

Region of Waterloo

Corporate Services

Corporate Finance

To: Chair Helen Jowett and Members of the Administration & Finance Committee

Meeting Date: October 4, 2022

Report Title: 2023 Plan and Budget Update

1. Recommendation:

For information.

2. Purpose / Issue:

This is a companion report to CAO-SPL-22-007, Setting the context – Regional Strategy Refresh, also on the October 4, 2022 Administration & Finance Committee agenda, providing a financial update on the status of the preliminary 2023 Regional Plan and Budget that was originally presented June 7, 2022 (CAO-SPL-22-04/COR-CFN-22-18).

3. Strategic Plan:

The annual budget aligns resources to the organization's strategic vision and numerous initiatives set out in the Corporate Strategic Plan.

4. Report Highlights:

- **Cost escalation** – Inflation is impacting the 2023 budget in a manner not seen for decades. Service contracts, collective agreements, materials and supplies, and the capital program are all impacted. The most significant impacts are related to fuel prices and capital cost escalation.
- **Service Expansion** – Council has approved service level enhancements that are being added to 2023 business plans and budgets. These include ambulances and paramedics to deal with unit utilization issues and response times, restoration and expansion of public transit service hours, airport facility and service expansion, and the interim housing strategy to address a surge in service for those people experiencing homelessness in the community.
- **2023 Budget Preview** – Current estimates and modelling suggest a tax levy increase in the range of 11% - 15% for Regional services. Initial estimates for the 2023 Police Services budget are for a tax levy increase in the 8% range

excluding expansion requests. This would result in an overall tax increase in the range of 8% - 11%. While these are preliminary figures, they provide some indication of the significant budget uncertainty and challenge ahead.

5. **Background:** The two major forces impacting the Region's 2023 Budget are cost inflation and a range of service expansions to meet community needs. These are described in detail below.

Economic Conditions

The Region's budget over the last 10 years has been prepared and considered in an environment of relatively low and stable inflation and historically low long term borrowing rates. Current economic conditions are summarized as follows:

- The most significant factor impacting the Region's 2023 budget is cost inflation. Service contracts (waste collection, light rail transit, security, winter maintenance, janitorial, etc.), materials and supplies, collective agreements and capital investments are all impacted. This makes the 2023 budget very different from any recent Regional budget.
- The year over year Consumer Price index for Canada in August 2022 was 7.0%, down from a 7.6% increase in July and an 8.1% increase in June, which was the largest year-over-year increase since January 1983. Year-to-date inflation is at 6.8%. At the time of 2022 budget preparation and review, inflation projections for 2022 were in the range of 2.5% to 3.0%. The non-residential building construction price index for Toronto rose 17.0% for the second quarter of 2022 over the second quarter of 2021.
- Fuel prices hit record highs in the spring but have since moderated. Current prices are approximately \$1.57/L for diesel and \$1.28/L for gasoline and remain significantly higher than budgeted in 2022 (\$1.06/L for diesel and \$1.08/L for gasoline). The year-to-date average cost of fuel is approximately \$1.62/L for diesel and \$1.51/L for gasoline. Year-to-date fuel costs as compared to budget are outlined in Appendix A.
- Canada's unemployment rate is currently 5.4% for August, up slightly from the historic low of 4.9% seen in both June and July.
- The cost of borrowing continues its upward yet volatile trend. The Bank of Canada has increased its overnight rate 5 times this year (from 0.25% to 3.25%). Government of Canada bond yields, upon which the Region's cost of borrowing is predicated, reached their highest level in over 10 years in June, with the 10 year rate exceeding 3.6%. In July, rates dropped to a low of approximately 2.6% but have since risen again to above 3.3%.

Service Expansion

The Region's 2023 Preliminary Budget will reflect service level enhancements approved by Council as part of the 2022 Budget as well as subsequent to 2022 Budget approval, as described below:

- Annualization of 2022 service enhancements - increased service levels and new facilities budgeted for a part year in 2022 must be annualized in the 2023 operating budget, examples of which are provided below:
 - Airport facility and service expansion
 - New paramedic service resources added on July 1 (and approved in the 2022 Budget)
 - Grand River Transit service hours
 - New GRT Bus Maintenance and Storage Facility on Northfield Drive
 - Climate Action investments
- Service level increases approved by Council subsequent to 2022 budget approval are reflected in the initial 2023 budget estimates and include:
 - Addition of three 12-hour ambulances and one emergency response unit and required staff effective October 1, 2022 (approved in June 2022 through report PHE-PSV-22-02), as well as the addition of eight 12-hour ambulances in May and October of 2023.
 - Additional Grand River Transit service hours to reinstate university and college oriented transit routes in fall 2022, to restore service as of January 1, 2023 and to implement the Cambridge network redesign in April 2023 (approved in June 2022 through report TES-TRS-22-09).
 - Interim housing strategies for those experiencing homelessness (approved in August 2022 through report CSD-HOU-22-19)
- Additional 2023 service enhancements/expansions are contemplated in various critical service areas and are currently being reviewed by staff.

