



To: COUNCIL
Meeting Date: 06/02/2020
Subject: 2021 Budget Timeline and Guidelines
Submitted By: Sheryl Ayres, Chief Financial Officer
Prepared By: Debbie Andrade, Supervisor of Financial Planning
Report No.: 20-122 (CRS)
File No.: C1101

Recommendation(s)

THAT report 20-122(CRS), re: 2021 Budget Timeline and Guidelines be received;

AND THAT staff prepare the 2021 budget including operating forecasts for years 2022 through 2024 and capital forecasts for years 2022 through 2030;

AND THAT staff be directed to prepare the 2021 tax-supported operating budget with a target base budget increase generally in line with the Consumer Price Index inflation rate;

AND THAT the tax supported municipal fees and charges for 2021 not be increased and remain at 2020 rates;

AND THAT any impacts from approved capital projects, growth and new service level initiatives be submitted as part of the budget for consideration;

AND THAT staff be directed to prepare the 2021 water utility budget consistent with the rates forecasted through the approved 2020 budget and in accordance with the approved long range financial plan;

AND THAT the water and wastewater utility fees and charges increase consistent with the rates forecasted through the approved 2020 budget and in accordance with the approved long range financial plan;

AND THAT in accordance with the Downtown Business Improvement Area (BIA) By-Laws 114-06 for Hespeler, 141-98 for Preston and 142-98 for Galt, each BIA submit their 2021 budgets to City staff by October 2, 2020;

AND FURTHER THAT the 2021 budget timeline as set out in report 20-122(CRS) be approved.

Executive Summary

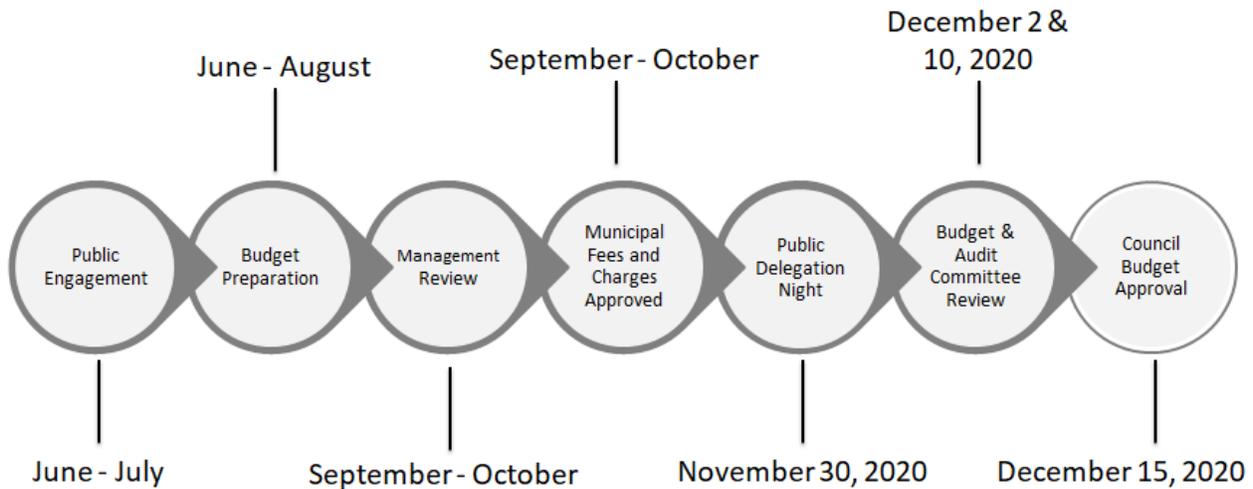
Purpose

- The City of Cambridge prepares an annual budget in accordance with section 290 of the *Municipal Act, 2001* as amended. This report identifies the timeline and guidelines for staff preparing the 2021 budget.

