



To: COUNCIL
Meeting Date: 6/4/2024
Subject: 2025 Budget Timeline and Guidelines
Submitted By: Sheryl Ayres, CPA, CGA, Chief Financial Officer
Prepared By: Sheena Pawliwec, CPA, CGA, Director of Finance
Report No.: 24-035-CRS
File No.: C11
Wards Affected: All Wards

RECOMMENDATION(S):

THAT Report 24-035-CRS 2025 Budget Timeline and Guidelines be received;

AND THAT staff prepare the 2025 Budget including operating forecasts for years 2026 through 2028 and capital forecasts for years 2026 through 2034;

AND THAT staff be directed to prepare the 2025 Operating Budget in alignment with the City's Council-approved Strategic Plan and consistent with the tax levy increase forecast through the approved 2024 Budget which includes an incremental 1% levy to the Infrastructure Renewal Fund (IRF) annually;

AND THAT staff be directed to prepare the 2025 Water Utility Budget consistent with the water and wastewater fees and charges forecast through the approved 2025-2034 Water and Wastewater Long-Range Financial Plan, while factoring in any adjustments that may be required as a result of the Region of Waterloo's rate changes and any possible efficiencies that may be identified;

AND THAT staff be directed to present options to reduce the tax levy impact for the 2025 Budget as well as opportunities for additional investment;

AND THAT in accordance with the Downtown Business Improvement Area (BIA) By-Law 21-016, each BIA submit its 2025 budget to City staff by September 15, 2024;

AND FURTHER THAT the 2025 Budget and Business Plan timeline as set out in report 24-035-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. The budget process provides a venue within which decisions as to the levels of service to be provided to the community can be made while considering an appropriate balance between affordability and financial sustainability. This report identifies the timeline and guidelines for preparation of the 2025 Budget and Business Plan.

Key Findings

- The City has been awarded the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) from 2020 - 2023 (the 2024 budget is currently being considered for this award for a fifth year in a row). The 2025 budget document will continue to be prepared based on the guidelines of this award program which encourage local governments to prepare budget documents of the very highest quality and best practices in budgeting.
- An update to the City's Strategic Plan for the period of 2024-2026 was approved by Council on April 16, 2024. The 2025 Budget and Business Plan will be prepared based on these endorsed strategic priorities.
- Staff recommend that the 2025 tax-supported operating budget be prepared consistent with the tax levy increase forecast from the 2024 budget process. This projected tax levy increase includes the forecasted inflationary impacts required to maintain existing service levels, a dedicated 1% levy to the Infrastructure Renewal Fund (IRF), as well as the impacts from capital projects, growth, and new service level initiatives.
- Staff recommend that the 2025 Water Utility Budget be prepared consistent with the water and wastewater fees and charges forecast through the approved 2025-2034 Water and Wastewater Long-Range Financial Plan of 4.00% (report 24-005-IFS *Water and Wastewater Long-Range Financial Plan* approved April 30, 2024), while factoring in any adjustments that may be required as a result of the Region of Waterloo's rate changes and any possible efficiencies that may be identified.
- Utilizing the capital prioritization model, staff will review and update the 2025-2034 capital plan to prioritize projects within constrained funding limits and resource allocations.
- With Council direction, the City requests the Downtown BIA's to deliver their 2025 budgets to staff by September 15, 2024. This will allow City staff the

opportunity to incorporate the BIA funding requests into the City’s overall budget documents.

- The proposed timeline for the 2025 budget process is as follows:



Financial Implications

- The forecasted tax levy increase would have an estimated annual impact of \$44 per \$100,000 of residential assessment, equating to \$147 for the average household.
- The forecasted combined water and sewer rate increase of 4.00% would have an estimated annual impact of \$46 for the average household consuming 170 cubic meters of water per year.
- The City has a debt limit policy of 10% for tax-supported debt and up to 15% when rate-supported debt, such as water utility and development charges, are included. Additionally, funding from Reserve and Reserve Funds has been applied per the City’s Reserve and Reserve Fund By-law. The 2025 Budget and Business Plan will be prepared within all Council-approved policies and By-laws.