2023-2032 Capital program

As previously described and shown in Appendix B, a material increase in capital cost escalation has been experienced in 2022, which is impacting the cost of capital investments across all regional services. Staff are in the process of reviewing the draft capital program in detail and refining funding and financing strategies. Future operating budgets will be further impacted by the increased cost of long-term borrowing.

Police Services Budget

On July 6, 2022, the Waterloo Regional Police Service (WRPS) Board considered a report indicating that WRPS was projecting a property tax levy increase of

approximately 8% for 2023, before the addition of any resource expansions or program enhancements. This translates to a tax impact of approximately 6.4% for Police Services.

Certain pressures previously described will also impact the Waterloo Regional Police Services 2023 operating budget, including escalating fuel prices and inflationary impacts on purchased services and goods. Other significant drivers impacting the 2023 Police Services budget include:

- Annualization of 35 staffing additions approved through the 2022 budget (\$4.1M)
- Annualized operating costs associated with the new Central Division at 200 Frederick Street, Kitchener
- Contractual agreement compensation increases and increasing benefit costs
- Strategic Business Plan objectives including major projects such as Digital Evidence Management System (DEMS), Body-Worn and In-Car Video, Next Generation 911, Communications Centre and Human Resource Information System
- Potential adjustment to the use of contributions from the prior year surplus (\$1.6M included in the approved 2022 operating budget)

Preliminary 2023 budget impacts

a) Tax Supported Budget

Current estimates and modelling suggest a tax levy increase in the range of 11% - 15% for Regional services. Initial estimates for the 2023 Police Services budget are for a levy increase in the 8% range excluding expansions. This would result in an overall regional tax increase in the range of 8% - 11%. While these are preliminary figures, they provide some indication of the significant budget uncertainty and challenge ahead.

b) User Rate Budgets (Water and Wastewater)

Projected 2023 user rate increases were modeled as part of the 2022 budget process. Staff are working towards developing 2023 operating budgets in line with these projections, which range from 2.4% - 3.9%.

Schedule and next steps

A 2023 Plan and Budget review timetable was approved through report CAO-SPL-22-04/COR-CFN-22-18 dated June 7, 2022 and is included as Appendix C. Staff acknowledge the need for flexibility with respect to budget schedule and the incoming Council can adjust the timeline as required.

6. Area Municipality Communication and Public/Stakeholder Engagement:

The 2023 Plan and Budget Community Engagement and Communications strategy, as outlined through report CAO-SPL-22-06 dated August 9, 2022, will provide meaningful opportunities for residents, businesses and partners to inform priorities for focus and improvement. The plan will build on the improved overall engagement that was accomplished last year. Specific steps were taken using an equity lens to enhance communications and engagement with community members facing the most barriers to participation. This year's engagement will continue building on those efforts. Engagement will also incorporate input received through other planning such as the Regional Official Plan, Economic Development, the Community Safety and Wellbeing Plan and others.

7. Financial Implications:

The Regional tax levy comprises an average of 55% of the residential property tax bill and 43% of the commercial/industrial tax bill. Total tax supported operating expenditure in 2022 exceeds \$1.1 billion with a Regional property tax levy of \$617 million, of which \$421 million (68%) is for direct Regional Services and \$196 million (32%) is for Police Services. Total budgeted water and wastewater operating revenue in 2022 is \$143 million. A 1% change in total regional taxes in 2023 equates to \$6.3 million, representing an increase of \$22 for a typical residence.

8. Conclusion / Next Steps:

Staff will prepare and present the 2023 Plan and Budget based on the timeline as approved through this report COR-CFN-22-18. At the first Budget Committee meeting on November 30, 2022, staff will provide a detailed review of the preliminary user rate and tax supported operating budgets and capital programs.

