

To: COUNCIL

Meeting Date: 06/08/21

Subject: 2022 Budget Timeline and Guidelines

Submitted By: Sheryl Ayres, Chief Financial Officer

Prepared By: Katie Fischer, Deputy Treasurer

Report No.: 21-149(CRS)

File No.: C1101

Recommendation(s)

THAT report 21-149(CRS), re: 2022 Budget Timeline and Guidelines be received;

AND THAT staff prepare the 2022 budget including operating forecasts for years 2023 through 2025 and capital forecasts for years 2023 through 2031;

AND THAT staff be directed to prepare the 2022 tax-supported operating budget with a target base budget increase generally in line with the Consumer Price Index inflation rate;

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 2022 water utility budget consistent with the rates forecast through the approved 2021 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 forecast through the approved 2021 budget and in accordance with the approved long-range financial plan;

AND THAT in accordance with the Downtown Business Improvement Area (BIA) By-Law 21-016, each BIA submit its 2022 budget to City staff by October 1, 2021;

AND FURTHER THAT the 2022 budget timeline as set out in report 21-149(CRS) be approved.

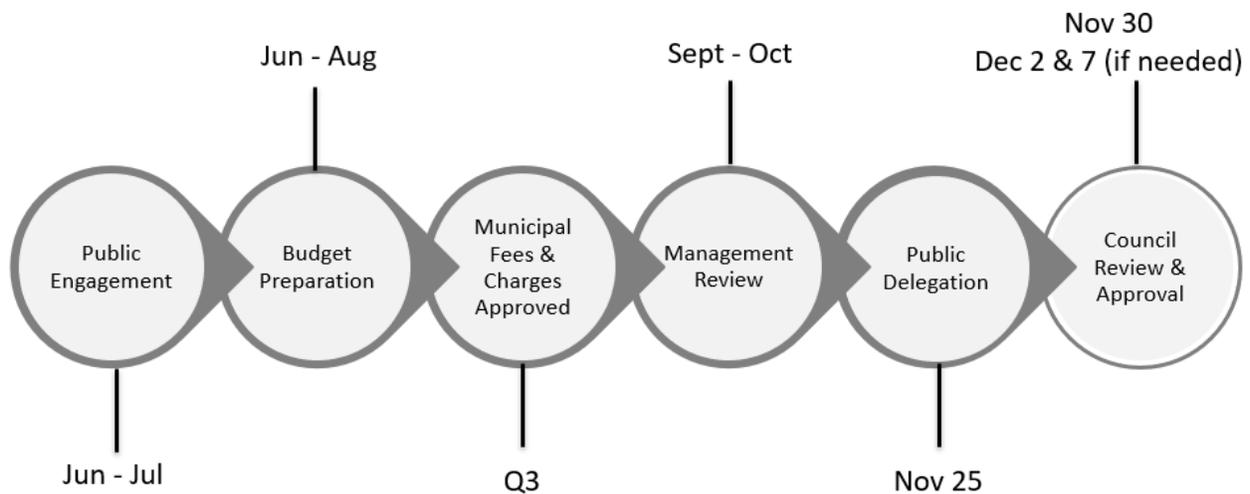
Executive Summary

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 2022 budget.

Key Findings

- To maintain existing service levels, which is defined as the “base budget”, the City faces rising costs due to inflation. Staff recommend that the 2022 tax-supported operating budget be prepared with a target base budget tax levy increase generally in line with the Consumer Price Index (CPI), a measure of inflation, currently forecast to be between 1.7% to 2.2% for 2021. 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. All impacts from capital projects, growth and new service level initiatives will be submitted as part of the 2022 budget process for consideration by Council.
- A Municipal User Fees Study is currently underway to review fees in ten service areas included in tax supported operations. The results of this study are anticipated to be presented to Council for approval in July, 2021. Approving the fees in advance of budget preparation 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.
- Staff recommend that the 2022 water utility budget be prepared consistent with the forecast water and sewer combined rate increase of 3.68% approved through the 2021 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 2022 budgets to staff by October 1, 2021. 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 2022 budget process is as follows:



Financial Implications

- Staff will prepare the 2022 tax-supported operating budget with a target base budget 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. All impacts from capital projects, growth and new service level initiatives will be submitted as part of the 2022 budget process for consideration by Council.
- The 2022 water utility budget will be prepared consistent with the forecast rate increase approved through the 2021 budget and taking into consideration the approved water and wastewater long-range financial plan in accordance with O. Reg. 453/07.

