recently, the 2021 tax supported operating budget for the City was approved by Council with no tax rate increase over 2020, lowering the most recent **five-year average tax rate increase to 2.3%**. The 2021 Budget and 2022 Plan also included an outlook for 2022 with a 3% tax increase over 2021. 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 2016-2020



Over the past few years, (except for 2020 as Council cancelled the rate increase due to COVID-19), increases in water and wastewater rates for Vaughan residents and business have averaged 9.9%. Most recently, the 2021 rate supported operating budget for the City was approved by Council with a 2.9% rate increase over 2020. Despite the proposed 3.5% increase, the City of Vaughan’s combined 2022 water and wastewater average annual consumption costs remains one of the lowest in the Region when compared to 2021 municipal comparators as indicated in the chart below.



In recognition of the ongoing financial challenges being experienced by the City and its residents and businesses are due to COVID-19, three options for 2022 tax rate increases are provided for Council consideration, all of which continue to keep tax rates low and affordable.

Options for 2022 Tax Rate Increase from 2021:

- 1) 1.5% increase;
- 2) 2.0% increase; or
- 3) 2.5% increase.

York Region’s wholesale water and wastewater rates represent approximately 79% of Vaughan’s water and wastewater rates. As a result of York Region’s expected 3.5% combined increase for water and wastewater for 2022, it is recommended that Vaughan also increase its rates by 3.5%. This is subject to change based on the outcome of the Region’s Council approval on the rate increases.

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. Managing project start dates and improving efficiency through project bundling will lower costs, however a proposed 4.5% average rate increase for 2022 will be required to help ensure the long-term sustainability of the stormwater reserve.

Previous Reports/Authority

[2021 Budget Directions Report](#)

Analysis and Options

The 2022 Plan was approved with an outlook of a 3% tax rate increase. However, given the impact of the ongoing global pandemic to residents and businesses, staff are seeking Council approval of a tax rate increase in 2022 that is lower than the previously approved outlook as the revised starting point for the 2022 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 2022 tax rate:

Tax Levy Change %	+1.5%	+2.0%	+2.5%
Additional Tax Revenues (\$M)	\$3.2	\$4.3	\$5.3

The 2021 Operating Budget with a 0% tax rate increase from 2020 was developed factoring in adjustments due to COVID-19 and based on the assumption that a recovery

from the pandemic was to begin in 2021. Since Council approval of the 2021 Operating Budget in December 2020, the situation has worsened. A third wave of COVID-19, along with severe and prolonged lockdowns has resulted in further financial pressures, primarily in forgone Recreation revenues and incremental expenditures for safety measures, partially offset by avoided costs from closures. As of June 30, 2021, user fee revenues in Recreation / Community Development were below the year-to-date budget by 92% or \$5.8 million.

As uncertainty to the extent of the pandemic and recovery period remains, staff have assessed the financial impact to the best of their ability to inform development of the 2022 Operating Budget. This assessment was based on multiple waves of the infection and the necessary safety measures, legislated closures and re-openings experienced during the first 18 months of the pandemic and a forecast for the remainder of 2021, which could include a fourth wave. The City must continue to be fiscally conservative, exercise caution and manage resources prudently in 2022.

Guiding Principles for Development of the 2022 Operating Budget

- Low and affordable property tax rate increase
- Factor impacts of COVID-19 – lower own-sourced revenues, new spending needs
- Continue to deliver key infrastructure projects – support economic recovery
- Modest and realistic capital programs
- Lean operating budgets - minimal Additional Resource Requests (ARRs)
- Prudent prioritization, with focus on legislated deliverables, business continuity and service-level recovery
- Manage short-term liquidity / Maintain long-term fiscal sustainability

Preliminary estimates based on budget submissions suggest the total tax levy required in 2022 to deliver the same levels of services as in 2021, factoring in further adjustments for COVID-19 is \$218.4 million, an increase of \$5.5 million or 2.6% from 2021. Main drivers of the increase include forgone revenues in Recreation / Community Development, inflationary pressures, annualizations and additional costs to protect employees and the public (social distancing), partially offset by workforce re-balancing to correspond to the loss of revenues. 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 2020, total funding of \$2 billion was to be distributed to Ontario's municipalities in two Phases to support COVID-19 operating costs and pressures and help avoid large tax increases. In October 2020, Vaughan received \$6.15 million in Phase 1. This funding not only helped offset

pressures, but also contributed to a net operating surplus of \$2.6 million in 2020, which was deposited to the Tax Rate Stabilization Reserve to help offset pressures in 2021.

On December 16, 2020, the Province announced Phase 2 funding allocations, of which Vaughan received \$2.6 million in January 2021 to help provide additional financial relief to support operating budgets in 2021.

On March 4, 2021, the Ontario government announced it is providing an additional \$500 million to help the province's 444 municipalities address ongoing COVID-19 operating costs. A letter from the Minister of Municipal Affairs and Housing was received confirming additional funding of \$8.3 million for the City of Vaughan, of which 50% or \$4.2 million was received in May 2021 and 50% to be received in November 2021. The confirmed additional funding of \$8.3 million brings the total support for operating pressures due to COVID-19 to \$17.1 million, including \$10.9 million in 2021.

As both SRA and Provincial COVID-19 funding are intended to provide relief to municipalities in 2021 (the City is expected to utilize all of the funding in 2021), no support from senior levels of government has been factored into development of the 2022 budget. However, any unused amounts will be deposited to a reserve to offset pressures in 2022.