9. Attachments / Links:

[Appendix A: Fuel Prices](#)

[Appendix B: Inflation](#)

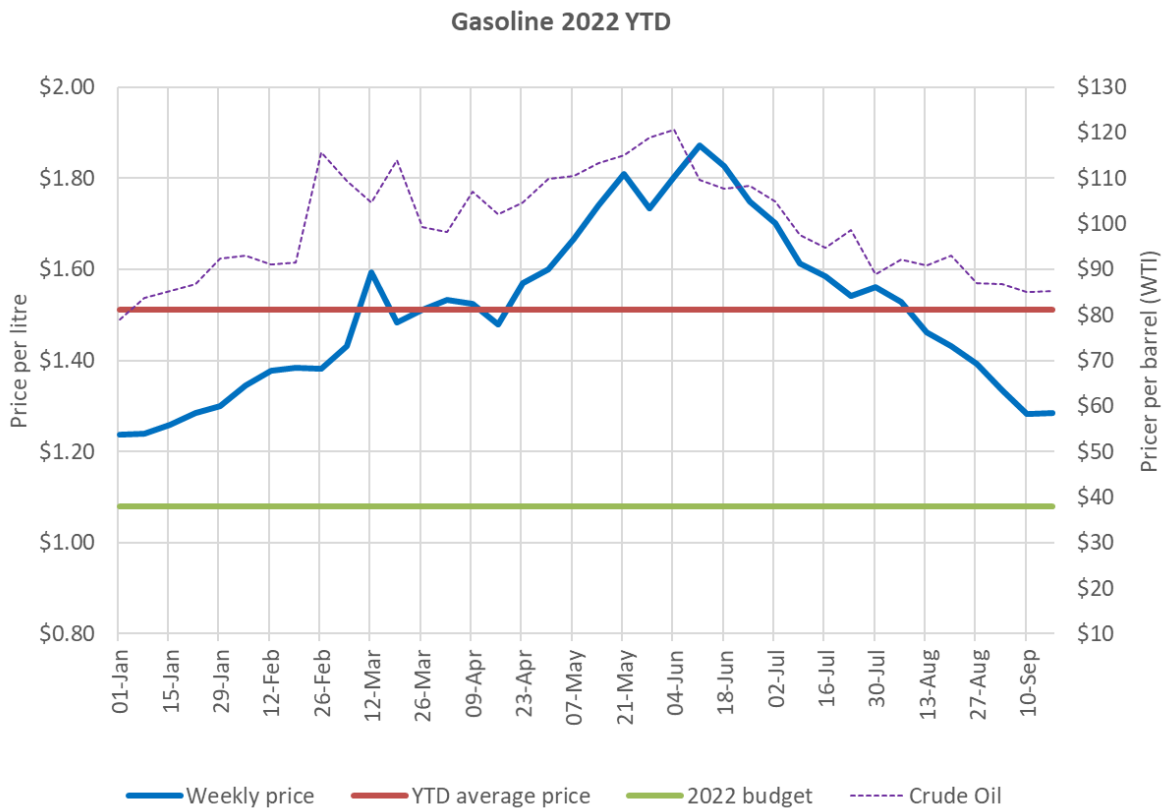
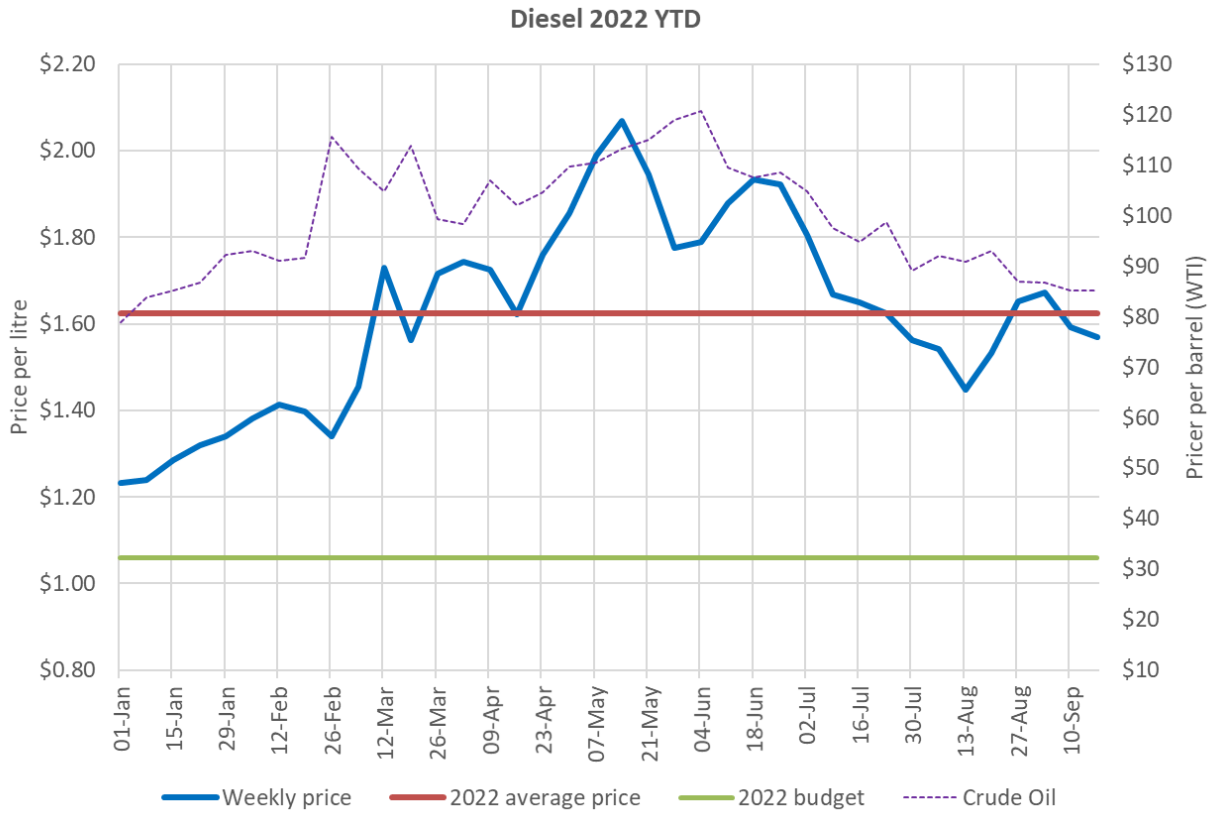
[Appendix C: 2023 Plan and Budget Process Timetable](#)