Background

The City of Cambridge prepares an annual budget in accordance with section 290 of the *Municipal Act, 2001* as amended. The City ensures it follows best practices in municipal budgeting, including:

- 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, ensure competitive pricing on procurement solicitations and ensure 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.

In recognition that the City's budget meets the highest quality level, the City won the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for its 2020 budget. This award is the highest form of recognition in governmental budgeting. To earn recognition, budget documents must meet program criteria and excel as a policy document, financial plan, operations guide, and communication tool. The City is committed to continued excellence in its financial budgeting and reporting.

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 2022 budget process enables staff to focus on responsible financial management while maintaining transparency and accountability to management, Council and the public.

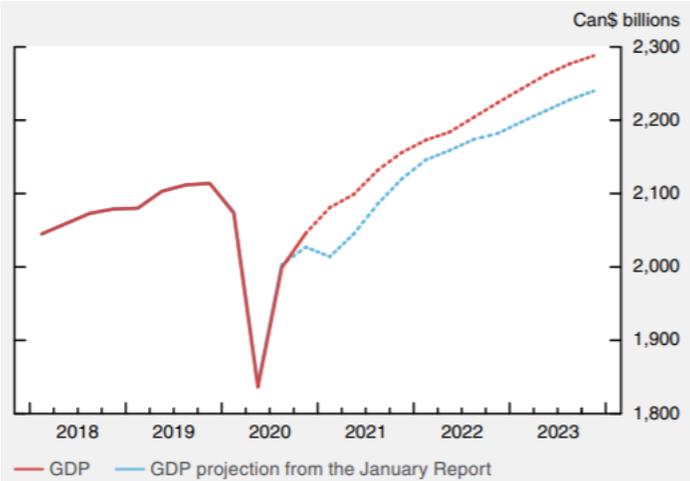
Comments

Economic Update

The COVID-19 pandemic has had an unprecedented impact to global and local economies. The continuing third wave of the pandemic demonstrates that while vaccination rates are rising and there are positive outlooks ahead, it will take time for the Ontario and the local economy in the Region of Waterloo to rebound fully to pre-pandemic levels. The hospitality and tourism sector and small businesses have in particular been impacted as a result of closures and stay-at-home orders. Meanwhile, all businesses and employees have had to adapt to new or enhanced safety measures as a result of the pandemic, which may have led to increased costs. As staff and

management prepare the City’s 2022 budget, the current state and the outlook of the economy will be taken into consideration.

According to the Bank of Canada’s most recent Monetary Policy Report from April, 2021¹, both the global and Canadian economies are showing better resilience to the continuing COVID-19 pandemic than earlier forecast. After the significant drop in Canada’s gross domestic product (GDP)² at the beginning of the pandemic, it has continued on a rebound trajectory. GDP is now forecast to grow approximately 6.5% in 2021, which is an improvement over the previous forecast from January as shown in the below chart.



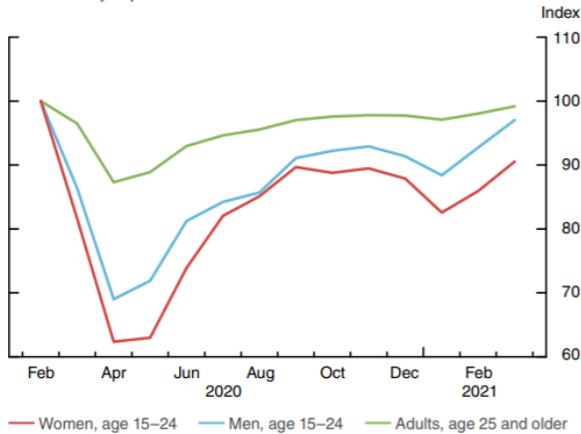
Source: <https://www.bankofcanada.ca/wp-content/uploads/2021/04/mpr-2021-04-21.pdf>

The economic rebound varies by sector of the economy, with some more heavily impacted by pandemic restrictions. This can be seen in the Bank of Canada’s employment indexes which show that younger and lower-wage employees continue to face higher levels of unemployment than their counterparts, as demonstrated in the following charts.