Key Findings

- Generally to maintain existing service levels, which is defined as the “base budget”, the City faces rising costs due to inflation. The Consumer Price Index (“CPI”) has historically averaged approximately 2.0%. In these highly unprecedented times, forecasting CPI for 2020 or 2021 is so challenging that even the Bank of Canada has refrained from doing so in their April 2020 Monetary Policy Report¹. Staff will continue to monitor inflation in 2020, with the objective of having a base budget generally in-line with inflation. However, should CPI fall below the City’s actual cost escalations, further efficiencies and/or service level impacts may be required to lower the base budget increase in order to achieve this target.
- A Municipal User Fees Study is currently underway to review fees in ten service areas included in tax supported operations. Therefore, staff are recommending that user fees in the 2021 budget not increase and remain at 2020 rates. This provides further economic support to the community to deal with the impacts of the COVID-19 pandemic while the Study is being completed.
- Additionally, all impacts from capital projects, growth and new service level initiatives should be submitted as part of the 2021 budget process for consideration by the Budget & Audit Committee.
- Staff recommend that the 2021 water utility budget be prepared consistent with the forecast of 3.36% in 2021, 3.81% in 2022, and 3.90% in 2023 (based on average consumption of 204 cubic meters) approved through the 2020 budget process and in accordance with the Council approved long range financial plan.
- With Council direction, the City requests the Downtown BIA’s to deliver their 2021 budgets to staff by October 2, 2020. This will allow City staff the opportunity to incorporate the BIA funding requests into the City’s overall budget documents.
- Following best practices in municipal finance and budgeting, staff recommend to continue with a December approval of the budget. The timeline for the 2021 budget process is as follows:

¹ <https://www.bankofcanada.ca/wp-content/uploads/2020/04/mpr-2020-04-15.pdf>



Financial Implications

- Staff will prepare the 2021 base budget – to maintain existing service levels only – with a target increase generally in line with the Consumer Price Index inflation rate. Additionally, all impacts from capital projects, growth and new service level initiatives should be submitted as part of the 2021 budget process for consideration by the Budget & Audit Committee. The 2021 water utility budget will be prepared consistent with the forecasted rate increase approved through the 2020 budget and taking into consideration the approved water and wastewater long-range financial plan in accordance with O. Reg. 453/07.

Financial impacts associated with the economic downturn related to the COVID-19 pandemic will be considered while preparing the 2021 capital and operating budgets and 2022 – 2030 forecasts

Background

The City of Cambridge prepares an annual budget in accordance with section 290 of the *Municipal Act, 2001* as amended. Additionally, the City ensures it follows best practices in municipal budgeting by completing periodic formal reviews such as the finance review completed by BMA Management Consulting Inc. and through ongoing staff review of best practices as identified by the Municipal Finance Officers Association (MFOA) and Government Finance Officers Association (GFOA).

These best practices include:

- Approving the budget in December (except in election years, as required by the Municipal Act) to ensure any budget changes are incorporated into operations at the beginning of the year, ensures competitive pricing on procurement solicitations and ensures staff are properly equipped with Council direction towards providing City services;

- Providing for public engagement through the budget process;
- Preparing multi-year budget forecasts (4-year operating and 10-year capital), allowing Council to make informed decisions and ensuring continued responsible financial management;
- Identifying the operating impacts of capital projects;
- Separately identifying new or enhanced service levels, new programs, or funding required due to growth.

Analysis

Strategic Alignment

PEOPLE To actively engage, inform and create opportunities for people to participate in community building – making Cambridge a better place to live, work, play and learn for all.

Goal #2 - Governance and Leadership

Objective 2.5 Focus on the responsible management of financial resources, ensuring transparency and accountability.

The 2021 budget process enables staff to focus on responsible financial management while maintaining transparency and accountability to management, Council and the public.

Comments

The 2021 budget will again include a 4 year tax-supported operating budget, a 4 year water utility budget, and a 10 year capital forecast.