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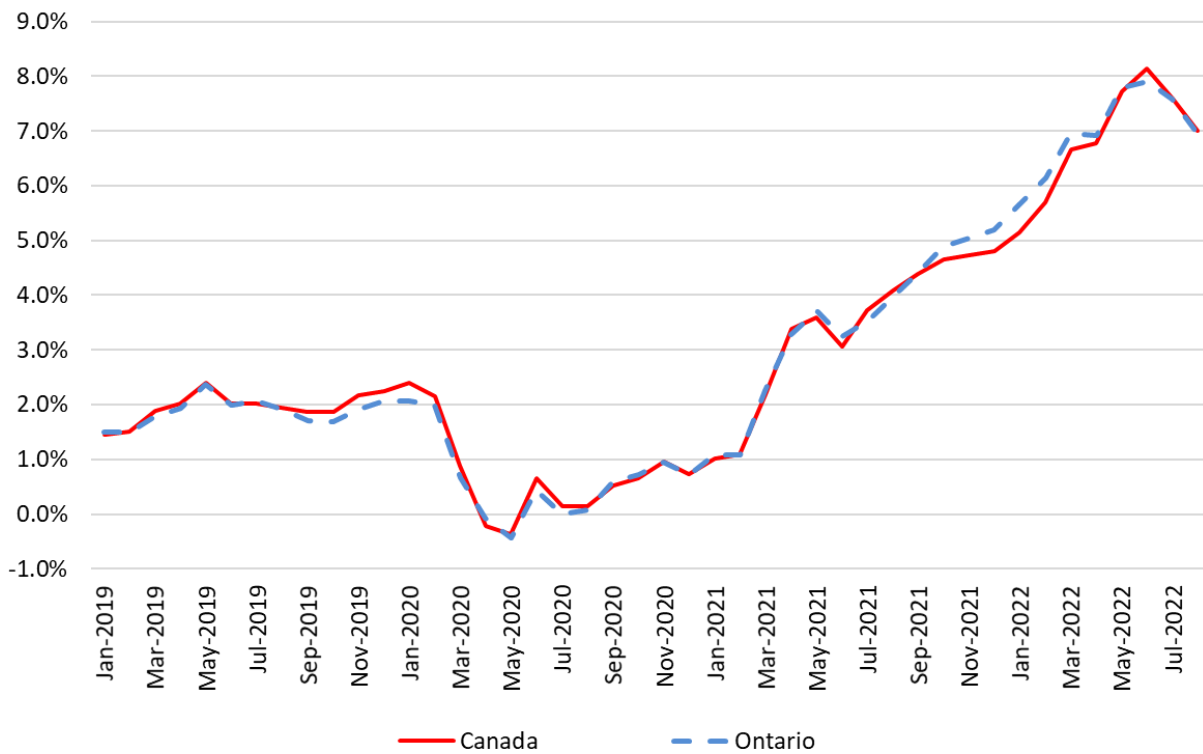
Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Appendix A – Fuel Prices