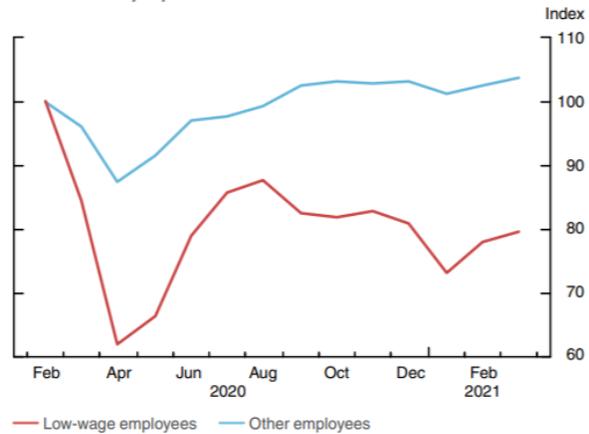
¹ <https://www.bankofcanada.ca/wp-content/uploads/2021/04/mpr-2021-04-21.pdf>

² GDP is the total value of everything - goods and services - produced in the economy. <https://www.bankofcanada.ca/core-functions/monetary-policy/measuring-economic-growth/>

a. Employment by age and gender, index: February 2020 = 100, seasonally adjusted



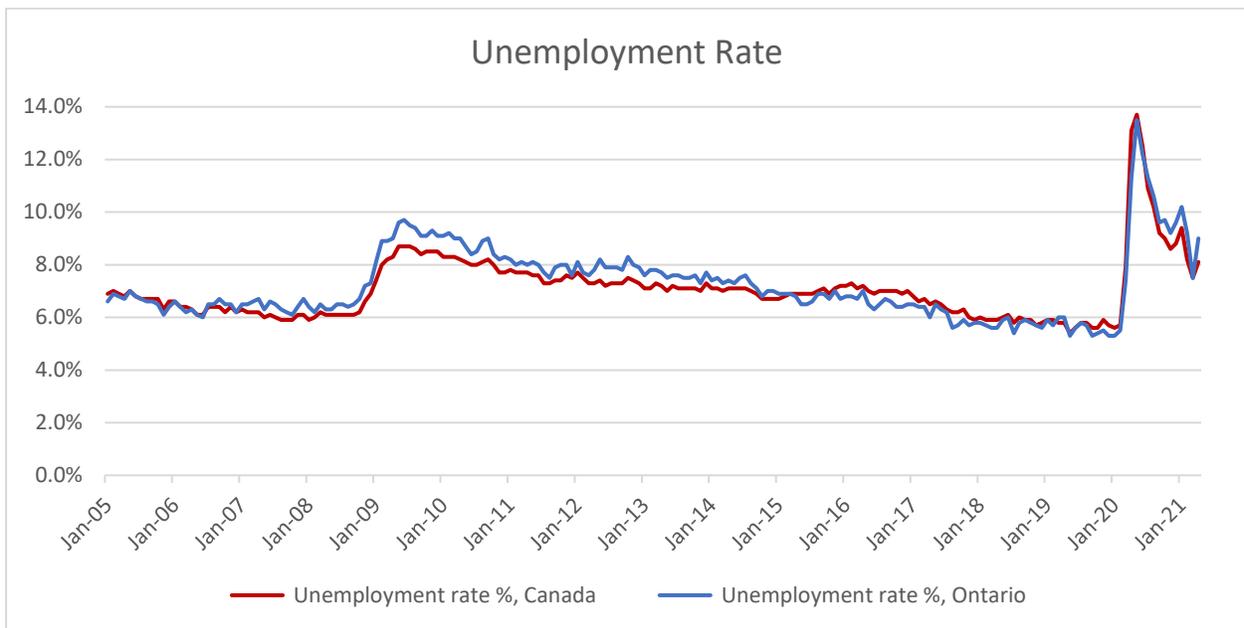
b. Employment* by wage level, index: February 2020 = 100, not seasonally adjusted



* Data are for employees only and exclude those who are self-employed. Low-wage employees are those who earn less than \$16.03 per hour (two-thirds of the 2019 annual median wage of \$24.04 per hour). Seasonal factors may have contributed to the monthly dynamics.

Source: <https://www.bankofcanada.ca/wp-content/uploads/2021/04/mpr-2021-04-21.pdf>

