

Region of Waterloo

Corporate Services

Corporate Finance

To: Administration and Finance Committee

Meeting Date: June 6, 2023

Report Title: 2024 Plan and Budget Process and Principles

1. Recommendation

That the Regional Municipality of Waterloo take the following action with respect to the 2024 Plan and Budget as set out in report COR-CFN-23-027 dated June 6, 2023:

- a) Approve the 2024 Plan and Budget review timetable as set out in Appendix A;
- b) Forward a copy of Report COR-CFN-23-027 to the Waterloo Region Police Services Board and to the Area Municipalities in Waterloo Region.

2. Purpose / Issue:

To seek Committee input on the guiding principles to shape the 2024 Plan and Budget; to provide a preliminary overview of the 2024 Plan and Budget context including identification of significant budgetary pressures and a preliminary tax supported operating budget projection; to seek guidance and approval of the proposed budget review timeline.

3. Strategic Plan:

The annual budget aligns resources to the organization's strategic vision and numerous initiatives set out in the Corporate Strategic Plan. The existing strategic plan is in its final year and the process to create a new one is underway and timed to inform the development of the 2024 Plan and Budget. The annual budget, in part, sets the pace to deliver on Council priorities.

Report Highlights:

- The 2024 Plan and Budget will be guided by the Region's Corporate Strategic Plan. The existing plan is in the final year and a new plan is being created to integrate with this process, so that resources can be aligned appropriately to Council's new priorities.
- Waterloo Region is a thriving and growing community with high quality services. As

the community's expectations and needs shift over time, it will be important for the Region to be agile and collaborate with area municipalities, businesses, local organizations and other levels of government. 2024 offers a unique opportunity for new Council to set ambitious strategic goals and align appropriate resources and budget to make positive community impact.

- It is too early to determine the priorities for the new strategic plan however there are a number of continuing opportunities and pressures that the community faces. These were foundational to Council's 2023 Plan and Budget. It is expected that the 2024 budget will continue investments in key areas, including:
 - Ensuring that essential services, infrastructure and policy keep up with the pace and extent of significant expected community growth. This growth and the housing required to support that is laid out in Provincial policy and municipalities are working hard towards these goals and targets. There remains questions regarding how to fund this growth from a service and infrastructure perspective. Municipalities are working collaboratively with other levels of government to identify strategies to manage these changes.
 - The supply and range of affordable housing
 - Protecting the most vulnerable citizens in our community
 - Continuing to ensure the Region's full budget is aligned with achieving the strategic vision and the needs of the community
 - A commitment to Truth and Reconciliation
 - Addressing the Region's commitment to Climate Action
 - Expanded, affordable and accessible transit
 - Ensuring equity in policies, planning, services and decision-making
 - Continuing investments in technology that support improved service delivery and the modernization of back-office processes to achieve administrative efficiency and improvements
- 2024 Budget Preview - Based on a number of assumptions, projected economic indicators and continued investments in strategic priorities set out in master and business plans, preliminary projections for the 2024 budget suggest a tax rate increase in the range of 9%-10% for Regional services (excluding Police).
- 2024 Budget Timeline - The proposed timetable for the 2024 Plan and Budget process is set out in Appendix A, and reflects approval of the 2024 Plan and Budget in December 2023 (as has typically been the case for Regional budgets in years 2, 3 and 4 of a Council term).
- Staff are seeking input from Committee members at the June 6, 2023 meeting with respect to principles, goals and expectations for the 2024 plan and budget. Staff are seeking input regarding principles by posing questions along the lines of:

- What is the desired pace of implementation of new and existing strategic plan initiatives and service expansions?
- What is committee's view on the current projection of the 2024 budget position?
- ROW is one of the fastest growing communities, with the lowest regional taxation level – is this desired as we grow? How do we manage growth and affordability?
- Lowering the tax impact will likely require service reductions – including the elimination of programs - how should staff prioritize those potential changes for council consideration (e.g. aligned with new strategic plan? Lowest resident impact? etc.)
- What do we need to consider as we take organizational change steps to maintain competitiveness? (e.g. talent attraction retention, service, digital modernization, etc.)
- Would you like staff to take more or less risk when considering expenditure and revenue estimates for the 2024 budget?

4. Background:

The Region faces a number of opportunities and challenges as it heads into the 2024 Plan and Budget process, which will impact budgets and services across the organization. These factors include:

- **Growth, community and economy**
 - Council's desire to implement its strategic plan initiatives in a financially sustainable and affordable way
 - Maintaining momentum and success in areas of community priorities such as housing, homelessness, transit, equity in service, Truth and Reconciliation, climate action and economic development
 - Growth from the community and external pressures on services
 - Inflation and construction cost escalation is abating although outlooks remain higher than historical targets
 - Rising interest rates
 - Fuel prices have moderated
 - Low unemployment
- **Long-term financial sustainability**
 - Staff continue to monitor and report to Council on certain measures set out in the current Strategic Plan including elevated level of debt and lower reserve balances relative to the Region's AAA-rated peers
 - Of particular concern is increasing levels of growth-related debt and the level of reserves relative to the Region's budget, asset values, debt outstanding

- Incremental tax levy funding is required to fund asset renewal investments, approved tax increment grants and discretionary development charge exemptions

The significant drivers of the 2024 budget are similar in nature to those experienced in 2023 and include:

