

Region of Waterloo

Corporate Services

Corporate Finance

To: Administration and Finance Committee

Meeting Date: June 4, 2024

Report Title: 2025 Plan and Budget Process and Principles

1. Recommendation

For information.

2. Purpose / Issue:

To provide a preliminary overview of the 2025 Plan and Budget context including identification of significant budgetary pressures and a preliminary tax supported operating budget projection; and to seek input from Committee with regards to budget development principles and expectations with respect to tax implications.

3. Strategic Plan:

The annual plan and budget process aligns resources to community priorities as expressed in Council's strategic plan: Growing with Care.

4. Report Highlights:

- Council is in the second year of implementing its new Strategic Plan: Growing with Care. The Plan provides a shared vision for the community as it navigates unprecedented population growth.
- Growing with Care signals a commitment to invest in the things that matter most to community both now and for future generations.
- The annual plan and budget process allows Council to identify and allocate investments across each of the four integrated priority areas, balancing the need to maintain existing essential service delivery, with affordability for residents and service growth. Residents and businesses continue to face extraordinary costs of living and doing business, and it will be important for Council to build the budget within the context of this reality.
- Each plan and budget process builds upon the decisions made in previous years. As new services or service expansions are implemented they increase the bottom line for years to come. This, in addition to the increasing cost of doing business, and shifting expectations on the role of municipalities by other levels of government,

make for a challenging fiscal context.

- Although increasing or enhancing levels of service are often inevitable, particularly in one of North America's fastest growing communities, the pace for change must be skillfully managed in the context of the community's ability to fund it.
- Despite this challenging context, the Region continues to achieve high levels of service for the community and respond effectively to community calls to action regarding some of the most pressing challenges of our time including responding to the climate crisis, increasing affordable housing, addressing the root causes of chronic homelessness, increasing equity in service delivery, furthering Indigenous Reconciliation and responding to a rapidly changing digital service and cyber security landscape.
- As the fiscal realities of growth and a limited funding framework continue to be felt by each of the 444 Ontario municipalities, it is important that Council and staff are diligent and rigorous in setting the annual plan and budget.
- To support this conversation, staff have created the following set of principles to guide robust decision making in 2025. They aim to ensure that all 2025 Plan and Budget decisions prioritize investment in service levels, strategic initiatives, and capital program decisions that together:
 1. Make a significant measurable, impactful difference to Growing with Care outcomes and objectives.
 2. Mitigate a significant risk that the community or the organization currently faces.
 3. Maintains the course, investing first in existing essential service delivery and commitments that support the bold agenda Council has already set.
 4. Meets prescribed legislated standards or requirements (accreditation, compliance, or legal).
 5. Moves forward time critical items – service level changes, strategic initiatives, capital projects - that must be done immediately and are time critical, meaning it cannot wait a year or more.
 6. Makes fiscal sense, is financially sustainable, with an approved business case or equivalent analysis that shows it is affordable for taxpayers today and over the longer term.
- The six principles will enable transparent dialogue to support Council as they forge the path for 2025 and will be used by staff as a blueprint as they undertake the business planning required to support Council in their decision making.
- 2025 Budget Preview - Based on a number of assumptions, projected economic indicators and continued investments in strategic priorities set out in master and business plans, early and preliminary projections for the 2025 budget currently suggest a tax rate increase in the range of 12%-13% for Regional services (excluding Police). Projected increases can be categorized in one of four categories:
 - Base budget adjustments (\$34.3M) – adjustments for inflation and cost

- escalation as well as revenue and subsidy adjustments and debt servicing costs for capital projects.
- Annualization of 2024 decisions (\$11.1M) – including annualization of service expansions and removal of one-time funding approved on a temporary basis.
 - Post-2024 budget approval (\$9.1M) – approval of grant funding in excess of the approved budget, debt servicing costs for land acquisitions approved in-year and the funding strategy for the waste management collection contract renewal in 2026.
 - Anticipated service expansions (\$22.3M) – continuation of master and business plan investments in areas such as transit, paramedic services, industrial land development and further implementation of the Plan to End Chronic Homelessness.
 - Community engagement continues to be an important element of the 2025 Plan and Budget Process and will build on successful approaches from past years, focused on how to implement the Strategic Plan

5. Background:

The Region faces a number of opportunities and challenges as it heads into the 2025 Plan and Budget process, which will impact budgets and services across the organization. These factors include:

- **Growth, community and economy**
 - The pace and scale of change Council wish to pursue to implement Growing with Care in a financially sustainable and affordable way
 - Maintaining momentum and success in areas of community priorities
 - Rapid community growth 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 are increasing levels of growth-related debt and the level of reserves relative to the Region's budget, asset values, and outstanding debt
 - Incremental tax-levy funding is required to fund asset renewal investments, approved tax increment grants and discretionary development charge exemptions

Significant drivers impacting the 2025 budget include:

- Base budget inflation and capital cost escalation:
 - Continued inflationary impacts on various service contracts (waste collection, light rail transit, security, 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
- Provincial funding adjustments:
 - Increase in Provincial Gas Tax Funding
 - Removal of one-time Reaching Home grant funding
 - Reduction in federal funding for non-profit housing programs
- Impacts of items approved through the 2024 approved budget:
 - Annualization of 32 service expansions approved through the 2024 budget
 - Removal of one-time Tax Stabilization Reserve funding for the Plan to End Chronic Homelessness, fuel price phase-in and Employment Services
 - Removal of one-time Safe Restart Funding (provincial COVID funding)
- Impacts of approvals subsequent to 2024 budget approval. As detailed in Appendix A, there are a number of items that have been approved during 2024 by Council after budget approval in December that will have impacts on the 2025 budget, including:
 - Phasing in of waste management curbside collection contract cost increase
 - Debt servicing costs associated with the purchase of 70-84 Victoria Street
 - Incremental funding for key cultural institutions
- Continued investments and service expansions:
 - Additional resources for the Plan to End Chronic Homelessness
 - Implementation of Industrial Land Strategy
 - 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 2025 budget currently suggest a tax rate increase in the range of 12%-13% 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:

- Capital project scope, cost and timing adjustments
- Stage 2 LRT funding strategy
- Climate action investments
- Affordable Housing Land Acquisition Strategy

Community engagement continues to be an important element of the 2025 Plan and Budget Process and we will continue to build on successful approaches from past years.

Now that our Growing with Care plan is approved, the conversation will move beyond priority setting to how we will do the work. The approach will continue to build on and leverage recent and past data (e.g. Youth impact, Immigration Partnership, CSWP). Conversations and methods will differ across audiences and will include strategies to reach equity audiences who continue to face the most barriers to engagement. A key tactic to support this will be to repeat the statistically robust 2022 Resident Survey with an expanded reach beyond geographic demographics. We will explore resident experiences with our services; opinions about value of programs and services for taxes paid; and, tolerance for taxation levels.

6. Communication and Engagement with Area Municipalities and the Public

Engaging with community is a critical part of the Plan and Budget process and the approach will build on successful strategies from past years, including equity based outreach to community and partners, on-line opportunities and an expanded, statistically robust Resident Survey.

Key parts of the engagement also include multiple public delegation meetings which enable 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.

7. Financial Implications:

The most significant 2025 budget impacts are outlined in the table below:

Significant 2025 budget impacts	Incremental estimate of 2025 tax levy impact (\$ million)
Impact of base budget assumptions – to keep doing what we are doing	\$34.3
Impact of decisions made through the 2024 approved budget (annualizations and removal of one-time funding)	\$11.1
Impact of approvals subsequent to 2024 budget approval	\$9.1
Impact of new initiatives and service expansions	\$22.3
Total	\$76.8

The items above reflect the initial staff projection of a \$76.8 million levy increase in 2025. Taking into account an estimated 1.75% assessment growth, a 2025 tax impact for regional services in the range of 12%-13% is projected. A 1% change in the regional portion of the tax bill (excluding Police) in 2025 equates to \$5.3 million.

The Regional tax levy comprises an average of 57% of the residential property tax bill and 45% of the commercial/industrial tax bill. Total tax supported operating expenditure in 2024 exceeds \$1.3 billion with a Regional property tax levy of \$746 million, of which \$518 million (69%) is for direct Regional Services and \$228 million (31%) is for Police Services. A 1% change in total regional taxes (including Police) in 2025 equates to \$7.6 million, representing an increase of \$25 annually for a typical residence.

8. Conclusion / Next Steps:

Staff are seeking input from Committee members at the June 4, 2024 meeting with respect to guiding principles for the 2025 plan and budget. Following that guidance staff will work over the summer to prepare the draft 2025 Plan and Budget

A timetable for the 2025 plan and budget was approved by Committee on April 24, 2024 through report COR-CFN-24-005, 2025 Plan and Budget Timetable. Staff will prepare and present the 2025 Plan and Budget based on this approved timeline.

9. Attachments:

Appendix A: 2024 In-Year Council Approvals Impacting 2025 Budget

Appendix B: 2025 Plan and Budget - Setting the Course (Presentation)

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