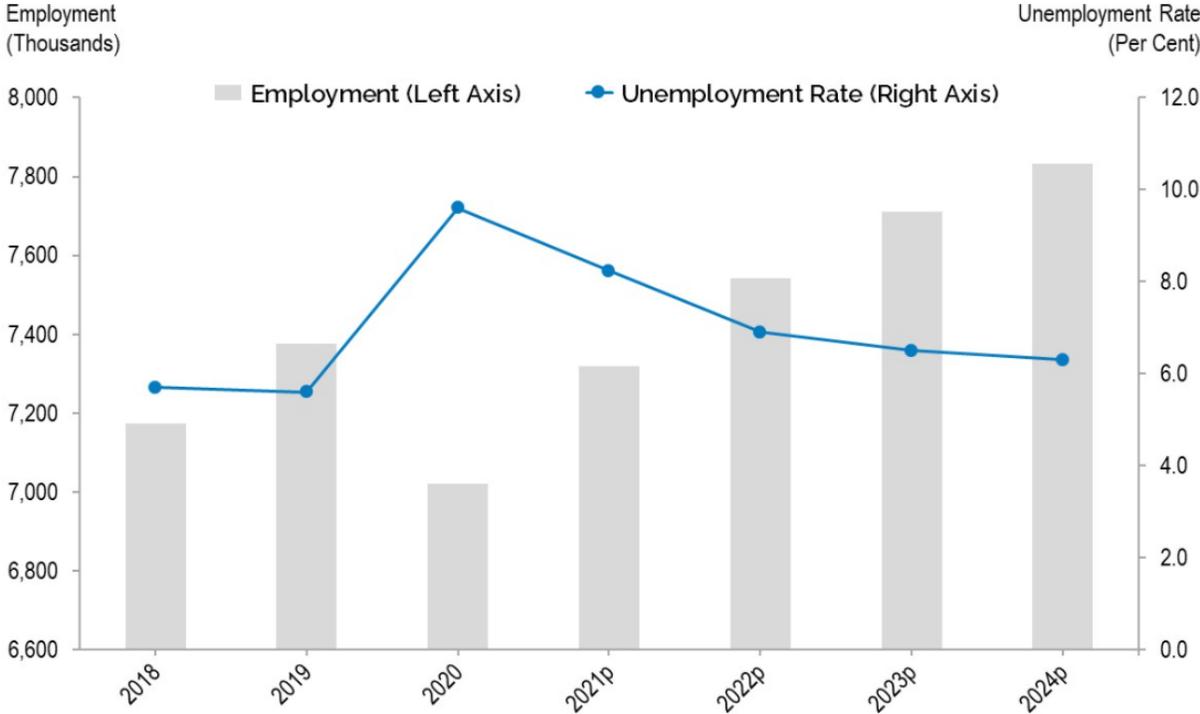
More locally, the unemployment rate for Ontario has also improved from its peak earlier in the pandemic. Prior to the COVID-19 pandemic, the unemployment rate averaged 5.6% in Ontario in 2019. When the first wave of closures took effect in March 2020, Ontario's unemployment rate reached a high of 13.5% in April 2020. The rate subsided during the summer and fall, until the new wave of closures took effect in December, leading to another spike in the unemployment rate up to 10.2% for Ontario in January 2021. Similarly, as reopening took shape the unemployment rate improved but then has most recently risen again with the third wave of closures, reaching 9.0% in April 2021.



Source: Statistics Canada. [Table 14-10-0287-01 Labour force characteristics, monthly, seasonally adjusted and trend-cycle, last 5 months](#)

Looking beyond the spring 2021 closures, according to the 2021 Ontario Budget, Ontario's unemployment rate is projected to decline from 9.6% in 2020 to 8.2% in 2021 and steadily decline to 6.3% in 2024.