STRATEGIC ALIGNMENT:

Strategic Action

Objective(s): Choose an Objective

Strategic Action: Choose a Strategic Action

OR

Core Service

Program: Finance

Core Service: Financial Planning

The 2025 budget process establishes levels of service and investments in infrastructure with a focus on responsible financial management while maintaining transparency and accountability to Council and the public.

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:

- An aim to 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, competitive pricing on procurement solicitations, and staff are properly equipped with Council direction towards providing City services;
- Providing for public engagement throughout 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 infrastructure required to renew City assets as per the City's Asset Management Plan and to support growth in the community along with the ongoing operating impacts of capital projects;
- Separately identifying new or enhanced service levels, new programs, or funding required due to growth; and
- Incorporating business plans for comprehensive budget and business planning.

In recognition that the City's Budget and Business Plan meets the highest quality, the City has won the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for four years in a row with its 2020 through 2023 Budgets. The 2024 Budget and Business Plan was also prepared utilizing these same standards, and staff await the results on receiving this award for a fifth year in a row. This award is the highest form of recognition in governmental budgeting. To earn recognition, budget documents must meet the mandatory program criteria (Table 1) and excel as a policy document, financial plan, operations guide, and communication tool.

Table 1: Mandatory Criteria

Mandatory Criteria	Description
Table of Contents	Include a table of contents that makes it simple to locate information.
Strategic Goals and Strategies	Provide a coherent statement of organization-wide, strategic goals and strategies that address long-term concerns and issues.
Priorities and Issues	Provide a budget message that articulates priorities and issues for the upcoming year.
Budget Overview	An overview of significant budgetary items and trends as a separate section.
Organization Chart	Provide an organization chart for the entire entity.
Financial Policies	Include a coherent statement of entity-wide long-term financial policies.
Budget Process	Describe the process for preparing, reviewing, and adopting the budget for the coming fiscal year and for amending the budget after adoption.
Consolidated Financial Schedule	Present a summary of major revenues and expenditures, as well as other financing sources and uses.
Fund Balance	Include projected changes in fund balance/net position for appropriated funds included in the budget presentation.
Revenues	Describe major revenue sources, explain the underlying assumptions for the revenue estimates, and discuss significant revenue trends.
Capital Program	Include budgeted capital expenditures.
Debt	Include financial data on current debt obligations, describe the relationship between current debt levels and legal debt limits, and explain the effects of existing debt levels on current operations.
Position Summary Schedule	A schedule or summary table of personnel or position counts for prior, current and budgeted years.
Departmental/Program Descriptions	Include departmental/program descriptions.
Performance Measures	Provide objective measures of progress toward accomplishing the government's mission as well as goals and objectives for specific departments and programs.

Additional recommended criteria involve the inclusion of long-range operating financial plans, departmental/program goals and objectives, statistical/supplemental information,