The COVID-19 pandemic has had an unprecedented impact to global economies in 2020 and is expected to have a continued adverse impact in future years. As outlined in staff report 20-125(CRS) Operating Financial Update and Extended Economic Relief, real gross domestic product (GDP)² fell 9% in the month of March, which was a record-breaking decline and the unemployment rate has more than doubled, increasing by over seven percentage points to 13% during March and April³.

² GDP is the total value of everything - goods and services - produced in the economy. The word "real" means that the total has been adjusted to remove the effects of inflation.

<https://www.bankofcanada.ca/core-functions/monetary-policy/measuring-economic-growth/>

³ https://thoughtleadership.rbc.com/the-economiceclipse/?utm_medium=email&utm_source=salesforce&utm_campaign=macro+may

In response to the shutdown of the economy, the Bank of Canada has taken steps to mitigate long term impacts such as reducing the key interest rate from 1.75% to .25% and buying bonds and other debts to help keep key funding markets functioning well. However, these measures will have adverse impacts to the City in future years as investments mature in today's markets of much lowered interest rates; the City will be unable to find investment products with the same level of returns. Additionally, with decreased cash flow due to loss of revenues and timing of tax payments, the City may not be in a position to even have any excess cash to invest as products mature.

Financial impacts associated with the economic downturn related to the COVID-19 pandemic will be considered during preparation of the 2021 capital and operating budgets and 2022 – 2030 forecasts.

Tax-Supported Operating Budget

On February 3, 2020, Council approved the 2020 tax-supported budget and the forecasted tax rate increase of 4.15% in 2021, 4.19% in 2022, and 3.58% in 2023.

The forecasted tax rate increase of 4.15% in 2021 includes the following key drivers:

- Continued impacts of Fire Station 6 as the new fire fighters work through the wage grid;
- Debt charges for the recreation complex and Preston Memorial Auditorium expansion, as well as Riverside Dam reconstruction and Dickson streetscaping;
- Contribution for the future rehabilitation and replacement of growth assets included in the capital forecast, to ensure sustainability of the City's capital infrastructure;
- And, a forecasted assessment growth of 0.93%.

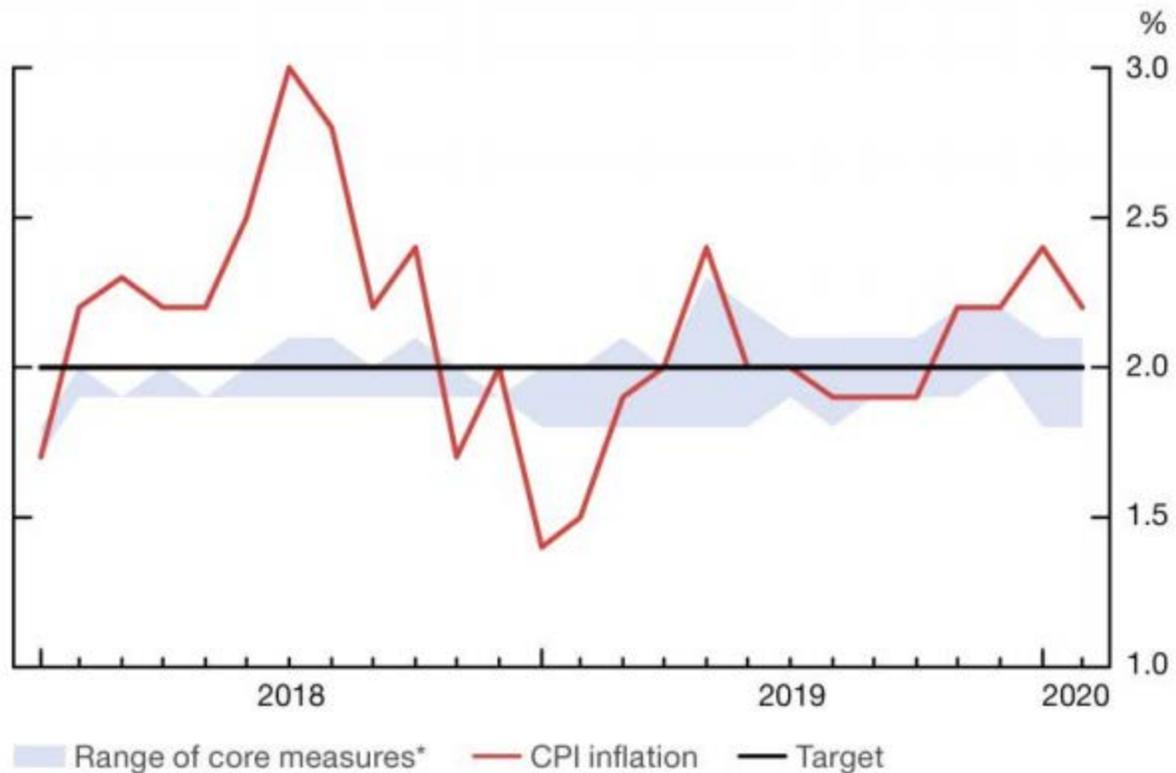
Staff continue to review and forecast the estimated impact that the COVID-19 pandemic will have towards the City's financials in 2020. Should any resulting deficit be too large to be funded by the City's stabilization reserve or alternative reserve fund, it would need to be included in the 2021 Operating Budget in accordance with the Municipal Act. This amount is currently excluded from the forecasted tax rate increase of 4.15%. Staff continue to work through the cost containment plan to minimize any resulting deficit and will continue to review and report on the forecasted impact throughout the year.