Employment Projected to Recover

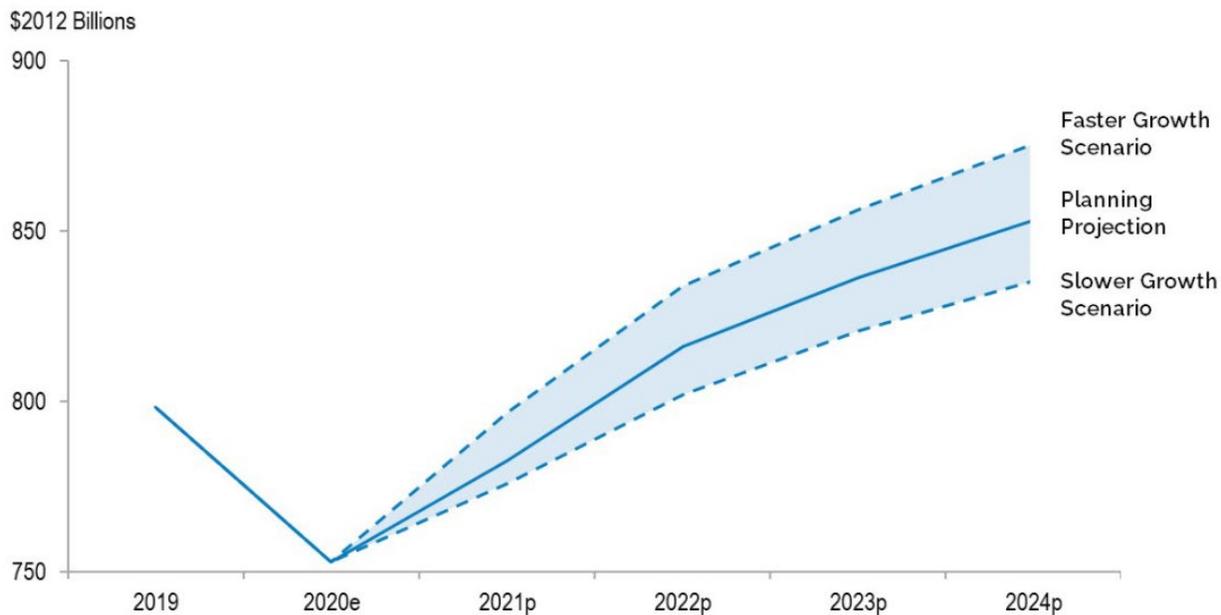


p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Source: 2021 Ontario Budget, Chapter 2: Economic Performance and Outlook, published March 24, 2021; <https://budget.ontario.ca/2021/chapter-2.html>

Following a decline in Ontario's real GDP of 5.7% in 2020, Ontario is projecting growth in real GDP of 4.0% for 2021, 4.3% for 2022, and 2.5% in 2023.

Range of Ontario Real GDP Scenario Forecasts



e = estimate.

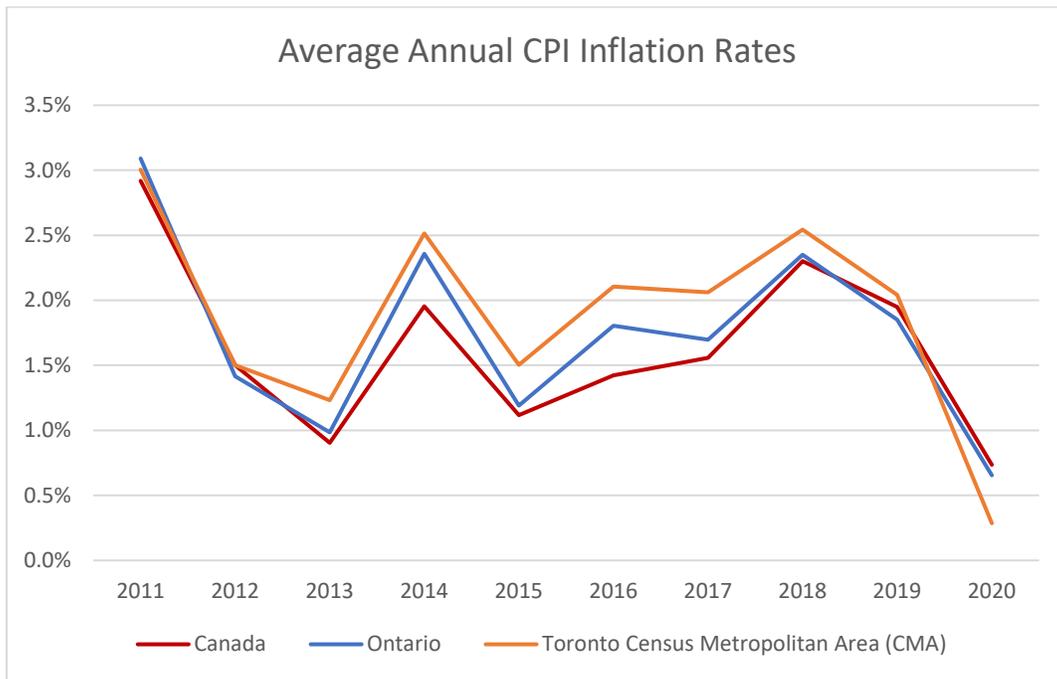
p = Ontario Ministry of Finance projections.

Sources: Statistics Canada and Ontario Ministry of Finance.