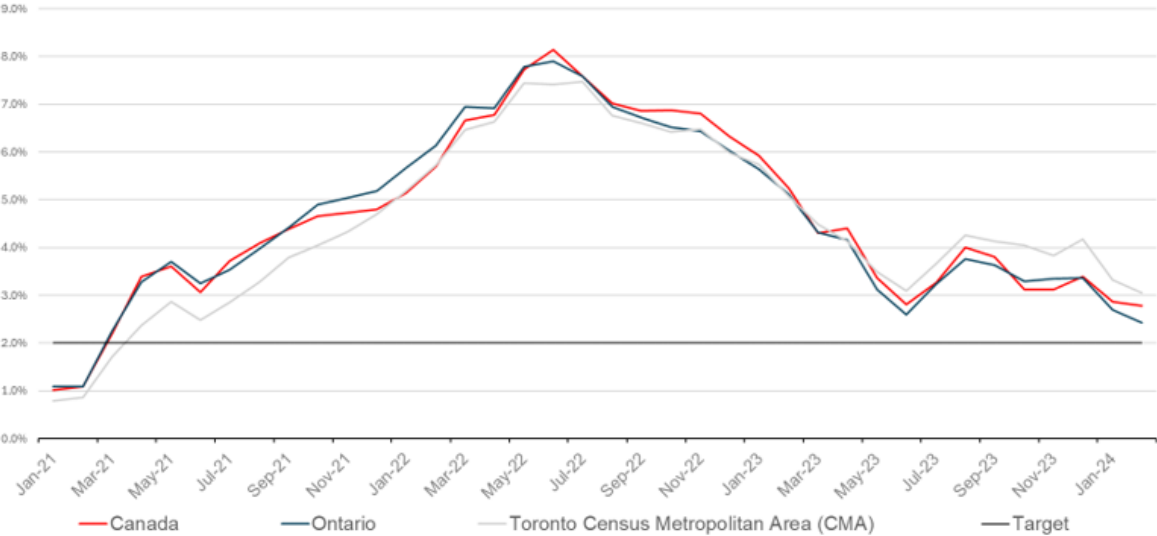
glossary of terms, use of charts/graphs, and understandability/usability. The City has achieved distinction in each of these criteria categories. Staff are committed to continual excellence in its financial budgeting, business planning and reporting and will be exploring options to continuously improve the budget book document.

ANALYSIS:

Economic Outlook

In the latest Monetary Policy Report from April 2024¹, the Bank of Canada reports that inflationary pressures are decreasing, and inflation is slowly coming down (Figure 1). According to the Report, CPI inflation is expected to remain close to 3% through the second quarter of 2024 before easing below 2.5% in the second half of the year, with an aim to achieve the target rate of 2.0% by the end of 2025.

Figure 1: Year-Over-Year CPI Inflation Rates



Source: Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

The unemployment rate has risen gradually to 6.1% in March up from 5.8% in December 2023 (Figure 2). A factor driving this is an increase in the length of time it takes for unemployed individuals to secure a job. The job vacancy rate has declined to near pre-pandemic levels however with businesses reporting that labour shortages are below their historical average.

¹ [Monetary Policy Report - April 2024 \(bankofcanada.ca\)](https://www.bankofcanada.ca/monetary-policy-report-april-2024/)

Figure 2: Unemployment Rate



The policy interest rate is continuing to hold at 5.0% since the last increase by the Bank of Canada effective July 2023. Gross Domestic Product (GDP) which is a monetary measure of the value of all the goods and services produced and sold in the economy, is expected to strengthen. It is projected that GDP will increase from 2% where it sits currently, to 2.5% in early 2025, before returning to 2% through the remainder of 2025 into 2026.

Tax-Supported Operating Budget Forecast

When building the budget, City staff identify the need to maintain existing service levels, commonly referred to as the base budget. Additionally, staff separately list items that have one-time impacts. The net impacts of growth and impacts from capital projects are also separately identified in the budget, with individual budgetary impacts being identified for Council’s consideration.

Typically, the cost to maintain existing service levels would be increasing by an amount approximating inflation, with some variations due to the municipal budget having a different “basket of goods” than what makes up the CPI rate of inflation. For 2024, the City’s budget for maintaining existing service levels increased 4.53%, slightly above the average rate of inflation in 2023 of 3.9%. The net impact of growth added an additional 1.64% to the budget, and one-time expenditures were offset fully from increased investment income. A dedicated infrastructure levy of 1% was also approved. Overall, the 2024 Budget and Business Plan represented an increase to the City’s tax levy of 7.17%.

The forecast approved through the 2024 Budget contained a 2025 base budget increase to maintain existing levels of service of 5.72%. This includes an incremental

1% levy dedicated to capital infrastructure renewal and replacement as previously approved by Council.

Other impacts forecasted through the 2024 budget to the 2025 budget include:

- One-time costs of 0.49%
- Growth impacts of 0.31%
- Various impacts from capital projects totalling 3.29%
- Net of forecasted assessment growth of 1.00%

In total, the 2025 forecasted tax levy increase approved through the 2024 Budget process is 8.81%.