Options for the 2022 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 2022 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

2022 Tax Increase %	1.5%	2.0%	2.5%
2021 Tax Levy	212.9	212.9	212.9
Additional Tax Levy for 2022	3.2	4.3	5.3
2022 Total Tax Levy	216.1	217.2	218.2
ESTIMATED 2022 Tax Levy Required	218.4	218.4	218.4
Surplus (Pressure)	(2.3)	(1.2)	(0.2)

Recommendation

COVID-19 has created unprecedented challenges for the federal, provincial and municipal governments and their respective economies. The significant impacts to residents and business and the City are expected to continue into 2022. The City of Vaughan's Administration recognizes these challenges and continues to evaluate and

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

In order to maintain essential services and provide continued support to the City's residents and businesses, staff are recommending Council endorse development of the 2022 Tax Supported Operating Budget with a tax rate increase of 2.0%. The result will be a base operating pressure of \$1.2 million to be mitigated in the 2022 Budget, with the goal of not impacting service levels to the community.

In 2021, the budget achieved a 0% tax rate increase by implementing various measures, some of which are not sustainable in the long-term including:

- Reducing contributions to capital from taxation by \$4.3 million (more than 50%) - this places pressures on reserves and debt to fund capital projects;
- Freeze on salaries for non-union staff – continuation of the freeze could make it difficult for the City to attract and retain talent;
- A one-time increase by 10% (from 75% to 85%) in the City share of dividends declared by Alectra from Vaughan Holdings Incorporated - this one-time measure creates a base pressure of \$1 million in 2022; and
- Review of vacancies and implementing a temporary freeze on hiring for some positions – difficult to continue in the long-term without impact to service levels.

The City understands that some residents and businesses continue to struggle during the pandemic. A 2% tax rate increase in 2022 balances supporting these residents and businesses with the need to maintain essential services at expected levels. An increase in tax rates of less than 2% could impact service levels and the required investments in the City's infrastructure and lead to significant tax rate increases in future years.

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 2% tax increase and comply with legislation.

2022 Budget Roadmap - Potential Measures and Associated Risks

Ongoing Measures:

1. Apply Assessment Growth - Assessment growth in 2021 was 1.5%. Staff are forecasting an unchanged growth rate for 2022. 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. 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 financial 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.
4. Reduce Corporate Contingency - The Corporate Contingency budget for 2021 increased 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 2022.
5. Continue Review of Vacancies - The number of vacancies in the City has increased directly and indirectly due to COVID-19. As part of the 2021 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 2022. However, should that not be possible, potential options include:

1. Remaining Safe Restart Agreement (SRA) / Provincial COVID-19 Funding – Any remaining funding in 2021 will be transferred in a reserve to be used to offset pressures in 2022. At this time, staff are not forecasting any surplus from 2021.
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 2022.

Staff are also recommending Council endorse development of the 2022 Rate Supported Operating Budget with a water and wastewater rate increase of 3.5% to match York Region’s expected 3.5% combined increase for water and wastewater for 2022 and a stormwater average charge increase of 4.5% for 2022 to help ensure the long-term sustainability of the stormwater reserve. Dependent on the outcome of York Region approval on the water and wastewater rate increase, the 3.5% increase is subject to change.

2022 Budget Timelines

The following table provides a summarized timeline for development of the 2022 Budget:

DATE	MILESTONE
September / October	Budget Submissions Reviewed by Senior Leadership Team Draft Budget Finalized
October / November	Draft Budget Book Completed
November 30	Special Committee of the Whole (Budget)
December 7	Special Committee of the Whole (Budget)
December 14	Special Council (Budget) *

* Final approval dates may need to be revisited based on COVID realities and/or Federal/Provincial Fall Economic Statement (November 2021) and/or York Region Budget (tentatively scheduled for Council approval in December 2021)

Financial Impact

The financial impact of the recommended option of 2% tax rate increase in 2022, (excluding assessment growth and additional resource requests) will result in estimated pressures of \$1.2 million, to be mitigated in the 2022 Base Operating Budget, with the goal of not impacting service levels to the community.

A combined 3.5% water and wastewater increase for 2022 will permit lifecycle contributions to the reserves, however the contribution amounts will be below the annual asset reinvestment requirements. 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 2022 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 2022 will be considered in order to deliver a balanced tax supported operating budget. Details of the measures recommended will be included in the 2022

Budget to be tabled at Special Committee of the Whole in late-November, early-December for Council consideration.

Broader Regional Impacts/Considerations

The combined 3.5% water and wastewater increase for 2022 is subject to change, dependent on the outcome of York Region’s approval of the water and wastewater rate increases.

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 will be incorporated into the development of the 2022 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.

For more information, please contact:

Michael Marchetti, Director of Financial Planning & Development Finance & Deputy City Treasurer, Ext. 8271

Dean Ferraro, Director, Financial Services & Deputy Treasurer, Ext. 8272

Prepared by

Kenneth Quan, Manager, Corporate Financial Planning & Analysis, Ext. 8029

Wynkie Ha Hau, Finance Manager (Acting), Water, Wastewater and Stormwater, Ext. 8432

With Contributions from

Lisa-Marie Russo, Manager Financial Planning & Analysis Ext. 8438

Varant Khatchadourian, Manager Financial Planning & Analysis Ext. 8338

Approved by



Michael Coroneos, Deputy City Manager,
Corporate Services, City Treasurer
& Chief Financial Officer

Reviewed by



Nick Spensieri, City Manager