Source: 2021 Ontario Budget, Chapter 2: Economic Performance and Outlook, published March 24, 2021; <https://budget.ontario.ca/2021/chapter-2.html>

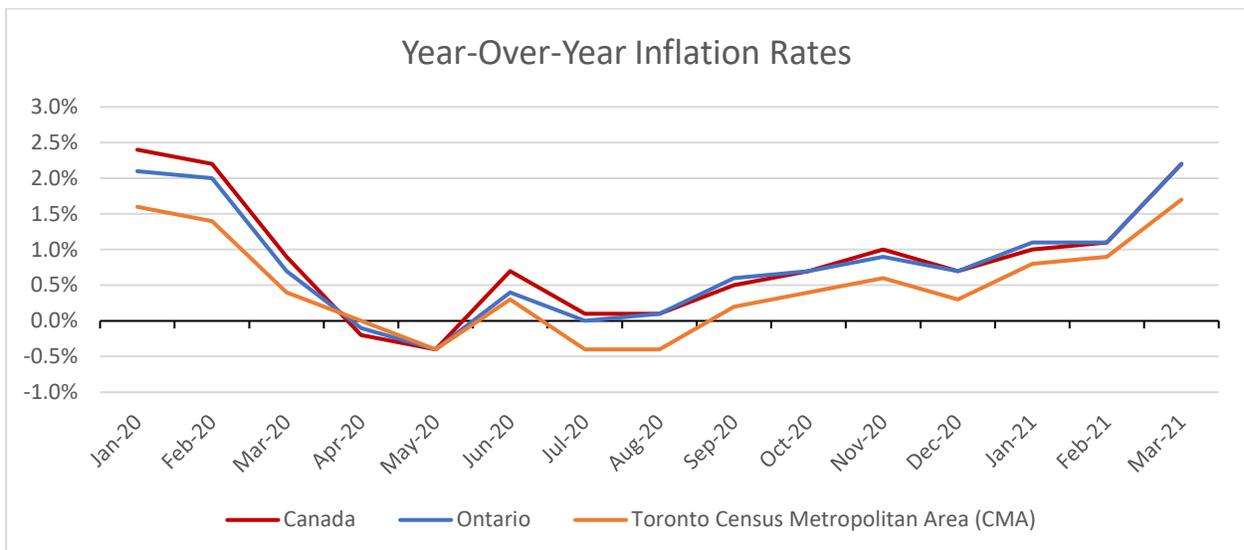
To maintain existing service levels, which is defined as the “base budget”, the City faces rising costs due to inflation. The consumer price index (“CPI”) estimates inflation for a standard basket of goods commonly purchased by consumers. While a municipality’s “basket of goods” that go into delivering 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.

Pre-pandemic, CPI for Ontario had been averaging approximately 2.0% annually. With the COVID-19 pandemic as well as the plunge in the global price of oil in early 2020, CPI for the year 2020 was only 0.7%.



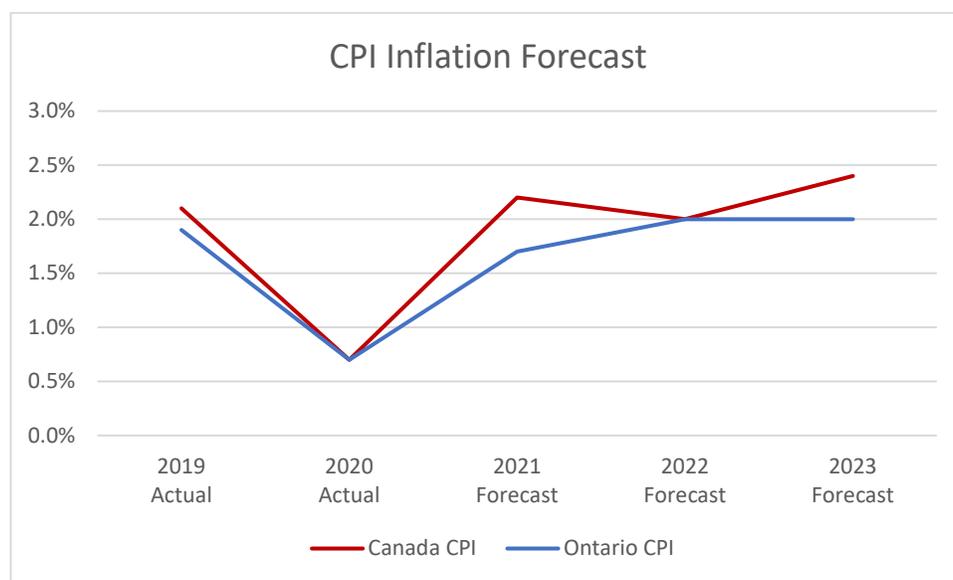
Source: Statistics Canada. [Table 18-10-0005-01 Consumer Price Index, annual average, not seasonally adjusted](#)

Lower inflation rates in 2020 resulted from reduced demand for many goods and services following COVID-19 closures and measures put in place to slow the spread of the virus. With the onset of the pandemic in March 2020, the inflation rate fell substantially from above 2.0% in the first two months of the year, to a low of -0.4% in May 2020. More recently, the inflation rate has risen back to more traditional rates and was 2.2% as of March 2021.