Generally to maintain existing service levels, which is defined as the "base budget", the City faces rising costs due to inflation. The consumer price index ("CPI") estimates inflation for a standard basket of goods commonly purchased by consumers. While a municipality's "basket of goods" that go into delivering municipal services differs from those included in the consumer price index, CPI can be used as a guide for how inflation impacts the cost to simply maintain existing services.

CPI has historically averaged approximately 2.0%, based on year-over-year figures as of the month of December: 2.2% in 2019, 2.0% in 2018, and 1.9% in 2017⁴. This is also noted in the Bank of Canada’s Monetary Policy Report from April 2020⁵:

CPI and core inflation measures have been around 2 percent

Year-over-year percentage change, monthly data



With the COVID-19 pandemic as well as the plunge in the global price of oil, there is a very significant amount of economic uncertainty. In their April 2020 Monetary Policy Report, the Bank of Canada notes⁶:

“Given the rapidly evolving situation and high degree of uncertainty, the Bank of Canada has departed from the usual format for the Monetary Policy Report. [...] Given the uncertainty surrounding the outlook, the Bank has decided not to present a base-case projection in this Report.”

In these highly unprecedented times, forecasting CPI for 2020 or 2021 is so challenging that even the Bank of Canada has refrained from doing so. Staff will continue to monitor inflation in 2020, with the objective of having a base budget – to maintain existing service levels only – generally in-line with inflation. However, it is also important to note that many of the City’s costs in its “basket of goods” may have specific cost escalation

⁴ <https://www.bankofcanada.ca/rates/price-indexes/cpi/>

⁵ <https://www.bankofcanada.ca/wp-content/uploads/2020/04/mpr-2020-04-15.pdf>

⁶ <https://www.bankofcanada.ca/wp-content/uploads/2020/04/mpr-2020-04-15.pdf>

factors not in line with actual CPI (such as negotiated wage increases, utility costs etc.); should CPI fall below the City's actual cost escalations, further efficiencies and/or service level impacts may be required to lower the base budget increase in order to achieve this target.

Additionally, all impacts from capital projects, growth and new service level initiatives should be submitted as part of the 2021 budget process for consideration by the Budget & Audit Committee.

