

Chief Administrative Officer

CAO

To: Strategic Planning and Budget Committee Sub-Committee

Meeting Date: October 2, 2024

Report Title: 2025 Budget Update

1. Recommendation

For information.

2. Purpose / Issue:

To provide the 2025 Plan and Budget Sub Committee with a preliminary 2025 budget update and summary information regarding options to meet the Council guideline of a less than 8 per-cent tax levy increase.

The report also provides draft options for service enhancements to meet community and operational imperatives and responds to sub-committee's previous information requests regarding updates on the 2019 KPMG recommendations and comparator tax levy data.

3. Strategic Plan:

This report supports the Resilient and Future Ready strategic priority to ensure fiscal accountability and transparency in service delivery as we work toward achieving our goals within the Growing with Care priorities of Homes for All, Climate Aligned Growth, Equitable Services and Opportunities, and Resilient and Future Ready Organization.

4. Report Highlights:

- The Region is working diligently build a 2025 Plan and Budget that keeps pace with unprecedented community growth, responds to complex social, political, and technological challenges, while balancing organizational resilience and affordability for residents.
- Over recent years, Council set in motion a series of impactful strategic decisions and service expansions to achieve progress toward its Growing with Care corporate strategy. Continuing this critical work in a measured and sustainable way is central to creating the 2025 Plan and budget that continues to deliver essential services to residents.
- In June 2024, Council directed staff to develop budget options to build a 2025 Plan and Budget with a less than 8 per-cent tax levy increase. Staff continue to work through the details of those options, assessing the potential risks and

liabilities of delaying implementation of critical service enhancements, identifying options for service reductions or options for service elimination.

- Staff are in the process of finalizing the 2025 operating budget and 2025-2034 capital program which will be presented to the Strategic Planning and Budget Committee later in October. Based on preliminary results, the 2025 operating budget is in line with the projection made thorough report COR-CFN-24-011, dated June 4, 2024, in which staff projected a tax rate increase in the range of 12%-13%.
- The main drivers of the 2025 budget relate to inflation and cost escalation, adjustments to revenues and funding, annualization of 2024 service expansions, removal of temporary funding, impacts of in-year approvals and continued service expansions.
- Reducing budget pressures is a critical strategy staff work hard to achieve. Staff continue to leverage opportunities to maximize business operations that produce efficiencies, avoid future cost escalation and improve services and resident experience.
- A summary of this work was provided in Report CAO-24-001, dated September 11, 2024, including examples of:
 - Leveraging digital solutions to enable residents' easier access to information, self-serve options and improved opportunities to engage with the Region
 - Adoption and utilization of business solutions that optimize business processes and workflows
 - Technologies that improve employee collaboration, streamline processes for Councillor business, meetings and information flow
 - Improved data integration, visualization and analytics for decision support
 - New service delivery models that maximize existing staff capacity, curtail future costs to respond effectively to increasing service demands
 - Focus on energy efficiency
- Staff have also provided an update on the progress made to date in response to opportunities identified in KPMG's 2019 service review [Appendix A]. Since 2020, further efficiencies have been implemented through a variety of actions including adjusting or eliminating specific services and programs, improving processes and administrative efficiencies, adjusting user fee programs to ensure appropriate return on investment, and upgrading to more efficient or cost-effective tools, technology and fleet. See Appendix A for a full update.

5. Background:

- At the June 4, 2024 Administration and Finance Committee, Regional Council directed staff to return with a budget that has a less than an 8 per-cent tax rate increase, prioritizing potential funding reductions in areas that should be funded by higher levels of government.

- As Council prepares for the 2025 plan and budget process, there is a desire to balance investments that respond to the rapid pace of growth and delivering services residents rely on and can afford.
- Through report COR-CFN-24-011, dated June 4, 2024, staff provided a preliminary preview of the 2025 tax supported operating budget projecting a tax increase in the range of 12-13% for Regional Services (excluding Police). The current draft operating budget position is in line with this original estimate. The current draft operating budget which is still being finalized, including proposed service expansions, indicates a 12.4% change in property taxes for 2025, taking into account an estimated 1.75% assessment growth. Projected increases can be categorized in one of four categories:
 - Base budget adjustments – adjustments for inflation and cost escalation as well as revenue and subsidy adjustments and debt servicing costs for capital projects and additional funding requirements for capital asset renewal, approved tax increment grants and discretionary development charge exemptions.
 - Annualization of 2024 decisions – including annualization of service expansions and removal of one-time funding approved on a temporary basis.
 - Post-2024 budget approval – 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 – continuation of master and business plan investments in areas such as transit, paramedic services and further implementation of the Plan to End Chronic Homelessness.
- Although fiscal and economic pressures present a challenging context to grow services, it is still imperative that staff continue to assess and identify areas of strategic and operational opportunity and need so that Council can make informed decisions during the Plan and Budget process.
- A few highlights of recommended opportunities and investments for 2025 are described below, with a full summary provided in Appendix B.
- **Homes for All:** Waterloo Region continues to face a chronic shortage of affordable housing, many residents continue to face housing and economic precarity and homelessness continues to impact a growing number of residents who are often impacted by other challenges including mental health, addictions, discrimination and marginalization. Investment opportunities include:
 - Investing in the implementation of the Plan to End Chronic Homelessness. Recommended 2025 investments in this area will make housing more affordable and sustainable through 75 new PATHS Rent supplements, with 15 dedicated to youth.
 - Additional resources to deliver programs that support quality of life of vulnerable households at risk of losing their tenancies. These affordable