Source: Statistics Canada. [Table 18-10-0004-13 Consumer Price Index by product group, monthly, percentage change, not seasonally adjusted, Canada, provinces, Whitehorse, Yellowknife and Iqaluit](#)

With the forecast increase in economic activity, the Bank of Canada is forecasting inflation to rise in the near term to around the top of its one to three percent inflation-control target range. For 2021 as a whole, CPI for Canada is forecast to be 2.2%³. More locally, the Ontario CPI inflation rate is projected to be 1.7% for 2021 based on the 2021 Ontario Budget⁴.



Tax-Supported Operating Budget Forecast

On December 2, 2020, Council approved the 2021 tax-supported operating budget and the forecast tax levy increases of 3.53% in 2022, 3.43% in 2023, and 3.03% in 2024.

The forecast tax levy increase of 3.53% in 2022 is based on previously approved levels of service, ongoing financial impacts of capital projects and programs and services required to maintain consistent levels of service to the growing community, offset by assessment growth revenue. The operating forecast includes the following key drivers:

- To maintain existing services, the base budget is forecast to increase 1.54%;
- One-time only costs, such as minor capital items and Fire training, is expected to increase the tax levy by 0.62%;
- Increasing budgets to meet the needs of the City as it continues to grow and expand is referred to as “growth” in the budget. This is forecast to increase the tax levy by 0.15%;
- There are a number of projects planned to be debt financed, and the cost of covering these debt payments is forecast to increase the tax levy by 0.36%;

³ <https://www.bankofcanada.ca/wp-content/uploads/2021/04/mpr-2021-04-21.pdf>

⁴ <https://budget.ontario.ca/2021/chapter-2.html>

- Setting aside funds for future rehabilitation and replacement of new assets – such as roads, parks, and trails – is projected to have a tax levy impact of 0.32%;
- Other impacts from capital projects is forecast to have a tax levy impact of 0.54%.

A breakdown of the projected tax levy increases is shown in the following table.

TAX-SUPPORTED OPERATING BUDGET PROJECTIONS			
Budget component	2022	2023	2024
Base Budget	1.54%	1.44%	1.08%
One-Time	0.62%	0.29%	0.12%
Growth	0.15%	0.14%	0.19%
Impacts from Capital - Debt Costs	0.36%	0.88%	0.99%
Impacts from Capital - Contribution for Rehabilitation & Replacement of Growth Assets	0.32%	0.55%	0.60%
Impacts from Capital - Other	0.54%	0.13%	0.05%
Forecasted Tax Rate Increase	3.53%	3.43%	3.03%

Staff recommend that the 2022 budget be prepared with a target base budget tax levy increase generally in line with CPI, currently forecast to be between 1.7% to 2.2% for 2021. 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. All impacts from capital projects, growth and new service level initiatives will be submitted as part of the 2022 budget process for consideration by Council.

This guidance allows for flexibility to present a base budget in line with inflation but recognizing that certain growth and service level commitments – such as the debt costs for the Recreation Complex and Preston Auditorium Expansion projects – may not be able to be absorbed within an overall inflationary budget. Staff are very cognizant of the continuing economic impacts caused by the COVID-19 pandemic, particularly to certain employment sectors such as hospitality and tourism and small businesses. Staff will endeavour to minimize the tax rate increase with the aim for it to be within inflationary targets as a whole, including growth and impacts from capital. However, to achieve this target, further efficiencies and/or service level impacts may be required.

A Municipal User Fees Study is currently underway to review fees in ten service areas included in tax supported operations. The results of this study are anticipated to be presented to Council for approval in July, 2021. Approving the fees in advance of budget preparation 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.

Water Utility Budget

In accordance with provincial legislation O. Reg. 453/07, the City completed an update to its water and wastewater long-range financial plan in 2019. This update reviewed the sustainability of the City's water and wastewater infrastructure, and set the target for annual revenue increases of 3.9% over the next 10 years. Since the completion of the long-range financial plan, the City has identified efficiencies during the budget review through continuous improvement, as well as lower than forecast Regional water and sewer treatment rates, resulting in rate increases below this 3.9% target.