A Municipal User Fees Study was approved in the 2020 capital budget to undertake a comprehensive review of the City's user fees, policies, and procedures. The Study is currently underway and includes a review of fees in ten service areas included in tax supported operations. Given the uncertainty of how programs and services may be impacted by social distancing requirements in the future and to provide further economic support to the community to deal with the impacts of the COVID-19 pandemic, staff are recommending tax supported user fees in the 2021 budget not increase and remain at 2020 rates. The User Fees Study is expected to be completed in the first quarter of 2021 and will provide a qualitative recommendation for future fees.

Water Utility Budget

On December 17, 2019, Council approved the 2020 water utility budget and the forecasted combined water and wastewater rate increase of 3.36% in 2021, 3.81% in 2022, and 3.90% in 2023 (based on average consumption of 204 cubic meters). These forecasted rates were in line with the water and wastewater long range financial plan approved by Council in report 19-172(CRE) on July 9, 2019 in accordance with Ontario Regulation 453/07, which had forecasted revenue requirements increase of 3.90%.

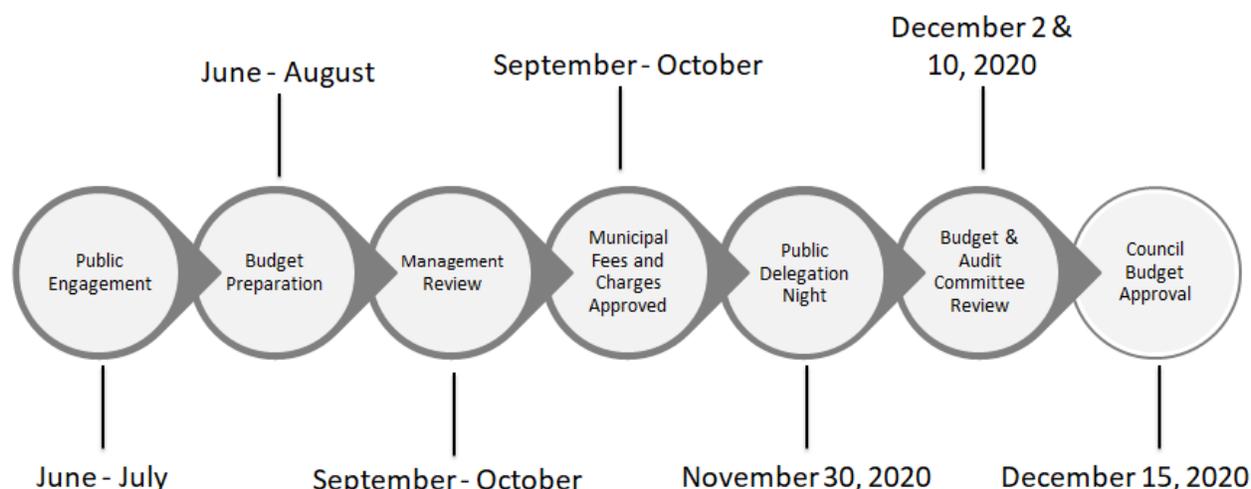
Staff recommend that the 2021 water utility budget be prepared consistent with these forecasts and the approved long range financial plan. The City's plan supports financial sustainability with the ability to meet existing financial obligations throughout the forecast and sufficient flexibility to respond to changing circumstances.

Business Improvement Area ("BIA") Budgets

With Council direction, the City requests the Downtown BIA's to deliver their 2021 budgets to staff by October 2, 2020. This is in accordance with the BIA By-Laws 114-06 for Hespeler, 141-98 for Preston and 142-98 for Galt and will allow City staff the opportunity to incorporate the BIA funding requests into the City's overall budget documents.