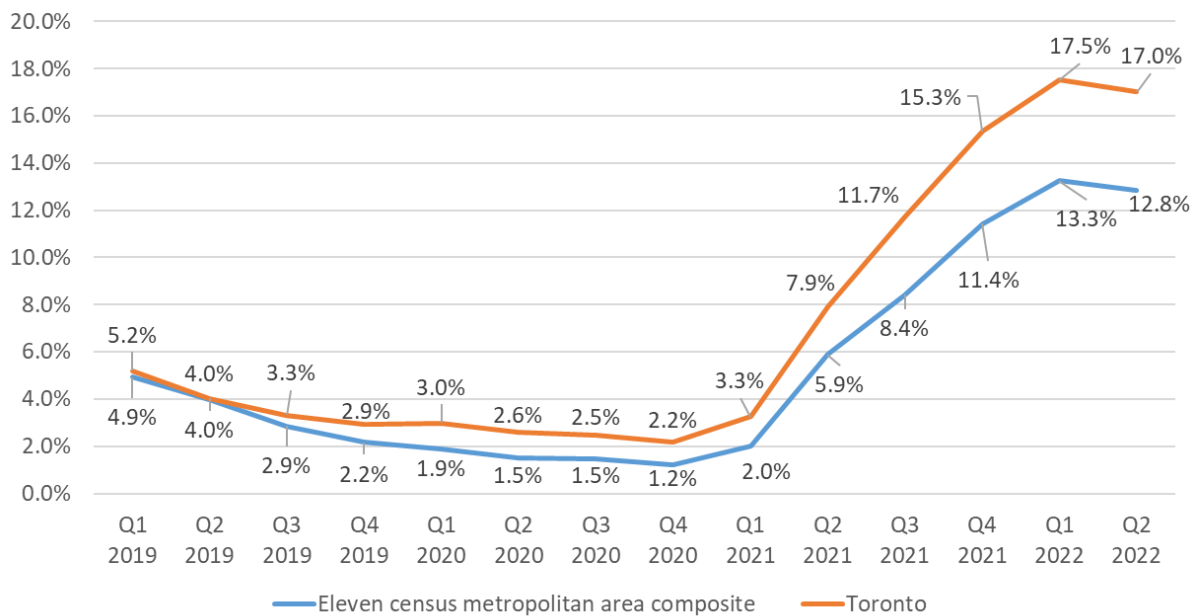
Appendix B – Inflation

Consumer Price Index (2019 to YTD 2022)



Source: *Statistics Canada*, Consumer Price Index, monthly, not seasonally adjusted

Building construction price index Non-residential buildings (percentage change to same quarter in previous year)



Appendix C – 2023 Plan and Budget Process Timetable

Purpose of the Budget Committee Session	User Rate Budget	Tax Supported Budget
User Rate Operating Budget and Capital Program: <ul style="list-style-type: none"> • Detailed Budget Review • GRCA presentation 	Nov. 30, 2022	
Tax Supported Operating Budget and Capital Program: Overview		Nov. 30, 2022
Approval of user fees and charges and user rates	Dec. 14, 2022	Dec. 14, 2022
Tax Supported Budget Update: Detailed Budget Review		Dec. 14, 2022
Police Services Budget Presentation		early Jan. 2023
Tax Supported Budget Update: Detailed Budget Review Approval of User Rate Budgets	Jan. 11, 2023	Jan. 11, 2023
Police Services Board Budget Approval		Jan. 18, 2023
Final Budget Day: <ul style="list-style-type: none"> • Approval of 2023 Operating Budgets and Capital Programs for Tax Supported Programs 		Feb. 8, 2023