Budget Component	Projected Tax Levy Increase
Base Budget	5.72%
One-Time	0.49%
Growth	0.31%
Impacts from Capital – Debt Costs	2.13%
Impacts from Capital – Contribution for Rehabilitation and Replacement of Growth Assets	0.70%
Impacts from Capital – Technology Services	0.13%
Impacts from Capital – Cambridge Sports Park	(0.14%)
Impacts from Capital – Recreation Complex	1.67%
Impacts from Capital – Other	(1.20%)
Assessment Growth	(1.00%)
Total Forecasted Tax Levy Increase	8.81%

Throughout the budget process staff will consider possible efficiencies and savings to mitigate the overall tax levy increase. Utilizing the forecast from the 2024 budget process as a target for the 2025 Budget and Business Plan supports effective planning

of the City's resources. Adhering to a multi-year budget forecast process gives Council and the public a long-range view, while the process still allows for managing unexpected changes within a given year. It also supports a continued focus towards the goal of multi-year budgeting which City staff are aiming to implement effectively with the 2028 Budget.

Water Utility Budget

On February 13, 2024, Council approved the 2024 Water Utility Budget and the projected water utility rate increases of 4.78% in 2025, and 4.64% in 2026 and 2027 respectively.

In accordance with provincial legislation O. Reg. 453/07 under the Safe Drinking Water Act, on April 30, 2024 City Council approved the updated 2025-2034 Water and Wastewater Long-Range Financial Plan (report *24-005-IFS Water and Wastewater Long-Range Financial Plan*). This update reviewed the sustainability of the City's water and wastewater infrastructure and set the target for annual revenue increases of 4.00% until 2027, and by 4.20% thereafter until 2034.

Staff recommend that the 2025 Water Utility Budget be prepared consistent with the forecast as approved per the 2025-2034 Water and Wastewater Long-Range Financial Plan, while factoring in any adjustments that may be required as a result of the Region of Waterloo's rate changes and any possible efficiencies that may be identified. 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.

Capital Plan

The City's 10-year Capital Plan approved as part of the 2024 Budget included \$726 million of capital projects funded over 2024 to 2033. This includes \$168 million in capital levy funding, \$241 million in funding from other reserve funds such as water utility rates and the Fleet Equipment reserve fund, \$123 million in development charges, and \$140 million in debt funding. Grants, subsidies, and other external contributions account for the remaining \$54 million in funding. Specifically for 2025, the forecast included \$81 million in capital projects.

The City of Cambridge, like many other municipalities, is facing the challenge of a growing infrastructure gap. Some of the major drivers of this infrastructure gap amongst municipalities is the reduction in external funding and support for infrastructure from higher levels of government, the timing of infrastructure lifecycle needs, and past practices of deferring maintenance and replacement during budget deliberations and not setting aside sufficient levels of funding into capital reserve funds to pay for the

future rehabilitation and replacement of assets. The 1% dedicated infrastructure levy as approved by Council effective with the 2024 Budget is a step towards addressing this funding deficit.

The City's asset management gap can be seen directly through the ten-year capital plan and the increasing number of projects that remain unfunded. Each year, City staff rank and prioritize capital projects and put forward a capital investment plan that best reflects infrastructure needs and Council priorities. However, due to continued shortfalls in funding, a number of projects remain unfunded within the ten-year capital forecast. Through the 2024 Capital Budget, there were 74 unfunded capital projects between 2024-2033 with a total forecasted cost of \$86 million from all funding sources. These figures exclude roads and stormwater linear infrastructure projects totalling an additional estimated \$60 million. Projects that remain unfunded include:

- Core infrastructure renewal projects that are critical to maintaining current service levels;
- Projects to support strategic initiatives; and
- Projects that are required to support growth and development but exceed current forecasted development charges revenues.