- Base budget inflation and capital cost escalation:
 - Continued inflationary impacts on various service contracts (waste collection, light rail transit, security, winter maintenance, janitorial, etc.)
 - Capital cost escalation, capital investment acceleration and additional investments/projects
 - Additional funding requirements for capital asset renewal, approved tax increment grants and discretionary development charge exemptions
- A number of items approved during 2023 by Council after budget approval in February will have impacts on the 2024 budget, including funding for key cultural institutions and the Brownfield Financial Incentive Program, as well as acceleration of automated speed enforcement. A detailed list of these approvals is included in Appendix B.
- Provincial funding reductions:
 - Ontario Works program delivery funding (\$4.4M)
 - Anticipated end of Public Health mitigation funding (\$2.3M)
 - Anticipated end of Children's Services mitigation funding (\$2.8M)
- Removal of one time funding in the 2023 budget for Interim Housing Solutions (provincial COVID funding), and Tax Stabilization Reserve funding for Equity investments and fuel price phase-in.
- Service expansion:
 - Annualization of 2023 service expansion including Transit Service hours, new Paramedic Service resources and Interim Housing Solutions
 - Further service level enhancements and cost adjustments associated with Paramedic Services, Transit Services and Homelessness programs

Based on a number of assumptions, projected economic indicators and continued investments in strategic priorities set out in master and business plans, preliminary projections for the 2024 budget suggest a tax rate increase in the range of 9%-10% for Regional services excluding Police. Regional services comprise roughly 2/3 of the overall regional tax bill.

A number of items are not captured in this preliminary projection or require further refinement as additional financial implications are determined, including:

- New initiatives arising from the Strategic Plan update

- Capital project scope, cost and timing adjustments
- Automated speed enforcement expansion & potential processing centre
- Waste Management producer responsibility
- Impacts of Bill 23, More Homes Built Faster Act

For reference, the following principles were approved by Council to guide the development of the 2023 Plan and Budget:

- Build on 2022 approach and successes
- Strategic plan guides everything we do
- Investing in critical elements of organizational success; including employee wellbeing; technology innovation to drive efficiencies; supporting staff through change; and building employee recruitment and retention capacity
- Reviewing service levels to reflect changing needs, and adjust service levels to accommodate fiscal pressures
- Reviewing provincial and federal responsibilities currently funded in whole or in part by the property tax levy
- Ensure adequate asset renewal funding to promote long term financial sustainability
- Avoid approaches that will make future budgets more difficult

5. Area Municipality Communication and Public/Stakeholder Engagement:

Engaging with community is a critical part of the Plan and Budget process. Staff are currently engaging with community and stakeholders through the strategic planning process. This engagement includes multiple surveys, in person engagement and use of existing recent findings of relevant engagement activities. This will be foundational to building a 2024 Plan and Budget that reflects community priorities. In addition to this, staff will create additional tactics as required which may include engagement on affordability and draft Plan and Budget priorities. Key parts of the engagement also include multiple public delegation meetings which enables residents, organizations and businesses to directly address Council with their input. In addition, staff will continue to engage area municipalities, partners and other stakeholders in the development and completion of the engagement activities.

6. Financial Implications:

The most significant 2024 budget impacts are outlined in the table below:

Significant 2024 budget impacts	Incremental estimate of 2024 tax levy impact (\$ million)
Inflation and capital cost escalation	\$27.9
Service expansion - Paramedic Services, Transit service hours, Homelessness Programs	\$9.6
Provincial funding adjustments (\$9.5m in reductions, partially offset by increased Homelessness Program funding of \$3.5m)	\$5.9
Removal of one time funding used to phase in initiatives (e.g. Safe Restart for Homelessness programs; Tax Stabilization Reserve for Equity investments and fuel price increases)	\$9.2
Total	\$52.6

The items above reflect the vast majority of the initial staff projection of a \$54.5 million levy increase in 2024. Taking into account an estimated 1.75% assessment growth, a 2024 tax impact for regional services in the area of 10% is projected.

The Regional tax levy comprises an average of 56% of the residential property tax bill and 44% of the commercial/industrial tax bill. Total tax supported operating expenditure in 2023 exceeds \$1.3 billion with a Regional property tax levy of \$683 million, of which \$469 million (69%) is for direct Regional Services and \$214 million (31%) is for Police Services. A 1% change in total regional taxes in 2024 equates to \$6.9 million, representing an increase of \$24 annually for a typical residence.

7. Conclusion / Next Steps:

Staff are seeking input from Committee members at the June 6, 2023 meeting with respect to guiding principles for the 2024 plan and budget. Following that guidance staff will finalize the Budget Principles that will guide the preparation of the draft 2024 Plan and Budget

Staff will prepare and present the 2024 Plan and Budget based on the timeline as approved through this report.

8. Attachments:

Appendix A: Proposed 2024 Plan and Budget Process Timetable

Appendix B: 2023 In-Year Council Approvals

Appendix C: 2024 Plan and Budget - Setting the Course (Presentation)

Prepared By: Christopher Wilson, Manager, Corporate Budgets

Reviewed By: Jennifer Smith, Director Corporate Strategy and Performance
Cheryl Braan, Director, Corporate Finance
Connie MacDonald, Chief Communications & Strategy Officer

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