Budget Timeline

In accordance with best practices in municipal finance and budgeting, staff recommend to continue with a December approval of the budget. The timeline for the 2021 budget process is as follows:



This proposed timeline provides for:

- Public engagement will continue to occur early on in the process, so that feedback received can be built right into the budget preparation by staff.
- Budget preparation will commence in June with management review to take place throughout September and October.
- The proposed municipal fees and charges will be presented for approval by Budget & Audit Committee in advance of the overall budget approval. This allows for effective oversight and transparency of the City's user fees, while providing staff the opportunity to build any resulting revenue impacts into the overall budget.
- A budget public participation night, to hear delegations regarding the proposed budget, will occur in advance of the Budget & Audit Committee's review and approval of the budget. This will allow members of the public to provide their feedback on the draft budget to the Budget & Audit Committee, and allows Committee time to consider the feedback prior to budget deliberations and approval.

Existing Policy/By-Law

BMA Management Consulting Inc. previously completed a corporate financial review. The purpose of the review was to evaluate the City's financial policies and procedures

to ensure they reflect the best practices in municipal finance. There were 22 recommendations resulting from the corporate financial review that were presented and approved by Council. The recommendations focused on the following areas:

- Budget Format, Layout and Content
- Budget Timetable
- Budget Control
- Financial Policies

Following the review Council approved the City's Budget Control By-law and related financial policies.

Financial Impact

Staff will prepare the 2021 base budget with a target increase generally in line with the Consumer Price Index inflation rate. During preparation of the budget staff will consider current levels of service and make recommendations as required to ensure City services are being delivered most efficiently to meet the community's needs. Additionally, all impacts from capital projects, and requests for growth related and new service level initiatives should be submitted as part of the 2021 budget process for consideration by the Budget & Audit Committee.

The 2021 water utility budget will be prepared consistent with the forecasted rate increase approved through the 2020 budget and taking into consideration the approved water and wastewater long-range financial plan in accordance with O. Reg. 453/07.

Public Input

The 2021 budget plan includes public engagement early in the budget process, with the objective of engaging residents early in the process so that their feedback can be built right into the budget, while continuing to provide opportunity for the Budget & Audit Committee to hear the public's feedback on the draft budget.

As such, staff are working on developing a public engagement strategy for the 2021 budget process that includes obtaining feedback from the public during June/July, allowing staff and management time to incorporate and be responsive to the feedback. This feedback will help directly inform staff on preparing their budget submissions, and is a proactive form of feedback that seeks public input upfront.

The public will continue to be engaged after the draft budget is presented to Budget & Audit Committee, through a public participation night where the public can ensure their voices are directly heard by committee by speaking as delegations or submitting written responses.

Internal/External Consultation

The 2021 budget timetable has been shared with the Corporate Leadership Team (CLT) and Senior Management Team (SMT) for input.

Conclusion

The City of Cambridge prepares an annual budget in accordance with section 290 of the *Municipal Act, 2001* as amended. This report identifies the timeline and guidelines for staff preparing the 2021 budget. Staff will prepare the 2021 base budget with a target increase generally in line with the Consumer Price Index inflation rate.

Additionally, all impacts from capital projects, growth and changes to service levels should be submitted as part of the 2021 budget process for consideration by the Budget & Audit Committee.

The 2021 water utility budget will be prepared consistent with the forecasted rate increase approved through the 2020 budget and taking into consideration the water and wastewater long-range financial plan approved in accordance with O. Reg. 453/07.

The City requests the Downtown BIA's to deliver their 2021 budgets to staff by October 2, 2020. This will allow City staff the opportunity to incorporate them into our final budget documents.

Signature

Division Approval



Reviewed by Legal Services

Name: Sheryl Ayres

Title: Chief Financial Officer

Departmental Approval



Name: Dave Bush

Title: Deputy City Manager, Corporate Services

City Manager Approval

A handwritten signature in black ink that reads "David Calder". The signature is written in a cursive style with a large initial 'D'.

Name: David Calder

Title: City Manager

Attachments

- N/A