On December 2, 2020, Council approved the 2021 water utility budget and the projected water utility rate increases of 3.68% in 2022, 3.78% in 2023, and 3.67% in 2024 (based on average consumption of 204 cubic meters).

The forecast rate increase for 2022 assumed the Region of Waterloo would increase their water purchase rate by 1.9% and their sewer treatment rate by 2.9% in 2022. Should the Region lower these rate increases as they did in 2021, the City will pass these savings on to ratepayers. As well, in light of the annual surplus realized in the water utility operations in 2020, staff will also review how the water and sewer reserve funds are trending against the long-range financial plan for sustainability, and will make any adjustments possible to aid in lowering the rate increases for 2022.

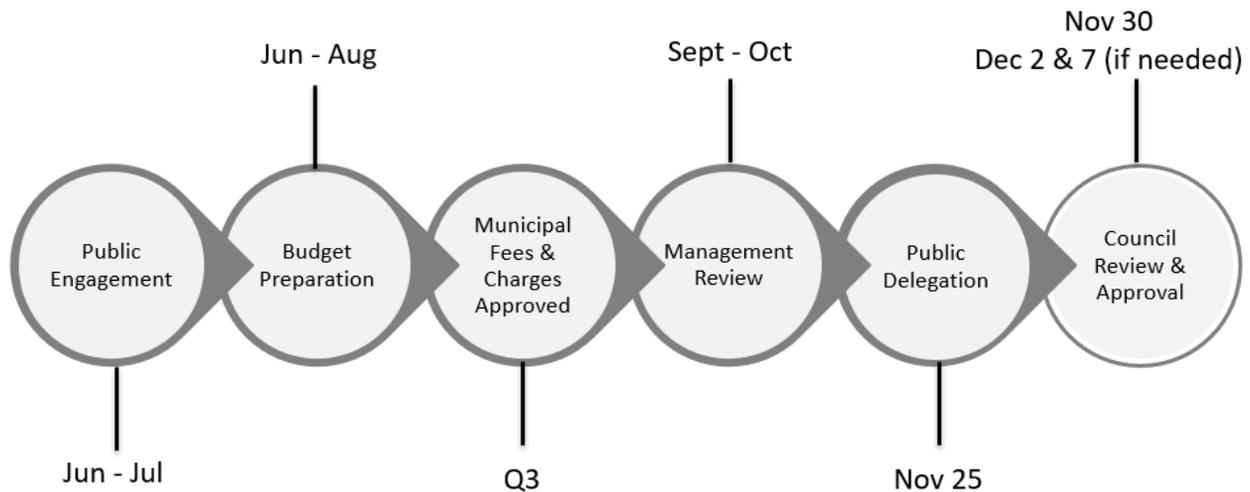
Staff recommend that the 2022 water utility budget be prepared consistent with the forecast and the approved long-range financial plan, while factoring in any adjustments possible as a result of Regional rate increase savings or as a result of capital sustainability review. The City's plan supports financial 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 2022 budgets to staff by October 1, 2021. This is in accordance with the BIA By-Law 21-016 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 2022 budget process is as follows:



This proposed timeline provides for:

- Public engagement occurring 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 Council 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 meeting, to hear delegations regarding the proposed budget, will occur in advance of Council's review and approval of the budget. This will allow members of the public to provide their feedback on the draft budget to Council, and allows Council 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 2022 tax-supported operating 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. All impacts from capital projects, and requests for growth related and new service level initiatives will be submitted as part of the 2022 budget process for consideration by Council.

The 2022 water utility budget will be prepared consistent with the forecast rate increase approved through the 2021 budget and taking into consideration the approved water and wastewater long-range financial plan in accordance with O. Reg. 453/07.

Public Input

The 2022 budget plan includes a public engagement strategy in which feedback will be obtained 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.

A budget public participation meeting, to hear delegations regarding the proposed budget, will occur in advance of Council's review and approval of the budget. This will allow members of the public to provide their feedback on the draft budget to Council, and allows Council time to consider the feedback prior to budget deliberations and approval.

Internal/External Consultation

The 2022 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 2022 budget. Staff will prepare the 2022 tax-supported operating budget with a target base budget increase generally in line with the Consumer Price Index inflation rate.

All impacts from capital projects, growth and changes to service levels will be submitted as part of the 2022 budget process for consideration by Council.

The 2022 water utility budget will be prepared consistent with the forecast rate increase approved through the 2021 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 2022 budgets to staff by October 1, 2021. This will allow City staff the opportunity to incorporate them into the 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

City Manager Approval



Name: David Calder
Title: City Manager

Attachments

- N/A