Through the capital budget process, the City uses a prioritization model to aid in balancing the capital projects within available funding constraints. This model focuses on ensuring the City's existing assets are maintained, while also providing for strategic initiatives and projects that will realize a return on investment. It uses nine (9) factors in determining the priority score of a project:

1. Project Category (i.e. mandatory, efficiency, strategic etc.)
2. Alignment with Corporate Strategic Direction
3. Operating Budget Impact
4. Risk Assessment
5. Public Value
6. Service Levels
7. Infrastructure Impact
8. Community Impact
9. Economic Impact

As a result of the prioritization model, projects are presented in the capital budget in priority sequence within each service area. This prioritization model will continue to be

used as part of the 2025 capital budget process to ensure priority work proceeds within constrained funding limits.

To help reduce the City's infrastructure gap in the future and ensure sufficient funding will be provided to maintain service levels, it is essential that continued progress is made towards the City's infrastructure rehabilitation and replacement to mitigate future increased costs due to asset deterioration and/or failure. The ongoing commitment to building the dedicated infrastructure levy effectively provides a designated percentage of the tax levy annually, devoted towards asset sustainability.

To prevent newly constructed assets from adding further to the existing infrastructure gap as the City continues to grow and expand, the City's policies state that a financial contribution to capital reserve funds should be made for any new assets based on lifecycle costing². These are referred to in the budget as *sustainable capital contributions* and will be incorporated in the City's 2025 budget and business plan in accordance with the City's financial policies and municipal best practices.

Business Improvement Area ("BIA") Budgets

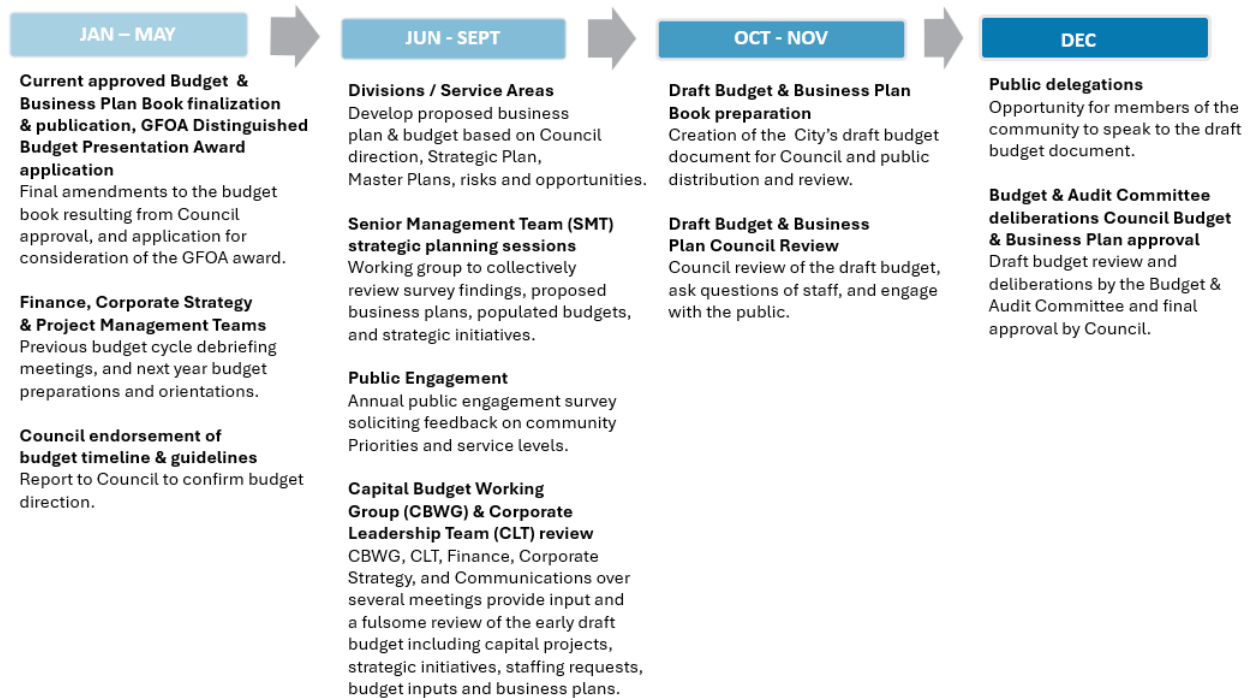
With Council direction, the City requests the Downtown BIA's to deliver their 2025 budgets to staff by September 15, 2024. This is in accordance with the BIA By-Law 21-016 and will allow City staff the opportunity to incorporate the BIA funding requests into the City's overall budget documents.