- housing programs support almost 60 housing providers, ensure that capital repair programs can be overseen effectively and implemented to manage risk, enhance energy programs and improve quality of life for residents.
- A range of investments to improve WRH insurability, reduce risks and costs associated with escalating premiums through increased efforts to ensure all tenants have and keep insurance.
 - Additional resources are needed to continue delivering targeted employment services for vulnerable and equity deserving individuals in the community.
- **Climate Aligned Growth:** Reducing our Green-house gas emissions and growing sustainably means building the critical infrastructure needed to support car-alternative transportation options and network improvements across our rapidly growing region. Investment opportunities include:
 - Recommended investments that make it easier and safer to walk, cycle, and use public transportation, as well as improvements to existing buildings and outdated infrastructure.
 - Investment in transit service improvements increases ridership, employment opportunities, improves equity, promotes transit – supportive sustainable development, unlocks affordable housing and reduces car dependent emission.
 - A number of investments in transportation services are being recommended as a result of growth and an increasing number of public calls for service and response (e.g., noise, red light cameras, wildlife crossings, roundabouts, and traffic signals). There is also a desire for increased community engagement and opportunities to improve communication with residents.
 - **Equitable Services and Opportunities:** As the Region grows, the need for essential and equitable services that meet increasing community needs in paramedic services, public health, childcare, seniors care, employment, and immigrant and newcomer supports is also growing. Investment opportunities include:
 - Recommended investments that make services more inclusive, accessible, culturally safe and appropriate, not only in the services the Region directly provides, but also through community collaboration and partnerships.
 - Paramedic Services continues to experience high 911 call demand, offload delay pressures, and staffing challenges that lead to periods of zero or reduced resource availability. Investments recommended in 2025 are included in the Council approved PSV Master Plan.
 - Investments to meet the demands for the Canada-wide Early Learning and Child Care Program (CWELCC). Implementation of this

transformational program will make Home Child Care more affordable and equitable.

- **Resilient and Future Ready Organization:** Being fiscally sustainable requires maximizing available resources while continuing to provide quality services to residents, being resilient to cyber security threats and other risks to service-delivery. Investment opportunities include:
 - Reducing overtime costs at Sunnyside Home through hiring High Intensity Needs PSWs to fill shift vacancies. This approach supports staff to continue to provide exemplary care to residents.
 - Similarly, increasing the Region's Paramedic Services relief staff levels will reduce overtime costs, and align with other similar sized services in Ontario.
 - A number of expansions are being recommended to meet the Region's obligations under our MOU with the Ministry of the Attorney General. As well, lower cost Solicitor and Legal Assistant positions will replace current costly external legal counsel fees. Cost recovery is estimated to be approximately 50%.
 - Advancements in technology provide many opportunities for improving operational resilience and efficiencies, while also improving service to residents; however, cybersecurity risks are also increasing, putting strain on current systems and resources. Recommended investments to add IT staff and a cloud-based business continuity software program will help mitigate risks associated with cyber-attacks and inefficiencies associated with dated systems.
 - Additional emergency management support is being recommended to strengthen the Region's operational readiness and business continuity in the event of natural and person-made emergencies/disasters, which are continually increasing. Investing in business continuity has proven to reduce critical service downtime, create a focused operational redeployment plan, and significantly reduces financial loss in the wake of disaster response and recovery.

6. Communication and Engagement with Area Municipalities and the Public

Area Municipalities:

Staff continue to work with their Area Municipal colleagues in identifying needs and priorities across the Region. Through a table of strategy professionals, staff continue to share data and insights to better understand needs, risks, and pressures in service delivery for all residents.

Public:

The Region has completed robust engagement with communities across Waterloo Region to inform the Growing with Care strategic plan and many of the initiatives outlined in the draft 2025 Plan and Budget. Budget-specific engagement is underway and will be presented to the Plan and Budget Committee later this fall.

7. Financial Implications:

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.

The current draft operating budget which is still being finalized, including proposed service expansions, indicates an approximate 12.4% change in property taxes for 2025, taking into account an estimated 1.75% assessment growth. A 1% change in the regional portion of the tax bill (excluding Police) in 2025 equates to \$5.3 million.

Staff are in the process of finalizing the 2025 operating budget and 2025-2034 capital program, including proposed service expansions and options to achieve the budget guideline, and will present preliminary budgets to the Strategic Planning and Budget Committee later in October.

8. Conclusion / Next Steps:

The Strategic Planning and Budget Sub-committee may choose to develop recommendations regarding the content of this review to present to the Strategic Planning and Budget Committee in October 2024.

9. Attachments:

Presentation: October 2 Strategic Planning and Budget Sub-Committee

Appendix A: Update on Actions Taken in Response to KPMG's 2019 Service Review

Appendix B: Summary of Recommended 2025 Opportunities and Investments

Prepared By: Van Vilaysinh, Manager Corporate Strategy and Strategic Initiatives

Christopher Wilson, Manager Corporate Budgets

Reviewed By: Jenny Smith, Director Corporate Strategy and Performance

Approved By: Connie MacDonald, Chief Communications and Strategy Officer