Budget Timeline

In accordance with best practices in municipal finance and budgeting, staff recommend a December approval of the budget which allows for effective planning of the City's resources and ensures timely commencement of 2025 business plan initiatives. December approval also allows for procurement to occur early in the year for capital projects, when contractors are preparing for the construction season, which has yielded savings in the past.

The timeline for the 2025 budget and business plan process is as follows:

² Lifecycle costing reflects all costs incurred during the life of a physical asset, from the time its acquisition is first considered to the time it is taken out of service for disposal or redeployment. It seeks to average out those costs over the estimated useful life of the asset.



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.
- Public participation to hear delegations regarding the proposed budget, allowing members of the public to provide their feedback on the draft budget to Council.

EXISTING POLICY / BY-LAW(S):

BMA Management Consulting Inc. previously completed a corporate financial review 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:

The 2025 tax-supported Operating Budget is proposed to be prepared consistent with the forecast tax levy increase approved through the 2024 Budget process of 8.81%. This levy increase would have an estimated annual impact of \$44 per \$100,000 of residential assessment, equating to \$147 for the average household.

The 2025 water utility budget is proposed to be prepared consistent with the forecast as approved per the 2025-2034 Water and Wastewater Long-Range Financial Plan, while factoring in any adjustments that may be required as a result of the Region of Waterloo's rate changes and any possible efficiencies that may be identified. The forecasted combined water and sewer rate increase of 4.00% would have an estimated annual impact of \$46 for the average household consuming 170 cubic meters of water per year.

The City has a debt limit policy of 10% for tax-supported debt and up to 15% when rate-supported debt, such as water utility and development charges, are included. The 2025 Budget and Business Plan will be prepared within the Council-approved debt policy limits.

PUBLIC VALUE:

Sustainability and Transparency:

The 2025 budget process enables staff to focus on sustainable financial management while maintaining transparency to the public through the development of the detailed Budget and Business Plan document.

ADVISORY COMMITTEE INPUT:

Not Applicable

PUBLIC INPUT:

The 2025 budget plan includes a public engagement strategy in which feedback will be obtained from the public early in the budget process, allowing staff and management time to incorporate and be responsive to the feedback. This proactive feedback helps to directly inform staff on preparing their budget submissions.

A budget public participation meeting to hear delegations regarding the proposed budget will occur as part of Council's review and approval of the budget, allowing members of the public to provide their feedback on the draft budget to Council.

INTERNAL / EXTERNAL CONSULTATION:

The 2025 budget timetable has prepared with input from the Office of the City Clerk, Corporate Strategy, and the Project Management Office.

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 2025 budget.

Staff propose that the 2025 tax-supported operating budget be prepared consistent with the forecast tax levy increase approved through the 2024 Budget. Staff further propose that the 2025 water utility budget be prepared consistent with the forecast as approved per the 2025-2034 Water and Wastewater Long-Range Financial Plan, while factoring in any adjustments that may be required as a result of the Region of Waterloo's rate changes and any possible efficiencies that may be identified.

The City requests the Downtown BIA's to deliver their 2025 budgets to staff by September 15, 2024. This will allow City staff the opportunity to incorporate them into the final budget documents.

REPORT IMPACTS:

Agreement: **No**

By-law: **No**

Budget Amendment: **No**

Policy: **No**

APPROVALS:

This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:

Director

Deputy City Manager

Chief Financial Officer

City Solicitor

City Manager

ATTACHMENTS:

None